INEOS | FPS

Management System Manual

Sub-element 8.3

Cost Share Mechanism

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1 Purpose

This manual has been produced by INEOS FPS to assist its staff, auditors and Customers on the consideration of terms in the Forties Pipeline System (FPS) Cost Share Attachment. It is intended to provide some general guidance on the methodology which INEOS FPS has adopted when preparing a Cost Share invoice, budget or actualisation.

It is confidential and not to be disclosed to or shared with third parties without the prior written consent of INEOS FPS.

This manual represents the approach generally taken by INEOS FPS as at the date of publication. It is not legally binding and should not be regarded or relied upon as a legal opinion concerning any matter referred to in it. Nor shall it operate so as to waive or amend any rights vested in or exercisable by INEOS FPS.

This manual and the approach taken by INEOS FPS to the matters it covers is subject to amendment by INEOS FPS at any time. Nothing in the manual alters or amends any terms for transportation through the FPS and no waiver of any rights or obligations that INEOS FPS may have under any such terms is made or implied by anything contained in the Manual.

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2 Overview and Scope

2.1 Volumetric Tariff versus Cost Share

The primary source of income to INEOS FPS was originally from the tariff levied on customers for the transportation and processing of their unstabilised crude oil and LPG products. In the vast majority of cases this charge was derived from a pence per barrel volumetric rate which varies according to the terms of each specific Transportation and Processing Agreement (TPA).

Most TPAs include a clause which allows INEOS FPS to replace the volumetric tariff with a charge based on a share of the eligible asset expenditures. INEOS FPS might choose to exercise this right if the tariff becomes uneconomic; which could be the case if the volumes provided by customers fall or INEOS FPS expenditures increase.

In the majority of cases, the decision to move a customer to Cost Share is for INEOS FPS alone, however a notice period ranging from 6 to 24 months must be served depending on the terms of the TPA. If a notice is served, the customer has the right to terminate the contract. In practice, this is only likely to happen if economic export alternative(s) are available. Re-instatement of a Cost Share customer from Cost Share back to a volumetric tariff is only possible with agreement of all parties and requires INEOS FPS board approval.

2.2 Cost Share Mechanism

Those TPAs that can be moved to Cost Share include an attachment (the "Attachment") that sets out the basis for the calculation of the charges. In summary, it details which expenditures are eligible for Cost Share, specifies how the expenditures shall be partitioned across the asset and how the FPS user shares of those parts shall be calculated (see Appendix A).

While the Attachment clearly sets out the mechanism on which Cost Share is based, it is not explicit on every detail. Some important points are vague, open to interpretation or not referenced at all.

The intent of this document is not to replicate the contents of the Attachment but to set out clearly the conventions and assumptions that INEOS FPS has adopted in calculating Cost Share for consistency and future reference. These have been tested and refined by INEOS FPS in dialogue with Cost Share customers, Cost Share auditors and our statutory auditors since 2018 and are now generally understood. This document will be updated regularly as refinements evolve.

This document will not address the process for determination of whether and when it is necessary to move a customer from volumetric tariff to Cost Share. INEOS FPS detailed accounting methodology is also outside of the scope of this document but is available to the auditors on request. Salient points such as allocations are described below and are discussed in detail at least annually with Cost Share customers during the budget reviews.

3 Clarification of Eligible Costs

3.1 Costs Eligible for Cost Share

All operating expenditure (Opex) and capital expenditure (Capex) that is required for the operation of FPS is eligible for Cost Share, with the exceptions noted in section 3.2. The Attachment (Appendix A, clause 1.1) provides a definition of these eligible costs. These include Operating Costs, Non-Discretionary Capital Costs, Operating Liabilities and Capital Liabilities.

In broad terms, to determine whether a cost is eligible it should be assessed through the lens of a Reasonable and Prudent Operator (RPO) i.e. is the activity one that a RPO would consider necessary to comply with applicable legislation and its contractual obligations or one which enables operations?

The activity should be executed at reasonable overall cost, and should not include any other spend that does not meet this test. In practice, this is the vast majority of FPS costs. Eligible costs include (but are not limited to):

- Fully built up people costs (salary, benefits, NI & expenses) of direct staff and of shared staff where the share of the costs allocated to FPS can be clearly justified and evidenced.

Manpower rates and allocation of people costs between Opex and Capex are in accordance with INEOS FPS' standard accounting practice.

- Agency personnel or contractors employed by INEOS FPS (includes any applicable expenses, agency fees or administrative costs).
- Materials and equipment purchased for use on FPS or released from inventory, net of any charges or discounts at cost to INEOS FPS.
- Services provided by Third Parties or INEOS Affiliates for use in FPS operations at prevailing market rates e.g. laboratories, IT etc.
- Overheads or shared functional costs are included only to the extent that the FPS share of costs can be clearly articulated and that the benefits can be demonstrated to be necessary to support the operation of the asset.
- Costs arising from damage or loss including repairs due to fire, flood, theft or unforeseen equipment failure including any applicable insurance and legal costs. This includes applicable litigation costs. (Note some legal costs are excluded, see below.) Proceeds of related successful insurance claims should be offset against the costs.
- Government taxes or levies on FPS operations where these are not recoverable. This includes business rates, Crown Estates charges and all environmental taxes, levies and allowance purchases under emission Cap and Trade schemes.

Other types of expenditure not listed above are eligible as long as they can be demonstrated to be reasonably necessary for the operation of FPS.

Some (but not all) recoveries are included in Cost Share as cost offsets where the income received from Third Parties directly off-sets the costs of operating FPS. Examples of included recoveries are:

- Waivers (excluding the 10% FPS margin),
- Pigging costs and recoveries,
- Mercury Forum costs and recoveries,
- Buzzard Mercaptans plant operating costs and recoveries, and
- Condensate tank costs and recoveries.

The recoveries are allocated by facility in the same way that their corresponding costs are (see section 5).

3.2 Costs not Included in Cost Share

The following costs are not currently included in Cost Share (N.B. this is not an exhaustive list):

- Costs relating to the permanent decommissioning of equipment.
- Depreciation on capital equipment.
- Taxes on INEOS FPS profits or income.

- While general legal costs are eligible for Cost Share (required for operation of the asset), specific litigation costs between a Customer, group of Customers or Third Party and INEOS FPS acting as FPS operator may not be. Each litigation needs to be considered individually. Consultation with Legal Counsel and Commercial Director is required. Note that inclusion of such costs may require that the Cost Share customers are consulted regarding progress of the case.
- Operating or capital expenditure for the sole benefit of INEOS FPS or INEOS Group of companies which is not strictly necessary for operations e.g. corporate costs, the new INEOS FPS HQ or INEOS promotional events. (E.g. Promotion which is designed to encourage additional volumes into FPS would be eligible but promotion of INEOS products or celebratory events would not be.)
- Costs (and recoveries) associated with the GAEL line are for INEOS FPS acting in the capacity as GAEL owner/operator and the other GAEL owners.
- Costs (and recoveries) that are specifically for a single Customer, prospective new Customer or a defined sub-group of Customers. This includes study costs associated with new entrants where they are subsequently recovered from that new entrant and any specific project costs that are paid for by a defined group of participants e.g. EGSP Phase 2.

From time to time, INEOS FPS (or INEOS Group with FPS board approval), may use the INEOS FPS cash flows to underpin guarantees with lenders for capital funds to be used in FPS or elsewhere. Costs associated with this activity are not eligible for Cost Share unless it can be demonstrated that they are required for the operation of the asset. If any such costs are included in Cost Share, then the benefits must also be included and both must be audited.

4 Work Programme and Budget

4.1 Process Overview

In summary, INEOS FPS is obliged to provide Cost Share Customers with a draft budget for the following year by 1st August of the current year, and a final budget by 1st October. Customer invoices for the following year are based on the final budget and do not change, irrespective of in year expenditures or volume movements, unless a revised budget has been issued (see section 4.3).

At the end of year, once actual expenditures and volumes are available, the customer Cost Shares are actualised and reviewed by the auditors. Expenditure actuals are available in January, the hydrocarbon account volumes in February and from 2022 onward verified UK ETS emissions costs are available in April of the year after the year in question[1]. A true up reconciliation with the amounts paid is then conducted and a credit or additional invoice is raised for any over or under payment.

The process is then repeated for the next year. At any one time there are usually two Cost Share processes running in parallel: one for the current year and one which is either closing out the previous year or preparing the budgets for the next.

The following section looks at these steps in more detail.

4.2 Budget Schedule

The eligible expenditures for Cost Share are described in the Attachment (Appendix A, clause 6) and in section 3.

The Cost Share budget for the following year is based on the INEOS FPS internal budget. This may be adjusted at the Board's discretion. The costs are split by Facility (see section 5) and should be compiled in draft form by mid-July and final form by mid-September for the Cost Share budgets.

The intent of the TPA schedule is for Cost Share budgets to be issued early enough to inform Cost Share Customer budgets for the following year. It is common for INEOS FPS expenditures to be still moving at the point when the Cost Share budgets are issued as it is in advance of INEOS Group internal approvals. Unless there is a material change through the internal approval process (see section 6.3), this timing issue is accepted as a limitation of the TPA requirements and budgets are not normally re-issued.

If it is anticipated that budgets will have to change post 1st October (such as for material adjustments to FMQ's post budget issue or material price movements eg. gas price), then as much advance notice and explanation as possible should be given to Cost Share

[1] Refer to the document "INEOS FPS UK ETS Emissions Charges to Customers" for more information on these charges.

Customers. A further opportunity should be offered to Cost Share Customers to review any budget changes if requested (see section 4.3).

Release of budgets to the Cost Share Customers requires explicit CFO and Commercial Director Approval.

4.3 Budget Over-run Provision and Re-issue of Budgets

The Attachment (Appendix 1, clause 2.1) allows a 10% over-run provision to be added to the budget. While INEOS FPS may re-issue the WP&B at any time for a material change, this provision allows some flexibility in actualisation. INEOS FPS may invoice an overspend up to 10% on the final budget on actualisation without having to inform the Cost Share Customers in advance. The 10% over-run provision is highlighted on the budget document but it is not billed as part of the monthly invoice.

The over-run provision should be considered separately for Opex and Capex expenditure by Facility (see section 7). Minor activity changes within the budget during any year are acceptable providing the 10% threshold is not exceeded. If expenditures are forecast to exceed the budget by more than 10% in any Facility or a material activity change is required (most likely with capital projects and turnarounds), Cost Share Customers must be informed. A revised budget and invoicing schedule may be issued with any recovery shortfall collected in a pro-rated manner over the remainder of the year.

Notwithstanding the above, INEOS FPS has the right to re-issue the budget at any time if additional works or expense is anticipated (Appendix A, clause 2.2 and 2.3). For example, a response to an unplanned event such as materially changing gas prices might require this. Similarly while under no formal obligation, INEOS FPS should review the budget and consider re-issue if the anticipated costs materially fall to prevent a material actualisation balance being accumulated. If the budget is re-issued, the Cost Share Customers may request a further opportunity to review the changes.

Note that in the special case of an emergency involving the safeguarding of lives or property, the prevention or mitigation of pollution or other environmental damage, INEOS FPS may make any expenditure or incur commitments for expenditures or otherwise take any actions it deems necessary without recourse to the Cost Share budget process. These costs will be considered operating costs and will not be subject to Expert review (see Appendix A, clause 2.3).

4.4 Forward Cost Estimates

The minimum requirement of the Attachment (Appendix A, clause 2) is to provide a forward expenditure forecast for the next three years of Opex and Capex expenditures split by Facility. At the time of writing, the forward Capex programme is of particular interest given the INEOS FPS strategy of significant spend on asset renewal to extend reliable and sustainable operations to at least 2040.

Enough detail should be supplied to the Cost Share Customers to enable them to understand the rationale for the Capex projects and the state of progress. Any material item included in the Cost Share budget (next year or following years) should have supporting material available for sharing with Cost Share Customers at the annual budget review (section 4.5).

Although not strictly required by the TPA, the further out we can describe the FPS Opex and Capex profile, the more informed our Cost Share Customers will be. In particular, if there is likely to be a material change in the configuration of the asset (for example, jetties, tanks or processing trains) within the next two years, the likely impact on expenditures should be explicitly highlighted to Cost Share Customers.

These forward forecasts are not binding but should be the best estimates at the time.

4.5 Review of the Proposed WP&B

INEOS FPS is required to present, discuss and endeavour to reach agreement on the proposed work plan and budget to Cost Share Customers annually prior to finalisation on the 1st October. This is an opportunity for Cost Share Customers to gain a greater understanding of why Opex and Capex expenditures are necessary such that they can present that information to their own management in support of their budget processes.

Cost Share Customers may seek clarifications to the requirement for the work programme or the phasing or the expenditures in this forum but they have no decision rights around the contents of the budget. The final WP&B is set at INEOS FPS' sole discretion and Cost Share Customer approval is not required. The objective is to endeavour to achieve agreement on the activity programme and expenditures proposed, failing which INEOS FPS may submit the final budget on the basis that the expenditures therein meet the test of a Reasonable and Prudent Operator (see Section 3.1).

Where there are strong disagreements around particular items in the budget, INEOS FPS could offer a more in depth technical review e.g. at a Technical Forum, could take away the item for further consideration or could choose to remove the item from the budget altogether. This decision however is for INEOS FPS alone to make, being mindful of the broader Customer relationships.

In the unfortunate event that agreement cannot be reached, this does not prevent the issue of the budget and commencement of invoicing. It may however require that the budget is re-issued at some point in the future once the issue is resolved.

Cost Share Customers who strongly object to the budget item can refer it to Expert.

4.6 Expert Referral

In the case of disagreements that cannot be resolved, the Attachment (Appendix A) gives Cost Share Customers the right to seek Expert opinion. Cost Share Customers are only entitled to refer disagreements to an Expert based on one of three criteria:

(a) the expenditure would not be considered necessary by a RPO to enable compliance with obligations at reasonable overall cost (see section 3); or

(b) the cost has been wrongly attributed to a Facility (see section 5); or

(c) the cost has been wrongly categorised as an eligible cost (see section 3).

Before an issue is referred to Expert, every effort should be made to come to an agreement on the issue under dispute. If resolution is not possible, then notice on referral to Expert must be received in writing, detailing the issue under dispute.

INEOS FPS and the Cost Share Customers involved in the dispute shall select the Expert together. The Expert must be competent, impartial and have no significant financial interest in either party. Once appointed, written representation may be made by all sides involved in the dispute. The decision of the Expert will be binding on all sides (unless fraud or a manifest error has been detected). The allocation of costs of this referral will be determined by the Expert.

5 Division of FPS into Parts

As detailed in the Attachment (Appendix A, clause 3) FPS shall be divided into five (5) Parts (each a “Facility Category” under the Attachment but referred to herein as a “Facility”) and the costs allocated between them. The following paragraphs clarify the Facility boundaries (see also Appendix B):

5.1 First Facilities – Forties Charlie to Cruden Bay

The TPAs refer to the following as “First Facilities” (but herein they are referred to as “Facility 1”): the 36” subsea pipeline from Forties Charlie platform to the landfall at Cruden Bay (sea line) together with all related facilities on Forties Charlie platform and the Unity platform.

The costs associated with connecting pipelines (including GAEL) are not included – those are the accountability of the various pipeline owner/operators however the riser costs for those pipelines rests with INEOS FPS and is included in Cost Share. If work is facilitated for Customers on the connecting pipework within the 500m zone, both the costs and the recoveries should be excluded from Cost Share. Costs for reception facilities on Unity e.g. manifolds and pig receivers are eligible for Cost Share. Work scopes on the FPS facilities on board Forties Charlie are agreed annually with Apache and carried out on our behalf by them. These costs are eligible for Facility 1. All other costs associated with the safe operation of Unity are eligible for Facility 1.

When Unity support costs (e.g. logistics) are shared between Opex and Capex then the allocation basis of those costs should be clearly identified and audited as fair and reasonable as detailed in section 7.3. Facility 1 ends when the sea line makes landfall near Cruden Bay. Costs associated with the permanently decommissioned 32” sea line are excluded (see section 3.2).

5.2 Second Facilities – Cruden Bay to Kinneil

The TPAs refer to the following as “Second Facilities” (but herein they are referred to as “Facility 2”): the section of the 36” pipeline from landfall to the Cruden Bay terminal and the Cruden Bay terminal itself together with all of its associated equipment. It includes the 36” landline which connects Cruden bay to Kinneil, including the pumping and valve stations and associated equipment and telemetry, the Kinneil reception facilities (pig receivers, flow tanks, heaters etc.) and all of the associated equipment as far as the oil stabilisation section of the three trains at Kinneil. Effluent treatment and disposal is Facility 2. Facility 2 ends at the exit flanges from stabilisation on the three trains.

Facility 2 encompasses all work on the buried pipeline from the shoreline to the Kinneil terminal including the sections that run under the Tay and the Forth. Costs for the pumping or valve stations are allocated to Facility 2 but decommissioning cost associated with any equipment that has been, or is in the process of being, permanently isolated is excluded (see section 3.2). Within Kinneil, the operating and capital expenditure to improve the supporting facilities such as pumps, pig receivers, heaters, tanks and effluent treatment which are all necessary for transporting and stabilising crude oil are all eligible for Facility 2.

5.3 Third Facilities – Kinneil to RLPG and INEOS O&P

The TPAs refer to the following as “Third Facilities” (but herein they are referred to as “Facility 3”): the gas processing and handling facilities from the outlet of stabilisation vessels on the three Kinneil trains through gas processing to gas storage and export.

This includes all facilities from the outlet of raw gas separation from unstabilised crude through to gas product disposal. It includes all of the compression trains, the flare systems, gas separation with associated heaters and vessels. All of PLPG and RLPG including the refrigeration plant and the export facilities at the Old Lock Berth and the lines connecting them are in Facility 3. This Facility terminates at the battery limits of FPS and the LPG export terminal in the Grangemouth complex. The condensate tanks are operated by PETROINEOS on behalf of FPS. Costs for that service are included in Facility 3. In total, this Facility comprises a substantial proportion of the operating and capital expenditure of FPS. Several of the allocation keys (Appendix C) straddle Facility 2 and Facility 3.

5.4 Fourth Facilities – Kinneil to Dalmeny Hound Point

The TPAs refer to the following as “Fourth Facilities” (but herein they are referred to as “Facility 4”): the crude oil pipeline from Kinneil to Dalmeny, the Dalmeny storage facilities, the export facilities at Hound Point and all of the lines connecting them.

Facility 4 starts at the stabilised crude exit of the three train separators and covers all of the equipment from there to the tank farm at Dalmeny, including the underground 30” pipeline. It includes all of the tanks and supporting facilities at Dalmeny as well as the underground lines to the export loading Facility in the Firth of Forth at Hound Point. Decommissioning expenditures, such as demolition of any of the tanks or berths, are not eligible for Cost Share (section 3.2) and in the event that INEOS FPS decides to use the tanks for any other purpose other than Customer product export, these costs would be excluded. The cost of operating the tugs on the Forth to facilitate vessel berthing is excluded (Exporting Customers already pay for this in their shipping charge, see section 3.2). Facility 4 also encompasses the stabilised crude line to the PETROINEOS refinery, but not the condensate line (that is Facility 3).

5.5 Fifth Facilities – St. Fergus to Cruden Bay

The TPAs refer to the following as “Fifth Facilities” (but herein they are referred to as “Facility 5”): the ancillary facilities at St. Fergus and the NGL pipeline from there to the Cruden Bay terminal.

Work on the FPS facilities at the St. Fergus Terminal is usually agreed annually with the terminal operators and conducted on our behalf. These costs along with our allocation of routine maintenance and inspection costs are in scope for Facility 5. Any work on the buried NGL pipeline from St Fergus terminal to the fence at Cruden Bay is also Facility 5. Any work within the Cruden Bay terminal itself is Facility 2.

5.6 Allocation of costs across Facilities

FPS expenditures are structured on the basis of equipment, location and organisation to facilitate robust cost management. This structure overlaps but is not the same as the division of Facilities referred to above. While many of the FPS expenditures can be directly allocated 100% into a Facility, this is not true for all expenditures. For example, costs such as power and steam or business rates encompass multiple Facilities. An allocation therefore has to be made for costs which do not neatly partition in this way. A series of allocation keys have been derived to deal with split cost allocations.

The Business Controller is accountable for maintaining the cost allocation table. The current allocation table is shown in Appendix C together with the supporting logic. The intent is that this cost allocation should be fair and transparent. The allocations are applied at cost centre and WBS level to achieve the most accurate split of expenditure. They are formally reviewed by the FPS Commercial team and independently audited annually. When allocations are required to be changed or added to, this should be communicated to the Cost Share Customers either in writing or in presentation format at the annual budget review and examined by the auditor.

5.7 Change to Facilities

In the event that material alterations (additions or deletions) are made to the structure of FPS, the scope of the various Facilities may have to change. Provision to allow this to happen has been included in the Attachment (Appendix A, clause 3.2). In such event, INEOS FPS should determine what changes are necessary to the Facilities and the allocation keys and recalculate the costs and the User Share on the basis of the new Facilities from the point that the material change comes into service.

If capital required to bring a new Facility into service is included in Cost Share, the benefits (perhaps through life extension, enhanced volumes or reduced costs) must also be included. Conversely, if the Cost Share Customers do not contribute to a project, there is no obligation for INEOS FPS to share the benefits with them.

In the event of structural change, the revision should be reviewed with the auditor and the Cost Share Customers and the implications for Cost Share budgets communicated at the earliest opportunity (see section 4.3).

6 Calculation of the User Share

The calculations are set out fully in Appendix A. This section of the manual is intended to provide guidance on the interpretation.

6.1 Opex User Share

The calculation is:

$$Opex\ Charge = Uplift\ x\left[\frac{User's\ Share}{Total}\right]x\ Operating\ Costs$$

The User Share (referred to as “Shipper’s Share” in the appendices) is the greater of 0.833 x FMQ or the actual production. The Total is the sum of that same calculation for every field. Dividing one by the other gives the User Share % for a Cost Share Customer.

The Uplift is specific to each individual TPA Attachment. In the current standard TPA it is 30% (1.3). Checking the Cost Share Customer specific information against the TPAs is part of the assurance checks that are undertaken as part of the audit process.

The User Share % is calculated by Facility. Facility 3 (Gas) and Facility 4 (Stabilised Crude) are forecast by multiplying the unstabilised crude (USCO) throughput by the most recent Yield Factors for raw gas and stabilised crude. (Raw gas is measured in tonnes while everything else is in barrels.) The Yield Factors are issued from the hydrocarbon accounts monthly and are a rolling 12 month average. The forecast is then replaced by the actuals when they become available.

The Opex Charge is generated by Facility and the sum of the charges for all Facilities gives the total Opex Charge. The Cost Share Appendix requires the opex User Share to be calculated by quarter.

In practice, the data is entered monthly to the model, in line with how the actuals are published, then the applicable User Share % is calculated with reference to quarterly volumes (see sections 6.3 and 6.4). The hydrocarbon account actuals are available two months in arrears. For forecasting, the most recent full year forecast is used in place of the actuals.

The FMQ utilised should be the most recent accepted FMQ at the point the calculation is made, with one exception. When new fields enter FPS, for the purposes of Cost Share their FMQ should be set to zero for every month prior to the start-up month. This is to ensure that FPS is not unduly penalised for new customer start up delays.

The FMQs used in the calculation are always updated for issue of the budgets and the actualisation. There are further intermittent updates through the year for forecasting where permitted by the TPAs.

For draft and final budget creation, the forecast is not used (too subjective). They are based on 83.3% of the FMQ accepted at the point the budget is created. There is a practical timing issue in that for most annual FMQ Customers (the majority), FMQs are required to be submitted by 30th September and approval is from October onwards i.e. after the cost share budget has been issued. Notwithstanding, the most recent accepted FMQ should be utilised which in most cases is the previous year's submission.

There is a rare exception. It is in the interest of both INEOS FPS and the Cost Share Customers that the budget reasonably reflects the anticipated costs to prevent large actualisation variances at the end of year. In the event that a previously accepted FMQ is materially different from the FMQ just submitted (but not yet approved) and use of this would make a material difference to the User Share calculation, it is permissible for INEOS FPS to replace the FMQ in the budget calculation with the anticipated FMQ that they believe will be approved. In this event, it must be communicated to the Cost Share Customer(s) that the FMQ being used in the budget is provisional pending approval of the updated FMQ. If the revised FMQ is subsequently not approved or approved subject to adjustment and the variance in the calculated billed amounts is materially different to that previously issued, then the Cost Share budget should be re-issued. This exception must be approved by both the INEOS FPS CFO and Commercial Director.

In practice, only material swings in the largest fields, the NGL fields or a specific cost share customer will have a material impact on the budget calculations. If such an adjustment is required, every effort should be made to re-issue the budget by early December to allow invoicing for the coming year to be set up. Every time the budget is re-issued, Cost Share Customers must be offered the opportunity to scrutinise the changes (section 4.5).

6.2 Capex User Share

Calculation of the Capex Charge is more complex, and arguably more subjective, given the difficulties in estimating life of field reserves. The following protocol has been developed by INEOS FPS to overcome this.

The calculation is:

$$Capex\ Charge = \left[A \times \frac{User's\ Share}{Total}\right] + \left[Balance\ NDCC \times \frac{User\ Reserves}{Total\ Reserves}\right]$$

The Capex spend is split into two parts. The first, part A, is all of the Non-Discretionary Capital Costs (NDCC) incurred in that Month by Facility up to the following maximums:

(i) £200,000 × P2/P1 in respect of the First Facilities;

(ii) £200,000 × P2/P1 in respect of the Second Facilities;

(iii) £350,000 × P2/P1 in respect of the Third Facilities;

(iv) £200,000 × P2/P1 in respect of the Fourth Facilities;

(v) £200,000 × P2/P1 in respect of the Fifth Facilities.

P1 & P2 are intended to inflate the sum in line with inflation. P1 is the reference Producer Price Index (PPI) as stipulated in the TPA (varies depending on when the TPA was signed) and P2 is the PPI average for 4Q of the preceding year or the preceding quarter (there are slight differences across the TPA's as to which is used).

The Capex Charge calculation is performed monthly (different from Opex Charge which is quarterly). The sums above are compared to the monthly Capex spend. All spend up to the monthly limit is then multiplied by the User Share, by Facility. The User Share used is the Opex User Share from the previous quarter.

Any NDCC in excess of the part A limit in that month is then multiplied by the User Reserve share. The two components are then added together to generate the total Capex Charge for that month. This calculation is performed monthly by Facility. The total Capex Charge is sum of the Capex Charges by Facility by month.

<u>Example:</u>

Facility 3 spend part A is limited to £350k per month inflated.

Assume P2/P1 * £350k = £400k. This becomes the monthly limit for part A.

If January capex spend is only £200k, this is multiplied by the previous quarter's Opex User Share (i.e. 4Q from the previous year) to derive the January Capex Charge.

The spend shortfall of £200k versus the part A limit is not carried forward.

If the February spend is £1m, £400k is multiplied by the previous quarter's Opex share and the remaining £600k multiplied by the User Reserve Share. The two components are added to give the February Capex Charge.

6.3 User Reserves Share

As noted above, the User Reserves Share % is the life of field reserves for the Cost Share Customer divided by the life of field reserves for all fields. There are a number of barriers to determining this:

- Customer views of field reserves are usually confidential and are not shared.
- They are not constant – they vary with a number of factors including oil price.
- They are not consistently comparable – each operator will have their own internal assumptions e.g. some might include unsanctioned developments, others not.
- Independent validation is difficult e.g. NSTA will not share submitted profiles.

To overcome this, INEOS FPS has developed a methodology to promote fairness and consistency. For the purpose of Cost Share, the field reserves are deemed to be the contractual maximum volume that each field could deliver in future. The logic is that while we do not have line of sight to all developments, the Customer's future booking rights determines the envelope of what those developments might be.

The individual TPAs have different terminology and criteria for these future booking limits e.g. EMQ, UBR etc. depending on the vintage of the TPA. The concept of Absolute Maximum Quantity (AMQ) has been introduced for Cost Share to provide a consistent language.

The AMQ is therefore the maximum permissible volume that a field has a right to book point forward to life of field. This is calculated for every field by Facility using the 12 month average raw gas yield (tonnes) for Facility 3 and the stabilised blend yield (barrels) for Facility 4. The User Reserves Share therefore becomes the life of field AMQ for a field in question divided by the total of the life of field AMQ for every field, by Facility.

There are a number of uncertainties in developing the field profiles:

<u>Contractual Rights no Longer Reflective of Reality</u>

Some fields that have historic contractual volume rights that no longer reflect current asset performance. Those include assets where volume rights were held flat but actual production has dwindled and also those fields producing on spot which have no right to book the volumes they are currently producing.

For all fields where current actual volumes are either 50% lower or 50% higher than future booking rights, we look back at the last two years' production, take the highest monthly production and add 10%. This is the likely maximum we will see from them in the near term. We hold this value for the next two years, then decline at an appropriate rate to cessation of production (CoP) or 2040, whichever is the nearest. This profile then becomes the AMQ for that field.

Where TPAs are still live but the field is dormant and has not produced for more than 2 years and no indication of restart has been given, the AMQ is set at zero (following the rule above).

If a field production is halted completely for an extended period due to a technical issue, e.g. wax blockage, the AMQ is set to zero until an expected production restart date is indicated.

<u>Cessation of Production (CoP)</u>

FPS life of asset is at least to 2040. It is often not clear when the offshore fields will cease production. Even the operators are often unsure as a number of parameters influence this date. For those on Cost Share there is a clear incentive to claim CoP as early as possible. To overcome this the following rules have been adopted:

- For Customers not on Cost Share, we will accept the operator's best view of CoP (as provided with FMQ, 10 year forecasts or separate communications), as long as they can be evidenced in writing.
- For Customers on Cost Share we require them to give up all rights to firm volumes post the indicated CoP date, again evidenced in writing.

Data Stops before 2040

In some cases, either the contractual rights or the obligation to supply volume data stops before the current FPS life of field in 2040 but no indication of CoP has been received. Where we do not have definitive CoP information, we assume that life extensions will be requested and approved until formally indicated otherwise. We decline the AMQ from these fields from the point when the data runs out to 2040 at an appropriate rate per annum, this being the average decline rate for producing FPS fields. This is a conservative view which gives all of the benefit of the doubt to the Cost Share Customers.

If the volumes decline to less than 0.01 mbd or we have a clear indication of CoP, then the volumes are set to zero.

Note that 10 year forecast data is not used in the calculation of the Reserves Share. This data is a best view, not binding and not contractual. It can however be used to inform the AMQ profile. For example, CoP information is sometimes attached and large discrepancies between contractual rights and 10 year forecasts can be queried with the field operators.

New Entrants

All new entrants provide an anticipated profile and contractual booking rights are set up around this. The Unrestricted Booking Range (UBR) is maximum booked volume permissible and this profile is used as the AMQ. The new entrant volumes are not included until a TPA has been signed. The AMQ is set to zero prior to the anticipated start up. In the event that the start-up date or the UBR is updated prior to start up, the AMQ is updated in line with the latest information. (See section 6.5 and Appendix D for information on how new entrant volumes impact historic capex contributions.)

NGL backup FSPA Contracts

Full Stream Purchasing Agreements (FSPA) are offered to NGL Customers using SEGAL as a primary export route that require a secondary export option when SEGAL is not available or its capacity is constrained. Flow from these fields is erratic (often none at all) and the contracts are all short in duration. Volumes from these fields are included in the Opex share calculations but not in the Reserves Share calculation as the fields are assumed not to be with FPS long enough to benefit from the INEOS FPS capital investment.

Material Gas and Crude Oil Yield Movements

The current methodology calculates point forward reserves for Facility 3 and Facility 4 using the latest yield factors. These are a rolling average of the last 12 months data. In most fields, yields change only gradually over time but in a handful of cases there can be abrupt changes. Primarily, these are new entrants where the initial yields are based on estimates, Customer top side projects such as Shearwater re-plumb, where gas is being diverted, or drilling projects which open up new reservoirs. This can give rise to modelling complexity if the GOR is anticipated to significantly change during the field life and bigger variations in the calculation of Reserves Share and occasionally, in Opex share too if the change happens in-year. Where this leads to a potentially material change in the User Share, this should be flagged to the INEOS FPS Commercial team. Particular attention needs to be paid to Customers in this position who are on already on, or moving to, Cost Share.

6.4 Modelling Tools

Two models are used in the Cost Share process. The first allocates the Opex and Capex expenditures into Facilities. The second calculates the User Shares and applies this to the expenditures by Facility to derive the Opex and Capex Charges. The cost allocation model is owned by the Business Controller and the User Share model is owned and maintained by the FPS Modelling Manager, Finance.

The models are complex and subject to monthly review as part of our internal forecasting process. Opex and Capex expenditure inputs are owned by the INEOS FPS Finance team. Volume inputs and the field mapping structure are owned by the INEOS FPS Commercial team. Both teams are responsible for review of the models and their component parts prior to the release of the budget. They are also audited annually as part the actualisation process before settlements are issued (see section 9.3) and again by INEOS FPS statutory auditors. In the event that modelling errors are encountered, these should be flagged as early as possible. If required, adjustments to invoices should follow the process outlined in section 7.5.

6.5 Historical Data Revisions and Capital Re-imbursement

It is sometimes the case that future volume profiles change post actualisation e.g. FMQ changes, yield changes, revised drilling plans etc. Once the audit report has been issued and accounts settled, INEOS FPS does not go back to recalculate historic Capex share actualisations based on these forecast changes unless there is a manifest error. In the event of a mismeasurement the impact is likely to be minor unless it impacts a Cost Share customer directly. In that event, INEOS FPS will use its discretion to assess whether the change would have materially impacted that customer and agree a resolution (see section 7.5).

Clause 5.5 of the Cost Share attachment "capital re-imbursement" (see Appendix A) requires INEOS FPS to review Cost Share customer historic capital contributions to significant projects in specific circumstances. The circumstances under which these reviews will take place and the procedure that will be adopted is set out in full in Appendix D. It is intended that this reimbursement mechanism shall fully meet the intent of clause 5.5 within the current Cost Share process. It is also intended that it shall be fair and equitable to all parties, manageable from an administration perspective and that final settlements can be verified by audit.

7 Invoicing

7.1 General Principles and Accounting records

Cost Share Customers will be kept informed of budgeted expenditures via the WP&B process (section 5). INEOS FPS recovers the budgeted expenditures for a share of all INEOS FPS eligible expenditures as determined by the WP&B from Cost Share Customers during the year. Following the year-end when data is available from Hydrocarbon Accounts and FPS emissions are verified (April annually), a true up position is modelled for review by independent audit. Once the audit is complete, a refund of any over-payment, or additional invoice for any shortfall, is issued.

The actualised expenditures represent INEOS FPS' actual accrued costs for the relevant calendar year. It is not intended that INEOS FPS provides financing to Cost Share Customers nor is it desirable that large settlement balances are accumulated that require to be repaid. If either situation appears likely then INEOS FPS may re-issue the budget and adjust the point forward payments (see section 4.3).

Full and detailed accounting records must be kept for all expenditure and all payments received by INEOS FPS from each Cost Share Customer. Expenditures and receipts funded in currencies other than pounds Sterling are converted into pounds Sterling in accordance with INEOS FPS' standard accounting practice. Where expenditure is incurred in any currency other than pounds Sterling but settled in pounds Sterling, the sum charged is the actual cost in pounds Sterling of the other currency purchased. Any exchange gain or loss is included as an FPS cost or off-set.

7.2 Invoicing Schedules

Each month INEOS FPS sends to each Cost Share Customer an invoice detailing their share of budgeted Opex and Capex expenditure including a backup schedule detailing the calculation of the charge. For Opex expenditures, the amount is one third of the relevant quarter's budgeted expenditure in each Facility Category multiplied by the budgeted Cost Share Customer User Share and their uplift. For Capex expenditures the amount is their monthly share of budgeted Capex expenditure, calculated as described in section 8. The uplift applied to the amounts is set out in accordance with the provisions of each individual TPA.

The invoice is issued to each Cost Share Customer promptly following the end of each Month (usually 1st working day of the month following). Payment terms are aligned with the terms of each Cost Share Customers' respective TPA. All invoices are in pounds Sterling.

In the event that INEOS FPS issues an amended Work Programme and Budget during the year (see section 4.3), the difference between the Final Work Programme and Budget and the amended Work Programme and Budget is recovered via an in-year true up correction.

7.3 Actualisation

Actualisation of the costs can take place immediately following the year end. However, hydrocarbon final actual volumes are two months in arrears (February) and emissions costs are validated by SEPA in April annually, therefore actualisation cannot be completed until April of the following year.

The FMQs and AMQs used in actualisation should be the most recent approved version at the end of the year in question. Changes to FMQs or AMQs that were submitted late in the year of actualisation but not approved until the year following should be included if the approval is issued before actualisation takes place.

Any expenditure adjustments that are made in the year following can only be included in Cost Share actualisation for the preceding year if the changes have been accepted as part of the previous year's accounts by the auditor.

Actualisation should take place as soon as reasonably practical after the data becomes available and preferably be completed by end April to allow time for audit. The updated Cost Share Customer charges should be calculated and supplemented with variance reports to explain the movements from budget. Over-run of annual actual spend versus the most recently issued budget of up to 10% in Opex or Capex in any individual Facility is permissible and can be invoiced directly. Over or under spend may not be aggregated across expenditure types or Facilities.

In the event that the expenditure for any Facility exceeds the most recently issued budget by 10% and it was not forecast in advance or the budget re-issued, then this must be flagged to the Cost Share Customers and to Commercial immediately with an explanation of why this occurred (See section 8).

Following audit, each Cost Share Customer is then issued with an adjustment invoice for the under or over payment. The adjustment includes a table showing actual costs and actual share for each Facilities Category for that Cost Share Customer. Release of this settlement requires explicit Commercial Director and CFO approval.

In the event that the Cost Share Customer disputes the invoice or fails to pay, the provisions of each Cost Share Customer's respective TPA applies. Ideally, settlement should be complete by end June, prior to the following year's budget preparation, to avoid three Cost Share years being managed at the same time.

7.4 Financial Audit of the Eligible Costs and User Shares

Unless all Cost Share Customers agree otherwise, all FPS expenditures that are eligible for Cost Share are audited by an independent qualified auditor annually during the reconciliation process. The auditor must confirm that the costs deemed to be excluded for Cost Share are in alignment with the Attachment and the guidance in this document (3.1) and that the value of the eligible costs is accurate and evidenced.

Selection of the auditor is proposed by INEOS FPS annually and agreed with the Cost Share Customers choosing to participate. The participating Cost Share Customers should be given the opportunity to converse directly with the auditors (and INEOS FPS) prior to work starting to enable them to influence the scope of the audit. They should also be given the opportunity to raise questions and issues with the auditors (and INEOS FPS) prior to the report being finalised.

The scope of the audit must confirm, as a minimum:

(i) that the total cost (and capex) pool forming the basis for the Cost Share is an accurate reflection of all costs, expenditures and receipts properly incurred by INEOS FPS for the period;

(ii) that the allocation of costs (and capex) to each Facility Category and to each Cost Share User has been conducted in accordance with the TPA and this guidance;

(iii) that the reconciliation of costs, cost reimbursement and expenditures has been conducted in line with the principles in the Cost Share Attachment and this guidance; and

(iv) that the volumes used in the User Share calculations have been properly recorded and that the User Share calculations are accurate as calculated by the Cost Share models, see section 6.4.

INEOS FPS will endeavour as far as possible to address any points raised by the auditor prior to issue of the final report and the Cost Share actualisation statement. In the event that this is not possible, INEOS FPS shall propose a plan of action with the auditor to close them out and agree it with the participating Cost Share Customers.

Cost Share actualisation should not be delayed unless the impact on the reconciliation is material (>10% of the amount due). A correction invoice (if required) should be raised when the issue is resolved. In the event that the issue is with the conduct of the auditors themselves, and the issue cannot be resolved then the participating Cost Share Customers can request that a new auditor be appointed and the audit repeated, subject to a share of costs as detailed below.

Cost Share Customers participating in the audit will pay an equal share of the audit costs with the other participants, including INEOS FPS, and receive a copy of the final report. Cost Share Customers are not obliged to participate in the audit. If they do not, they will pay nothing but will have forfeited the right to challenge the data used in the actualisation process and will not receive a copy of the auditor's report.

7.5 Post Settlement Adjustments

Payment of the invoices does not prejudice the right of any Cost Share Customer to protest or question the correctness of any amount included in the invoice. INEOS FPS will presume that the invoices in relation to any calendar year are true and correct following the issue of the audit report and acceptance of it by the Cost Share Customers (see section 7.3).

If a manifest error is detected post audit acceptance, INEOS FPS will accept at its discretion a written exception and claim for adjustment from the Cost Share Customers.

To date, there has been one historic adjustment to Cost Share for mismeasurement or metering issues[2]. Where volumes are re-allocated amongst Customers not on Cost Share, this is unlikely to have a material impact. However, if a mismeasurement directly impacts a Customer already on Cost Share INEOS FPS will conduct an assessment of the impact and may propose an adjustment if material.

Historical capital cost contributions to significant projects will be reviewed on completion of the project following the procedure outlined in Appendix D.

Excepting special cases, INEOS FPS will consider historic actualisation settlements closed once the audit report has been issued and accepted. Historic adjustments require approval from Commercial Director and CFO.

[2] K-factor adjustment re-run which impacted 2019 and 2020 was included in the 2020 audit

8 Forecasting

From a User Share perspective, some of the FMQs and AMQs may change during the year. The yields used to derive Facility 3 and 4 volumes are on a rolling 12 month basis but are updated monthly. The expenditure and throughput actuals and forecasts for the rest of the year are also updated monthly.

The Cost Share model is updated on a monthly basis internally to provide an in-year forecast versus budget (see section 6.4). An actualisation and forecast update versus the budget is provided quarterly to all Cost Share Customers. This is provided in May, August and November once hydrocarbon actual data is available post quarter end.

The invoicing schedule does not change as a result of this forecast update. This is fixed to budget irrespective of changes in the forecast. The forecast is provided only to aid the Cost Share Customers with their own internal forecast and accruals processes.

If the variance becomes material in any of the Facilities, i.e. more than 10%, this should prompt a budget re-issue conversation (see 4.3). INEOS FPS is under no obligation to re-issue the budget if the forecast falls materially below the budget, but may choose to do so at its discretion.

9 Technical Audit

It is a requirement of the Cost Share Attachment (Appendix A, clause 6) that a Customer being moved onto Cost Share has the right of a technical audit before Cost Share takes effect. If the Customer requests this, other Cost Share Customers may participate at the discretion of the Customer moving on to Cost Share.

The objective of the audit is to review the condition of the equipment as a reference point in any future Expert determination. The scope of this audit should be agreed in advance between INEOS FPS and the participating Cost Share Customers, having due regard to the practical access considerations (e.g. to Unity) and minimising operational disturbance. The costs of this audit (including INEOS FPS costs) are shared equally between the Cost Share Customer participants.

In addition, INEOS FPS hosts a Customer Forum on a biannual basis and from time to time may host a Technical Forum which includes representatives of the Cost Share Customers. The forward activity plan, progress against it and emergent operational issues are reviewed in this forum. In this way the Cost Share Customer can review progress versus the strategy and in year plan and obtain advance notice of emerging issues.

10 Appendices

Appendix A - Sample Cost Share Attachment

This example is the current standard TPA Attachment. Note that historic Customer TPA Cost Share Attachments including those of Customers currently on Cost Share, are similar but not identical. Please refer to the respective specific field TPA's to confirm these points apply.

ATTACHMENT F - FPS SYSTEM COST SHARING PRINCIPLES

The definitions set out in Section 1 and Section 2 of this Agreement shall apply to this Attachment F.

1. Definitions and Interpretations

1.1 In this Attachment F, the following terms have the meaning set out below:-

"**Capital Costs**" means all costs and expenditures incurred for the construction or replacement of facilities comprising the FPS System either under Paragraph 2.3 or under a work programme and budget determined under Paragraph 2, excluding Capital Liabilities;

"**Capital Liabilities**" means Liabilities associated with the construction or replacement of facilities comprising the FPS System;

"**Discretionary Capital Costs**" means Capital Costs other than Non-Discretionary Capital Costs;

"**Facility Categories**" is defined in Paragraph 3.1;

"INEOS Capital Costs" means Discretionary Capital Costs incurred at INEOS's own discretion for its own purposes;

"**Liabilities**" means claims, demands, actions, proceedings, liabilities, damages, penalties, judgements, awards, costs and expenses (including legal fees on a full indemnity basis and reasonable sums paid by way of settlement or compromise) arising out of or in connection with the conduct of a work programme and budget determined under Paragraph 2, or under Paragraph 2.3 excluding in all cases such of the foregoing as result from the Wilful Misconduct of INEOS.

"**Non-Discretionary Capital Costs**" means Capital Costs which are either:

(i) incurred in order to ensure that the FPS System complies with any legal or regulatory requirement or to comply with then current INEOS Health, Safety or Environment Policy; or

(ii) reasonably necessary to allow the FPS System to continue to provide contractual services to any and each User.

"**Operating Costs**" means all costs and expenditures (other than Liabilities and Capital Costs) incurred in relation to the FPS System and being reasonably necessary for the transportation, processing, storage or delivery of Pipeline Liquids and products derived from them either under Paragraph 2.3 or under a work programme and budget determined under Paragraph 2.

"**Operating Liabilities**" means Liabilities other than Capital Liabilities.

"**Specific User Capital Costs**" means any Discretionary Capital Costs agreed with an individual User or group of Users to be incurred by INEOS on their behalf for the purposes of enabling provision of enhanced contractual services to them.

1.2 Paragraph references are to Paragraphs in this Attachment F unless otherwise indicated.

2. Work Programmes and Budgets

2.1 INEOS will provide a draft work programme and budget following its notice under Clause 8.04 of this Agreement and no later than 1 August in each Year which will specify in reasonable detail the Operating Costs, Non-Discretionary Capital Costs, Specific User Capital Costs and INEOS Capital Costs for each Facility Category which it anticipates will be required in the following Year. Each budget will include a ten percent (10%) overrun provision element. INEOS will also provide forecasts of those classes of cost for each Facility Category for the following three (3) Years.

INEOS will call a meeting of all Users to discuss the draft programme and budget in an endeavour to achieve agreement to it with all Users.

Failing agreement, INEOS will submit its final work programme and budget no later than 1 October, which may only include works which a Reasonable and Prudent Operator would consider necessary to enable continuing compliance with contractual obligations under all relevant agreements with all Users at a reasonable overall cost.

2.2 If at any time INEOS believes that the current final work programme and budget requires amendment to include additional works and/or additional expenditure, it will notify all Users accordingly, giving as much notice as is reasonably practicable.

2.3 INEOS may make any expenditure or incur commitments for expenditures or take any actions it deems necessary in the case of emergency involving the safeguarding of lives or property, the prevention or mitigation of pollution or other environmental damage. Expenditure under this Paragraph will constitute Operating Costs and will not be subject to review under Paragraph 2.4 or 2.5.

2.4 If any User believes that any item in a final or amended work programme and budget:

(a) would not be considered necessary by a Reasonable and Prudent Operator to enable continuing compliance with contractual obligations to any and each User at a reasonable overall cost; or

(b) has been wrongly attributed to a Facility Category; or

(c) has been wrongly categorised as Operating Costs, Non-Discretionary Capital Costs, Specific User Capital Costs or INEOS Capital Costs,

it may submit the matter for determination by an Expert.

2.5 The procedure adopted for any Expert determination under Paragraph 2.4, especially in the case of an amendment to a work programme and budget, will proceed in a manner and at a speed which will not prejudice the continuing efficient operation of the FPS System. All Users will seek to agree abridged Expert determination procedures for this purpose.

2.6 INEOS will amend the final work programme and budget as directed by the Expert under Paragraph 2.4.

2.7 Failing reference to an Expert under Paragraph 2.4 within thirty (30) days of submission of a first work programme and budget under Paragraph 2.1 or within seven (7) days of submission of an amendment under Paragraph 2.2, the work programme and budget and associated categories and attributions will be deemed to comply with this Clause.

3. Division of FPS System into Parts

3.1 The FPS System shall be divided into five (5) parts ("**Facility Categories**") as follows:

(a) the submarine pipelines from Forties Platform FC to the landfall at Cruden Bay together with all related facilities on Forties Platform FC and the Unity Platform ("**First Facilities**") and;

(b) the Cruden Bay terminal, the oil stabilisation and effluent treatment plant at the Kerse of Kinneil and the connecting onshore pipeline together with all the related facilities ("**Second Facilities**") and;

(c) the gas processing and handling facilities at the Kerse of Kinneil and the gas products' storage and export facilities at the Grangemouth complex ("**Third Facilities**"), and

(d) the crude oil pipeline from the Kerse of Kinneil to Dalmeny, the crude oil storage facilities at Dalmeny, the crude oil pipeline from Dalmeny to Hound Point and the crude oil export facilities at Hound Point ("**Fourth Facilities**").

(e) the INEOS terminal and its ancillary facilities at St. Fergus and the pipeline from that terminal to the Cruden Bay terminal (the "**Fifth Facilities**").

3.2 It is recognised that in the event that alterations and/or additions are made to the FPS System, the constituent elements of any Facility Category may vary from those described in Paragraph 3.1. In such event, INEOS shall advise the Shippers Operator of such variation, but any failure to so notify shall not prevent INEOS from being entitled to determine the Shippers Group' Quarterly share of Operating Costs and Capital Costs taking into account such variation in a fair and equitable manner.

4. Determination of the Shippers Group Share of Operating Costs

4.1 Operating Costs will be allocated by INEOS on a fair and reasonable basis between the five Facility Categories.

4.2 In respect of each Facility Category, the Shippers Group will pay a Quarterly charge for Operating Costs calculated in accordance with the following formula:-

$$\text{Charge} = \text{Uplift}\ \text{x}\ \frac{\mathit{Shippers'Share}}{\mathit{Total}}\ \text{x}\ \text{Operating Costs}$$

Where:

"**Uplift**" means 1.30;

"**Shippers' Share**" means the higher of:

(i) actual usage of the relevant Facility Category by the Shippers Group during the relevant Quarter; or

(ii) deemed usage of the relevant Facility Category based on Pipeline Liquids having been tendered at 0.833 x FMQ for each Day in the relevant Quarter.

"**Total**" means the aggregate usage of the relevant Facility Category by all Users. For the purposes of this definition, the "usage" of a User will be the higher of:

(i) actual usage of the relevant Facility Category by that User during the relevant Quarter; or

(ii) deemed usage of the relevant Facility Category by that User based on Pipeline Liquids having been tendered at 0.833 x such User's FMQ (or equivalent firm maximum quantity) for each Day in the relevant Quarter.

5. Determination of Shippers Group Share of Capital Costs

5.1 Capital Costs will be allocated by INEOS on a fair and reasonable basis between the Facility Categories, and, in each case, further allocated between Non-Discretionary Capital Costs, Specific User Capital Costs and INEOS Capital Costs.

5.2 In respect of each Facility Category, the Shippers Group will pay costs invoiced monthly for Non-Discretionary Capital Costs calculated in accordance with the following formula:-

$$\text{Charge} = \left[\text{A} \ \ \text{x} \ \frac{\text{Shippers' Share}}{\text{Total}} \right] + \left[\text{Balance NDCC x} \ \frac{\text{Shippers Reserves}}{\text{Total Reserves}} \right]$$

Where:

"**A**" means in respect of each Facilities Category all Non-Discretionary Capital Costs incurred in that month up to the following maximum:-

(i) $£200{,}000 \ \text{x} \ \frac{P2}{P1}$ in respect of the First Facilities;

(ii) $£200{,}000 \ \text{x} \ \frac{P2}{P1}$ in respect of the Second Facilities;

(iii) $£350{,}000 \ \text{x} \ \frac{P2}{P1}$ in respect of the Third Facilities;

(iv) $£200{,}000 \ \text{x} \ \frac{P2}{P1}$ in respect of the Fourth Facilities;

(v) $£200{,}000 \ \text{x} \ \frac{P2}{P1}$ in respect of the Fifth Facilities.

"**Balance NDCC**" means all Non-Discretionary Capital Costs allocated to the relevant Facility Category in excess of "A" above incurred in that month.

"**Shippers Reserves**" means the best available bona fide estimate of the remaining usage by the Shippers Group of the relevant Facility Category based on Shippers Pipeline Liquids yet to be produced.

"**Shippers Share**" bears the same meaning as in Paragraph 4.2 for the Quarter last ending before the relevant month.

"**P1**" is 66.30984230 the average of the monthly indices for the fourth quarter 1994 of the Producer Price Index.

"**P2**" is the Producer Price Index, averaged for the fourth Quarter of the Year preceding the Year in question.

"**Total**" bears the same meaning as in Paragraph 4.2 for the Quarter last ending before the relevant month.

"**Total Reserves**" means the best available bona fide estimate of the remaining usage by all Users of the relevant Facility Category based on all Pipeline Liquids yet to be produced.

5.3 The Shippers Group will also pay all Specific User Capital Costs attributable to them in accordance with the agreement pursuant to which relevant works were undertaken.

5.4 The Shippers Group and all Other Users will meet and agree consistent assumptions and methodologies to ensure estimates used to determine Shippers Reserves and Total Reserves fairly allocate the relevant costs between them. Failing agreement, an Expert will be appointed to determine these matters.

5.5 Where a significant item of capital equipment is constructed and paid for as a Non-Discretionary Capital Cost, INEOS, the Shippers Group and Other Users will meet and endeavour to agree principles by virtue of which any new User of the relevant Facility Category will reimburse a fair and reasonable proportion of that Capital Cost to the Users who incurred it.

5.6 For the avoidance of doubt, INEOS Capital Costs shall at all times be for the sole account of INEOS as owner of the FPS System.

6. Clarification of "Operating Costs" and "Capital Costs"

6.1 For the avoidance of doubt and notwithstanding any inconsistency with Paragraph 1.1:

(a) Subject to Paragraph 6.1(d) and (f), the Parties intend that all costs, obligations, liabilities, claims, expenditures and outgoings which arise out of or in connection with the conduct of works authorised under Paragraph 2 will be categorised as either Operating Costs, Capital Costs or Liabilities and will be apportioned in accordance with this Attachment F;

(b) INEOS will be entitled to recover the fully built up cost of all manpower employed in relation to the FPS System including full provision for employment "on costs" (such as leave, training, allowances, incentives etc) and overheads together with reasonable provision for non-time writing staff who provide support;

(c) INEOS will be entitled to recover a funding charge at SONIA compounded in arrears in respect of funds employed in relation to Operating Costs and Capital Costs from the date of payment until the date of recovery at the end of the relevant month (both dates inclusive), with a five (5) Working Day lookback plus two (2) per cent per annum. Alternatively:

(i) in the case of Operating Costs, Users and INEOS may agree a mechanism for cash calling necessary funds in advance of their disbursement; and

(ii) in the case of Capital Costs, INEOS shall be entitled to cash call the Shippers Group in respect of its share of necessary funds in advance of their disbursement. If INEOS decides to cash call in advance, it will calculate the relevant amounts payable by the Shippers Group in accordance with the formula set out in

Paragraph 5 provided that, in so calculating, INEOS shall use its bona fide best estimates (at the time of calculation) of the parameter values required to be input into such formula. The Shippers Group shall advance the amount of the cash call to INEOS's nominated bank account on or before the due date specified in the cash call. Any amounts cash called by INEOS in accordance with the foregoing shall be subject to reconciliation as soon as reasonably practicable once actual data for the disbursement period is available. Any underpayments or overpayments apparent from such reconciliation will be settled respectively by way of a payment by the Shippers Group or INEOS to the other, such payments being subject to interest from the date of underpayment or overpayment at SONIA compounded in arrears with a five (5) Working Day lookback plus two per cent (2%);

(d) INEOS will not be entitled to recover any expenditure under this Clause to the extent that it is caused by INEOS's failure to maintain the FPS System to the standard of a Reasonable and Prudent Operator prior to the effective date of the notice under Clause 8.04 of Section 2 of this Agreement;

(e) The Shippers Group shall have reasonable access to INEOS's records to enable them to audit the correct application of this Attachment F. The Shippers Group shall have a right of technical audit of the FPS System to be exercised prior to the effective date of the notice under Clause 8.04 of Section 2 of this Agreement.

The terms of reference for the technical audit shall be agreed between INEOS and the Shippers Group. The Shippers Group shall pay for the cost of the technical audit.

For the avoidance of doubt, INEOS shall not be entitled to recover any expenditure identified from the technical audit and agreed between

INEOS and the Shippers Group as being the result of INEOS's failure to maintain the FPS System to the standard of a Reasonable and Prudent Operator prior to the effective date of the notice under Clause 8.04 of Section 2 of this Agreement. If INEOS or the Shippers Group fail to agree then the issue may be referred to an Expert.

(f) Any amount payable by INEOS to any Other User under its contract regarding use of the FPS System as a consequence of breach of that contract by INEOS shall not be included in Liabilities, Operating Costs or Capital Costs;

(g) Should material Operating Costs be necessitated as a consequence of INEOS Capital Costs or Specific User Capital Costs, either INEOS or the relevant Users (as applicable) will meet those additional Operating Costs.

7. Insurance

7.1 At the same time as it proposes its work programme and budget under Paragraph 2.1 INEOS will submit its recommended programme of insurance in relation to the FPS System and its operation. This will be discussed with all Users. After considering the views of Users, INEOS will determine the programme of insurances which it will take out.

7.2 Insurance premiums will be included in Operating Costs.

7.3 Proceeds of successful claims under the insurance policies will be credited in a fair and equitable manner to those Users who initially incurred costs associated with the relevant loss.

8. Liabilities

8.1 INEOS will keep all Users regularly informed regarding any claim that may or does give rise to any liability.

8.2 In respect of each liability, INEOS will determine:--

(i) the date on which the liability arose or accrued;

(ii) whether it constitutes a Capital Liability or an Operating Liability; and

(iii) the Facility Category to which the liability relates.

8.3 In respect of each Operating Liability in each Facility Category, the Shippers Group will pay a Quarterly charge calculated in accordance with the following formula:

$$\text{Charge} = \frac{\text{Shippers Share}}{\text{Total}} \text{ x Operating Liability}$$

Where:

"**Shippers Share**" and "**Total**" bear the same meaning as under Paragraph 4.2, as calculated in respect of the Quarter during which the Operating Liability arose or accrued;

"**Operating Liability**" means the amount actually paid out by INEOS in respect of the Operating Liability during the relevant Quarter.

8.4 In respect of each Capital Liability in each Facility Category the Shippers Group will pay a Quarterly Charge calculated in accordance with the following formula:-

$$\text{Charge} = \frac{\text{Shippers Reserves}}{\text{Total Reserves}} \text{ x Capital Liability}$$

Where:

"**Shippers Reserves**" and "**Total Reserves**" bear the same meaning as under Paragraph 5.2 as calculated in respect of the Quarter during which the Capital Liability arose or accrued.

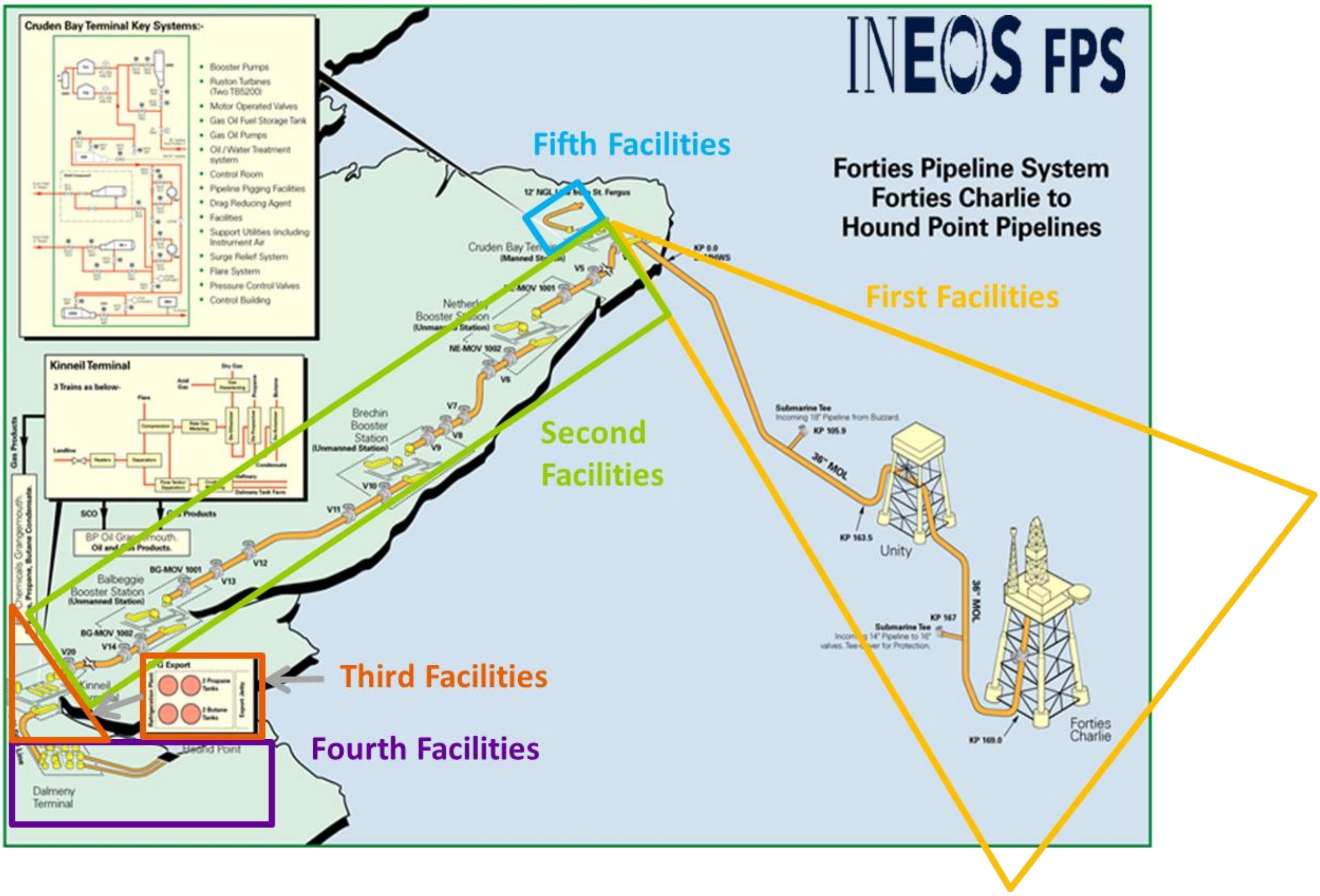
"**Capital Liability**" means the amount actually paid out by INEOS in respect of the Capital Liability during the relevant Quarter.

9. Discussion of Alternative Management and Cost Sharing Mechanisms

9.1 Upon service of a notice under Clause 8.04 of Section 2 of this Agreement, INEOS will call a meeting of all Users to review the principles set out in this Attachment F and will negotiate in good faith to agree more detailed or, if possible more equitable and/or efficient alternative arrangements for management of and sharing of costs in relation to the FPS System. One aspect for discussion will be the possibility of mutual hold harmless arrangements between Users. Further, INEOS will propose a detailed accounting procedure to more fully explain the calculation of Operating Costs and Capital Costs.

Appendix B - Cost Share Facilities Schematic

The following diagram outlines the five Cost Share Facilities



First Facilities is Forties Charlie to Cruden Bay
Second Facilities is Cruden Bay to Kinneil
Third Facilities is Kinneil to RLPG and Ineos O&P
Fourth Facilities is Kinneil to Dalmeny Hound Point
Fifth Facilities is St. Fergus to Cruden Bay

Appendix C - Cost Allocations by Facility

Example allocations from 2021. Note that the allocations may be updated from year to year and that some are activity specific and will change with the activity set.

Allocation Key	a. FC to landfall F1	b. CB to Kinneil F2	c. Gas Processing F3	d. Kinneil to DHP F4	e. St Fergus F5	Exclude	Update Frequency
1st Facilities	100%	0%	0%	0%	0%	0%	Fixed
2nd Facilities	0%	100%	0%	0%	0%	0%	Fixed
3rd Facilities	0%	0%	100%	0%	0%	0%	Fixed
4th Facilities	0%	0%	0%	100%	0%	0%	Fixed
5th Facilities	0%	0%	0%	0%	100%	0%	Fixed
Exclude	0%	0%	0%	0%	0%	100%	Fixed
Apprentices	0%	35%	65%	0%	0%	0%	Annually
Insurance	20%	27%	32%	19%	2%	0%	Annually
Kinneil Complexity	0%	33%	67%	0%	0%	0%	Annually
Kinneil Steam and Power	0%	0%	0%	0%	0%	0%	No longer in use
Kinneil Steam	0%	17%	83%	0%	0%	0%	Annually
Kinneil Power	0%	48%	52%	0%	0%	0%	Annually
Kinneil Fuel Gas	0%	44%	56%	0%	0%	0%	Annually
Gas/Oil/DHP Split	0%	25%	50%	25%	0%	0%	Annually
Pipeline Length KM	39%	49%	0%	6%	6%	0%	Fixed
Business Rates	2%	45%	13%	40%	0%	0%	Annually
PY Opex	14%	30%	39%	16%	0%	0%	Annually
Ascare North	0%	100%	0%	0%	0%	0%	Annually
Ascare LPG	0%	0%	100%	0%	0%	0%	Fixed
Ascare Dalmeny	0%	0%	0%	100%	0%	0%	Fixed
Ascare Kinneil	0%	30%	70%	0%	0%	0%	Annually
FPS Headcount	10%	27%	46%	16%	0%	0%	Annually
Export	0%	0%	50%	50%	0%	0%	Fixed
North	50%	50%	0%	0%	0%	0%	Fixed
2020 Full System Outage Dalmeny	0%	0%	0%	100%	0%	0%	Project Specific
2020 Full System Outage Kinneil	0%	42%	58%	0%	0%	0%	Project Specific
RLPG TAR 2021	0%	0%	100%	0%	0%	0%	Project Specific
Tankage & FM	0%	26%	0%	74%	0%	0%	Annually
Aberdeen Office	44%	47%	6%	2%	0%	0%	Annually
TAR Team	0%	11%	89%	0%	0%	0%	Annually
TAR - Train 3	0%	50%	50%	0%	0%	0%	Project Specific

The allocation keys and the methodology applicable to each are:

Allocation Key	Methodology & Rationale
Exclude:	Expenditures solely for the INEOS FPS account or for the account of a specific User or group of Users which is not eligible for cost share.
Facility Specific:	Expenditures relating entirely to a single Facility that are charged 100% to that Facility.

Apprentices: Manpower and associated expenditures relating to apprentices, charged to a Facility Category by the area of the complex that they are working in and may change annually.

Insurance: Allocated according to the best estimate of the allocation of insured property and risks, which in turn is based upon the value of the assets in each Facility Category.

Kinneil Complexity: Expenditures related to the operation of the Kinneil site and LPG storage and offloading facilities which cannot be directly allocated to just the Second Facilities or Third Facilities. They are allocated between the Second Facilities or Third Facilities in proportion to the relative equipment complexity using the Juran methodology (and therefore the cost required to operate them). Examples of costs falling into this category are utilities and infrastructure maintenance, processing train reliability and maintenance costs, waiver costs and related income

Kinneil Steam, Power and Fuel Gas: Expenditures related to the supply of steam, power and fuel gas to Kinneil. Allocated between the Second Facilities and Third Facilities based on use for oil or gas systems using data derived during the 2021 full system shutdown. Will be updated annually based on the oil/gas mix.

Gas/Oil/DHP Split: Expenditures related to Kinneil site, LPG storage and offloading facilities, and crude oil storage and offloading facilities which cannot be split more specifically (e.g. contracts for provision of stores, emergency response).

Pipeline Length KM: Expenditures related to the operation of the pipelines which cannot be directly allocated to an individual Facility Category. Allocated according to the aggregate length of pipelines within each such Facility Category. (Examples are cross pipeline maintenance reliability and maintenance costs, salary and related costs for people working on pipeline operations.)

Business rates: Rates charges are allocated according to the latest estimate of rateable value of the assets in each Facility Category.

Prior Year Opex: Certain expenditures such as management and central function expenditure which cannot be easily allocated across the Facility Categories. Prior year Opex by Facility is used as proxy for the degree of management attention in each area and hence the amount of cost to be allocated in the coming year.

AsCare: INEOS FPS itemises asset care (AsCare) expenditure separately. AsCare decommissioning spend is excluded from these costs.

FPS Headcount:	Operations manpower costs for people working across the Kinneil, LPG storage and offloading facilities, and crude oil storage and offloading facilities. These are allocated according to the dedicated manpower numbers in each Facility Category area.
Export:	Manpower covering the LPG storage and offloading facilities plus the Dalmeny Hound Point facilities are allocated to the Third Facilities and the Fourth Facilities on a 50:50 basis.
North:	Manpower covering the North teams will be allocated to the First Facilities and the Second Facilities on a 50:50 basis.
Aberdeen office:	Costs allocated based on the Facilities that teams using the office are supporting (primarily First and Second Facilities).
TARs, Tankage & Fabric Maintenance:	Tankage support expenditure (people and maintenance) allocated between the tanks at Kinneil and Dalmeny on a number of tanks basis. Significant TAR and FM activity is allocated based on the equipment being serviced. It will be budgeted based on the activity plan then actualised based on actual work done.
Project Allocations:	Allocations for specific planned maintenance or Capex projects based on the proportion of planned expenditure to be carried out in each Facility. These tend to have dedicated teams and the estimate is based on both the costs of materials used and the forecast or actual manpower allocated to the project.

Where INEOS FPS incurs a Cost or Liability that does not clearly fit into one of the definitions above, INEOS FPS will either allocate it using the allocation key that in its opinion is gives the fairest allocation of costs between Facilities Categories or may create a new allocation for that cost. All allocation keys are reviewed by the auditor for fairness annually.

Appendix D - Capital Re-imbursement Clause

D.1 Outline

It is intended that this reimbursement mechanism shall fully meet the intent of clause 5.5 of the Attachment (see Appendix A). It is also intended that it shall be fair and equitable to all parties, manageable from an administration perspective and that final settlements can be verified by audit.

This mechanism shall only apply to significant projects where the total non-discretionary capital expenditure from start to finish is equal to or greater than £25m.

As the only element being adjusted is the reserves profile, this mechanism shall only apply to the contributions to the project made at the reserve share. (See section 6.3 and clause 5.2 in Attachment A)[3].

During the design and construction of these multi-year projects, Cost Share capital contributions will be budgeted by year and invoiced monthly to customers then actualised annually, as usual, using the procedure described above and the reserves (AMQ) profile in force at the time. These payments are audited annually.

The trigger for capital reimbursement review shall be the point at which the significant project completes i.e. after system completion and certification and the project passes through the gate from Execute into Operate. At the end of the year in which this happens, the historic customer reserve share contributions will be re-assessed using the reserve profile in force at the end of that year. This is the same reserve profile against which all of the other capital expenditure for that year will be actualised and audited.[4]

A true-up will be used. A true-up is commonly used to account for any adjustment necessary to compensate for the difference between payments made, determined on estimated financial or other figures at a closing date, and the actual value determined using financial or other metrics that became known after the closing date. In this case it will be applied to all of the historical reserve share capital contributions for each year of the project by comparing the reserve profile in force at the end of the project versus those in force at the audited annual actualisations to derive a settlement balance.

The settlement balance could be in favour of the customer if additional volumes come into FPS (e.g. new developments). It could be in favour of INEOS FPS if non Cost Share volumes diminish or volumes from Cost Share customers increase relative to the future volumes that were anticipated during the earlier years of the project.

Settlement calculations shall be included in the annual audit scope and shall be limited to a maximum value of 10% of the total project reserve share contributions. This is to ensure

[3] This amount will vary depending on the nature of the project, the project spend profile and the other capital work ongoing but will likely be somewhere around 2/3rds to 3/4ths of the total project spend.

[4] It can take more than 6 months to close out the costs of a major project. In the event that not all costs were available at the end of the year, the true up process would be conducted at the end of the following year but using the reserves profile from the end of the year that the project went into operation

affordability. This cost has to be carried by the tariff imposed on the new entrants. Raising it further will act as barrier, impacting both INEOS FPS and customers on Cost Share.

Payment periods shall be based on equal monthly instalments over the same period that the project contributions were made by adjusting the standard Cost Share invoice for the following year(s), unless an alternative mechanism is agreed by all parties.

Once final settlement has been calculated and audited for a project, it will be considered closed and no further adjustments will be considered except for the special cases noted in section 7.5.

D.2 Rationale/Points of note

D.2.1 Beneficial Operation

Annual project contributions may be considered “payments on account” pending project completion. At completion, reserve share contributions will be adjusted to reflect the anticipated beneficial use of that asset at the point that it goes into operation; this being the most appropriate point from which the net benefit to users will be determined.[5]

D.2.2 Future vs past

We may have estimates of how we expect the future to be at any point in time but no matter how good the forecasting is, the only way to be certain of who gained the value from a project would be to wait until the end of its life then go back and recalculate based on actuals. This is clearly not desirable nor feasible. Even 3 years after start up, forecasts will likely be no more correct than at start up on a 20 year project life hence we propose to draw the line at the point the project goes into service and accept it as the best compromise of accuracy vs practicality.

D.2.3 Reserve Profiles

INEOS FPS already offers our Cost Share customers a considerable reduction in annual capex reserve share contributions compared to the previous owner’s process. Unlike the previous process where field reserve profiles were truncated when data runs out, INEOS FPS extends the field profiles to 2040 unless clearly informed of a prospective field COP date. Also for those fields which run on spot and deliver volumes significantly above their contractual rights, we include these volumes in the reserves profiles based on historic production (see section 6.3). The re-imbursement mechanism must reflect this.

D.3 New Field Risk

This mechanism shares the new field volume risk between INEOS FPS and the Customer. There is a risk carried by the Customer that material volumes might emerge post project start up diluting their share of beneficial operation. This in large part is mitigated by re-

[5] Given these projects run over several years this may be rather different than at the start of the project eg. if an unexpected new customer materialises

assessing the reserve share at start up. Should a project settlement year be close to the anticipated sign off of a significant new entrant, this procedure does not preclude the option of a commercial agreement to delay settlement for a period of time (such as 12 months) if all parties agree.

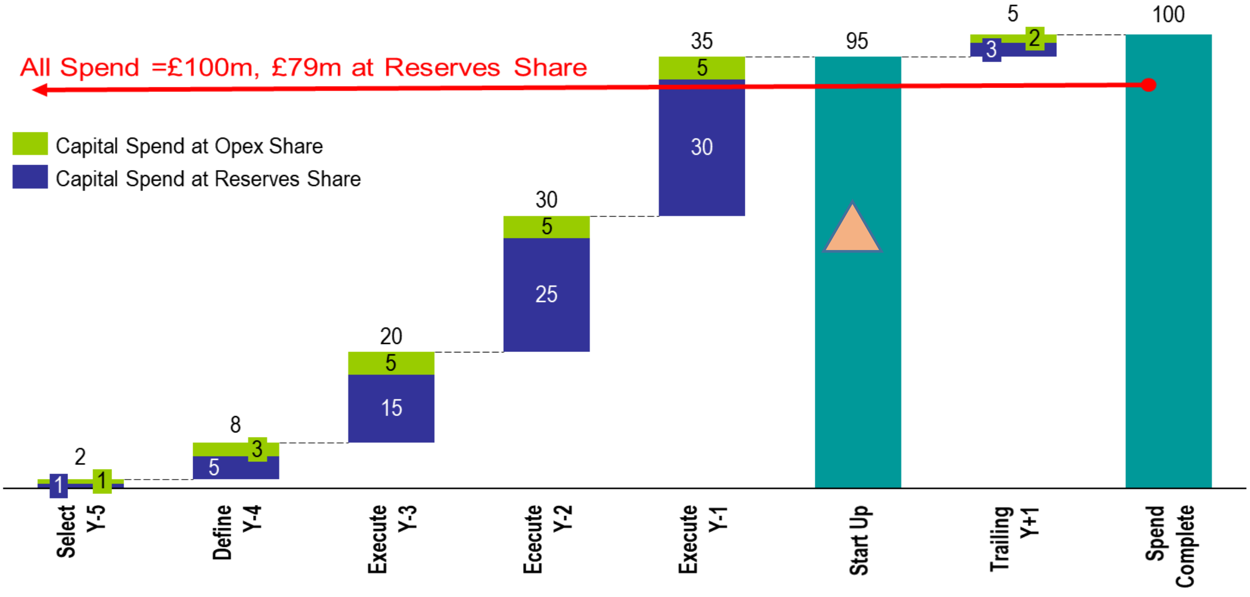
INEOS FPS includes volumes in the reserves profiles from the point that the TPA is signed, months, even years in advance of start-up. INEOS FPS carries the risk that the new fields already in the reserve profile, but not yet started, will start up on schedule and deliver the volumes that they say they will. This represents a fair balance and again customers benefit considerably from this approach in their annual contributions.

D.4 Complexity and Practicality

This will be a complex modelling exercise even with a single trigger point and no consideration of depreciation. It will involve calculations across multiple projects, multiple years of spend, multiple reserves profiles, multiple customers and multiple Cost Share facilities. This approach delivers the best compromise of accuracy vs practicality.

D.5 High Level Illustration

A hypothetical example of a £100m Compressor Project in Facility 3, spread over multiple years.



All of the capital expenditure incurred at the Reserves Share should be included.

All Customer contributions at the Reserves Share <u>over the life of the project</u> will be recalculated using the AMQ profile in place at the time the project is handed over to Operations. Once all expenditure is complete and audited (likely the year after start up), a true-up will be used and a settlement balance issued (see section D.2 above).

11 Terminology

Acronym	Meaning
AMQ	Absolute Maximum Quantity
Capex	Capital Expenditure
CFO	Chief Financial Officer
CoP	Cessation of Production
DGSPA	Dry Gas Sales and Purchase Agreement
EGSP	Enhanced Gas Separation Project
EMQ	Estimated Maximum Quantity
FMQ	Firm Maximum Quantity
FSPA	Full Stream Purchase Agreement
GAEL	Graben Area Export Line
NDCC	Non-Discretionary Capital Costs
NSTA	North Sea Transition Authority
Opex	Operating Expenditure
P&L	Profit and Loss Account
PLPG	Pressurised Liquefied Petroleum Gas
RGSPA	Raw Gas Sales and Purchase Agreement
RPO	Reasonable & Prudent Operator
SCO	Stabilised Crude Oil
SEPA	Scottish Environmental Protection Agency
TPA	Transportation & Processing Agreement
UBR	Unrestricted Booking Range
USCO	Unstabilised Crude Oil
WP&B	Cost Share Work Programme & Budget

Revision history

	Revision history
29/04/2025	First issue.