

INEOS UK E&P Holdings Limited

Annual Report and Financial Statements

**Registered number SC200459
for the Year Ended 31 December 2021**



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Strategic report

The directors present their strategic report on INEOS UK E&P Holdings Limited (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) for the year ended 31 December 2021.

Business Review

The Group has interests in a number of licences for the exploration, development and production of oil and gas in various fields in the North Sea (“the Fields”).

On 25 March 2021, the Group’s subsidiary, INEOS E&P Norge A/S, entered into an agreement to divest its oil and gas business in Norway to PGNiG Upstream Norway AS. The transaction was completed on 30 September 2021. The disposal balanced the Group’s portfolio of oil and gas production and moves the Group towards a more operated position. The total consideration received was £159.0 million net of £0.7 million disposal costs resulting in a gain on disposal of £149.2 million, refer to note 4 of the consolidated financial statement for details. The comparative financial information for the year ended 31 December 2020 has been reclassified where appropriate to present the results of this discontinued operation separately. Refer to note 4 to the consolidated financial statements for details.

On 30 July 2021, the Group purchased 25 million shares in HydrogenOne Capital Growth plc (“HGEN”), as part of the Group’s effort to reshape its energy business towards a carbon free future. HGEN is an investment fund dedicated to clean hydrogen and energy storage for the energy transition.

On 30 August 2021, the Group acquired Hess Denmark ApS (now “INEOS Energy (Syde Arne) ApS”) for total consideration of £100.0 million. The acquisition comprises 61.5% of the HESS operated Syd Arne oil field (which the Group already held 36.8% prior to the acquisition) and 4.8% interest in the Solsort field which the Group holds the operatorship. The acquisition unlocked operational and cost synergies between the Group’s existing Danish assets and opened up prospects in Denmark’s offshore oil and gas sector. Refer to note 3 to the consolidated financial statements for details.

The Group reported a profit from continuing operations for the year of £271.6 million in 2021 (2020: reclassified loss of £256.5 million) as a result of higher average realised oil and gas prices (91.0p per therm and \$72/bbl compared to 25.2p per therm and \$39/bbl in 2020), reversal of impairments against oil and gas properties of £65.9 million (2020: £66.1 million impairment charge) and lower unsuccessful exploration and evaluation activities of £4.1 million (2020: £14.7 million) partially offset by net derivative losses of £565.5 million (2020: net gain of £65.5 million). Revenue from continuing operations increased by £347.7 million from £167.3 million in 2020 to £515.0 million in 2021. Revenue by category is set out in note 6 to the consolidated financial statements.

As at 31 December 2021, the Group had net liabilities of £154.4 million (2020: net liabilities of £601.8 million).

Production, operations and development update

UK

Operational performance has been steady in the year with reliability of 97.6% (2020: 97.0%) on our operated fields. Sales averaged 16 kboe of oil and gas per day (2020: 17 kboe per day) with approximately 97% of the production realised by the following three key areas (2020: 89%): 31% from the operated Breagh field (2020: 21%), 20% from the operated Clipper South field (2020: 25%) and 46% from the non-operated Greater Laggan Area (“GLA”) (2020: 43%).

There were no licenses awarded in the year (2020: one) and three licenses were relinquished or withdrawn (2020: nine).

Breagh Field

Breagh is a joint venture between the Group (Operator, 70%) and ONE-Dyas UK Limited (30%). The field is located in the UK Southern North Sea and at the time of its development was one of the largest natural gas developments in the UK Continental Shelf. The Breagh field came on stream in October 2013.

In 2021, final investment decision was taken on two capital projects: (i) the Onshore Compression Project, which will be located at the Teesside Gas Processing Plant (TGPP); and (ii) the drilling of an additional (extended reach) well from the Breagh Platform (“A11”). Onshore Compression is expected on stream in the second half of 2023. Drilling was completed and the well was brought on-stream in December 2021.

Strategic report (*continued*)

Clipper South Field

Clipper South is a joint venture between the Group (Operator 75%) and Spirit Energy Southern North Sea Limited (25%). The field is located in the Sole Pit Basin in the UK Southern North Sea. In 2020, an investment decision was taken to move Clipper South to low pressure operating mode in 2021 to further optimise and support continued production from the asset into late field life. This project was completed on schedule and below budget in August 2021, since when production rates have increased.

Greater Laggan Area

The Greater Laggan Area ("GLA") comprises the Laggan, Tormore, Edradour and Glenlivet licenses and is a joint venture between the Group (20%), Total Energies (Operator, 60%) and RockRose Energy (20%). The GLA fields are located 125km north-west of the Shetland. Production commenced from the Laggan and Tormore fields in early 2016 and in 2017 the Edradour and Glenlivet fields were completed and also tied back via existing infrastructure.

Operational performance over the course of the year was good with an operational efficiency of 92% achieved (2020: 97%). The planned repairs to the electrical distribution system were successfully completed in the second half of 2021 ahead of schedule and below budget.

A final investment decision on the development of the Glendronach field via a subsea tie-back to Edradour is targeted for Q4 2022. Evaluation of future GLA development opportunities, including potential infill drilling, will be continued in 2022.

Cessation of production and decommissioning

Decommissioning activity in the UK continues on the Anglia, Minke, Markham, Orca, Victor, Topaz, Cavendish, Windermere, Saturn, Tethys and Mimas fields with well plugging & abandonment and facilities removal activities planned to continue up to 2026.

Exploration drilling

No exploration or appraisal wells were drilled in 2021.

Development of drilling

The planned Breagh A11 well was drilled and completed in the second half of 2021. The target reservoir was successfully drilled as planned and the overall project delivered under budget. Production came on stream in December 2021 and production benefits are expected from 2022 onwards.

Denmark

Production, operations and development update

Operational performance continued to be strong in the year with reliability of 94.3% (2020: 91.6%) on our existing operated fields. Sales averaged 10 kboe of oil and gas per day (2020: 6 kboe per day) with approximately 79% from the operated Syd Arne field based on the new ownership share (2020: 59%) and 21% from the operated fields Siri, Nini and Cecilie (2020: 41%).

Siri Field

The Siri Area comprises the Siri field, where the processing platform and associated wells are located along with satellite tie-back fields Stine, Nini, Nini East and Cecilie. Oil is exported by tanker and gas and produced water reinjected into the Siri field. The Siri license, comprising Siri and Stine is 100% owned and operated by the Group whereas the Nini (Nini and Nini East) and Cecilie licenses are joint ventures between the Group (Operator, 57.1% and 56.4% respectively) and Wintershall Dea International AG. Production from Siri commenced in 1999 with the satellite developments following in the next decade.

Strategic report (*continued*)

Siri Field (*continued*)

Operational performance over the course of the year was good, despite the changes to normal working routines introduced in 2020 in response to the COVID-19 pandemic, which continued in 2021. A short Siri Plant shutdown was undertaken in February 2021 to conduct required platform maintenance, which was postponed from 2020 due to COVID-19. In June 2021, the main annual turnaround was executed with the main focus on maintenance and repair of the generator turbine. In order to get back on-track with major inspection tasks, a short and planned Siri shutdown was also executed in November 2021.

The next turnarounds are scheduled to be undertaken in June and November 2022. Replacement of the main generator is planned as part of the June turnaround.

Syd Arne Field

The Syd Arne field is a joint venture between the Group (98.3%) and Danoil (1.7%). Production from the field commenced in 1999.

On 30 August 2021, the Group acquired Hess Denmark ApS (now "INEOS Energy (Syde Arne) ApS"). The acquisition comprises 61.5% of the HESS operated Syd Arne oil field (which the Group already held 36.8% prior to the acquisition) and 4.8% interest in the Solsort field which the Group holds the operatorship. Following the acquisition, the Group became operator of the field. Refer to note 3 of the consolidated financial statements for further details.

Operational restrictions in connection with the COVID-19 pandemic as well as prioritising a safe take-over of the Syd Arne operatorship affected the execution of the 2021 well intervention plan, which was partly delayed until towards the second half of 2022. Facilities projects were affected to a lesser degree - the next turnaround, planned and executed by the Group as the new Syd Arne operator, is scheduled to be undertaken in 2022. In late 2021, a commercial agreement was entered into with the Solsort Unit owners concerning terms and conditions for a tie-back of the nearby Solsort Oil discovery (The Solsort West Lobe) to the Syd Arne facilities for processing and export. The Syd Arne license and the Solsort Unit partnership are now jointly maturing the facility and drilling scope.

Lulita Field

The Lulita field is a joint venture between Total (Operator, 15.6%), the Group (40%), Shell (18.4%), Noreco (10%), Nordsofonden (10%) and Chevron (6%). Production comprises a single well drilled from the Harald platform. The well liquids are processed on Harald and oil and gas are exported separately to the Tyra complex for onwards distribution. The Lulita license expires in 2026. Production is currently shut in and expected to restart in the third quarter of 2023 following a redevelopment of the Tyra area, which has been delayed by more than a year due to the COVID-19 pandemic.

Hejre Field

The Hejre area comprised of licenses 5/98 (100% owned by the Group) and 1/06 between the Group (80%) and NSF (State participation) (20%). Development and exploration activities takes place in license 5/98 whilst only exploration activities takes place in license 1/06.

The ongoing Hejre development project is in the concept selection phase with focus on maturing a tie-back to a suitable host. Following the acquisition of Hess Denmark ApS, work in 2021 has been focused on establishing technical feasibility and commercial attractiveness of taking produced Hejre liquids back to Syd Arne for processing and export. Further maturation work began in late 2021 and will continue throughout 2022.

The Group is subject to a contingent consideration should a Final Investment Decision be made on Hejre and Solsort discoveries with notice issued to the regulator. The contingent liability has not been recognised because it is contingent on future events which are considered remote. Refer to note 29 of the consolidated financial statements for further details.

Strategic report (*continued*)

Denmark (*continued*)

Solsort Field

The Solsort license is a joint venture between the Group (67.6%), NSF (State participation) (18.4%) and Danoil (14%).

The Solsort development project comprises the firm and contingent phases. The firm phase, being the West Lobe development, was further matured in 2021 and consists of two wells drilled from the Syd Arne North Satellite platform with minor modifications to the Syd Arne facilities. Following internal and partner endorsement, the project entered into a Front End Engineering Design ("FEED") phase in late 2021 with further facility and well design and procurement efforts taking place. Final investment decision, pending a successful FEED phase and an attractive business case, is expected in 2022.

Greensand Project

The Greensand Carbon Capture Storage ("CCS") project is a consortium formed to develop a plan to safely and permanently store, in a cost effective manner, up to 8 million tonnes of CO₂ per annum, in the Siri area, after the fields have ceased production.

The Nini West reservoir was further matured for CO₂ storage with Phase 1 completed successfully in mid-2021. In September 2021, an application for Danish state funding was made to support Phase 2 of the project, Pilot CO₂ injection in the Nini West reservoir. In December 2021, funding for Phase 2 was awarded and the consortium confirmed the work programme, with 3-month long injection trial planned to take place in late 2022 through to early 2023.

Cessation of production and decommissioning

No material decommissioning was undertaken during 2021.

Other operational updates

Licence Awards

There were no licence awards during 2021.

Disposals, relinquishments and surrender of licences

The Group surrendered the following licences during the year:

- Full relinquishment of the P2405 (Ballechin) Licence (UK)
- Full relinquishment of the P2405 (Ballechin North) Licence (UK)
- Withdrawal from the P2411 (Benriach) Licence (UK)

Dry holes and write-offs

Write-offs booked against Ballechin (£2.6 million) and Benriach (£1.5 million) in the year due to license relinquishment.

Strategic report (continued)

Impairment reversals

The significant increase in realised gas price from an average of 25.2p per therm in 2020 to 91.0p per therm in 2021, together with reasonable expectation of continuation into the near future, is seen as an impairment reversal trigger, and the Group has performed impairment assessments on all of its oil and gas assets. As a result an impairment reversal of £79.4 million, the maximum available, was recognised against the Group's UK assets (2020: nil) and an impairment charge of £13.4 million was recognised against the Group's Danish assets (2020: £66.1 million charge against the Group's UK and Danish assets). Refer to note 12 for details.

Key performance indicators

The performance of the Group is measured on the basis of both financial and non-financial measures. Non-financial measures include health, safety and environmental factors such as Occupational Safety and Health Administration ("OSHA") recordable incidents, reliability of operated facilities and management of licence interests. There have been no changes in non-financial measures used and the Group met its target on these measures in both 2020 and 2021.

The main financial measure used by management is Normalised Earnings Before Interest, Tax, Depreciation and Amortisation ("Normalised EBITDA from continuing operations"), which excludes expenses such as impairment charges/reversals, unsuccessful exploration and evaluation activities, and gains or losses on disposal. Normalised EBITDA is a Non-GAAP measure, a reconciliation to the GAAP measure is presented below. Normalised EBITDA from continuing operations for 2021 was £492.0 million (2020: £40.5 million). The increase largely reflects the significant rise in oil and gas prices and higher production in the year. Reported profit from continuing operations for the year was £271.6 million (2020: loss of £256.5 million).

Details of actual and comparative EBITDA/Normalised EBITDA from continuing operations are provided below:

	2021 £'000	2020* £'000
Operating loss	(150,482)	(123,775)
Depreciation for the year	139,098	140,991
Amortisation for the year	291	389
EBITDA	(11,093)	17,605
Exceptional items	(555)	4,077
Unsuccessful exploration and evaluation activities	4,072	14,219
Impairment loss on fixed assets	13,442	66,077
Impairment reversal on fixed assets	(79,376)	-
Gain on derivative financial instruments	(54,612)	(71,538)
Loss on derivative financial instruments	620,153	6,033
Impairment loss on goodwill	-	3,957
Gain on disposal	-	34
Normalised EBITDA from continuing operations	492,031	40,464

*The comparative financial information for 2020 reflects the reclassifications required to disclose discontinued operations separately, and to show gains and losses on commodity derivative financial instruments within other operating income / expenses rather than finance income / expense, with resulting changes to the statement of cash flows (see note 2.25 and note 4).

Strategic report (*continued*)

Safety, Health and Environment (“SHE”)

In addition to the application of Group’s internal SHE management systems, the Group has maintained ISO 14001 and OHSAS 18001 certifications. One OSHA recordable incident was reported in the year (2020: 1).

Future outlook

As part of its response to energy transition, the Group has continued to mature Project Greensand in Denmark. The finalisation of the feasibility study was followed in December 2021 by Danish State funding of €26 million (£21.8 million) for the pilot project. The Group, being the operator of the pilot project, together with a strong consortium of 23 partners, will prepare and conduct a physical CO₂ test of the storage potential towards the end of 2022 and into 2023. If successful, Project Greensand would be commercialised from 2025 and store up to 4 to 8 million tonnes of CO₂ per annum over time.

Furthermore, the Group has strengthened its equity oil and gas position with the increased ownership and operatorship of the Syd Arne platform in Denmark. Control of Syd Arne has opened up opportunities for continued growth in Denmark, with nearby opportunities such as Solsort and Hejre, and could be a key contributor to the security of supply of energy to the European Union.

In the UK, the Group has continued to develop the Breagh field via the A11 well and the ongoing compression project which, over time, will increase the delivery of gas into the UK market. Oil and gas prices increased in 2021 driven by post pandemic increases in demand. The trend continued in 2022 following the military action in Ukraine. Given recent sanctions imposed on Russia, the short to medium term outlook for oil and prices is positive although higher volatility is to be expected.

Although impossible to predict the extent and duration of the above factors, the directors have undertaken a rigorous assessment of the potential impact on worldwide oil and gas demand and the effect on margins for at least 12 months from the date of signing these financial statements. In conclusion, the stress testing and sensitivity analyses on both EBITDA and cash flow have indicated that the Group would have sufficient cash flow to meet all of its obligations as they fall due.

The directors constantly review strategy amid a volatile commodity price environment and will continue to pursue growth opportunities through further developments in Denmark and the UK.

The Group looks forward to the coming years with optimism in developing near term resources in a safe, reliable and profitable manner.

Section 172 statement

In governing the Company on behalf of its shareholders and discharging their duties under section 172, the board has had regard to the factors set out in section 172 (see below) and other factors which the board considers appropriate. Section 172 requires directors to have regard to the following in performing their duties, and as part of the process are required to consider, where relevant:

- a. The likely long-term consequences of the decision.
- b. The interests of the Company’s employees.
- c. The need to foster the Company’s business relationships with suppliers, customers and others.
- d. The impact of the Company’s operations on the community and the environment.
- e. The desire to maintain the Company’s reputation for high standards of business conduct.
- f. The need to act fairly between members of the Company.

The directors have the duty to promote the success of the Company and the Group for the benefit of stakeholders as a whole and remain conscious of the impact their decisions have on employees, communities, suppliers, customers, investors and the environment. The directors focus on engagement with all stakeholders, and consider stakeholders’ views when making decisions.

Strategic report (*continued*)

Section 172 statement (*continued*)

The likely consequences of any decision in the long term

The Group's key strategic pillars are centred on the long-term cash and operational planning for the capital requirements needed to grow the portfolio through both organic and inorganic means. To achieve these objectives, the Group has the following key strategies:

- Maintain a conservative financial profile through capital discipline and strong liquidity;
- Focus the business on assets that the Group operates and maintain a balanced portfolio between oil and gas;
- Maximise cash flow from the existing asset base by applying operational and commercial expertise, whilst improving reliability and HSE performance;
- Obtain licences and pursue targeted development opportunities; and
- Pursue value accretive mergers and acquisitions where the Group sees opportunities to improve the operation of oil and gas assets that have become uneconomic in the hands of their existing owners.

Value accretive mergers and acquisitions where the Group sees opportunities to improve the operation of oil and gas assets that have become uneconomic in the hands of their existing owners. The directors believe these are critical long-term strategies for the future success of the Group and the directors' decision-making has supported its implementation. The Group plans for strategic investments to support its goals and continually investigates potential growth opportunities.

Stakeholder considerations

Engaging stakeholders and developing meaningful partnerships is essential for long-term business success.

The Group respects the rights, values and dignity of all employees, customers, contractors, vendors and other stakeholders. The Group aims to build enduring relationships with governments, customers, partners, suppliers and communities in the countries where the Group operates.

The Group is committed to maintaining a workplace that is safe, professional and supportive of teamwork and trust. The Group is committed to creating and sustaining a work environment of mutual trust where all employees are treated with respect and dignity, compensated fairly based on local market conditions, and are entitled to adequate working hours. The Group value the diversity of its people and each of its employees is recognised as an important member of our team.

The Group is committed to protecting and maintaining the quality of the environment and to promoting the health and safety of its employees, contractors, suppliers, customers, visitors and the communities in which it operates. Compliance with all legislation intended to protect people, property and the environment is one of the Group's fundamental priorities and applies to our products as well as to our processes. Management lead by example and allocate the required resources to achieve excellence in SHE performance.

The need to act fairly as between members of the Company.

The Company has a single shareholder, and a single ultimate controlling party. Their interests are taken into account by the directors to promote fairness in decision making.

Strategic report (*continued*)

Section 172 statement (*continued*)

Principal decisions

Principal decisions taken by the board is defined as decisions taken in 2021 that are of a strategic nature and significant to any of the Group's key stakeholder groups.

i) Acquisition of HESS Denmark ApS (note 3)

During the year, the Group acquired HESS Denmark ApS from HESS (Netherlands) Holding B.V. The acquisition covers ownership in the oil and gas license Syd Arne (61.52% interest) and Solsort (4.8% interest).

Given the significance of the acquisition, the directors had multiple stakeholder engagements involving shareholders, employees and lenders of the reserves based lending ("RBL") Facility. These engagements included an update and discussion on: the scale, strategic importance and timing of the acquisition; impact on the Group's structure and resources; and the implications to the Group's stakeholders. Townhalls, business meetings were arranged to discuss the above topics.

The directors considered: changes to be made to current process to drive operating and financial synergy; ways to meet shareholders' expectations and those from both the Group's and acquirees' employees. The decision was made to strengthen the Group's Danish oil and gas portfolio, unlock operational and cost synergies across the Group's Danish assets and supports the development of the Greensand carbon storage project.

ii) Sale of Norwegian oil and gas business (note 4)

During the year, the Group completed the sale of its oil and gas business in Norway to PGNiG Upstream Norway AS. The sale included all of the Group's interests in production, licenses, fields, facilities and pipelines on the Norwegian continental shelf.

Given the significance of the acquisition, the directors had multiple stakeholder engagements involving shareholders, employees and lenders of the RBL Facility. These engagements included an update and discussion on: the scale, strategic importance and timing of the sale; impact on the Group's structure and resources; and the implications to the Group's stakeholders. Townhalls, business meetings were arranged to discuss the above topics.

The directors considered: changes to be made to current process to drive operating and financial synergy; ways to meet shareholders' expectations and expectations from both the Group's and the affected employees. The decision was made to rebalance the Group's overall oil and gas portfolio, moves the Group towards a more operated position and opens up new opportunities to reinvest further into the energy transition.

iii) Breagh compression project and A11 well

In 2021, a final investment decision was taken on two capital projects: (i) the Onshore Compression Project, which will be located at the Teesside Gas Processing Plant (TGPP); and (ii) the drilling of the A11 well from the Breagh Platform. The directors engaged with the Breagh Joint Venture Partner who was fully supportive of progressing both capital projects. In addition, it was necessary to seek consent from the Oil & Gas Authority (now the North Sea Transition Authority) for additional drilling, who were fully supportive and approved the necessary Field Development Plan Addendum. Drilling commenced on the A11 well in Q3 2021 and was brought on-stream in December 2021.

Strategic report (*continued*)

Principal risks and uncertainties

Production and reserves access

Production from the Group's fields relies on efficient and reliable operations and the successful development of future opportunities. Unsuccessful exploration activity, increasing technical challenges and capital commitments may adversely affect the Group's reserve replacement objectives. The Group also faces numerous challenges including uncertain geology, availability of technology and engineering capacity, availability of skilled resources, maintaining project schedules and managing costs. Such potential obstacles may impair the Group's operational performance and financial position. The Group mitigates these risks by applying best practice to its operations and actively manage non-technical risks across a portfolio of opportunities and projects.

Health, safety, environment and security (HSES)

These risks include major process safety incidents, failure to comply with approved policies, effects of natural disasters, social unrest and terrorism. The consequences of such risks materialising can be injury, loss of life, environmental harm and disruption to business activities. Depending on their cause and severity, they can affect the Group's reputation, operational performance and financial position. The Group has an effective and comprehensive HSES management system to mitigate this risk and support safe and secure execution of all critical activities.

Joint Operations and contractors

Oil and gas operations are typically conducted via joint ventures and a number of fields or projects are operated by the Group's partners. The Group's ability to influence and control the performance of those operations may be limited. Non-alignment on various strategic decisions in joint ventures may result in operational or production inefficiencies or delay. The Group mitigates this risk by continuous and regular engagement of its partners and contractors in non-operated fields or projects.

Climate change and the transition to low carbon economy

The Group recognises the scientific consensus on climate change and is committed to reduce its own emissions and, as part of the wider Oil and Gas industry, will continue to play a vital role in delivering low-carbon solutions.

As part of its commitment to energy transition, the Group has continued to invest in Project Greensand. The project plans to safely and in a cost effective manner permanently store up to 8 million tonnes of CO₂ per annum, in the Siri area, when the fields have ceased production. The project is supported by the Danish state through the Energy Technology Development and Demonstration Program (EUDP) and is currently in the pilot phase. The Group has also invested in HydrogenOne Capital Growth plc, an investment fund dedicated to clean hydrogen and energy storage for the energy transition.

The Group acknowledges the global trend to move toward net zero carbon emissions. Depending on the nature and speed of any such changes and the Group's response, this could adversely affect the Group's financial performance and competitiveness.

Cyber security

The Group is subject to cyber security risks. A cyber incident could result in information theft, data corruption, operational disruption and/or financial loss. Cyber security imposes an increasing risk on companies. With the growing volume and sophistication of cyber-attacks, the risk is that sensitive business and personal information is not well protected and assets and the Group's security are not safeguarded. The Group has resources dedicated to mitigate the risk of a cyberattack and to recover as soon as possible from any attack that might occur.

Ethical misconduct and non-compliance

Ethical misconduct or breaches of applicable laws by the Group's businesses or its employees could be damaging to its reputation, and could result in litigation, regulatory action and penalties. The Group is committed to operating in a responsible manner and to comply with all relevant local, national and international laws. To uphold this commitment a Code of Conduct is in place that defines and summarises what is expected of the business and our people.

Strategic report (*continued*)

Principal risks and uncertainties (*continued*)

Regulation and geopolitical instability

The Group operates in different countries and developments in politics, laws and regulations in those countries could cause business disruption. These may in turn cause production to decline, limit the Group's ability to pursue new opportunities, affect the value of its assets or cause it to incur additional costs. Political instability, changes to the regulatory environment or taxation, international trade disputes, international sanctions, expropriation or nationalisation of property, civil strife, strikes, insurrections, acts of terrorism, acts of war and public health situations (including the ongoing military actions in Ukraine and continued impact of the COVID-19 pandemic or a future epidemic or pandemic) may disrupt or curtail its operations or development activities. The Group liaises with various industry bodies to understand and prepare for compliance with new regulations on a timely and cost-effective basis. The Group is actively monitoring any factors and events that could cause adverse effects and mitigating measures are implemented where appropriate.

Treasury and trading activities

The Group uses debt instruments, such as loans, to raise capital. Should access to debt markets become more difficult, the potential impact on the Group's liquidity could have a material adverse effect on its operations. Ineffective oversight of treasury and trading activities could also lead to business disruption, financial loss, regulatory intervention or damage to the Group's reputation.

Reporting

Failure to accurately report the Group's data could lead to regulatory action, legal liability and reputational damage.

Financial risk

The financial risk management process, which the risk is considered as one of the principal risks and uncertainties of the Group, is discussed in the Directors' report.

The impact of the emergence and spread of Coronavirus (COVID-19)

The Group closely monitored the evolution of the COVID-19 outbreak throughout 2021, will continue to do so going forward and is following the World Health Organisation and local governments advice where required. During 2021, the Group took measures where required to mitigate the risk to keep employees safe and the fields operational, such as introducing social distancing measures on all premises and adopting COVID-19 testing procedures. The Group has not experienced any material adverse impact on its operation due to COVID-19.

Business relationships

The business relationships with suppliers and customers are of strategic importance to the Directors of the Group and their decision-making process. The business relationships of the Group are described in the Section 172(c) statement in the Strategic Report.

Employee engagements

The Group uses various forms of communication to ensure all employees are regularly updated on the Group performance as well as wider company initiatives. The Group is committed to encouraging employees to suggest ways in which working practices can be improved and how the Group can help to contribute to organisational success.

Approved by the Board and signed on its behalf by:



Michael Llewellyn
Director
30 June 2022

Directors' report

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

General information

INEOS UK E&P Holdings Limited is a private company limited by shares incorporated and domiciled in the UK. The registered office is Brodies House, 31-33 Union Grove, Aberdeen, Scotland, AB10 6SD.

Principal activities

The principal activity of the Group during the year continued to be the exploration, development, production and transportation of oil and gas.

Results and dividends

The results of the Group are set out in the consolidated statement of comprehensive income on page 20 which shows a profit for the financial year of £474.4 million (2020: loss of £226.2 million) which has been transferred to reserves. The directors have not paid and do not recommend the payment of a dividend (2020: nil).

Overseas branches

The Group has no overseas branches (2020: nil).

Political donations

No political donations were made or political expenditure incurred and no contributions were made to a non-EU political party (2020: nil).

Energy and carbon reporting

Data in this section are reported on a 100% operational control basis in respect of activities where the Group is the operator within the UK and offshore area.

Greenhouse gas ("GHG") emissions data are provided below in accordance with UK regulations. GHG emissions comprise CO₂, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride. The data are calculated using locally regulated methods where they exist.

	2021	2020 **
Total energy consumption used to calculate emissions in KWh	26,093,053	2,555,382
Emissions (tonnes of CO₂ equivalent)		
Direct *	5,532	646
Energy indirect **	0	0
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel	0	13
Intensity ratio (tonne/tonne)		
All facilities ***	0.010	0.001

* Scope 1 emissions from the combustion of fuel and the operation of facilities operated by the Group within the UK and offshore area.

** Scope 2 emissions from the purchase of electricity, heat, steam and cooling for the Group's own use. The Group has no scope 2 emissions as the purchase of all electricity, heat, steam and cooling is done by a property management company outside of the Group. 2020 figures have been restated to omit scope 2 emissions previously disclosed.

*** In tonnes of total direct and energy indirect GHG emissions, expressed in metric tonnes of CO₂ equivalent, emitted into the atmosphere per metric tonne of oil and gas production available for sale.

Business relationships

Business relationships are discussed in the Strategic report.

Future developments

Future developments are discussed in the Strategic report.

Directors' report (*continued*)

Subsequent events

The Group is closely monitoring the evolving geopolitical situation in Europe. The effects on the global economy and the energy industry is difficult to assess at this point in time, nevertheless the Group continues to monitor any potential effects on production and operation.

Directors

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

Andrew Pizzey	
David Bucknall	(appointed 1 November 2021)
Douglas Scott	(resigned 1 November 2021)
Mads Weng Gade	
Mark Hobbs	(appointed 31 May 2022)
Michael Llewellyn	

Going concern

The Group has considered its funding position and financial projections up to June 2023, including stress test sensitivities, and the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In arriving at this conclusion, the directors have considered the principal risks and uncertainties and financial risks that the business is exposed to, discussed in the Strategic Report on page 8 and 9 and below.

The Group monitors its funding position and its liquidity risk throughout the year to ensure it has sufficient funds to meet its forecast cash requirement. Cash forecasts are produced based on a number of inputs, such as production and expenditure forecasts, oil and gas price assumptions, and investing and financing cash flows, which include the impact of Danish acquisition and Norwegian disposal, as detailed in note 3 and 4 of the consolidated financial statements. These inputs have been reviewed and approved by the board and sensitivities are applied for different scenarios. Base case prices for gas were set at 94.0p per therm for 2022 and 2023, and oil prices were set at \$71/bbl in 2022 and \$66/bbl in 2023. The most significant sensitivity scenario was low commodity prices resulting in an average gas price of 85 per therm for the remainder of 2022 and 2023, and an average oil price of \$64 /bbl for the remainder of 2022 and \$59 /bbl in 2023.

Oil and gas prices rose significantly during the course of 2021 and with the potential loss of Russian oil and gas supplies as a result of sanctions in place against Russia, prices have been elevated since the beginning of 2022. Although the directors cannot predict the impact they have undertaken a rigorous assessment of the potential impact for 12 months from the date of signing of these financial statements. In conclusion, the stress testing and sensitivity analysis on both EBITDA and cash flow has indicated that the Group would still have sufficient cash flow to meet its obligations as they fall due based on available cash and undrawn availability on the reserves based lending ("RBL") facilities at 31 December 2021.

The base assumptions indicate that the Group expects to be able to operate within its contractual debt facilities and have sufficient finance headroom for at least 12 months from the date of approval of these financial statements, with RBL covenants fully complied throughout the forecast period. As such, the directors have a reasonable expectation that the Group and the Company has adequate resources to continue its operation in the foreseeable future. Therefore, the directors consider that preparing the financial statements on the going concern basis continues to be appropriate.

Financial risk management

The Group's operations are exposed to a variety of financial risks that include effects of commodity price risk, credit risk, liquidity and cash flow risk, currency risk and interest rate risk. The Group has in place a risk management programme that seeks to limit any adverse effects on financial performance where appropriate.

Directors' report (*continued*)

Financial risk management (*continued*)

The main financial risks, which could affect the Group, are set out below:

- a) **Price and market risk:** Oil and gas are traded commodities with open market prices. They are subject to international supply and demand and margins can be volatile. Political developments, increased supply of oil and gas or alternative low carbon energy sources, technological change, global economic conditions, public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic), inflation and the influence of OPEC can impact supply and demand and prices. The Group is exposed to fluctuations in market prices to the extent that it has not entered into fixed price agreements. The directors regularly review cost-benefit of entering into commodity price hedges to minimise price risk.

Generally, the Group policy is to remain exposed to market prices of commodities, however, management may elect to use derivatives instruments to hedge the price risk of oil and gas production.

The Group uses swaps and options in various markets to manage the risk to the Group's cash flows from price exposures on specific crude oil and natural gas transactions. Refer to note 25 for details.

- b) **Interest rate risk:** The Group has a mix of financing facilities including the Reserves Based Lending (or "RBL") Facility and a shareholder loan facility. The RBL Facility bears interest at a margin above risk free rates; the shareholder facility bears interest at a fixed rate of 7% per annum. The directors review the interest rate and assess the cost-benefit of interest rate hedging. Refer to note 18 for details.
- c) **Currency risk:** The Group undertakes transactions in various currencies and manages this risk by matching receipts and payments in the same currency (where possible) and monitoring the movements in exchange rates. The shareholder loan is denominated in USD and the RBL facility allows drawing in a number of currencies.
- d) **Credit risk:** The Group has in place policies and procedures to mitigate the risk that customers or joint venture partners default on amounts owed. Exposure to credit risk is minimised by the nature of the customers and joint venture partners with which the Group deals.
- e) **Liquidity and cash flow risk:** The Group seeks to ensure that its operating assets generate sufficient positive cash flows to cover the Group's costs and development activities and service the Group's own obligations. The Group has access to liquidity, through the RBL facility and support from shareholders to manage such risks.

Disabled employees

The Group prohibits acts of discrimination whereby one individual is treated less favourably than another on grounds of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity. The Group's intention in respect of recruitment, selection and promotion is to appoint the most able candidate for each job regardless of the characteristics listed above. Any internal and external training opportunities including training towards professional qualifications are available to all employees and all conditions of employment, employee benefits and services apply irrespective of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity.

Employee consultation

The Group places considerable value on the involvement of its employees and continues to keep them informed and hear from them in relation to matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through both formal and informal consultation methods, whilst complying with relevant legislation, if applicable.

Directors' report (*continued*)

Reappointment of auditor

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

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 he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The directors have chosen to prepare the parent company 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 Group and the Company and of the profit or loss of the Group and Company for that period. In preparing the 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, 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 Group and Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Company's ability to continue as a going concern.

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

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

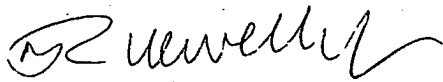
Directors' report *(continued)*

Statement of directors' responsibilities in respect of the financial statements (continued)

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 Group and Company's auditors are 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 Group and Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:



Michael Llewellyn
Director
30 June 2022

Independent auditor's report to the members of INEOS UK E&P Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of INEOS UK E&P Holdings Limited (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent Company statement of financial positions;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies;
- the related consolidated notes 1 to 32; and
- the related parent Company notes 1 to 23.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent Company financial statements 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 group and the parent 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.

Independent auditor's report to the members of INEOS UK E&P Holdings Limited (continued)

Conclusions relating to going concern (continued)

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 group's and parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

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

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 Group's and the parent 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 Group or the parent 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 INEOS UK E&P Holdings Limited (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 Group's industry and its control environment and business performance, key drivers for management's remuneration, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, Directors and legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Group 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, Health and Safety and tax legislation and the sector it operates in; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence and environmental regulations.

We discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, valuations, and 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 areas, and our specific procedures performed to address it are described below:

- Significant risk identified in respect of the classification of exceptional costs within the financial statements. We have performed procedures in respect of the classification of costs identified as exceptional and have considered the consistency year on year, with Group's peers and for compliance the Group's accounting policy.

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 reviewing correspondence with local tax authorities, and the licensing authority / industry regulatory in the locations where the Group operates.

Independent auditor's report to the members of INEOS UK E&P Holdings 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 Group and of the parent Company and their 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

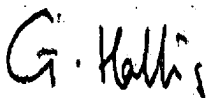
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.



Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
30 June 2022

Consolidated Statement of Comprehensive Income
for year ended 31 December 2021

	Note	£'000	2021 £'000	£'000	2020* £'000
Revenue	6		514,981		167,321
Cost of sales			(234,561)		(340,819)
Gross profit/(loss)			<u>280,420</u>		<u>(173,498)</u>
Administrative expenses before exceptional items		(12,650)		(11,778)	
Exceptional administrative gains/(expenses)	8	555		(4,077)	
Total administrative expenses			(12,095)		(15,855)
Other operating (expense)/ income	7		(418,807)		65,578
Operating loss	7		<u>(150,482)</u>		<u>(123,775)</u>
Loss on disposal of fixed assets				(107)	
Finance income	10	73,886		5,816	
Finance expense	10	(53,817)		(116,963)	
Net financing expense			<u>20,069</u>		<u>(111,254)</u>
Loss before tax			<u>(130,413)</u>		<u>(235,029)</u>
Taxation	11		<u>402,026</u>		<u>(21,424)</u>
Profit/(loss) for the year from continuing operations			<u>271,613</u>		<u>(256,453)</u>
Discontinued operations					
Gain on disposal of discontinued operations	4	149,240		-	
Profit from discontinued operations	4	53,563		30,219	
Net profit from discontinued operations			<u>202,803</u>		<u>30,219</u>
Profit/(loss) for the year			<u>474,416</u>		<u>(226,234)</u>
Other comprehensive income/ (expense)					
Items that may be subsequently reclassified to profit or loss					
Foreign exchange translation differences - foreign operations	24		(31,889)		20,870
Net change in fair value of available-for-sale financial assets recycled to profit or loss	24		4,875		-
Total comprehensive income/(expense) for the year			<u>447,402</u>		<u>(205,364)</u>

The notes on page 26 to page 88 are an integral part of these consolidated financial statements.

*see note 2.25 and note 4.

Consolidated Statement of Financial Position
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Property, plant and equipment	12	592,954	749,045
Intangible assets	13	83,204	213,772
Right-of-use assets	26	40,837	26,932
Indemnification assets	15	331,285	205,075
Prepayments	17	8,654	16,095
Investments	14	-	1,303
Financial assets at fair value through other comprehensive income	25	29,875	-
Derivative financial instruments	25	7,474	-
Loan receivables	17	181,103	171,626
Deferred tax assets	23	507,484	11,459
		1,782,870	1,395,307
Current assets			
Inventories	16	19,156	17,840
Indemnification assets	15	3,401	17,681
Tax receivable	17	122,397	31,535
Derivative financial instruments	25	-	21,298
Trade and other receivables	17	170,450	102,600
Cash and cash equivalents		89,871	130,936
		405,275	321,890
Total assets		2,188,145	1,717,197
Current liabilities			
Interest-bearing loans and borrowings	18	(1,758)	(28,894)
Trade and other payables	19	(79,748)	(103,354)
Tax payable	19	(166,788)	(137,870)
Derivative financial instruments	25	(401,087)	(34,714)
Deferred consideration	22	(78,828)	(26,479)
Lease liabilities	27	(1,018)	(1,199)
Provisions	21	(151,739)	(56,959)
		(880,966)	(389,469)
Non-current liabilities			
Interest-bearing loans and borrowings	18	(438,245)	(619,866)
Trade and other payables	19	(9,565)	(8,148)
Deferred consideration	22	-	(71,758)
Lease liabilities	27	(40,944)	(26,565)
Provisions	21	(971,569)	(1,086,351)
Deferred tax liabilities	23	(1,295)	(116,881)
		(1,461,618)	(1,929,569)
Total liabilities		(2,342,584)	(2,319,038)
Net liabilities		(154,439)	(601,841)
Equity attributable to equity holders of the parent			
Share capital	24	74,327	74,327
Share premium	24	232,994	232,994
Other reserves	24	(835)	26,179
Retained losses		(460,925)	(935,341)
Total equity		(154,439)	(601,841)

Consolidated Statement of Financial Position *(continued)*
as at 31 December 2021

These financial statements from page 20 to page 88 were approved by the board of directors on 30 June 2022 and were signed on its behalf by



Michael Llewellyn
Director
Company registered number: SC200459

Consolidated Statement of Changes in Equity
for year ended 31 December 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings/ (losses) £'000	Total equity £'000
Balance at 1 January 2020	74,327	173,683	22,546	-	(17,237)	(776,106)	(522,787)
Total comprehensive income/ (expense) for the year							
Loss for the year	-	-	-	-	-	(226,234)	(226,234)
Other comprehensive income	-	-	-	-	20,870	-	20,870
Transactions with owners, recorded directly in equity							
Issue of shares (note 24)	-	59,311	-	-	-	-	59,311
Amounts arising on common control disposal (note 4)	-	-	-	-	-	66,999	66,999
Balance at 31 December 2020	74,327	232,994	22,546	-	3,633	(935,341)	(601,841)
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings/ (losses) £'000	Total equity £'000
Balance at 1 January 2021	74,327	232,994	22,546	-	3,633	(935,341)	(601,841)
Total comprehensive income/ (expense) for the year							
Profit for the year	-	-	-	-	-	474,416	474,416
Other comprehensive income/ (expense)	-	-	-	4,875	(31,889)	-	(27,014)
Balance at 31 December 2021	74,327	232,994	22,546	4,875	(28,256)	(460,925)	(154,439)

The notes on page 26 to page 88 are an integral part of these financial statements.

Consolidated Statement of Cash Flows
for year ended 31 December 2021

	Note	2021 £'000	2020* £'000
Cash flows from operating activities			
Profit/(loss) for the year from continuing operations		271,613	(256,453)
<i>Adjustments for:</i>			
Depreciation and amortisation	7	139,389	141,007
Finance income	10	(73,886)	(5,816)
Finance expense	10	53,817	116,963
Gain on sale of property, plant and equipment	12	-	34
Adjustment for changes in estimates (indemnification assets)	15	(146,734)	-
Unsuccessful exploration and evaluation activities	13	4,072	14,219
Exceptional items – non-cash items	8	(10,400)	-
Net loss/ (gain) on derivative financial instruments	7	565,541	(65,505)
Impairment loss on fixed assets	12	13,442	66,077
Impairment reversal on fixed assets	12	(79,376)	-
Impairment loss on goodwill	13	-	3,957
Taxation	11	(402,026)	21,424
(Increase)/ decrease in trade and other receivables		(98,948)	168,120
Decrease/ (increase) in inventories		7,536	(644)
Decrease in trade and other payables		(179,445)	(34,987)
Decommissioning and other provisions		(70,177)	(16,081)
Tax paid		7,256	(5,254)
Net cash from operating activities – continued operations		1,674	147,061
Net cash from operating activities – discontinued operations		246,144	101,951
Net cash generated from operating activities		247,818	249,012
Cash flows from investing activities			
Interest received		8,388	5,391
Disposal of discontinued operations, net of cash disposed of	4	158,975	17,848
Acquisition of subsidiary, net of cash acquired	3	(93,230)	(22,904)
Payment of deferred consideration	22	(25,956)	(30,311)
Acquisition of property, plant and equipment		(28,261)	(5,245)
Acquisition of exploration and evaluation assets		(94)	(8,204)
Acquisition of other intangible assets		-	(171)
Acquisition of other financial assets		(25,000)	-
Net cash used in investing activities – continuing operations		(5,178)	(43,596)
Net cash used in investing activities – discontinued operations		(30,485)	(43,193)
		(35,663)	(86,789)
Cash flows from financing activities			
Proceeds from new loan		-	23,553
Interest paid		(10,305)	(14,702)
Repayment of borrowings		(234,943)	(100,110)
Principal elements of lease payments		(3,938)	(3,596)
Net cash (used)/ from in financing activities – continuing operations		(249,186)	(94,855)
Net cash used in financing activities – discontinued operations		(3,933)	(4,036)
		(253,119)	(98,891)

Consolidated Statement of Cash Flows *(continued)*
for year ended 31 December 2021

Net (decrease)/increase in cash and cash equivalents	(40,965)	63,332
Cash and cash equivalents at 1 January	130,936	69,623
Effect of exchange rate fluctuations on cash held	(100)	(2,019)
Cash and cash equivalents at 31 December	89,871	130,936

The notes on page 26 to page 88 are an integral part of these financial statements.

*see note 2.25 and note 4.

Notes to the consolidated financial statements

1 Corporate information

INEOS UK E&P Holdings Limited is a private limited company incorporated and domiciled in the UK.

The principal activity of the Group is the exploration, development and production of oil and gas. Information on the Group's ultimate parent is presented in note 31. Information on other related party relationships of the Group is provided in note 30.

2 Summary of significant accounting policies and key accounting estimates

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

2.1 Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries. The Company financial statements present information about the Company as a separate entity and not about its Group.

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 are discussed in note 2.24.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) interpretations and in accordance with the Companies Act 2006. The Company has elected to prepare its Company financial statements in accordance with FRS 101; these are presented on page 88 to page 107.

2.2 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 or loss, financial assets classified as fair value through other comprehensive income and indemnification assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

2.3 Going concern

Based on the assessment described on page 12, which takes account of ongoing uncertainty as a result of COVID-19 and its impact on commodity prices, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

2.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.4 Basis of consolidation (*continued*)

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related Non-controlling interest ("NCI") and other components of equity. Any resulting gain or loss is recognised in the statement of comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. Where the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. Distributions received from an associate reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and it recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Joint Arrangements

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:

- Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

Interests in joint ventures (joint operation)

The Group's interests in jointly controlled assets are accounted for by recognising its proportionate share in assets and liabilities from joint ventures, except where as operator the Group takes on the role as independent contractor. In these instances, receivables and payables relating to jointly controlled operations are brought to account on a gross basis. Joint venture expenses and the Group's entitlement to production are recognised on a pro rata basis according to the Group's joint venture interest.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.5 *Foreign currency transactions and balances*

The Group's consolidated financial statements are presented in British pound sterling (£), which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end 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 statement of comprehensive income.

All the amounts in the financial statements have been stated to the nearest £'000.

2.6 *Financial assets and liabilities*

Classification

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Recognition and measurement

Trade and other receivables

Trade and other receivables 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 receivables 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 and loss.

Trade and other payables

Trade payables are obligations to pay for products or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as amounts falling due after more than one year.

Trade and other payables are recognised initially at fair value. The carrying amount of trade and other payables generally approximates to fair value due to their short maturities. Where settlement is not due in the short-term and where the effect is material, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, but exclude any restricted cash. Restricted cash is not available for use by the Group and therefore is not considered highly liquid, it is disclosed within other receivables in the statement of financial position. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.6 *Financial assets and liabilities (continued)*

Interest-bearing loans/borrowings

Interest-bearing loans/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. They are included in current assets/liabilities, except for maturities greater than 12 months after the end of the reporting period, such as the bank loans the Group has in place. Refer to note 18 for details.

Derivatives and hedging

Derivative commodity financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss as other operating income/(expense). A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset.

Financial assets available for sale

For investments in equity securities not held for trading, the Group may irrevocably elect to present subsequent changes to fair value in other comprehensive income. The Group makes this election on an investment-by-investment basis. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Please refer to note 25 for further details.

Impairment of financial assets

The expected credit loss model is applied for recognition and measurement of impairments in financial assets measured at amortised cost. The Group applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade receivables and contract assets. This approach requires the Group to recognise the lifetime expected loss provision for all trade receivables taking in consideration historical as well as forward looking information. Financial assets which are considered low risk are not provided for impairment by the Group.

An impairment loss in respect of a receivable 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.

2.7 *Property, plant and equipment*

Property, plant and equipment are stated at historical 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.

The carrying amount of tangible fixed assets is reviewed for impairments when events or changes in circumstances indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, the Group makes an estimation of recoverable amount, which is the higher of the asset's fair value less cost to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and written down to its recoverable amount.

Buildings, plant and equipment, furniture and equipment

Depreciation is charged on a straight line basis over the estimated useful lives of each part of the tangible fixed assets. Depreciation commences from the date an asset is available or ready for use.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.7 *Property, plant and equipment (continued)*

Oil and gas properties

Oil and gas properties are carried at cost, net of accumulated depletion and accumulated impairment losses. Depletion and depreciation of the capitalised costs for producing oil and gas properties is provided by the unit-of-production method based upon proved and probable recoverable oil and gas reserves, where unit-of-production method is deemed not appropriate, straight line method is applied over the estimated useful lives of the assets.

Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

Asset class	Depreciation method and rate
Buildings	4-6 years
Plant and equipment	4-20 years
Furniture and Equipment	3-20 years
Oil and gas properties	Unit of Production

2.8 *Intangible assets*

Exploration and evaluation activities

The Group follows a successful efforts accounting policy for oil and gas assets. The success or failure of each exploration or appraisal effort is assessed on a well-by-well basis. Exploration costs prior to obtaining the licence interest are charged to the statement of comprehensive income as they are incurred.

Exploration and evaluation expenditure associated with an exploration well, including related exploration and evaluation activities, are initially capitalised as intangible assets. If the prospects are determined to be successful on completion of evaluation and the project is initially sanctioned by management, the relevant expenditure including licence acquisition costs are capitalised as oil and gas properties.

If the prospects are subsequently determined to be unsuccessful, and the asset is impaired, the associated costs are expensed in the period in which that determination is made.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets primarily represent software licence fees that are not an integral part of the related hardware.

Goodwill

Goodwill arises on the acquisition of subsidiaries, and it represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.8 Intangible assets (*continued*)

Goodwill impairment testing is performed annually or if there is an indication of impairment. Goodwill impairments tests are based on cash generating units and compare the recoverable amount of the unit with the respective carrying amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs of disposal and its value in use. The value in use is determined using a discounted cash flow method, considering earnings forecasts of the unit. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Amortisation

Amortisation is charged on a straight line basis over the estimated useful life from the date the asset is available to use. Exploration and evaluation assets are not subject to amortisation.

Asset class

Amortisation method and rate

Software

3-5 years

Intangible assets are tested for impairments at the end of the reporting period if events or changes in circumstances indicate that the carrying value may not be recoverable. Useful lives are examined on an annual basis and adjustments, where applicable, are made on prospective basis.

2.9 Business combinations

All business combinations are accounted for by applying the acquisition method except acquisitions under common control which are outside the scope of IFRS 3. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the statement of comprehensive income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in statement of comprehensive income.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.9 Business combinations (*continued*)

Acquisitions under common control

Acquisitions under common control are accounted for at book value, using the assets and liabilities recorded in the financial statements of the acquiree. The difference between the consideration paid and the net assets acquired is recognised in retained earnings.

2.10 Inventories

Inventories consist of petroleum, condensate, liquid petroleum gas and materials. Inventories are valued at the lower of cost and net realisable value, which is the estimated selling price less costs of completion and disposal. Cost is determined using a weighted average of purchase prices. Provision is made for obsolete, slow-moving and defective items where appropriate.

Long lead items and other special material, which are only purchased for a particular property or approved project are classified as property, plant and equipment.

2.11 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to dispose. In assessing fair value less costs to dispose, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment charge of £13.4 million was recognised against Siri assets in Denmark and an impairment reversal of £79.4 million was recognised against a number of assets in the UK for the year ended 31 December 2021 as a result of impairment review performed. Refer to note 12 for details.

2.12 Employee benefits

Defined contribution pension obligation

The Group operates defined contribution retirement plans. A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.12 Employee benefits (*continued*)

Short-term employee benefits

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

2.13 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Dilapidation and Restoration

The Group makes full provision for the future restoration costs of leased properties on a discounted basis. The restoration provision relates to the total costs of returning the property at the end of the lease to its original state. A corresponding property, plant and equipment asset of an amount equivalent to the provision is also recognised. The asset is depleted on a straight line basis. The unwinding of the discount in the net present value of the total expected cost is treated as an interest expense. Changes in estimates are reflected prospectively over the remaining life of the lease.

Decommissioning and restoration

The Group makes full provision for the future costs of the decommissioning and restoration of oil and gas properties on a discounted basis. The decommissioning and restoration provision relates to total cost of plugging and abandoning the existing wells and any costs associated with returning the sites to their original use. The amount recognised is the estimated cost of decommissioning discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. A corresponding property, plant and equipment asset of an amount equivalent to the provision is also recognised. The asset is depleted using the unit of production method. The unwinding of discount in the net present value of the total expected cost is treated as an interest expense. Changes in the estimates are reflected prospectively over the remaining life of the field.

2.14 Leases

Definition

The Company has entered into a number of leases for real estate in England as well as plant & machinery.

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. The Group assesses whether:

- The contract involves the use of an identified asset
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.14 Leases (*continued*)

Initial recognition and measurement

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

The Group recognises the full lease liability, rather than its working interest share, for leases entered into on behalf of a joint-operation if the Group has the primary responsibility for making the lease payments. The Group then performs a subsequent assessment to determine if the asset is sub-leased to the joint arrangement. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease as operating or finance lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

For contracts in scope, the Group, as the lessee, recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred 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 earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are 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 re-measurements of the lease liability. The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

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

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

The lease liability is measured at amortised cost using the effective interest method.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, 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.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.14 Leases (*continued*)

Short term and low value leases

The Group, as lessee, has availed the exemption from lessee accounting for its short-term leases (lease term of 12 months or less) and leases of low-value items to leases of assets that are valued below €10,000. Accordingly for these leases, it recognises the lease payments as an expense, on either a straight line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the Group's benefit.

2.15 Revenue and over/underlift

Revenue, which is stated net of value added tax, represents oil and gas products sold and the transportation and processing services provided. Contracts for goods and services are analysed to determine the distinct performance obligations against which revenue should be recognised. The amount to be recognised is determined from the standalone selling prices for goods and services, allocated to the performance obligations.

Revenue is recognised when (or as) the performance obligations are satisfied by transferring a promised good or service to a customer. For sales resulting from hydrocarbon production, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue resulting from hydrocarbon production from properties in which the Group has an interest with partners in joint arrangements is recognised on the basis of the Group's volumes lifted and sold. Lifting or offtake arrangements for oil and gas produced in certain of the Group's oil and gas properties are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative volume sold less inventory is an "underlift" or "overlift". Underlift and overlift are valued at market value and included within receivables and payables respectively. Movements during an accounting period are adjusted through cost of sales in the statement of comprehensive income.

Revenue from transportation and processing services arises from tariffs for third party use of owned pipelines and infrastructure. Tariffs are recognised at the end of the month for pipeline movements during the month and are based on quantity transported through the pipeline.

The timing of revenue recognition of the Group's sales transactions under transportation and processing services provided are over time. Other revenues are recognised at a point in time.

2.16 Finance income and expense policy

Finance expenses comprise interest payable and other finance charges, unwinding of the discount on provisions and net foreign exchange losses. 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. Finance income includes interest receivable on funds invested and net foreign exchange gains.

Finance income and expense is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

2.17 Exceptional items

The presentation of the Group's results separately identifies the effect of profits and losses on the disposal of businesses, the impairment of goodwill, the cost of restructuring acquired businesses and the impact of one off events such as legal settlements as exceptional items. Results excluding disposals, impairments, restructuring costs and one off items are used by management and are presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the period end 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 period end 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.

2.19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Segmental analysis

The Group determines its operating segments in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers are responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-makers are the members of the Executive Committee of the intermediate parent undertaking, INEOS Upstream Holdings Limited.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the chief operating decision-makers to make decisions about resources to be allocated to the segments and assess their performance.

The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure and the aggregation criteria set out in IFRS 8. Segment results that are reported to the chief operating decision-makers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2.21 Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Government grants related to assets are shown in the consolidated statement of financial position as deferred income. This income is amortised on a straight-line basis over the same period as the tangible fixed asset to which it relates or the life of the related project. Grants related to income are recognised in the statement of comprehensive income.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.22 New and amended standards and interpretations

The Group has adopted the following amendments to accounting standards for the first time in 2021 with effect from 1 January 2021, although none have had a material effect on the Group's financial statements in the year unless otherwise indicated:

- Amendment to IFRS 16- COVID-19- Related Rent Concessions - beyond 30 June 2021 (effective date 1 April 2021). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19.
- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 has been adopted and has been applied retrospectively. The amendments introduce a practical expedient relating to modifications of financial instruments and lease contracts and specific hedge accounting requirements which is triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

2.23 Standards issued but not yet effective

A number of new standards and amendments are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The impact of their adoption is being assessed and is not expected to have a material impact on the Group's financial statements in the period of initial application unless otherwise indicated.

- Amendments to IAS 37: Onerous Contracts—Cost of Fulfilling a Contract (effective date 1 January 2022).
- Amendments to References to the Conceptual Framework in IFRS 3 (effective date 1 January 2022).
- Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use (effective date 1 January 2022).
- Annual Improvements to IFRS Standards 2018-2020 (effective date 1 January 2022).
- IFRS 17 Insurance Contracts (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective date 1 January 2023).
- Amendments to IAS 12: Income taxes—deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (effective date 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (effective date 1 January 2023).

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.24 Critical judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in above, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of non-financial assets (Estimate)

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment and/or reversals of previous impairments. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

Impairment losses on intangible assets and property, plant and equipment are recognised when the recoverable amount of the cash generating unit which includes the asset is lower than the respective carrying amount. In accordance with the definition of a cash generating unit under IAS 36, the individual production plants generally do not represent separate cash generating units, but are part of larger asset groups that form the cash generating units. Since the assessment whether property, plant and equipment are impaired is based on long-term business plans for the cash generating units and the determination of an appropriate discount rate, management used significant estimates and assumptions in making these assessments. Forecast cash flows are the area subject to most uncertainty within these models due to the inherent variability associated with the business cycle.

For oil and gas assets, the recoverable amount is calculated using valuation techniques and inputs of various estimates including the expected future cash flows based on future production, commodity prices, exchange rates, discount rates and inflation rates, of which discount rates, reserves estimates and commodity prices are considered to be the key assumptions used in calculations. The discount rates applied in impairment tests are reassessed each year and in 2021, the post-tax discount rates were between 6.9% to 8.0% (2020: 7.7% to 8.7%). Commodity price assumptions are based on consensus from a group of third party oil and gas analysts and banks, they are reviewed and approved by management. Refer to note 12 for details.

As a result of the impairment review performed on the Group's oil and gas assets, an impairment reversal of £79.4 million (2020: £nil) and an impairment charge of £13.4 million (2020: £66.1 million) was recognised for the year ended 31 December 2021. Refer to note 12 for details.

For exploration and evaluation assets, judgement is required to determine whether it is appropriate to continue to carry costs associated on the statement of financial position. The costs are carried based on the current regulatory and political environment or any known changes to that environment. They are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery.

£4.1 million (2020: £14.7 million) exploration assets were written off in the year due to unsuccessful results. No other impairment was deemed necessary since the recoverable amounts were higher than their carrying value. Refer to note 13 for details.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.24 Critical judgements and key sources of estimation uncertainty (*continued*)

Oil and gas reserves (Estimate)

The Group estimates its oil and gas reserves based on information compiled by appropriately qualified persons relating to geological and technical data on the size, depth, shape and grade of the reservoir and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the reservoir.

Oil and gas reserves have a direct impact on certain amounts reported in the financial statements. Estimated reserves are used in determining depreciation and depletion expenses, impairment testing for oil and gas properties and goodwill, and the timing of decommissioning. Judgement is involved in determining when to use an alternative basis for estimation of the reserves base in order to appropriately reflect the expected utilisation of the assets concerned.

Recognition and impairment of goodwill (Estimate)

Goodwill impairment testing is performed annually or if there is an indication of impairment. Goodwill impairments tests are based on cash generating units (CGUs) and compare the recoverable amount of the unit with the respective carrying amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs of disposal and its value in use. The value in use is determined using a discounted cash flow method, considering earnings forecasts of the CGU. These calculations require the use of estimates such as long-term price assumptions and reserves.

Goodwill relates to the Danish CGU. The carrying amount of the Danish CGU is lower than its recoverable amount thus no impairment is recognised and all Goodwill in the Norwegian CGU has been disposed of in the current financial period. As a result of current year acquisitions in the Danish CGU, £10.4 million has immediately been recognised as exceptional other income due to the fair value of the net assets and liabilities acquired being greater than the total consideration transferred, please refer to note 3 for details. The key assumptions used to determine the recoverable amount for the CGU, such as the commodity prices and discount rates, and the related sensitivity analysis, are disclosed and further explained in note 13.

Tax provisions/assets (Estimate)

Tax provisions/assets are recognised when it is considered probable that there will be an outflow/inflow of funds to the relevant tax authorities, where provision/asset is recognised for the amount expected to be settled. The provision/asset is updated at each reporting period by management through interpretation and application of known tax laws with support of professional advisors where appropriate. Interpretations can change over time depending on circumstance and precedent, which result in adjustment to the expected amount to be settled. Changes to the estimated amount would result in a charge or credit to the income statement in the period the change arises. The exception to this is where tax provisions are subject to an indemnity by a third party, for example those uncertain tax provisions recognised in the subsidiaries on acquisition in 2017, which the changes to the estimated amount would offset against movement in indemnification assets.

The Group's current tax provision of £166.8 million relates to management's assessment of the amount of tax payable on open tax positions where the liabilities remain to be agreed with the Norwegian Oil Taxation Office. Uncertain tax items for which a provision of £213.5 million is made, relate principally to the interpretation of tax legislation regarding arrangements entered into by the Group and consist primarily of transfer pricing issues in relation to gas sales agreements and other intra group transactions. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly. Whilst a range of outcomes is reasonably possible, the extent of the reasonably possible range is from additional liabilities of up to £0.0 million to a reduction in liabilities of up to £213.5 million. £213.5 million of the above provision is subject to an indemnity by a third party, and where the changes to the estimated amount would offset against movement in indemnification assets. Refer to note 15 for details.

Notes to the consolidated financial statements (*continued*)

2 Summary of significant accounting policies and key accounting estimates (*continued*)

2.24 Critical judgements and key sources of estimation uncertainty (*continued*)

The Group has recognized a deferred tax asset of £ 507.5 million. The basis for the recognition has been the model applied to determine impairment of non-financial assets, (which is described on page 38), and adjusted for certain items to determine the future estimated taxable income.

The Group has deferred tax assets of £507.5 million and liabilities of £1.3 million as at 31 December 2021 (2020: assets of £11.5 million and liabilities of £116.9 million) based on an assessment of expected future profits against the gross tax losses available, refer to note 23 for details.

Exceptional costs (Judgement)

The presentation of the Group's results separately identifies the effect of profits and losses on the disposal of businesses, the impairment of goodwill, the cost of restructuring acquired businesses and the impact of one-off events such as legal settlements as exceptional items. Judgement is involved in determining if the costs incurred are deemed as exceptional, exceptional items are reviewed individually but are determined under a common process and consistent basis. A change in that judgement could result in changes in Normalised EBITDA (page 5).

Provisions (Estimate)

Provisions are recognised for the cost of remediation works where there is a legal or constructive obligation for such work to be carried out. Where the estimated obligation arises upon initial recognition of the related asset, the corresponding debit is treated as part of the cost of the related assets and depreciated over its estimated useful life. The timing of the recognition requires an assessment of existing facts and circumstances, which can be subject to change. Estimates of the amount of provisions recognised are based on current legal and constructive requirements, technology, and prices. Because actual outflows can differ from the estimate due to changes in laws, regulations, public expectation, technology, prices and can take place many years in the future, the carrying amounts of the provisions are regularly reviewed and adjusted to take account of such changes.

The decommissioning of oil and gas assets may not be due to occur for many years into the future (between 2022 and 2045). Consequently, judgement is required in relation to the estimated cash flows, removal date, environmental legislation, inflation and discount rate used to calculate present value.

Provisions are recognised for the expected cost of dilapidation and restoration work where there is a legal or constructive obligation for such work to be carried out.

The nature and amount of provisions included in the financial statements, as well as the key assumptions used, are detailed in note 21.

The discount rate applied to reflect the time value of money in the carrying amount of provisions requires estimation. The discount rate applied is reviewed regularly and adjusted following changes in market rates. If the estimated discount rate, one of the key assumptions in determining the provisions, used in the calculation had been 1% higher than management's estimate, the carrying amount of the provision would have been £91.1 million lower.

2.25 Reclassifications

Gains and losses on commodity derivative financial instruments have been reclassified from finance income and expenses to other operating income and expenses in the statement of comprehensive income and related notes to the consolidated financial statements, and cashflows arising from financing activities to operating activities on the statement of cash flows consistent with the requirements of IAS 1 and IAS 7. These amounts should not have been included within finance income / expenses in the income statement and financing activities within the cash flow statement because they are operating in nature, and this presentation more accurately reflects the operating characteristics of the financial instruments. The impact of the restatement results in a decrease in the operating loss of £65.5 million and a nil impact on the profit / (loss) for the year ended 31 December 2020. This results from a reduction of finance income of £65.5 million and a corresponding increase in operating income of £65.5 million. See notes 7 and 10 respectively.

Notes to the consolidated financial statements *(continued)*

2 Summary of significant accounting policies and key accounting estimates *(continued)*

2.25 Reclassification *(continued)*

	As 31 December 2020 as previously classified	Reclassification of derivative gains / losses	As reclassified for year ended 31 December 2020
	£'000		£'000
<i>Statement of comprehensive income</i>			
Other income	73	65,505	65,578
Operating (loss)	(150,284)	26,509	(123,775)*
Finance income	77,628	(65,505)	5,816
(Loss) for the year	(226,234)	-	(226,234)
<i>Statement of cash flows</i>			
Net cash generated from operating activities	103,677	145,335	249,012
Net cash from / (used) in financing activities	46,444	(145,335)	(98,891)

*Note: operating (loss) also includes the impact of restating the comparatives for discontinued operations of £38.9 million, as set out in Note 4 to the financial statements.

Notes to the consolidated financial statements (continued)

3 Acquisitions of subsidiaries

Acquisitions in current year

On 30 August 2021, the Group's subsidiary, INEOS E&P A/S, acquired Hess Denmark ApS (now INEOS Energy (Syde Arne) ApS). The acquisition comprises 61.5% of the HESS operated Syd Arne oil field (which the Group already holds 36.8% prior to the acquisition) and 4.8% interest in the Solsort field which the Group holds the operatorship. The acquisition unlocked operational and cost synergies between the Group's Danish assets and opened up prospects in Denmark's offshore oil and gas sector.

	Recognised provisional values on acquisition £'000
Acquiree's provisional net assets recognised at the acquisition date:	
Property, plant and equipment	274,020
Right-of-use assets	18,196
Deferred tax assets	51,509
Inventories	9,536
Trade and other receivables	6,423
Cash and cash equivalents	2,052
Tax receivables	2,139
Trade and other payables	(11,103)
Leases liabilities	(18,196)
Provisions	(223,671)
Net assets	110,905
Consideration paid:	
Cash	95,282
Deferred consideration	4,687
Total consideration transferred	99,969
Negative goodwill at acquisition	(10,936)
Recognised as exceptional income	10,400
Effect of movement in foreign exchange	536
Goodwill as at 31 December 2021	-

The fair values disclosed are provisional as at 30 August 2021. This is due to the complexity of the acquisition and the inherently uncertain nature of the oil and gas sector; further work will be required to confirm the final fair value. The finalisation of the valuation work required to determine the fair values of the assets and liabilities acquired will be completed within 12 months of the acquisition date, at the latest.

Discounted cash flow model was used to estimate the fair value of acquired property, plant and equipment, which included oil and gas assets, based on the life-of-field plans and their relating decommissioning liabilities. Expected future cash flows are based on estimates of future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-field plan as at the acquisition date.

Deferred consideration of £4.7 million relates to several tax settlements, which remains unsettled at year end and is included within current liabilities in the consolidated statement of financial position based on the timing of expected payments, refer to note 22 for details.

Notes to the consolidated financial statements (*continued*)

3 Acquisitions of subsidiaries (*continued*)

As the fair value of the net assets and liabilities is greater than the total consideration transferred, in accordance with IFRS 3, £10.4 million has immediately been recognised as exceptional income in the current financial period. Please refer to note 8.

The revenue included in the consolidated statement of comprehensive income since 30 August to 31 December 2021 contributed by the acquired entity was £32.9 million. They incurred £1.9 million loss before tax over the same period.

If INEOS Energy (Syd Arne) ApS had been consolidated from 1 January 2021, the consolidated statement of comprehensive income would show pro-forma revenue from the entity of £81.2 million and a loss before tax of £27.8 million for the year ended 31 December 2021.

Acquisitions in prior year

On 19 November 2020, the Group's subsidiary, INEOS E&P A/S, acquired Spirit Energy Danmark ApS (now "INEOS E&P (Petroleum Denmark) ApS") and Spirit Energy Petroleum Danmark AS (now "INEOS E&P (Norge) Petroleum DK AS") from Bayerngas Norge AS. The acquisition covers ownership in the oil and gas license Hejre (40% interest), Hejre extension (32% interest) and Solsort (30% interest). The acquisition helps to strengthen the Group's overall oil and gas Danish portfolio and reflects the Group's confidence in the Hejre and Solsort discoveries.

	Recognised final values on acquisition £'000
Acquiree's final net assets recognised at the acquisition date:	
Trade and other receivables	35,215
Cash and cash equivalents	1,045
Trade and other payables	(203)
Provisions	(66,128)
Net liabilities	(30,071)
Consideration paid:	
Cash	23,949
Deferred consideration	33,817
Total consideration transferred	57,766
Indemnification asset	(10,116)
Total consideration	47,650
 Goodwill at acquisition	 77,721
Impairment	(3,957)
Effect of movement in foreign exchange	(16)
Goodwill as at 31 December 2020	73,748

The fair values disclosed were provisional as at 19 November 2020. This was due to the complexity of the acquisition and the inherently uncertain nature of the oil and gas sector; further work was required to confirm the final fair value. The finalisation of the valuation work required to determine the fair values of the assets and liabilities acquired has been completed within 12 months of the acquisition date.

Notes to the consolidated financial statements (*continued*)

3 Acquisitions of subsidiaries (*continued*)

Discounted cash flow model was used to estimate the fair value of acquired property, plant and equipment, which included oil and gas assets, based on the life-of-field plans. Expected future cash flows are based on estimates of future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-field plan as at the acquisition date.

Deferred consideration of £33.8 million relates to several tax settlements, of which £15.6 million remained unsettled as at 31 December 2020 and has subsequently been repaid in the current financial period, refer to note 22 for details.

The Group also benefits from an indemnity in respect of decommissioning liabilities and uncertain tax liabilities relating to pre-acquisition periods. An indemnification asset of DKK 84.1 million (£10.1 million), equivalent to the fair value of the underlying estimate of these liabilities, has been recognised by the Group and treated as a reduction in consideration. Refer to note 15 for details

Goodwill of £77.7 million was recognised as a result of the acquisition, of which none is expected to be deductible for income tax purposes. An impairment assessment was subsequently performed and an impairment of £4.0 million was recognised in 2020. Refer to note 13 for details on goodwill.

As part of the sales and purchase agreement, the Group is subject to a contingent consideration of US\$60.0 million (£44.5 million) should a Final Investment Decision be made on Hejre and Solsort discoveries with notice issued to the regulator. On the other hand, the Group is entitled to receive a contingent consideration of DKK 607.0 million (£68.5 million) if a decision is made to not invest on Hejre and Solsort discoveries. These contingent liability and asset have not been recognised because they are contingent on future events which have a high level of uncertainty at the year end. Refer to note 29 for details.

The revenue included in the consolidated statement of comprehensive income since 19 November to 31 December 2020 contributed by the acquired entities was £nil. They incurred £0.3 million loss before tax over the same period.

If Spirit Energy Danmark ApS and Spirit Energy Petroleum Danmark AS had been consolidated from 1 January 2020, the consolidated statement of comprehensive income would have shown pro-forma revenue from these entities of £nil and a loss before tax of £27.5 million for the year ended 31 December 2020.

Notes to the consolidated financial statements (*continued*)

4 Disposal of subsidiaries

Disposals in current year

On 25 March 2021, the Group's subsidiary, INEOS E&P Norge A/S, entered into an agreement to divest its oil and gas business in Norway to PGNiG Upstream Norway AS. The transaction balanced the Group's portfolio of oil and gas production and move the Group towards a more operated position, which was completed on 30 September 2021.

The disposals had the following effect on the Group's assets and liabilities:

	Recognised values on disposal £'000
Subsidiary's net assets recognised at the disposal date:	
Property, plant and equipment	365,076
Investments	1,280
Intangible assets	30,250
Inventory	814
Indemnification assets	8,295
Trade and other receivables	9,980
Goodwill	96,210
Taxations	(344,447)
Trade and other payables	(25,353)
Provisions	(132,370)
Net assets of disposal group	9,735
Proceeds:	
Consideration	159,683
Disposal costs	(708)
Net proceeds	158,975
Gain on disposal	149,240

The gain arose on disposal, being the difference between net proceeds of \$213.4 million (£159.0 million) and net assets disposed, amounted to £149.2 million and was recognised on the statement of comprehensive income.

Notes to the consolidated financial statements (continued)

4 Disposal of subsidiaries (continued)

As a result of the disposal of INEOS E&P Norge A/S, the financial results relating to the subsidiary have been classified as discontinued operations and the primary statements and associated disclosures have been reclassified. The discontinued operations which have been included in the consolidated statement of comprehensive income for the year, were as follows:

<i>Discontinued operations</i>	Period ended 30 September 2021	Year ended 31 December 2020
	£'000	£'000
Revenue	428,783	215,424
Cost of sales	(126,572)	(170,865)
Gross profit	302,211	44,559
Total administrative expenses	(10,771)	(5,563)
Gain on disposal of discontinued operations	149,240	-
Operating profit	440,680	38,996
Profit on disposal of fixed assets	-	107
Finance income	761	274
Finance expense	(5,618)	(2,531)
Profit before tax	435,823	36,846
Taxation	(233,020)	(40,604)
Net profit/ (loss) attributable to discontinued operations	202,803	(3,758)

	Period ended 30 September 2021	Year ended 31 December 2020
	£'000	£'000
Operating profit	440,680	38,996
Depreciation for the year	59,981	79,842
EBITDA	500,661	118,838
Profit on disposal of fixed assets	-	(107)
Unsuccessful exploration and evaluation activities	-	479
Exceptional items	356	368
Gain on disposal of discontinued operations	(149,240)	-
Normalised EBITDA from discontinued operations	501,017	119,578

During the year, INEOS E&P Norge A/S contributed £246.1 million (2020: £59.5 million) to the Group's net operating cash flows, paid £30.5 million (2020: £13.4 million) in respect of investing activities and paid £3.9 million (2020: £3.8 million) in respect of financing activities.

Disposals in prior year

As part of an internal organisational restructuring, the Group sold its entire interest in INEOS FPS Group on 15 June 2020 to a fellow group company, INEOS Industries Holdings Limited for a consideration of \$262.7 million (£213.3 million). The consideration was settled through a combination of cash and a loan to INEOS Industries Holdings Limited.

The net assets of INEOS FPS Group and its subsidiaries at the date of disposal were as follows:

Notes to the consolidated financial statements (*continued*)

4 Disposal of subsidiaries (*continued*)

	Recognised values on disposal £'000
Subsidiary's net assets recognised at the disposal date:	
Property, plant and equipment	268,148
Intangible assets	931
Lease assets	17,554
Inventories	3,518
Trade and other receivables	119,973
Cash and cash equivalents	10,487
Interest-bearing loans and borrowings	(4,284)
Lease liabilities	(18,195)
Trade and other payables	(73,170)
Provisions	(178,680)
Net assets of disposal group	146,282
Proceeds:	
Loan receivable	184,946
Cash and cash equivalents	28,335
Amounts arising on common control transactions	66,999

This was a transaction under common control and the gain arose on disposal, being the difference between consideration of \$262.7 million (£213.3 million) and net assets disposed, amounted to £67.0 million and was recognised in retained earnings as per the Group's accounting policy.

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income for the year, were as follows:

<i>Discontinued operations</i>	Period ended 15 June 2020	Year ended 31 December 2019
Revenue	156,779	346,528
Cost of sales	(123,882)	(288,089)
Gross profit	32,897	58,439
Total administrative expenses	2,195	21,201
Operating profit	35,092	79,640
Finance income	5	259
Finance expense	(1,120)	(3,407)
Profit before tax	33,977	76,492
Taxation	-	(12,306)
Net profit attributable to discontinued operations	33,977	64,186

Notes to the consolidated financial statements (*continued*)

4 Disposal of subsidiaries (*continued*)

	Period ended 15 June 2020 £'000	Year ended 31 December 2019 £'000
Operating profit	35,092	79,640
Depreciation for the year	10,984	21,887
Amortisation for the year	199	399
EBITDA	46,275	101,926
Exceptional items	-	1,400
Normalised EBITDA from discontinued operations	46,275	103,326

During the year, INEOS FPS Group contributed £39.4 million (2019: £58.1 million) to the Group's net operating cash flows, paid £29.8 million (2019: £17.7 million) in respect of investing activities and paid £0.2 million (2019: £2.6 million) in respect of financing activities.

5 Operating segments

The determination of the Group's operating segments is based on the business units for which information is reported to the Group's Chief Operating Decision Maker. The Group's reportable segments are based on geographic region and the nature of the operation. Information regarding the operations of each reportable segment is included in the following table. Segments mainly engage in the exploration, development and production and sale of oil and gas. Performance is measured based on earnings before interest, tax, depreciation and amortisation, measured under IFRS ("Segment EBITDA") and after adjustment for exceptional or non-recurring items ("Normalised EBITDA"). Normalised EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to each other and similar businesses that operate within the oil and gas industry. Information regarding segments reviewed by management includes management accounts comprising the profit or loss, cash flows and other financial and non-financial information used to manage the business.

Notes to the consolidated financial statements *(continued)*

5 Operating Segments *(continued)*

Segment information – 2021	United Kingdom	Denmark	Norway*	FPS*	Corporate	Adjustments and eliminations	Amounts in financial statements
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue							
External customers	384,159	130,822	428,783	-	-	-	943,764
Segment revenue	<u>384,159</u>	<u>130,822</u>	<u>428,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>943,764</u>
Segment EBITDA	<u>(51,158)</u>	<u>40,916</u>	<u>500,661</u>	<u>-</u>	<u>(851)</u>	<u>-</u>	<u>489,568</u>
Exceptional items (note 8)	1,814	(3,220)	356	-	851	-	(199)
Unsuccessful exploration and evaluation activities (note 13)	4,072	-	-	-	-	-	4,072
Impairment (reversal)/ charge (note 12)	(79,376)	13,442	-	-	-	-	(65,934)
Gain on derivative financial instruments (note 7)	(54,612)	-	-	-	-	-	(54,612)
Loss on derivative financial instruments (note 7)	620,153	-	-	-	-	-	620,153
Gain on disposal of discontinued operations (note 4)	-	-	(149,240)	-	-	-	(149,240)
Normalised EBITDA	<u>440,893</u>	<u>51,138</u>	<u>351,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>898,420</u>
Non-current assets	<u>1,441,334</u>	<u>1,452,082</u>	<u>-</u>	<u>-</u>	<u>1,598,857</u>	<u>(2,709,403)</u>	<u>1,782,870</u>
Segment information – 2020	United Kingdom*	Denmark	Norway*	FPS*	Corporate	Adjustments and eliminations	Amounts in financial statements*
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue							
External customers	103,052	64,270	215,424	156,779	-	-	539,525
Inter-segment sales	8	-	-	-	-	(8)	-
Segment revenue	<u>103,060</u>	<u>64,270</u>	<u>215,424</u>	<u>156,779</u>	<u>-</u>	<u>(8)</u>	<u>539,525</u>
Segment EBITDA	<u>(2,909)</u>	<u>20,811</u>	<u>118,838</u>	<u>46,275</u>	<u>(297)</u>	<u>-</u>	<u>182,718</u>
Exceptional items (note 8)	1,265	2,515	368	-	297	-	4,445
Unsuccessful exploration and evaluation activities (note 13)	14,219	-	479	-	-	-	14,698
Impairment charge (note 12 & 13)	59,761	10,273	-	-	-	-	70,034
Gain on derivative financial instruments (note 7)*	(71,538)	-	-	-	-	-	(71,538)
Loss on derivative financial instruments (note 7)*	6,033	-	-	-	-	-	6,033
Loss/ (Gain) on disposal of fixed assets (note 7)	7	27	(107)	-	-	-	(73)
Normalised EBITDA	<u>6,838</u>	<u>33,626</u>	<u>119,578</u>	<u>46,275</u>	<u>-</u>	<u>-</u>	<u>206,317</u>
Non-current assets	<u>384,408</u>	<u>1,088,587</u>	<u>438,382</u>	<u>-</u>	<u>1,996,386</u>	<u>(2,512,456)</u>	<u>1,395,307</u>

*Discontinued operations (note 4), derivative gains and losses (note 2.25)

Notes to the consolidated financial statements (continued)

6 Revenue

Type of goods/ services

	2021 £'000		
	United Kingdom	Denmark	Inter-segment sales
Sale of gas	370,716	1,586	-
Sale of oil	1,480	128,483	-
Other income relating to oil and gas production	3,381	753	-
Transportation and processing services	8,582	-	-
	384,159	130,822	-
			514,981

	2020* £'000		
	United Kingdom	Denmark	Inter-segment sales
Sale of gas	87,635	2,686	(8)
Sale of oil	666	61,533	-
Other income relating to oil and gas production	8,662	-	-
Transportation and processing services	6,097	50	-
	103,060	64,269	(8)
			167,321

Geographical markets

	2021 £'000	2020* £'000
UK	488,706	154,514
Rest of Europe	26,275	12,807
	514,981	167,321

Timing of revenue recognition

	2021 £'000	2020* £'000
At a point in time	506,399	161,174
Over time	8,582	6,147
	514,981	167,321

*2020 disclosures in notes 6 to 11 are reclassified to disclose comparative discontinued operations results separately; disclosures in notes 5, 7 and 10, gains and losses on derivative financial instruments are reclassified from finance income/expense to other operating income/expenses

Notes to the consolidated financial statements (*continued*)

6 Revenue (*continued*)

As discussed in note 30, revenues of approximately £362.6 million (2020: £87.4 million) are derived from wider INEOS Group entities, of which £362.6 million (2020: £87.4 million) arose from the Group's largest customer.

No contract assets and liabilities have been recognised in the consolidated statement of financial position of the Group. Its impact, if any, was deemed immaterial. Analysis has concluded that the right of payment of the goods and services sold by the Group is unconditional, except for the passage of time. Therefore, all rights of payment have been booked as trade receivables.

No costs to obtain or fulfil contracts are incurred, therefore no related assets arise.

7 Operating expenses and auditor's remuneration

Included in consolidated statement of comprehensive income are the following:

	2021 £'000	2020* £'000
Gain on disposal of fixed assets (Other operating income)	-	(73)
Adjustment for changes in estimates (indemnification assets) (note 15)	(146,734)	-
Gain on disposal of discontinued operations (note 4)	(149,240)	-
Depreciation charge (note 12 and 26)	139,098	140,991
Amortisation charge (note 13)	291	389
Exceptional items (note 8)	(555)	4,077
Unsuccessful evaluation and exploration activities (note 13)	4,072	14,219
Impairment (reversal) on fixed assets (note 12)	(79,376)	-
Impairment loss on fixed assets (note 12)	13,442	66,077
Impairment loss on goodwill (note 13)	-	3,957
Discontinued operations' depreciation and amortisation (note 4)	59,981	91,025
Government grant	-	(12,400)
Gain on derivative financial instruments	(54,612)	(71,538)
Loss on derivative financial instruments	620,153	6,033
Auditor's remuneration:	2021	2020
	£'000	£'000
Audit of the consolidated financial statements	78	78
Amounts receivable in respect of other services to the Company and its subsidiaries:		
Audit of the individual Company financial statements	26	25
Audit of financial statements of subsidiaries of the Company	377	422
Audit related assurance services	94	48
Other tax advisory services	-	-
Other assurance services	10	47
	585	620

Notes to the consolidated financial statements (*continued*)

8 Exceptional items

Exceptional administrative (gains)/ expenses

	2021	2020*
	£'000	£'000
Negative goodwill recognised (note 3)	(10,400)	-
Contingent consideration realised	-	239
Restructuring costs	8,994	3,780
Acquisition costs	851	58
	<u>(555)</u>	<u>4,077</u>

2021

Exceptional administrative gains

On 30 August 2021 the Group acquired Hess Denmark ApS. Total consideration paid was £100.0 million to purchase net assets with a provisional fair value on acquisition of £111.0 million. The resulting negative goodwill of £10.4 million has been credited to the consolidated income statement as an exceptional administrative gain in the year with the remaining movement of £0.6 million due to foreign exchange (see Note 3)

Exceptional administrative expenses

Exceptional restructuring costs of £9.0 million have been charged to the consolidated statement of comprehensive income for the year ended 31 December 2021 in relation to internal restructuring of senior management and one-off restructuring costs relating to current year acquisitions. A further £0.8 million of exceptional acquisition costs were recognised in the current financial period.

2020

£0.2 million is recognised within payables in relation to the Group's subsidiary's disposal of part of its interest in the Glenlivet field from previous ownership.

Exceptional restructuring costs of £4.1 million have been charged to the consolidated statement of comprehensive income for the year ended 31 December 2020 in relation to internal restructuring of senior management and one-off restructuring costs from one of the Group's joint operations. A further £0.1 million exceptional acquisition costs were recognised in relation to potential acquisitions, which have not been pursued or completed.

9 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2021	2020*
Production	171	173
Administration and support	77	91
Research and development	16	25
	<u>264</u>	<u>289</u>

Notes to the consolidated financial statements (*continued*)

9 Staff numbers and costs (*continued*)

The aggregate payroll costs of these persons were as follows:

	2021	2020*
	£'000	£'000
Wages and salaries	26,122	25,815
Social security costs	859	1,479
Contributions to defined contribution plans	2,163	2,328
	<u>29,144</u>	<u>29,622</u>

10 Finance income and expense

	2021	2020*
	£'000	£'000
Finance income		
Interest income on cash and cash equivalents	105	1,119
Interest income from Group undertakings	8,263	4,665
Other interest income	20	32
Foreign exchange gains	65,498	-
Total finance income	<u>73,886</u>	<u>5,816</u>
Finance expense		
Interest expense on financial liabilities measured at amortised cost	8,367	17,729
Interest paid to Group undertakings	28,943	29,971
Other interest expense	565	418
Interest payable on lease liabilities	1,254	1,132
Unwind of discount on provisions and deferred consideration	3,885	5,339
Net loss arising on modification of financial instruments measured at amortised cost that were not derecognised	10,803	2,655
Foreign exchange losses	-	59,719
Total finance expense	<u>53,817</u>	<u>116,963</u>

Notes to the consolidated financial statements (*continued*)

11 Taxation

Recognised in the consolidated income statement	2021 £'000	2020* £'000
Current tax		
Current tax income	(97,099)	(18,898)
Current tax - Prior year	139,634	11
Current tax expense/ (income)	42,535	(18,887)
Deferred tax		
Origination and reversal of temporary differences	(445,769)	40,202
Adjustments for prior years	1,189	749
Deferred Petroleum Revenue tax	19	(640)
Deferred tax (income)/ expense	(444,561)	40,311
Total tax (income)/ expense	(402,026)	21,424

The tax on profit before tax for the year from continuing operations is lower than the standard rate of corporation tax applicable to oil and gas companies in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 40% (2020 - 40%). The differences are reconciled below.

Reconciliation of effective tax rate	2021 £'000	2020* £'000
Profit/ (loss) before tax	(130,413)	(235,029)
Tax using the UK corporation tax rate of 40% (2020: 40%)	(52,165)	(94,012)
Increase from effect of capital allowances depreciation	5,843	4,465
Decrease from effect of tax incentive	(56,221)	(48,333)
Decrease from effect of expenses not deductible in determining taxable profit (tax loss)	(43,997)	(26,254)
Financing costs not allowed for Special Consumption Tax (SCT)	238	-
Increase in tax from adjustment for prior periods	140,823	760
Other temporary differences not recognised	22,622	(39,127)
Decrease arising from group relief tax reconciliation	(4)	(39)
Petroleum Revenue Tax	275	(640)
(Increase)/ decrease from incremental recognition of losses for which no deferred tax recognised	(470,659)	209,050
Difference in rate of tax	51,219	15,554
Total tax (income)/ expense	(402,026)	21,424

Notes to the consolidated financial statements *(continued)*

11 Taxation (continued)

The standard rate of corporation tax at 40%, includes the supplementary charge of 10% that is levied in respect of ring fence operations in the UK sector of the North Sea. Non-ring fenced UK profits are taxable at the main rate of corporation tax at 19%.

On 11 March 2021, during Budget 2021, the Government announced that the main rate of corporation tax will increase to at 25% from 1 April 2023. Given that the Company is not providing any deferred tax at that rate this change will not have any impact on the recorded tax position.

On 26 May 2022, the Chancellor of the Exchequer, announced a new tax for Upstream Oil & Gas Companies, an Energy Profits Levy, charging an additional 25% tax on UK oil & gas profits. The tax will take effect for profits arising on and after 26 May 2022. The Government has stated that this is a temporary measure that is expected to be phased out no later than 31 December 2025. As the new legislation was not enacted at the balance sheet date, it has not been accounted for in the period to 31 December 2021. However, the measure is not expected to materially impact the reported balances for the period to 31 December 2021.

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Furniture and equipment £'000	Oil and gas properties £'000	Total £'000
Cost					
Balance at 1 January 2020	1,789	287,470	2,126	2,729,989	3,021,374
Additions	-	31,752	112	19,031	50,895
Change in decommissioning provision	-	-	(4)	(31,488)	(31,492)
Business disposal (note 4)	(1,789)	(319,222)	-	-	(321,011)
Effect of movements in foreign exchange	-	-	12	19,106	19,118
Balance at 31 December 2020	-	-	2,246	2,736,638	2,738,884
Additions	-	-	86	51,396	51,482
Transfers	-	-	-	10,245	10,245
Disposals	-	-	(17)	-	(17)
Change in decommissioning provision	-	-	2	14,474	14,476
Acquisitions (note 3)	-	-	-	274,020	274,020
Business disposal (note 4)	-	-	(130)	(724,313)	(724,443)
Effect of movements in foreign exchange	-	-	(19)	(32,887)	(32,906)
Balance at 31 December 2021	-	-	2,168	2,329,573	2,331,741
Accumulated depreciation and impairment					
Balance at 1 January 2020	(126)	(42,780)	(1,264)	(1,685,874)	(1,730,044)
Depreciation charge for the year	(13)	(9,944)	(291)	(216,832)	(227,080)
Impairment losses	-	-	-	(66,077)	(66,077)
Business disposal (note 4)	139	52,724	-	-	52,863
Effect of movements in foreign exchange	-	-	(5)	(19,496)	(19,501)
Balance at 31 December 2020	-	-	(1,560)	(1,988,279)	(1,989,839)
Depreciation charge for the year	-	-	(201)	(194,335)	(194,536)
Disposals	-	-	17	-	17
Impairment losses	-	-	-	(13,442)	(13,442)
Impairment reversals	-	-	-	79,376	79,376
Business disposal (note 4)	-	-	122	359,623	359,745
Effect of movements in foreign exchange	-	-	10	19,882	19,892
Balance at 31 December 2021	-	-	(1,612)	(1,737,175)	(1,738,787)
Net book value					
At 31 December 2020	-	-	686	748,359	749,045
At 31 December 2021	-	-	556	592,398	592,954

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment (continued)

All assets (2020: All) are pledged as security for the bank loan the Group obtained since 2016 (see note 18). In 2021 this encompasses the removal of Norwegian assets (see note 4) and business acquisitions in Denmark (see note 3).

Impairment test

2021

The significant increase in oil and gas prices in 2021 is seen as an indication of impairment reversal and therefore the Group has reviewed the carrying value of its oil and gas properties across all segments.

The recoverable amount of the assets has been determined based on the higher of value-in-use and fair value less cost to sell. These calculations use cash flow projections over the life of fields based on commercial and production forecasts. The significant increase in realised gas price from an average of 25.2p per therm in 2020 to 91.0p per therm in 2021 is seen as an impairment reversal trigger, and the Group has performed impairment assessments on all of its oil and gas assets at year end. As a result of the assessment, an impairment reversal of £79.4 million, being the maximum available, was recognised against the Group's UK assets (2020: nil) and an impairment charge of £13.4 million against the Group's Danish assets in connection to the 2021 change in decommissioning estimate (2020: £66.1 million charge against the Group's UK and Danish assets).

No impairment charges or reversals were necessary or available on other assets since the recoverable amounts were higher than their carrying value.

The key assumptions used in the value-in-use calculations are as follows:

	Breagh /Greater Laggan Area	Siri Area
Long term gas price (p/therm)	94	94
Long term oil price (\$/bbl)	66	66
Exchange rate (USD to GBP)	1.40	1.40
Exchange rate (USD to DKK)	N/A	6.21
Inflation rate	2%	2%
Post-tax discount rate	8.04%	6.85%

Long term gas and oil prices are based on consensus from a group of third party oil and gas analysts and banks.

The discount rate applied was determined by calculating the Group's weighted average cost of capital adjusted for country specific risks. The sensitivity analyses below are based on a reasonably possible change in an assumption, with short term volatility of prices not considered to have long-term sustainability. All other assumptions constant.

Sensitivity of recoverable amounts

		Variance £'000		
		Breagh	GLA	Siri Area
Discount rate	1% increase in discount rate	(20,216)	1,660	(226)
Discount rate	1% decrease in discount rate	21,663	(2,140)	339
Long term price	10% increase in long term price	79,358	30,020	4,742
Long term price	10% decrease in long term price	(79,679)	(32,825)	(4,855)

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment (continued)

2020

The significant drop in oil and gas prices in 2020 is seen as an indication of impairment and therefore the Group has reviewed the carrying value of its oil and gas properties across all segments.

The recoverable amount of the assets has been determined based on the higher of value-in-use and fair value less cost to sell. These calculations use cash flow projections over the life of fields based on commercial and production forecasts. As a result of the impairment assessment performed, an impairment charge of £66.1 million was recognised across three assets in UK (Breagh /Greater Laggan Area) and Denmark (Siri Area) as at 31 December 2020. No impairment was deemed necessary on other assets since the recoverable amounts were higher than their carrying value.

The key assumptions used in the value-in-use calculations are as follows:

	Breagh /Greater Laggan Area	Siri Area
Long term gas price (p/therm)	45	45
Long term oil price (\$/bbl)	60	60
Exchange rate (USD to GBP)	1.25	1.25
Exchange rate (USD to DKK)	N/A	6.76
Inflation rate	2%	2%
Post-tax discount rate	8.66%	7.71%

Long term gas and oil prices are based on consensus from a group of third party oil and gas analysts and banks. Short term gas and oil prices are based on forward curve (gas prices averaged at 38p/ therm and oil prices at \$48/bbl).

The discount rate applied was determined by calculating the Group's weighted average cost of capital adjusted for country specific risks. The sensitivity analyses below are based on a reasonably possible change in an assumption, while holding all other assumptions constant.

The Group monitored the evolution of COVID-19 pandemic and its impact on oil and gas prices. With successful rollout of vaccination programme and continued virus control measures, a more positive outlook evolved for the industry and global economy, however uncertainty remained on how the pandemic would evolve and its impact on macroeconomic conditions and oil and gas prices. The Group considered the low price environment at the time within the below sensitivities calculated. The volatility of oil and gas prices in 2020 was seen as exceptional as a result of COVID-19 pandemic. As a result, a higher level of upside and downside sensitivity was applied for the year ended 31 December 2019. With the evolution of COVID-19, it was considered that such volatility was less likely to recur, and a lower level of upside and downside sensitivity was applied for the year ended 31 December 2020. Management noted that the sensitivity analysis only provides an indication of the effect of price movement on the carrying value of the assets.

Sensitivity of recoverable amounts

		Variance £'000		
		Breagh	GLA	Siri Area
Discount rate	1% increase in discount rate	(6,913)	2,455	(377)
Discount rate	1% decrease in discount rate	7,225	(2,836)	377
Long term price	10% increase in long term price	38,560	20,711	7,569
Long term price	10% decrease in long term price	(40,710)	(24,337)	(7,569)

Notes to the consolidated financial statements (continued)

13 Intangible assets

	Goodwill £'000	Software £'000	Exploration and evaluation assets £'000	Total £'000
Cost				
Balance at 1 January 2020	595,948	5,653	52,564	654,165
Additions	-	171	6,628	6,799
Goodwill arising on acquisitions	77,721	-	-	77,721
Unsuccessful exploration and evaluation activities	-	-	(14,698)	(14,698)
Disposals	-	-	(1)	(1)
Business disposal (note 4)	-	(1,995)	-	(1,995)
Effect of movements in foreign exchange	(21,673)	58	113	(21,502)
Balance at 31 December 2020	651,996	3,887	44,606	700,489
Additions	-	-	14,379	14,379
Transfers	-	-	(10,245)	(10,245)
Unsuccessful exploration and evaluation activities	-	-	(4,072)	(4,072)
Disposals	-	(13)	-	(13)
Business disposal (note 4)	(96,210)	-	(30,250)	(126,460)
Effect of movements in foreign exchange	(163)	(71)	63	(171)
Balance at 31 December 2021	555,623	3,803	14,481	573,907
Amortisation and impairment				
Balance at 1 January 2020	(497,456)	(3,824)	-	(501,280)
Amortisation for the year	-	(588)	-	(588)
Business disposal (note 4)	-	1,064	-	1,064
Impairment charge	(3,957)	-	-	(3,957)
Effect of movements in foreign exchange	18,071	(27)	-	18,044
Balance at 31 December 2020	(483,342)	(3,375)	-	(486,717)
Amortisation for the year	-	(291)	-	(291)
Effect of movements in foreign exchange	(3,748)	53	-	(3,695)
Balance at 31 December 2021	(487,090)	(3,613)	-	(490,703)
Net book value				
At 31 December 2020	168,654	512	44,606	213,772
At 31 December 2021	68,533	190	14,481	83,204

Notes to the consolidated financial statements (continued)

13 Intangible assets (continued)

Goodwill and impairment charge

US\$781.5 million (£581.3 million) of goodwill was recognised in 2017 and related to the requirement to recognise deferred tax on the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value. US\$652.3 million (£497.5 million) relating to the Danish and UK CGU was impaired subsequent to the acquisition and the remaining US\$129.1 million (£94.9 million) goodwill relating to the Norwegian CGU was assessed for impairment at each year end.

As at 31 December 2021, goodwill relating to the Norwegian CGU has been fully disposed as part of the disposal of the operations, please refer to note 4. The carrying amount of the Danish CGU is lower than its recoverable amount thus no impairment is recognised.

Amortisation

Amortisation of £291,000 (2020 reclassified*: £389,000) is recognised within administrative expenses in the consolidated statement of comprehensive income.

Impairment test for Goodwill

2021

The carrying value of goodwill as at 31 December 2021 relates to goodwill acquired through business combinations in 2017 and 2020.

	Norway	Denmark	Total
	£'000	£'000	£'000
Goodwill as at 31 December 2020	94,906	73,748	168,654
Business disposals (note 4)	(96,210)	-	(96,210)
Effect of movements in foreign exchange	1,306	(5,215)	(3,909)
Goodwill as at 31 December 2021	-	68,533	68,533

The recoverable amounts of the CGUs are determined based on the higher of value-in-use and fair value less cost to sell. These calculations use cash flow projections over the life of fields based on commercial and production forecasts.

The key assumptions used in the value-in-use calculations are as follows.

	Denmark
Long term gas price (p/therm)	94
Long term oil price (\$/bbl)	66
Exchange rate (USD to GBP)	1.40
Exchange rate (USD to DKK)	6.21
Inflation rate	2%
Post-tax discount rate	6.85%

Long term gas and oil prices are based on consensus from a group of third party oil and gas analysts and banks.

Notes to the consolidated financial statements (continued)

13. Intangible assets (continued)

The discount rate applied was determined by calculating the Group's weighted average cost of capital adjusted for country specific risks. No sensitivity analyses were deemed necessary on goodwill arose from prior year acquisition, as the goodwill is supported by the contingent indemnification received and not related to above assumptions.

The Group continues to monitor the ongoing impact of COVID-19 pandemic and its impact on oil and gas prices. There remains uncertainty on how the recovery from the pandemic evolves and its impact on macroeconomic conditions and oil and gas prices, the Group has considered the increasing price environment at the time within the below sensitivities calculated. Management note that this sensitivity analysis only provides an indication of the effect of price movement on the carrying value of the assets. Management will always monitor movement in market prices and make changes to operational expenses and development projects to safeguard the financial stability of the Group.

2020

The carrying value of goodwill as at 31 December 2020 related to goodwill acquired through business combinations in 2017 and 2020.

	Norway £'000	Denmark £'000	Total £'000
Goodwill as at 31 December 2019	98,492	-	98,492
Goodwill arising on acquisitions	-	77,721	77,721
Impairment charge	-	(3,957)	(3,957)
Effect of movements in foreign exchange	(3,586)	(16)	(3,602)
Goodwill as at 31 December 2020	94,906	73,748	168,654

The recoverable amounts of the CGUs are determined based on the higher of value-in-use and fair value less cost to sell. These calculations use cash flow projections over the life of fields based on commercial and production forecasts.

The key assumptions used in the value-in-use calculations were as follows.

	Norway	Denmark
Long term gas price (p/therm)	45	45
Long term oil price (\$/bbl)	60	60
Exchange rate (USD to GBP)	1.25	1.25
Exchange rate (USD to NOK)	9.09	N/A
Exchange rate (USD to DKK)	N/A	6.76
Inflation rate	2%	2%
Post-tax discount rate	7.85%	7.71%

Long term gas and oil prices are based on consensus from a group of third party oil and gas analysts and banks.

The discount rate applied was determined by calculating the Group's weighted average cost of capital adjusted for country specific risks. The sensitivity analyses below are based on a reasonably possible change in an assumption, while holding all other assumptions constant.

Notes to the consolidated financial statements (continued)

13 Intangible assets (continued)

The sensitivity analyses below are based on a reasonably possible change in an assumption, while holding all other assumptions constant. No sensitivity analyses were deemed necessary on goodwill arose from current year acquisition, as the goodwill is supported by the contingent indemnification received and not related to above assumptions.

The Group monitored the evolution of COVID-19 pandemic and its impact on oil and gas prices. With successful rollout of vaccination programme and continued virus control measures, a more positive outlook evolved for the industry and global economy, however uncertainty remained on how the pandemic would evolve and its impact on macroeconomic conditions and oil and gas prices. The Group considered the low price environment at the time within the below sensitivities calculated. The volatility of oil and gas prices in 2020 was seen as exceptional as a result of COVID-19 pandemic. As a result, a higher level of upside and downside sensitivity was applied for the year ended 31 December 2019. With the evolution of COVID-19, it was considered that such volatility was less likely to recur, and a lower level of upside and downside sensitivity was applied for the year ended 31 December 2020. Management noted that the sensitivity analysis only provides an indication of the effect of price movement on the carrying value of the assets.

An impairment of £16.2 million would incur on goodwill relating to the Norwegian CGU should long term price decrease by 10%.

Sensitivity of recoverable amounts

Norway

		Variance £'000
Discount Rate	1% increase in discount rate	(6,393)
Discount Rate	1% decrease in discount rate	6,393
Long term price	20% increase in long term price	33,580
Long term price	20% decrease in long term price	(33,580)

Notes to the consolidated financial statements (continued)

14 Investments in associates and joint ventures

	Associates	Joint venture	Total
	£'000	£'000	£'000
Balance at 1 January 2020	4	1,313	1,317
Acquisitions	-	5	5
Share of profit	(4)	-	(4)
Effect of movements in foreign exchange	-	(15)	(15)
Balance at 31 December 2020	-	1,303	1,303
Disposals	-	(1,280)	(1,280)
Effect of movements in foreign exchange	-	(23)	(23)
Balance at 31 December 2021	-	-	-

The Group has a 20% interest in Shetland Land Lease Limited, a land rental company. The interests in the associate are immaterial and therefore no further disclosures are made.

The Group consists of the following subsidiaries:

	Registered office	Class of shares held	Ownership	
			2021	2020
INEOS UK SNS Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
INEOS Clipper South B Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
INEOS Clipper South C Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
INEOS E&P A/S	Teknikerbyen 5, 1, 2830 Virum, Denmark	Ordinary	100%	100%
INEOS E&P DK A/S	Teknikerbyen 5, 1, 2830 Virum, Denmark	Ordinary	100%	100%

Notes to the consolidated financial statements *(continued)*

14 Investments in associates and joint ventures *(continued)*

	Registered office	Class of shares held	Ownership	
			2021	2020
INEOS Gronland E&P A/S	Advokatfirmaet Malling & Hansen Damm, Hans Egedesvej 3. Postboks 1046. 3900 Nuuk, Greenland	Ordinary	100%	100%
INEOS E&P Føroyar P/F	J.H. Schrøters Gøta 7, 100 Tórshavn, Faroe Islands	Ordinary	0%	100%
INEOS E&P Norge A/S	Inovyn Norge AS Rafnes, 3966 Stathelle, Norway	Ordinary	100%	100%
INEOS E&P (UK) Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
INEOS E&P (Siri) UK Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
INEOS E&P Services (UK) Limited	Anchor House, 15-19 Britten Street, London, England, SW3 3TY	Ordinary	100%	100%
Shetland Land Lease Ltd	18th Floor, 10 Upper Bank Street, Canary Wharf, London, England, E14 5BF	Ordinary	20%	20%
INEOS E&P (Petroleum Denmark) ApS	Teknikerbyen 5, 1, 2830 Virum, Denmark	Ordinary	100%	100%
INEOS E&P (Norge) Petroleum DK AS	Veritasveien 25, 4007 Stavanger, Norway	Ordinary	100%	100%
INEOS Energy (Syd Arne) ApS	Teknikerbyen 5, 1, 2830 Virum, Denmark	Ordinary	100%	0%

Joint operations

Joint control is defined as “the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing controls”. All of the joint operations of the Group are subject to Joint Operating Agreements (JOAs) which fall into this category and where the participants in the agreements are entitled to a share of all the assets, obligations and liabilities of the operations, rather than a share of the net assets.

Notes to the consolidated financial statements (*continued*)

14 Investments in associates and joint ventures (*continued*)

The contractual agreement for the licence interests in which the Group has an investment do not typically convey control of the underlying joint arrangement to any one party, even where one party has a greater than 50% equity ownership of the area of interest.

The Group's material joint operations as at 31 December 2021 and 2020 are:

Block	Licence	Field/ Discovery name	Operator	Group Net % interest
United Kingdom				
48/19aB, 48/20aD	P0008	Clipper South	INEOS UK SNS Limited	75%
48/20b	P1909	Clipper South	INEOS UK SNS Limited	75%
48/19cF	P0465	Clipper South	INEOS UK SNS Limited	75%
42/13a	P1230	Breagh	INEOS UK SNS Limited	70%
42/12a	P1328	Breagh	INEOS UK SNS Limited	70%
206/1a	P911	Laggan	Total E&P UK Limited	20%
205/5a and 5d	P1159	Tormore	Total E&P UK Limited	20%
206/3a, 206/3b and 206/4a	P1453	Edradour	Total E&P UK Limited	20%
205/4b	P1678	Tormore	Total E&P UK Limited	20%
Denmark				
5604/18	1/90	Lulita	INEOS E&P A/S	80%
5605/10, 14	4/95	Nini	INEOS E&P A/S	57%
5604/16, 20; 5605/13, 17	6/95	Siri	INEOS E&P A/S	100%
5604/22	7/86	Lulita part	INEOS E&P A/S	80%
5604/29, 30	7/89	Syd Arne	Hess Denmark ApS	98%
5604/19, 20	16/98	Cecilie	INEOS E&P A/S	56%
5603/24, 28; 5604/21, 25	5/98	Hejre	INEOS E&P A/S	100%
5603/28; 5604/21, 25	1/06	Hejre Extension	INEOS E&P A/S	80%
5604/25, 26, 29, 30	3/09	Solsort	INEOS E&P A/S	65%
5604/26, 30	4/98	Solsort	INEOS E&P A/S	65%

Notes to the consolidated financial statements *(continued)*

15 Indemnification assets

	£'000
Balance at 1 January 2020	218,551
Adjustment for changes in estimates	2,213
Acquisitions (note 3)	10,116
Realised during the year	(15,721)
Effect of movements in foreign exchange	7,597
Balance at 31 December 2020	222,756
Adjustment for changes in estimates	146,734
Business disposal (note 4)	(8,295)
Realised during the year	(16,913)
Effect of movements in foreign exchange	(9,596)
Balance at 31 December 2021	334,686
 Non-current	 205,075
Current	17,681
Balance at 31 December 2020	222,756
 Non-current	 331,285
Current	3,401
Balance at 31 December 2021	334,686

As part of the acquisition of DONG E&P A/S in 2017, the Group benefits from an indemnity in respect of uncertain tax liabilities relating to pre-acquisition periods from Ørsted A/S. The Group also benefits from a contractual right to receive sufficient cash to fulfil the obligation to settle actual payments in respect of the historical construction cost of the Fredericia Gas Plant, regardless of amount and timing.

In 2020, a £2.2 million adjustment was recognised to reflect the changes in estimates and £15.7 million of the obligation was settled. In 2021, £146.7 million adjustment was recognised to reflect the changes in estimates relating to a reassessment of income in years 2007-2011 by the Norwegian Oil Taxation Office (OTO). £16.9 million of the obligation was settled, please refer to note 22. These indemnification assets were valued at £343.2 million as at 31 December 2021 with the remaining movement due to foreign exchange (2020: £204.1 million).

In 2020, as part of the acquisition of Spirit Energy Danmark ApS and Spirit Energy Petroleum Danmark AS, the Group benefits from an indemnity in respect of uncertain tax liabilities relating to pre-acquisition period from Bayerngas Norge AS and certain decommissioning liabilities. These indemnification assets were initially recognised at £10.1 million on acquisition and subsequently retranslated at £9.5 million as at 31 December 2021.

Total indemnification assets as at 31 December 2021 are £334.7 million (2020: £222.8 million).

Notes to the consolidated financial statements (*continued*)

16 Inventories

	2021	2020
	£'000	£'000
Goods and materials	19,156	17,840
	<u>19,156</u>	<u>17,840</u>

Goods and materials recognised as cost of sales in the year amounted to £nil (2020: £nil). The write-down of inventories to net realisable value amounted to £1.3 million (2020: £0.6 million). The reversal of previous write-downs of inventories to net realisable value amounted to £nil (2020: £nil).

17 Trade and other receivables

	2021	2020
	£'000	£'000
Current		
Trade receivables	37,759	7,721
Trade receivables due from related parties	78,675	45,637
Other receivables	35,336	27,338
Prepayments and accrued income	18,680	21,904
Trade and other receivables	<u>170,450</u>	<u>102,600</u>
Tax receivable	122,397	31,535
	<u>292,847</u>	<u>134,135</u>
Non-Current		
Other receivables due from related parties	181,103	171,626
Prepayments	8,654	16,095
	<u>189,757</u>	<u>187,721</u>

As at 31 December 2021, £0.6 million of the trade receivables were past due (2020: £2.2 million). All trade and other receivables are deemed as low risk and collectible 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. Trade and other receivables due from related parties are repayable on demand and do not accrue interest. At 31 December 2020 and 2021 there were no significant trade, related party or other receivables balances not past due that were subsequently impaired.

Within other receivables, the Group has £11.1 million (2020: £13.8 million) in restricted cash held at local banks mainly related to the joint venture operations. This cash is not available to finance the Group's day to day operations and therefore has been excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flow and is disclosed within other receivables.

Non-current receivables due from related parties related to loan receivables from a fellow group company, INEOS Industries Holdings Limited in relation of the disposal made in 2020. The loan amounting to US\$227.8 million, repayable in 2025, charges interest of 4.5% and is payable on a quarterly basis.

Notes to the consolidated financial statements *(continued)*

17 Trade and other receivables *(continued)*

Each entity within the Group has entered into a Deed of Charge over its assets in exchange for a financing facility granted to the parent. The transaction has been accounted for as a bank loan as per note 18. If any entity defaults under this financing facility, the bank has the right to receive the cash flows from the receivables transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

Credit risk of trade receivables

	2021	2020
	£'000	£'000
Low	116,434	53,358
	<u>116,434</u>	<u>53,358</u>

The carrying amounts of the Group's trade, other and tax receivables are denominated in the following currencies:

	2021	2020
	£'000	£'000
British pound sterling	203,514	54,787
Euros	15,929	24,464
United States Dollars	35,294	4,711
Other currencies	19,430	28,269
	<u>274,167</u>	<u>112,231</u>

18 Interest-bearing loans and borrowings

	2021	2020
	£'000	£'000
Current liabilities		
Amounts due to related parties	1,758	3,939
Bank loans	-	24,955
	<u>1,758</u>	<u>28,894</u>
Non-current liabilities		
Amounts due to related parties	438,245	405,292
Bank loans	-	214,574
	<u>438,245</u>	<u>619,866</u>

Notes to the consolidated financial statements (*continued*)

18 Interest-bearing loans and borrowings (*continued*)

Gross Debt and issue costs

	Gross loans and borrowings 2021	Issue costs 2021	Loss on loan modification 2021	Net loans and borrowings 2021
	£'000	£'000	£'000	£'000
Amounts due to related parties	440,003	-	-	440,003
Bank loans	-	-	-	-
	440,003	-	-	440,003

	Gross loans and borrowings 2020	Issue costs 2020	(Gain) on loan modification 2020	Net loans and borrowings 2020
	£'000	£'000	£'000	£'000
Amounts due to related parties	409,231	-	-	409,231
Bank loans	247,031	(10,157)	2,655	239,529
	656,262	(10,157)	2,655	648,760

Amounts due to related parties

The Group has a loan arrangement with its parent INEOS Offshore BCS Limited. The loan amounting to US\$575.3 million (2020: \$551.7 million) bears interest of 7% and the interest is payable on a quarterly basis, or is accrued into the principal amount if unpaid. INEOS Offshore BCS Limited has indicated no repayment will be demanded for at least 12 months from the approval of these financial statements.

Bank loans

In September 2021 the Company, together with its fellow subsidiaries, amended and restated the RBL Facility to accommodate restructuring of the activities of the Group; being the disposal of the trade and assets formerly held by INEOS Norge A/S and acquisition of further interests in Denmark (see note 3). In October 2021, the Company repaid the outstanding balance of the RBL Facility in full. Through qualitative assessment, management have concluded the amendment to the facility constitutes a substantial modification and resulted in the immediate recognition of a £10.8 million expense relating to issued debt costs in the consolidated statement of comprehensive income in 2021, please refer to note 10.

The RBL Facility is secured on customary terms and bears interest at a margin above risk free rates. The majority of the Company's subsidiaries are the guarantors to the RBL Facility.

The RBL Facility includes obligations to maintain compliance with certain financial covenants, principally in relation to debt incurrence, liquidity and leverage. Covenants are formally tested and reported to the lenders on a regular basis and monitored informally throughout the year. All such covenants were fully complied with throughout the financial year.

Notes to the consolidated financial statements *(continued)*

18 Interest-bearing loans and borrowings *(continued)*

The carrying amounts of the Group's interest-bearing loans and borrowings are denominated in the following currencies:

	2021	2020
	£'000	£'000
British pound sterling	1,758	3,939
Euros	-	221,159
United States Dollars	438,245	423,662
	440,003	648,760

Reconciliation of net cash flow to movement in net debt

	2021	2020
	£'000	£'000
(Decrease)/ increase in cash and cash equivalents in the year	(40,965)	63,332
Cash outflow from change in debt financing	234,943	80,841
Change in net debt resulting from cash flows	193,978	144,173
Other net non-cash transactions	(26,286)	(38,392)
Movement in net debt in year	167,692	105,781

19 Trade and other payables

	2021	2020
	£'000	£'000
Current		
Trade payables	31,198	17,618
Trade payables due to related parties	59	820
Other payables	6,559	44,114
Accruals and deferred income	41,932	40,802
Trade and other payables	79,748	103,354
Tax payable	166,788	137,870
	246,536	241,224
Non-Current		
Other payables	9,565	8,148
	9,565	8,148

Notes to the consolidated financial statements (*continued*)

19 Trade and other payables (*continued*)

Included within trade and other payables is an amount of £218.8 million (2020: £74.8 million) relating to tax liabilities that are subject to indemnification as explained in note 15 and for which an indemnification asset of equal amount is recognised. Trade payables due to related parties are repayable on demand and do not accrue interest.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2021	2020
	£'000	£'000
British pound sterling	20,600	50,641
Euros	1,665	1,145
United States Dollars	5,514	14,974
Other currencies	228,323	182,612
	<u>256,101</u>	<u>249,372</u>

20 Employee benefits

Defined contribution plans

The Group contributes to personal pension schemes on behalf of certain directors and employees. These schemes are administered independently of the Group. The total pension cost which is charged to statement of comprehensive income represents contributions payable by the Group and amounted to £2.2 million (2020: £2.3 million). There were no contributions outstanding as at 31 December 2021 (2020: nil).

Notes to the consolidated financial statements (*continued*)

21 Provisions

	Decommissioning & restoration £'000	Other £'000	Total £'000
Balance at 1 January 2020	1,158,733	157,848	1,316,581
Provisions released /(made) during the year	(65,312)	6,283	(59,029)
Provisions used during the year	(29,184)	(19,151)	(48,335)
Acquisitions (note 3)	57,459	8,669	66,128
Business disposal (note 4)	(177,271)	(1,409)	(178,680)
Unwinding of discount	6,092	-	6,092
Effect of movements in foreign exchange	32,312	8,241	40,553
Balance at 31 December 2020	982,829	160,481	1,143,310
Provisions released /(made) during the year	(5,189)	4,804	(385)
Provisions used during the year	(33,361)	(22,632)	(55,993)
Acquisitions (note 3)	223,444	227	223,671
Business disposal (note 4)	(132,370)	-	(132,370)
Unwinding of discount	3,106	-	3,106
Effect of movements in foreign exchange	(47,059)	(10,972)	(58,031)
Balance at 31 December 2021	991,400	131,908	1,123,308
Non-current	947,095	139,256	1,086,351
Current	35,734	21,225	56,959
Balance at 31 December 2020	982,829	160,481	1,143,310
Non-current	955,647	15,922	971,569
Current	35,753	115,986	151,739
Balance at 31 December 2021	991,400	131,908	1,123,308

Decommissioning & restoration

The Group has provided for its share of the estimated decommissioning and restoration costs of the facilities on fields across Denmark and the United Kingdom, this includes plugging and abandonment of wells, the total removal of platforms and disposal on shore, and the restoration of the seabed. The Group uses a range of risk free rates between 0.0% -0.7% (2020: between 0.0% -0.7%) and inflation rates between 0.1% -0.9% (2020: 0.2% - 0.9%) over the lives of the assets to calculate the present value of the decommissioning and restoration costs. Decommissioning is expected to occur after the fields reach the end of their economic lives on a schedule agreed with regulatory authorities and joint venture partners between 2022 and 2045.

Notes to the consolidated financial statements (*continued*)

21 Provisions (*continued*)

Other provisions

£129.5 million (2020: £156.0 million) of other provisions relates to the committed obligation to fund the Group's share of the historical construction cost of the Fredericia Gas Plant incurred in connection with the development of the Hejre field. £110.3 million of this provision is subject to indemnification for which an indemnification asset is recognised. Further details are included in note 15.

22 Deferred consideration

	£'000
Balance at 1 January 2020	95,742
Unwinding of discount	1,642
Acquisitions (note 3)	33,817
Consideration settled during the year	(30,311)
Effect of movements in foreign exchange	(2,653)
Balance at 31 December 2020	98,237
Unwinding of discount	1,798
Acquisitions (note 3)	4,687
Consideration settled during the year	(25,956)
Effect of movements in foreign exchange	62
Balance at 31 December 2021	78,828
Non-current	71,758
Current	26,479
Balance at 31 December 2020	98,237
Non-current	
Current	78,828
Balance at 31 December 2021	78,828

Deferred consideration relates to the obligation of the Group to pay US\$150.0 million in instalments in connection with the capital cost of the Fredericia Gas Plant as part of acquisition of DONG E&P A/S in 2017. In 2021, US\$15 million (£11.0 million) was paid (US\$45 million (£33.3 million) paid inception to date). The fair value of the remaining deferred consideration payable is \$105 million (£74.2 million) at 31 December 2021.

Acquisitions in the year relates to taxation settlements to be paid back to the seller for the acquisitions made in the year (see note 3), of which £nil has been subsequently settled by the end of the year.

Notes to the consolidated financial statements (*continued*)

23 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities:

	Assets	Liabilities	Total
	2021	2021	2021
	£'000	£'000	£'000
Property, plant and equipment	-	(37,755)	(37,755)
Tax value of loss carry-forwards	456,880	-	456,880
Other	87,064	-	87,064
Tax assets/(liabilities)	543,944	(37,755)	506,189
Net of tax assets/(liabilities)	(36,460)	36,460	-
Net tax assets/ (liabilities)	507,484	(1,295)	506,189

	Assets	Liabilities	Total
	2020	2020	2020
	£'000	£'000	£'000
Property, plant and equipment	-	(324,858)	(324,858)
Tax value of loss carry-forwards	53,398	-	53,398
Other	166,038	-	166,038
Tax assets/(liabilities)	219,436	(324,858)	(105,422)
Net of tax assets/(liabilities)	(207,977)	207,977	-
Net tax assets/ (liabilities)	11,459	(116,881)	(105,422)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2021	2020
	£'000	£'000
Deferred tax assets	507,484	11,459
Deferred tax liabilities	(1,295)	(116,881)
	506,189	(105,422)

The Group has net deferred tax assets of £506.2 million as at 31 December 2021 (2020: (£105.4 million)).

The Group has recognized a deferred tax asset of £ 507.5 million. The basis for the recognition has been the model applied to determine impairment of non-financial assets adjusted for certain items to determine the future estimated taxable income. The increase in recognized deferred tax assets is due to the significant increase in oil and gas prices in 2021.

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward and Petroleum Revenue Tax (PRT). The Group forecast indicates that there will not be suitable taxable profits to fully utilise those deferred tax assets not offset against deferred tax liabilities in future years.

Notes to the consolidated financial statements (*continued*)

23 Deferred tax assets and liabilities (*continued*)

The Group has not provided deferred tax of approximately £522.7 million on ring fence losses (2020: £878.4 million). In addition, the Group has Danish tax losses of £2,322.6 million (2020: £1,940.3 million) and timing differences of £1,836.6 million (2020: £1,825.2 million) for which no deferred tax asset has been provided due to a lack of probable future taxable profits against which these losses may be utilised.

Movement in deferred tax during the year

	1 January 2021 £'000	Prior period adjustment £'000	Business combination £'000	Disposal £'000	Recognised in income £'000	Translation reserve £'000	31 December 2021 £'000
Accelerated tax depreciation	(324,858)	-	8,580	256,141	16,874	5,507	(37,756)
Tax losses carry-forwards	53,398	66	32,431	-	372,325	(1,340)	456,880
Other timing differences	166,038	-	10,497	(128,704)	42,001	(2,767)	87,065
	(105,422)	66	51,508	127,437	431,200	1,400	506,189

Movement in deferred tax during the prior year

	1 January 2020 £'000	Prior period adjustment £'000	Opening after adjustment £'000	Recognised in income £'000	Translation reserve £'000	31 December 2020 £'000
Accelerated tax depreciation	(415,996)	-	(415,996)	89,754	1,384	(324,858)
Tax losses carry-forwards	287,581	(165,272)	122,309	(68,911)	-	53,398
Other timing differences	51,459	165,272	216,731	(50,693)	-	166,038
	(76,956)	-	(76,956)	(29,850)	1,384	(105,422)

24 Capital and reserves

Share capital and premium

	Authorised No.	Allotted and fully paid No.	Ordinary Shares £'000	Share premium £'000	Total £'000
As at 1 January 2021 and 31 December 2021	74,327,242	74,327,242	74,327	232,994	307,321

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.

	2021 £'000	2020 £'000
Capital redemption reserve	22,546	22,546
Other reserves	4,875	-
Foreign currency translation (deficit)/reserve	(28,256)	3,633
	(835)	26,179

In 2002, 22,595,500 of redeemable convertible cumulative preference shares of £1 each were converted into various classes of ordinary shares of £1 each and deferred ordinary shares of £1 each. Subsequently, they were reclassified to ordinary shares and the deferred shares were redeemed, with the differences recognised as capital redemption reserve.

Notes to the consolidated financial statements (*continued*)

24 Capital and reserves (*continued*)

Foreign currency translation (deficit) of £28.3 million (2020: reserve of £3.6 million) arose as a result of translating foreign operations' balances into the Group's reporting currency GBP.

25 Financial instruments

25 (a) Fair values of financial instruments

Trade and other receivables

Trade and other receivables 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 receivables satisfy the criteria for the 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 and loss.

Indemnification assets

The carrying amount of indemnification assets approximates to fair value of the liabilities to which they relate, which are carried at fair value. Where settlement is not due in the short term and the effect is material, fair value is estimated as the present value of the future cash flows discounted at the market rate of interest at the reporting date.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand, the fair value is estimated as the present value of the future cash flows discounted at the market rate of interest at the reporting date.

Trade and other payables

Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as amounts falling due after more than one year.

Trade and other payables are recognised initially at fair value. The carrying amount of trade and other payables generally approximates to the fair value due to their short maturities. Where settlement is not due in the short-term and where the effect is material, they are measured at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

Fair values of non-related party loans and borrowings are calculated based on the present value of the future principal and interest cash flows discounted at the market rate of interest at the reporting date. The fair value of related party loans and bank loans are not materially different to the carrying value.

Derivatives

The Group entered into a number of put option agreements for financial periods through to 2024 with strike prices ranging from £0.37 to £0.40 per therm. None of the options were exercised in the year (2020: £76.1 million). As at 31 December 2021, £nil (2020: an asset of £21.3 million) has been recognised in respect of unrealised gains and losses for the outstanding options. Put option premium is amortised throughout the life of the options and has been recognised within the consolidated statement of comprehensive income.

The Group also entered into swap agreements with fixed price ranging from £0.28 to £0.69 per therm. Some of the contracts expired in the year contributing to a net realised derivative loss of £181.6 million (2020: gain of £52.3 million). As at 31 December 2021, a liability of £401.1 million (2020: an asset of £32.2 million) has been recognised in respect of unrealised losses (2020: unrealised gains) for the outstanding swaps.

During 2021 the Group maintained a foreign currency hedge programme to manage the risks of fluctuations in exchange rates. Liabilities denominated in foreign currencies which could not be satisfied from operating cash flows were covered using forward purchases. As at 31 December 2021, a liability of £15,000 (2020: an asset of £2.5 million) has been recognised in respect of unrealised losses on these contracts.

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (a) Fair values of financial instruments (*continued*)

Financial assets at fair value through other comprehensive income

On 30 July 2021, the Group purchased 25 million shares of HydrogenOne Capital Growth plc for a total consideration of £25 million. This represents 10% of issued shares. For investments in equity securities that are not held for trading, the Group may irrevocably elect to present subsequent changes to fair value in other comprehensive income. The Group makes this election on an investment-by-investment basis. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Set out below is a comparison of the carrying amount and fair values of the Group's financial instruments. The different levels have been defined as follows:

Level 1: valued using trading prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: valued using inputs that are observable for the asset or liability, either directly (that is as prices), or indirectly (that are derived from prices); and

Level 3: valued using inputs that are not observable for the asset or liability.

Carrying amounts and fair values at the reporting date

	Carrying amount	Fair value	Carrying amount	Fair value
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Financial assets carried at amortised cost				
Loan receivables	181,103	181,103	171,626	171,626
Trade receivables	37,759	37,759	7,721	7,721
Trade receivables due from related parties	78,675	78,675	45,637	45,637
Other receivables	35,336	35,336	27,338	27,338
Other receivables due from related parties	-	-	-	-
Cash and cash equivalents	89,871	89,871	130,936	130,936
Total financial assets carried at amortised cost	422,744	422,744	383,258	383,258
Financial assets carried at fair value				
Indemnified assets	334,686	334,686	222,756	222,756
Financial assets at fair value through other comprehensive income	29,875	29,875	-	-
Derivatives financial instruments	7,474	7,474	21,298	21,298
Total financial assets	794,779	794,779	627,312	627,312

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (a) Fair values of financial instruments (*continued*)

	Carrying amount	Fair value	Carrying amount	Fair value
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	440,003	440,003	648,760	656,262
Deferred consideration	78,828	78,828	98,237	98,237
Lease liabilities	41,962	41,962	27,764	27,764
Trade payables	31,198	31,198	17,618	17,618
Trade payables due to related parties	59	59	820	820
Other payables	16,124	16,124	52,262	52,262
Total financial liabilities measured at amortised cost	608,174	608,174	845,461	852,963
Financial liabilities carried at fair value				
Derivatives financial instruments	401,087	401,087	34,714	34,714
Indemnified tax liabilities	218,774	218,774	74,767	74,767
Total financial liabilities carried at fair value	619,861	619,861	109,481	109,481
Total financial liabilities	1,228,035	1,228,035	954,942	962,444

For all financial instruments within the scope of IFRS 9, the carrying amount is either the fair value, or approximates the fair value. Derivatives financial instruments are categorised within level 2 of the fair value hierarchy.

25 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and deposits with financial institutions.

The policy and objectives in relation to credit risk is to minimise the likelihood that the Group will experience financial loss due to counterparty failure and ensure that in the event of a loss, the failure of any single counterparty would not materially impact the financial wellbeing of the Group.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered or are adjusted accordingly. The Group's review includes external ratings, when available, and in some cases bank references.

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (b) Credit risk (*continued*)

The Group applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade and other receivables, which requires the Group to recognise the lifetime expected loss provision for all trade and other receivables taking in consideration historical as well as forward looking information.

The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade and other receivables and taken into account in the calculation of impairment. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. At 31 December 2020 and 2021 there were no significant trade, related party or other receivables balances not past due that were subsequently impaired. Refer to note 17 for details.

Investments, cash and cash equivalents

Surplus cash investments are only made with banks with which the Group has an ongoing, long term relationship.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the reporting date was the carrying amount of financial assets. These assets are held as security for the bank loan as discussed in note 18.

Credit quality of financial assets and impairment losses

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables for sales of goods and services
- Other receivables carried at amortised cost, and
- Other financial assets carried at fair value through profit and loss.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

None of the Group's financial assets were impaired. The majority of these financial assets relate to existing customers/related parties with no past defaults, while cash and cash equivalents are maintained in accounts at large, reputable financial institutions with robust credit ratings.

25 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient cash or facilities to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group. The Group's exposure to liquidity is limited by the fact that it operates with significant cash resources and has appropriate access to funding via shareholder loan facilities and maintains headroom in its RBL Facility (note 18).

The Group forecasts the expected cash flows that will occur on a weekly and monthly basis. This information is used in conjunction with the weekly reporting of actual cash balances in order to calculate the level of funding that will be required in the short and medium term. On a monthly basis, the level of headroom on existing facilities is reported and forecast forward until the end of the financial period.

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (c) *Liquidity risk (continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount £'000	Contractu al cash flows £'000	2021			
			One year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Non-derivative financial liabilities						
Trade payables	31,198	31,198	31,198	-	-	-
Trade payables due to related parties	59	59	59	-	-	-
Other payables	16,124	16,124	6,559	-	9,565	-
Deferred consideration	78,828	78,828	78,828	-	-	-
Lease liabilities	41,962	49,585	6,237	5,481	16,442	21,425
Amounts due to related parties	440,003	670,389	32,435	57,060	142,649	438,245
	608,174	846,183	155,316	62,541	168,656	459,670

	Carrying amount £'000	Contractual cash flows £'000	2020			
			One year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Non-derivative financial liabilities						
Trade payables	17,618	17,618	17,618	-	-	-
Trade payables due to related parties	820	820	820	-	-	-
Other payables	52,262	52,262	44,114	5,496	2,652	-
Deferred consideration	98,237	103,633	26,479	77,154	-	-
Lease liabilities	27,764	41,546	5,227	2,173	6,518	27,628
Amounts due to related parties	409,231	622,293	32,309	52,769	131,923	405,292
Bank loans	239,529	267,706	42,177	81,308	144,221	-
	845,461	1,105,878	168,744	218,900	285,314	432,920

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices will adversely affect the value of the Group's assets, liabilities or expected future cash flows.

Market risk - Foreign currency risk

The Group operates through companies based in different countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to British pound sterling (GBP), Euros (EUR), US Dollars (USD), Danish krone (DKK).

The majority of the Group's revenue is generated in GBP, EUR and USD, while the Group's operating costs are denominated in GBP, USD and DKK. Transactions with other INEOS Group companies are typically denominated in EUR and USD. The Group has entered into a number of foreign currency exchange instruments to limit its foreign currency transaction exposure.

The foreign currency exposure where the Group's financial assets/(liabilities) are not denominated in the functional currency of the operating unit involved is shown below. Foreign exchange differences on retranslation of these assets and liabilities are taken to the consolidated statement of comprehensive income.

	2021	2020
	£'000	£'000
US Dollars	(417,754)	(516,705)
Euro	14,602	(197,840)
	<u>(403,152)</u>	<u>(714,545)</u>

Sensitivity analysis

A 10% percent weakening of the following currencies against GBP at 31 December would have increased/(decreased) the profit/(loss) by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative year.

	2021	2020
	£'000	£'000
US Dollars	(41,775)	(51,671)
Euro	1,460	(19,784)

A 10% percent strengthening of the above currencies against the GBP at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk – Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (d) Market risk (*continued*)

	2021 £'000	2020 £'000
Fixed rate instruments		
Financial liabilities	440,003	409,231
Variable rate instruments		
Financial liabilities		239,529

Sensitivity analysis

An increase of 100 basis points in interest rates would have increased/(decreased) the profit/(loss) by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for comparative year.

	2021 £'000	2020 £'000
Change in interest rate		
Increase of 100 basis points		2,395

A decrease in 100 basis points in interest rates would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Market risk – Commodity price risk

The main products of the Group are traded commodities exposed to open market prices. The Group is exposed to fluctuations in market prices to the extent that it has not entered into fixed price agreements. The Group regularly reviews the cost-benefit of entering into commodity price hedges to minimise risk.

Sensitivity analysis

Movement of oil price would have increased/(decreased) the profit/(loss) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative year.

	2021 £'000	2020 £'000
Increase in oil price by 10%	37,230	22,842
Decrease in oil price by 10%	(37,230)	(22,842)

Movement of gas price would have increased/(decreased) the profit/(loss) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative year.

	2021 £'000	2020 £'000
Increase in gas price by 10%	27,208	20,370
Decrease in gas price by 10%	(27,208)	(20,370)

Notes to the consolidated financial statements (*continued*)

25 Financial instruments (*continued*)

25 (e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

	2021	2020
	£'000	£'000
Total borrowings	440,003	648,760
Less: Cash and cash equivalents	(89,871)	(130,936)
Net debt	350,132	517,824
Total equity	(154,439)	(601,841)
Total capital	195,693	(84,017)

26 Right-of-use assets

	Land and buildings £'000	Oil and Gas £'000	Plant and equipment £'000	Furniture and equipment £'000	Total £'000
Cost					
At 1 January 2020	37,582	-	1,154	2,584	41,320
Additions	165	-	974	-	1,139
Lease modifications	9,643	-	-	1,698	11,341
Business disposal (note 4)	(19,904)	-	-	(687)	(20,591)
Disposals	-	-	(140)	(153)	(293)
Effect of movements in foreign currency exchange	1,074	-	-	94	1,168
Balance at 31 December 2020	28,560	-	1,988	3,536	34,084
Additions	-	-	708	-	708
Acquisitions (note 3)	-	18,196	-	-	18,196
Lease modifications	541	-	-	1,164	1,705
Business disposal (note 4)	(1,211)	-	-	-	(1,211)
Effect of movements in foreign currency exchange	(1,355)	(575)	-	(255)	(2,185)
Balance at 31 December 2021	26,535	17,621	2,696	4,445	51,297

Notes to the consolidated financial statements (*continued*)

26 Right-of-use assets (*continued*)

Accumulated depreciation and impairment

At 1 January 2020	(3,644)	-	(547)	(1,286)	(5,477)
Depreciation charge for the year	(2,670)	-	(707)	(1,360)	(4,737)
Business disposal (note 4)	2,831	-	-	206	3,037
Disposals	-	-	94	126	220
Effect of movements in foreign exchange	(98)	-	-	(97)	(195)
Balance at 31 December 2020	(3,581)	-	(1,160)	(2,411)	(7,152)
Depreciation charge for the year	(1,686)	-	(750)	(2,107)	(4,543)
Business disposal (note 4)	821	-	-	-	821
Effect of movements in foreign exchange	201	-	-	213	414
Balance at 31 December 2021	(4,245)	-	(1,910)	(4,305)	(10,460)

Net book value

At 31 December 2020	24,979	-	828	1,125	26,932
At 31 December 2021	22,290	17,621	786	140	40,837

The Group leases a number of assets as part of its activities. This primarily includes its overseas offices, storage tanks as well as office accommodation and vessel charter. Some leases will have payments that vary with market interest or inflation rates. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

Amount recognised in profit and loss

	2021 £'000	2020 £'000
Expense relating to short-term leases for which recognition exemption is applied	592	116
Expense relating to leases of low value assets for which recognition exemption is applied	-	11
Income from subleasing right-of-use assets	2,001	1,564

Notes to the consolidated financial statements (*continued*)

27 Leases liabilities

	2021 £'000	2020 £'000
Analysed as:		
Non-current	40,944	26,565
Current	1,018	1,199
	41,962	27,764
 Maturity analysis- contractual undiscounted cash flows		
Less than one year	6,237	5,227
One to five years	21,922	8,691
More than five years	21,425	27,628
Total undiscounted lease liabilities at 31 December	49,584	41,546
 Amounts recognised in the statement of cash flows:		
Lease capital payments	3,938	3,888
Lease interest payments	1,251	1,132
Short-term leases	592	116
Leases of low value assets	9	19
Total cash outflow for leases	5,790	5,155

The Group does not face a significant liquidity risk with regard to its lease liabilities.

28 Commitments

Capital commitments

As at 31 December 2021, the Group had capital commitments contracted but not provided for of £6.0 million. (2020: £41.8 million).

29 Contingencies

Contingent asset

As part of the sales and purchase agreements over interests in the Darwin field, the Group is entitled to a contingent consideration should a Field Development Plan be submitted and approved by the regulator within 7 years of the Completion Date. The total value of contingent assets are £1.7 million, which have not been recognised because it is contingent on future events, which are not under the control of the Group (2020: £1.7 million).

As part of the sales and purchase agreement in note 3, the Group is entitled to receive a contingent consideration of DKK 607.0 million (£68.5 million) if a decision is made to not invest on Hejre and Solsort discoveries. The contingent asset has not been recognised because they are contingent on future events which have a high level of uncertainty at the year end.

Notes to the consolidated financial statements (continued)

29 Contingencies (continued)

Contingent liabilities

As surety with primary liability, Ørsted A/S has provided a guarantee for the Group's subsidiary, INEOS E&P Grønland A/S, obligations and liabilities under a Greenlandic licence. The guarantee is not capped. If Ørsted A/S is held liable under the guarantee then the Group shall indemnify Ørsted A/S for such liability.

The Group is subject to a contingent consideration of US\$ 60.0 million (£44.5 million) should a Final Investment Decision be made on Hejre and Solsort discoveries with notice issued to the regulator. The contingent liability has not been recognised because it is contingent on future events which are considered remote.

30 Related parties

The Group has transactions with various other companies within the INEOS Group. The principal related party relationships being:

	Revenue 2021 £'000	Net Purchase of Services 2021 £'000	Interest income 2021 £'000	Interest expense 2021 £'000	Receivables outstanding 2021 £'000	Payables outstanding 2021 £'000	Borrowings outstanding 2021 £'000
INEOS Offshore	-	-	289	28,943	10,293	-	438,245
BCS Limited	-	-	-	-	-	-	-
Other INEOS group entities	362,614	(8,578)	7,974	-	249,485	59	1,758
	362,614	(8,578)	8,263	28,943	259,778	59	440,003

	Revenue 2020* £'000	Net Purchase of Services 2020* £'000	Interest income 2020* £'000	Interest expense 2020* £'000	Receivables outstanding 2020* £'000	Payables outstanding 2020* £'000	Borrowings outstanding 2020* £'000
INEOS Offshore	-	-	298	29,101	-	-	405,292
BCS Limited	-	-	-	-	-	-	-
Other INEOS group entities	87,486	45,710	4,367	870	45,637	820	3,939
	87,486	45,710	4,665	29,971	45,637	820	409,231

*2020 disclosures are reclassified to disclose comparative discontinued operations results separately.

All revenues were made on normal commercial terms and conditions and at market rates. Purchase of services include cost recharge, management fees and other services provided by INEOS group companies and were made on normal commercial terms and conditions. For borrowings from related parties please refer to note 18 for details. All outstanding balances are unsecured and are repayable in cash.

Notes to the consolidated financial statements (*continued*)

30 Related parties (*continued*)

Transactions with key management personnel-

The Group defines key management as the directors of the Company. Details of directors' remuneration is given below:

	2021 £'000	2020 £'000
Remuneration	1,117	1,463
Compensation in relation to loss of office	891	591
Company contributions to money purchase pension plans	8	60
	<u>2,016</u>	<u>2,114</u>

Highest paid director

	2021 £'000	2020 £'000
Remuneration	751	324
Compensation in relation to loss of office	891	591
Company contributions to money purchase pension plans	-	17
	<u>1,642</u>	<u>932</u>

31 Ultimate parent company and parent company of larger group

The Group's immediate parent is INEOS Offshore BCS Limited. The ultimate parent is INEOS Limited, a company incorporated in the Isle of Man.

The most senior parent entity producing publicly available financial statements, and the smallest and largest group to consolidate these financial statements is INEOS Industries Limited. These financial statements are available upon request from Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG, United Kingdom or from Companies' House. The ultimate controlling party is Mr J A Ratcliffe.

Notes to the consolidated financial statements (*continued*)

32 Subsequent events

On 26th May 2022, the Chancellor of the Exchequer, announced a new tax for Upstream Oil & Gas Companies, an Energy Profits Levy, of an additional 25% tax on UK oil & gas profits. The tax will take effect for profits arising on and after 26 May 2022. The Government has stated that this is a temporary measure that is expected to be phased out no later than 31. December 2025. This has no impact on the current financial period.

The Group continues to monitor the ongoing military actions in Ukraine and continued impact of the COVID-19 pandemic that may disrupt or curtail its operations or development activities. The Group is actively monitoring any factors and events that could adversely affect the Group and mitigating measures are implemented where appropriate.

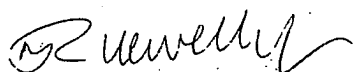
Company's Balance Sheet as at 31 December 2021

		31 December 2021 £ 000	31 December 2020 £ 000
	Note		
Non-current assets			
Intangible assets	7	105	165
Property, plant and equipment	8	408	496
Right-of-use assets	9	155	246
Investments	10	1,293,419	938,473
Financial assets at fair value through other comprehensive income	16	29,875	-
Trade and other receivables	11	-	88,536
Indemnification assets	12	325,445	204,050
		<u>1,649,407</u>	<u>1,231,966</u>
Current assets			
Trade and other receivables	11	539,120	406,996
Cash and bank balances	13	89,813	120,344
		<u>628,933</u>	<u>527,340</u>
Total assets		<u>2,278,340</u>	<u>1,759,306</u>
Current liabilities			
Trade and other payables	14	(10,023)	(12,662)
Loans and borrowings	15	(661,008)	(453,656)
Derivatives financial instruments	16	(257,409)	(2,547)
Deferred consideration	17	(74,195)	(11,022)
Lease liabilities	19	(84)	(93)
		<u>(1,002,719)</u>	<u>(479,980)</u>
Net current (liabilities)/assets		<u>(373,786)</u>	<u>47,360</u>
Total assets less current liabilities		<u>1,275,621</u>	<u>1,279,326</u>
Non-current liabilities			
Trade and other payables	14	(2,489)	(2,652)
Loans and borrowings	15	(1,095,024)	(1,306,169)
Deferred consideration	17	-	(71,758)
Provisions	18	(79)	(80)
Lease liabilities	19	(95)	(156)
		<u>(1,097,687)</u>	<u>(1,380,815)</u>
Total liabilities		<u>(2,100,406)</u>	<u>(1,860,795)</u>
Net assets/(liabilities)		<u>177,934</u>	<u>(101,489)</u>

Company's Balance Sheet as at 31 December 2021 (continued).

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Equity			
Share capital	20	74,327	74,327
Share premium		232,994	232,994
Capital redemption reserve		22,547	22,547
Other reserves		4,875	-
Retained deficit		(156,809)	(431,357)
Equity attributable to owners of the Company		177,934	(101,489)

The financial statements on pages 88 to 107 were approved by the Board on 30 June 2022 and signed on its behalf by:



Michael Llewellyn
Director

Company's Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Other reserves £ 000	Retained deficit £ 000	Total equity £ 000
At 1 January 2021	74,327	232,994	22,547	-	(431,357)	(101,489)
Profit for the year	-	-	-	-	274,548	274,548
Other comprehensive income	-	-	-	4,875	-	4,875
Total comprehensive income	-	-	-	4,875	274,548	279,423
At 31 December 2021	74,327	232,994	22,547	4,875	(156,809)	177,934

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Other reserves £ 000	Retained deficit £ 000	Total equity £ 000
At 1 January 2020	74,327	173,683	22,547	-	(487,154)	(216,597)
Profit for the year	-	-	-	-	55,797	55,797
Total comprehensive income	-	-	-	-	55,797	55,797
New share capital subscribed	-	59,311	-	-	-	59,311
At 31 December 2020	74,327	232,994	22,547	-	(431,357)	(101,489)

Notes to the Company's Financial Statements for the Year Ended 31 December 2021

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with the Companies Act 2006.

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 or loss or as fair value through other comprehensive income. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The Company's financial statements are presented in British pound sterling (£), which is also the Company's functional currency. All the amounts in the financial statements unless stated have been rounded to the nearest £'000.

No income statement is disclosed by the Company as allowed by Section 408 of the Companies Act 2006.

Details of dividends paid by the Company are disclosed in the Directors' report of the consolidated financial statements.

Where required, equivalent disclosures are given in the consolidated financial statements. The principal accounting policies are the same as those disclosed in note 2 to the consolidated financial statements except as noted below.

Investments in jointly controlled entities, associates and subsidiaries are recorded as cost, which is the fair value of the consideration paid, less accumulated impairment losses.

Changes in significant accounting policies

Adoption for new and revised standards for 2021

The Company has adopted the following amendments to accounting standards for the first time in 2021 with effect from 1 January 2021, although none have had a material effect on the Company's financial statements in the year unless otherwise indicated:

- Amendment to IFRS 16- COVID-19- Related Rent Concessions - beyond 30 June 2021 (effective date 1 April 2021). The amendment introduces an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19;
- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16: Interest Rate Benchmark Reform - Phase 2 has been adopted and has been applied retrospectively. The amendments introduce a practical expedient relating to modifications of financial instruments and lease contracts and specific hedge accounting requirements which is triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Accounting standards not applied

A number of new standards and amendments are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. The impact of their adoption is being assessed and is not expected to have a material impact on the Company's financial statements in the period of initial application. The new standards and amendments are as follows:

- Amendments to IAS 37: Onerous Contracts-Cost of Fulfilling a Contract (effective date 1 January 2022).
- Amendments to References to the Conceptual Framework in IFRS 3 (effective date 1 January 2022).
- Amendments to IAS 16: Property, Plant and Equipment-Proceeds before Intended Use (effective date 1 January 2022).
- Annual Improvements to IFRS Standards 2018-2020 (effective date 1 January 2022).
- IFRS 17 Insurance Contracts (effective date 1 January 2023).
- Amendments to IAS 12: Income taxes-deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (effective date 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (effective date 1 January 2023).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

1 Accounting policies (continued)

Summary of disclosure exemptions

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

- Paragraph 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - I. paragraph 79(a)(iv) of IAS 1;
 - II. paragraph 73(e) of IAS 16 Property, plant and equipment;
 - III. paragraph 118(e) of IAS 38 Intangible assets (reconciliation between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.
- The requirements of paragraph 58 of IFRS 16 'Leases'

2 Critical accounting judgements and key sources of estimation uncertainty

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 accounting policies, and the reported amount 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.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of investments

An impairment test requires an assessment as to whether the carrying value of an asset can be supported by its recoverable amount. Management calculates the recoverable amount based on the net present value of future cash flows derived from the relevant assets, using cash flow projections which have been discounted at an appropriate discount rate. Estimations of the future cash flows require application of judgements and actual cash flows can differ from the estimate due to changes in assumptions.

The Company has assessed the carrying value of investments in subsidiaries and has identified the need for a provision reversal of £376.8 million; £342.3 million in respect of the investment in INEOS UK SNS Limited, a reversal of £34.5 million in respect of the investment in INEOS E&P (UK) Limited and £6.7 million reversal in respect of the investment in INEOS Clipper South C Limited (2020: provision charge of £34.5 million recognised in respect of the investment in INEOS E&P (UK) Limited).

Provisions

Provisions are recognised for the cost of dilapidation and restoration work where there is a legal or constructive obligation for such work to be carried out. The nature and amount of provisions included in the financial statements are detailed in note 18.

Expected loss allowance on amounts owed by group undertakings

The Company applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade debtors. Under the simplified approach, an expected credit loss is recognised for all possible default events over the expected life of the trade debtors.

3 Auditor's remuneration

	2021 £ 000	2020 £ 000
Audit of the financial statements	25	24

4 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 £ 000	2020 £ 000
Wages and salaries	6,724	8,865
Social security costs	1,197	1,491
Pension costs, defined contribution scheme	772	948
	8,693	11,304

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

4 Staff costs (continued)

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2021 No.	2020 No.
Production	39	38
Administration and support	26	31
Research and development	16	25
	<u>81</u>	<u>94</u>

5 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021 £ 000	2020 £ 000
Remuneration	1,117	1,463
Compensation in respect of loss of office	891	591
Pension contributions	8	60
	<u>2,016</u>	<u>2,114</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2021 No.	2020 No.
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>4</u>

In respect of the highest paid director:

	2021 £ 000	2020 £ 000
Remuneration	751	324
Compensation in relation to loss of office	891	591
Company contributions to money purchase pension schemes	-	17
	<u>1,642</u>	<u>932</u>

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

6 Tax

Tax credit in the income statement

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	(57,342)	(18,898)
UK corporation tax adjustment to prior periods	(111)	14
	<u>(57,453)</u>	<u>(18,884)</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2020: the same as the standard rate of corporation tax in the UK) of 19% (2020: 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before tax	<u>217,095</u>	<u>36,913</u>
Corporation tax at standard rate	41,248	7,013
(Decrease)/increase in current tax from adjustment for prior periods	(111)	14
Increase from effect of capital allowances depreciation	1	2
Increase from effect of different UK tax rates on some earnings	1	-
Decrease from effect of expenses not deductible in determining tax loss	(98,590)	(25,916)
(Decrease)/increase from tax losses for which no deferred tax asset was recognised	<u>(2)</u>	<u>3</u>
Total tax credit	<u>(57,453)</u>	<u>(18,884)</u>

Changes to the UK corporation tax rates were enacted as part of Finance Act 2016. In the 2021 Budget, the Government announced that the main rate of corporation tax will increase to 25% from 1 April 2023. Given that the Company is not providing any deferred tax at that rate this change will not have any impact on the recorded tax position.

Deferred tax assets have not been recognised as the directors consider there is insufficient certainty over the future utilisation of deductible temporary differences of £1,539,000 (2020: £744,000).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Intangible assets

	Software £ 000
Cost	
At 1 January 2021	2,344
Disposals	<u>(13)</u>
At 31 December 2021	<u>2,331</u>
Accumulated amortisation and impairment	
At 1 January 2021	2,179
Amortisation charge	<u>47</u>
At 31 December 2021	<u>2,226</u>
Carrying amount	
At 31 December 2021	<u>105</u>
At 31 December 2020	<u>165</u>

8 Property plant and equipment

	Furniture, fittings and equipment £ 000
Cost	
At 1 January 2021	1,573
Additions	87
Disposals	<u>(31)</u>
At 31 December 2021	<u>1,629</u>
Depreciation	
At 1 January 2021	1,077
Charge for the year	175
Eliminated on disposal	<u>(31)</u>
At 31 December 2021	<u>1,221</u>
Carrying amount	
At 31 December 2021	<u>408</u>
At 31 December 2020	<u>496</u>

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Right-of-use assets

	Property £ 000
Cost	
At 1 January 2021	375
At 31 December 2021	375
Depreciation	
At 1 January 2021	129
Charge for the year	91
At 31 December 2021	220
Carrying amount	
At 31 December 2021	155
At 31 December 2020	246

10 Investments

	£ 000
Subsidiaries	
Cost	
At 1 January 2021	1,329,381
Reduction	(21,854)
At 31 December 2021	1,307,527
Impairment provision	
At 1 January 2021	390,908
Impairment reversal	(376,800)
At 31 December 2021	14,108
Carrying amount	
At 31 December 2021	1,293,419
At 31 December 2020	938,473

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Investments (continued)

In the current year, the Company's subsidiary INEOS Norge AS completed a share capital reduction with the proceeds being returned to the Company and the value of the investment held by the Company being reduced.

An impairment test was performed on the carrying value of the investments. As a result of higher gas price environment compared to 2020, the net present value of investments has increased and an impairment reversal of £376.8 million was recognised in the income statement (2020: impairment charge of £34.5 million). The discount rate used in measuring value in use was 8.04% (2020: 8.66%).

Details of the subsidiaries as at 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2021	2020
INEOS Clipper South B Limited	Exploration, development and production of gas	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS Clipper South C Limited	Exploration, development and production of gas	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS UK SNS Limited	Exploration, development and production of gas	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS E&P Norg A/S	Exploration, development and production of oil and gas	Rafnes 3966 Stathelle, Vestfold OG Telemark Norway	100%	100%
INEOS E&P (Petroleum Denmark) ApS	Development of oil and gas around the North Sea	Teknikerbyen 5, 1., 2830 Virum Denmark	100%	100%
INEOS E&P A/S	Explore and develop hydrocarbons in Denmark and around the North Sea	Teknikerbyen 5, 1, 2830 Virum Denmark	100%	100%
INEOS E&P (Norge) Petroleum DK AS	Development of oil and gas around the North Sea	Veritasveien 25, 4007 Stavanger Norway	100%	100%

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2021	2020
INEOS E&P DK A/S	Explore and develop hydrocarbons as well as ancillary activities.	Teknikerbyen 5, 1, 2830 Virum, Denmark	100%	100%
INEOS E&P Føroyar P/F	Explore and develop hydrocarbons and related activities in the Faroe Islands	J.H. Schrøters Gøta 7, 100 Tórshavn Faroe Islands	0%	100%
INEOS Grønland E&P A/S	Explore and develop hydrocarbons and related activities in Greenland	Advokatfirmaet Malling & Hansen Damm, Hans Egedesvej 3. Postboks 1046, 3900 Nuuk Greenland	100%	100%
INEOS E&P (Siri) UK Limited	Oil and gas exploration, development and production within Denmark.	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS E&P (UK) Limited	Oil and gas exploration, development and production within the UK	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS E&P Services (UK) Limited	Service provider to other group companies	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS Energy (Syde Arne) ApS	Oil and gas exploration, development and production within Denmark.	Teknikerbyen 5, 1., 2830 Virum, Denmark Denmark	100%	0%

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Trade and other receivables

	2021 £ 000	2020 £ 000
Trade receivable	10	7
Amount owed by group undertakings	460,398	474,657
Prepayments	580	647
Other receivable	78,132	20,221
	<u>539,120</u>	<u>495,532</u>
Less non-current portion	-	(88,536)
Total current trade and other receivable	<u>539,120</u>	<u>406,996</u>

Details of non-current trade and other receivable

£Nil (2020: £88.5 million) of amounts owed by group undertakings is classified as non-current.

The Company has loan arrangements with its subsidiaries. The loans bear interest of a range of 3.5% - 7% and the interest is payable on a quarterly basis. The full amount is unsecured.

The Company also has internal cash accounts with its subsidiaries. They are due on demand and bear interest at LIBOR plus a margin of 0.5% (2020: 0.5%).

Trade receivables

As at 31 December 2021, none of the trade receivables were past due (2020: nil). All trade and other receivables are deemed as low risk and collectible on the basis of established credit management processes such as regular analysis of the credit worthiness of our customers and external credit checks where appropriate for new customers. At 31 December 2021 and 2020, there were no significant trade or other receivables balances not past due that were subsequently impaired.

12 Indemnification assets

	2021 £ 000	2020 £ 000
At 31 December 2021	<u>325,445</u>	<u>204,050</u>

As part of the acquisition of DONG E&P A/S in 2017, the Company benefits from an indemnity in respect of uncertain tax liabilities relating to pre-acquisition periods. The Company also benefits from a contractual right to receive sufficient cash to fulfil the obligation to settle actual payments in respect of the historical construction cost of the Fredericia Gas Plant, regardless of amount and timing. These indemnification assets were valued at £325.4 million as at 31 December 2021 (2020: £204.1 million).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Cash and bank balances

	2021	2020
	£ 000	£ 000
Cash at bank	89,813	120,344

14 Trade and other payables

	2021	2020
	£ 000	£ 000
Trade payables	5,963	2,962
Accrued expenses	2,687	3,028
Amounts owed to group undertakings	27	475
Social security and other taxes	-	107
Other payables	1,346	6,090
	<u>10,023</u>	<u>12,662</u>

Non-Current

Other payables	<u>2,489</u>	<u>2,652</u>
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15 Loans and borrowings

	2021	2020
	£ 000	£ 000
Non-current loans and borrowings		
Bank borrowings	-	214,574
Amounts owed to group undertakings	1,095,024	1,091,595
	<u>1,095,024</u>	<u>1,306,169</u>

	2021	2020
	£ 000	£ 000
Current loans and borrowings		
Bank borrowings	-	24,955
Amounts owed to group undertakings	661,008	428,701
	<u>661,008</u>	<u>453,656</u>

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

15 Loans and borrowings (continued)

Other borrowings

Amounts owed to group undertakings

The Company has a loan arrangement with its parent INEOS Offshore BCS Limited. The loans amount to US\$591.5 million (£438.2 million) bears interest of 7% and the interest is payable on a quarterly basis. INEOS Offshore BCS Limited has indicated no repayment will be demanded for at least 12 months from the approval of financial statements.

The Company has a loan arrangement with INEOS E&P A/S. The loan amounts to DKK 5,817 million (£656.8 million) bears an average interest of 2.88% for the year ended 31 December 2021. The interest is payable on a quarterly basis. INEOS E&P A/S has indicated no repayment will be demanded for at least 12 months from the approval of financial statements.

Amounts owed to group undertakings also include a balance of £661.0 million (2020: £428.7 million) that represents internal cash accounts with its subsidiaries. They are due on demand and bear interest at variable rates.

Bank Borrowings

RBL Facility is secured on customary terms and bears interest at a margin above risk free rates. The Company's subsidiaries are the guarantors to the RBL Facility. In October 2021, the Company repaid the outstanding balance of the RBL Facility in full, leaving £nil liability as at 31 December 2021.

16 Financial instruments

	2021 £ 000	2020 £ 000
Derivative liabilities held for risk management	(257,409)	(2,547)
Financial assets at fair value through other comprehensive income	29,875	-
Net liabilities	(227,534)	(2,547)

The Company has entered into foreign currency forward contracts to limit its foreign currency transaction exposure.

On 30 July 2021, the Group purchased 25 million shares of £1 each in HydrogenOne Capital Growth plc for a total consideration of £25 million. For investments in equity securities that are not held for trading, the Group may irrevocably elect to present subsequent changes to fair value in other comprehensive income. The Group makes this election on an investment-by-investment basis. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Deferred consideration

	2021 £ 000
At 1 January 2021	82,780
Consideration settled during the year	(10,940)
Increase due to unwinding of discount	1,798
Effect of movements in foreign exchange	557
At 31 December 2021	74,195
Current	74,195

Deferred consideration relates to the obligation of the Company to pay \$150.0 million (£111.6 million) in instalments in connection with the capital cost of the Fredericia Gas Plant as part of acquisition of DONG E&P A/S in 2017. In 2021, US\$15.0 million (£11.0 million) was paid (US\$45.0 million (£33.3 million) paid inception to date). The fair value of the remaining consideration is \$105.0 million (£74.2 million) at 31 December 2021.

18 Provisions for liabilities

	Dilapidation and restoration provisions £ 000
At 1 January 2021	80
Decrease in existing provisions	(1)
At 31 December 2021	79
Non-current liabilities	79

Dilapidation and restoration provisions

The Company has provided for restoration costs in relation to a leased property. The Company has an obligation to return the property at the end of the lease to its original state. The restoration is expected to occur when the lease expires in 2025.

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

19 Leases liabilities

Leases liabilities

	2021 £ 000	2020 £ 000
Current portion of long-term lease liabilities	84	93
Long term lease liabilities	95	156

Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	2021 £ 000	2020 £ 000
On demand or within one year	88	100
Between one and five years	98	156
Total lease liabilities (undiscounted)	186	256

20 Share capital

Allotted, called up and fully paid shares

	31 December 2021		31 December 2020	
	No. 000	£ 000	No. 000	£ 000
Ordinary Shares of £1 each	74,327	74,327	74,327	74,327

In 2020 an additional share was awarded to INEOS Offshore BCS Limited, the immediate parent, as part of an internal organisational restructuring. The share was issued at a value of £1 plus a premium of £59.3 million.

21. Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charged for the year represents contributions payable by the Company to the scheme and amounted to £772,477 (2020: £947,450).

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

22 Related party transactions

During the year the Company entered into transactions, in the ordinary courses of business, with related parties. The nature and terms of the transactions have been disclosed in notes 10, 11 and 15. The Company has also taken advantage of the exemption under paragraph 8 of Financial Reporting Standard 101 not to disclose transactions with the fellow subsidiaries under common ownership.

23 Parent and ultimate parent undertaking

The company's immediate parent is INEOS Offshore BCS Limited.

The ultimate parent is INEOS Limited, a company incorporated in the Isle of Man.

The most senior parent entity producing publicly available financial statements, and the smallest and largest group to consolidate these financial statements is INEOS Industries Limited. These financial statements are available upon request from Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG, United Kingdom.

The ultimate controlling party is Mr J A Ratcliffe.