Registered No. 126838

Selkie Investments Midstream Topco Limited

Report and Financial Statements

31 December 2020

Strategic report

Directors
G Barbaro
J Barry
G Blackburn
L Haga
S Hazell
A Heppel
P Sochocki
S Sulaiman
P Warwick

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Strategic Report

The Directors present their Strategic report for the year ended 31 December 2020.

Principal activity and review of the business

Selkie Investments Midstream Topco Limited is the ultimate parent company of the Selkie Investments ("Selkie") Group. The Group was formed in July 2018 for the purpose of owning and operating midstream gas infrastructure assets in the North Sea.

The principal activity of the Company is that of a holding company. The principal activities of the Group are the transportation and processing of hydrocarbons from the North Sea. The Group owns a 100% interest in the Teesside Gas Processing Plant ("TGPP"), a 100% interest in the FUKA pipeline ("FUKA") and St. Fergus Gas Terminal ("SFGT"), and a 67.04% interest in the Shetland Island Regional Gas Export ("SIRGE") pipeline.

The results of the year and financial position of the Group are shown in the annexed financial statements and the Directors are satisfied with the result.

On 24 September 2018, the Group issued loan notes of £467.7 million to the KIA at a fixed rate of 11%. During the year, £1.4m of the loan notes were repaid. The shareholder loan notes are listed and traded on the International Stock Exchange and are repayable in 2028.

The Group's planned refinancing of its bank loan was completed on 11 November 2020. The existing secured bank loan of £561.0m was repaid in full and replaced with a new secured bank loan of £616.0m (note 14). Fees relating to the refinancing amounted to £15.4m. The new facility carries interest rates at LIBOR plus 1.80% to 2.85% and has a tenor of 7 years with capital repayments commencing in June 2021.

Note that the 2019 non-financial values in this Strategic report, unless otherwise stated, relate to the full calendar year 2019 and are presented for informational purposes only.

Operations

Safety, Health and Environmental (SHE) performance

px Group operates and manages all of the Group's offshore and onshore pipelines and onshore terminals, and demonstrates a clear safety leadership commitment, with processes applied effectively to manage the Occupational, Process Safety and Environmental risks associated with the Group's infrastructure. The TGPP terminal is accredited to the ISO 9001 Quality Management System, SFGT operates in accordance with the principles of ISO 9001 Quality Management System. The SFGT terminal is also accredited to ISO 14001 Environmental Compliance Standard, with compliance audits carried out by the British Standards Institute. All terminal and pipeline activities are managed under an industry standard Safe System of Work, and Emergency Response Plans are in place for all the Group's assets. Compliance with the px Group Safety Management System is ensured through internal and external audits, and a robust reporting system exists for all incidents and near misses.

The Group continued to operate its assets in a safe and reliable manner, and there were no recordable injuries, reportable incidents or regulatory enforcement action in the period.

Northern North Sea (NNS) and West of Shetlands (WoS) transportation and processing

SFGT processed 202 bcf of gas in the year (2019: 245 bcf) from a number of fields in the WoS and NNS. The decrease in the volumes processed during the year is attributable to the natural decline of the GLA and Alwyn fields.

The Group will continue to seek further sources of WoS and NNS gas to maximise the utilisation of SIRGE, FUKA and SFGT.

Central North Sea (CNS) and Southern North Sea (SNS) processing

TGPP processed 88bcf of gas in the year (2019: 105 bcf) from the CNS. The decrease is due to the natural decline in the J-Block and Stella Harrier fields partially offset by additional volumes from the Vorlich field.

TGPP processed 11 bcf of gas in the year (2019: 20 bcf) from the SNS. The decrease is due to the natural decline in the Breagh field.

Strategic Report (continued)

Financial performance

The Group's operating profit for the year was £39.0 million (18 month period ended 31 December 2019: £78.8 million) and the loss after tax was £84.9 million (18 month period ended 31 December 2019: £36.9 million). The decrease in profit before tax is consistent with the decreased flows from certain shipper fields.

Operating costs were well controlled across all sites. There has been a drive to focus on operating the SFGT and associated pipelines in the most cost-efficient manner while maintaining both the safety and reliability of the system. The Group expects to continue to improve the operating cost base of all sites throughout 2021.

Key performance indicators

The Directors utilise a number of financial and non-financial key performances indicators (KPIs) to monitor performance and profitability. These focus on amongst others:

Non-Financial	**Financial**
SHE Statistics	EBITDA
Volume Throughput	Cash Flow
Liquid Extraction Rate	Liquidity
Asset Utilisation	Net Debt
Asset Availability	Finance Costs
Asset Run Hours	

EBITDA represents earnings before interest, taxation, depreciation, amortisation and certain non-recurring items. Net debt represents external loans less cash and bank balances held.

Dividends, financing and capital

The Group did not declare or pay a dividend in either period presented.

Future developments

The Group continues to target a number of future transportation and processing opportunities to enhance the future utilisation of its midstream infrastructure assets in the medium to longer term. In addition, the Group is seeking to participate in a number of zero carbon schemes to help realise the potential of CCS and hydrogen, and secure a transition to a clean and resilient energy future.

Principal risks and uncertainties

The management of the business and execution of the Group's strategy are subject to a number of risks. Directors regularly review the associated risks and act when and where appropriate to mitigate those risks. The following considers and describes the principal risks facing the business.

Brexit

The Directors have regularly monitored and assessed the legal, financial, commercial, and operational effects of Brexit throughout the year. Brexit has never been considered a principal risk for the Group or Company as the majority of the business is external to the EU. The Directors performed a post Brexit review and reconfirmed that Brexit is not considered to be a principal risk.

COVID-19

The impact of the Covid-19 pandemic was identified as an emerging risk in 2019 due to the uncertainty and impact on commodity prices which have adversely impacted the oil and gas industry. NSMP has been closely monitoring the situation and the Directors have concluded that the business continuity plans put in place, in which a number of mitigating actions have been implemented, has minimised the impact of COVID-19 on the Group's ability to remain operational. The Covid-19 risk will continue to be monitored in 2021.

Inherent risks

The business is also exposed to the success, or otherwise, of exploration and gas production on the UK and Norwegian continental shelves. Cyclical drilling activity and variable future gross gas production from

Strategic Report (continued)

across the various offshore catchment areas will determine the level of gas available for transporting and processing via the Group's infrastructure.

The Group maintains a leveraged position and is counterparty to a Facilities Agreement, through which the Group is financed via a bank syndicate. The Group is required to service its debt in accordance with facility agreements and is subject to certain covenant tests at June and December each year as well as needing to comply with other obligations under the Facilities Agreement.

Mitigable risks

Safety – a training programme is in place that ensures all staff have the competence required for their role and responsibilities, enabling the Group's assets to operate safely, reliably and efficiently. Safety, Health and Environmental ("SHE") training is at the forefront of every individual's training needs. A health and safety management system is used across all sites and regular SHE audits are carried out to ensure the Group is compliant with all relevant regulations.

Interest rate movements – the Group has fixed the rate of interest payable on 100% of its external borrowings by utilising derivative financial instruments. The fair value of these instruments is recorded in the statement of financial position within net assets/liabilities and the movement within profit/(loss) in the income statement.

Approved on behalf of the Board

AHeppel

Andrew Heppel
Director
28 May 2021

Directors' report

The Directors present their Directors' report for the year ended 31 December 2020.

Results and dividends

The Group recorded an operating profit of £39.0 million (18 month period ended 31 December 2019: £78.8 million). Cash inflow from operations was £134.9 million (18 month period ended 31 December 2019: £217.7million). The Group recorded a loss after tax of £84.9 million (18 month period ended 31 December 2019: £36.9 million). No dividend was paid in either period presented.

Directors

The Directors who served the Company during the year and to the date of approval of the financial statements are as follows:

G Barbaro	(appointed 23 October 2020)
J Barry	
G Blackburn	(appointed 18 March 2021)
L Haga	
S Hazell	(appointed 6 January 2021)
A Heppel	
K Lim	(resigned 23 October 2020)
P Sochocki	(appointed 24 April 2020)
S Sulaiman	
P Warwick	
JP Ibanez	(resigned 21 April 2020)

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report. The financial position of the Group, its cash flows and liquidity position are described in the financial performance section of the Strategic Report.

Further details of the Group's off- and on-balance sheet commitments are set out in notes 20 and 21 of the Group financial statements. In addition, the Directors' Report includes the Group's approach to financial risk management objectives.

The financial statements are prepared utilising the presumption of going concern which is assessed by the Directors for the period to the end of December 2022. The documented assessment process is proportionate in depth and nature to the size, level of risk and complexity of the Group and its operations.

Despite the challenges of the COVID-19 pandemic and a low commodity price environment, our business has delivered a resilient financial performance in 2020. We expect that near-term, a degree of uncertainty will continue into 2021 and, whilst forecasting activity levels in an uncertain economic environment remains challenging, we expect that our resilience will continue. The Directors have undertaken a rigorous assessment of going concern and liquidity to the end of December 2022 (the going concern period).

The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give Management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's facilities agreement.

The Directors have a reasonable expectation that the Group will be able to operate within the level of available facilities and cash for the foreseeable future. This analysis has considered the existing debt levels, committed funding and liquidity positions under debt covenants and the ability to generate cash from trading operations. The Group's principal debt facilities comprise a £616.0m term loan which is repayable in November 2027 as well as access to a £30.0 million Revolving Credit Facility which is currently undrawn.

Directors' report

Going concern (continued)

At the year end, the Group had sufficient liquidity (£48.7 million) and was compliant with its financial covenants. The Directors have considered the business plans which provide financial projections through to the end of December 2022. The Group's current suite of contracts are of a long-term nature with reputable, creditworthy counterparties who are deemed to pose limited credit risk. This provides a stable income stream that is forecast to comfortably cover the Group's operational cost base and allow it to meet its trading and other obligations for the foreseeable future out of internal cash resources. Finally, the assets of the two trading entities within the Group, NSMP Operations Limited and Teesside Gas & Liquids Processing, are critical to UKCS natural gas resources and essential to the UK's security of energy supply. Currently, up to 20% of UK supply passes through these assets. Since the onset of the COVID-19 pandemic, there has been no disruption of supply or diminution in volumes, other than usual seasonal variations.

The Directors have considered a range of scenarios which reflect our experience of how the pandemic impacted our business in 2020 and the steps taken to adapt to working in a different environment. The base case scenario assumes that whilst there may be periods of lockdown in 2021, this will not impact our ability to remain operational. The base case also considers potential delays on completion of offshore projects and the resulting impact on revenue.

The Directors have also considered severe, but plausible downside scenarios which would result in further reductions in revenue and EBITDA from the base case. This could result from a worsening economic climate and reduced commodity prices. In each of the scenarios modelled, the financial covenants were comfortably met with facility headroom remaining.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for the period to the end of December 2022 and therefore have prepared the financial statements on a going concern basis.

Financial risk management

- **Price risk –** wherever possible and appropriate the Group enters into contracts which are of a mid to longer term duration in nature. Typically, future pricing is managed via agreed indexation principles.
- **Credit risk –** the Group is selective with whom it conducts business and regularly reviews the status of its counterparties.
- **Interest rate risk** – the exposure to floating interest rate movements associated with the Group's financing arrangements has been mitigated by entering into a floating to fixed rate swap arrangements for 100% of the Group's term debt.
- **Liquidity –** is assessed on a monthly basis with regards to the available cash and facilities and the Group retains sufficient cash and undrawn facilities to satisfy its current obligations. The available cash position is assessed against budget and any subsequent updates for year to date and re-forecast trading performance. This is further used to monitor compliance with the Senior Facilities Agreement.
- **Cash Flow –** is also assessed on a monthly basis in line with the receivables cycles of the Group's processing contracts, with a corresponding analysis of any ageing of debtors.

Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Group's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditor

A resolution was passed at the Annual General Meeting to reappoint Ernst & Young LLP as auditor of the Group and Company.

Directors' report

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

Andrew Heppel
Director
28 May 2021

Statement of Directors' responsibilities

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

Jersey company law requires the Directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- specify which generally accepted accounting principles have been adopted in their preparation

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991.They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Selkie Investments Midstream Topco Limited

Opinion

We have audited the financial statements of Selkie Investments Midstream Topco Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2020 which comprise the Group income statement, the Group statement of financial position, the Group statement of changes in equity, the Group statement of cash flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of the Group's loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

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 below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for the period to the end of December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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 this 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 there is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report (continued)

to the members of Selkie Investments Midstream Topco Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 8 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 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 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.

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies (Jersey) Law 1991) and the relevant tax compliance regulations.
- We understood how Selkie Investments Midstream Topco Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the Group's Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was a susceptibility to fraud. We also considered performance targets which are based on the results of the Group. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included testing journals and

Independent auditor's report (continued)

to the members of Selkie Investments Midstream Topco Limited

were designed to provide reasonable assurance that the financial statements were free from material fraud and error.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved enquiries of legal counsel and management. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report with the requirements of the relevant accounting standards.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.

DocuSigned by:
Ernst & Young LLP
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Kate Jarman
for and on behalf of Ernst & Young LLP
Leeds
28 May 2021

Group income statement

for the year ended 31 December 2020

	Notes	*12 months to 31 Dec 2020 £000*	*18 months to 31 Dec 2019 £000*
Turnover	2	231,653	361,057
Cost of sales		(163,404)	(253,868)
Gross profit		68,249	107,189
Administrative expenses		(29,242)	(28,386)
Operating profit	3	39,007	78,803
Finance income	6	31	110
Finance costs	7	(101,542)	(109,074)
Loss before taxation		(62,504)	(30,161)
Tax on loss	8	(22,353)	(6,746)
Loss after taxation		(84,857)	(36,907)

All amounts relate to continuing activities.

There is no other comprehensive income other than the loss for the financial period. As such, no statement of comprehensive income has been presented

Group statement of financial position

as at 31 December 2020

		2020	*2019*
	Notes	*£000*	*£000*
Fixed assets			
Intangible assets	9	117,615	125,558
Tangible assets	10	1,287,238	1,364,443
		1,404,853	1,490,001
Current assets			
Stocks		406	379
Debtors	11	39,602	44,609
Cash at bank and in hand	19(b)	18,649	12,864
		58,657	57,852
Creditors: amounts falling due within one year	12	(88,934)	(128,937)
Net current liabilities		(30,277)	(71,085)
Total assets less current liabilities		1,374,576	1,418,916
Creditors: amounts falling due after one year	13	(1,184,032)	(1,155,035)
Provisions for liabilities and charges			
Decommissioning provision	16	(59,200)	(58,152)
Deferred taxation	17	(185,266)	(174,794)
Net (liabilities)/assets		(53,922)	30,935
Capital and reserves			
Share capital	18	68,472	68,472
Profit and loss reserve	18	(121,764)	(36,907)
Treasury shares reserve	18	(630)	(630)
Total Shareholders' (Deficit)/ Equity		(53,922)	30,935

The financial statements were approved by the Board of Directors, authorised for issue and signed on its behalf by:

Andrew Heppel
Director
28 May 2021

Group statement of changes in equity

for the year to 31 December 2020

	Called up share capital £000	*Treasury shares reserve £000*	*Profit and loss reserve £000*	*Total shareholders' equity £000*
On incorporation	–	–	–	–
Issue of new shares (note 18)	68,472	–	–	68,472
Loss for the period	–	–	(36,907)	(36,907)
Purchase of treasury shares (note 18)	–	(630)	–	(630)
At 31 December 2019	68,472	(630)	(36,907)	30,935
Loss for the year	–	–	(84,857)	(84,857)
As 31 December 2020	68,472	(630)	(121,764)	(53,922)

Group statement of cash flows

for the year ended 31 December 2020

	Notes	*12 months to 31 Dec 2020 £000*	*18 months to 31 Dec 2019 £000*
Net cash inflow from operating activities	19(a)	134,924	217,745
Taxation paid		(19,593)	(13,611)
Net cash generated from operating activities		**115,331**	**204,134**
Cash flow from investing activities			
Payments to acquire tangible fixed assets		(6,524)	(15,296)
Contributions received for tangible fixed assets		1,975	5,210
Finance income		31	110
Purchase of subsidiaries (excluding cash)		–	(774,829)
Net cash used in investing activities		**(4,518)**	**(784,805)**
Cash flow from financing activities			
Finance costs[1]		(93,913)	(122,959)
Receipt of loan facility (net of costs)		601,945	1,180,472
Repayments of existing loan facility		(611,590)	(562,907)
Repayment of preference shares		(92)	–
Repayment of loan notes		(1,378)	–
Proceeds from issue of ordinary share capital		–	68,472
Proceeds from issue of preference shares		–	31,087
Acquisition of treasury shares		–	(630)
Net cash (used) / generated in financing activities		**(105,028)**	**593,535**
Net increase in cash		**5,785**	**12,864**
Cash and cash equivalents at the beginning of the year/period		12,864	-
Cash and cash equivalents at the end of the year/period	**19(b)**	**18,649**	**12,864**

[1] Finance costs includes interest on shareholder loan notes and preference shares (£57.2 million), interest on bank loan (£12.0 million), repayment of the derivative financial instrument (£22.3 million) and swap fees (£2.4 million).

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies

General information

Selkie Investments Midstream Topco Limited and its subsidiaries ('the Group') focus on the ownership and development of large-scale midstream oil and gas infrastructure assets within the North Sea. Details of the Group's activities during the year are provided in the Strategic report. Selkie Investments Midstream Topco Limited is a private limited liability Company limited by shares and incorporated in Jersey. The Registered Office is 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.

The principal activity of the Company is that of a holding company. The principal activities of the Group are the transportation and processing of hydrocarbons from the North Sea.

Statement of compliance

2019 was the first set of financial statements of the Group and Company since incorporation. They were prepared for a period longer than 12 months to bring their year end in line with the other companies within the Group.

The Group financial statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS102 "The Financial Reporting Standard applicable to the UK and Republic of Ireland" and the Companies (Jersey) Law 1991.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements have been prepared using accounting principles based on historical cost, unless stated otherwise. The financial statements are prepared in sterling which is the presentational currency of the Group and rounded to the nearest £000.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report. The financial position of the Group, its cash flows and liquidity position are described in the financial performance section of the Strategic Report.

Further details of the Group's off- and on-balance sheet commitments are set out in notes 20 and 21 of the Group financial statements. In addition, the Directors' Report includes the Group's approach to financial risk management objectives.

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Despite the challenges of the COVID-19 pandemic and a low commodity price environment, our business has delivered a resilient financial performance in 2020. We expect that near-term, a degree of uncertainty will continue into 2021 and, whilst forecasting activity levels in an uncertain economic environment remains challenging, we expect that our resilience will continue. The Directors have undertaken a rigorous assessment of going concern and liquidity to the end of December 2022 (the going concern period).

The Group regularly monitors its funding position throughout the year to ensure that it has access to sufficient funds to meet its forecast cash requirements. Forecasts are regularly produced to give Management's best estimates of forward liquidity, leverage and forecast covenant compliance as defined in the Group's facilities agreement.

The Directors have a reasonable expectation that the Group will be able to operate within the level of available facilities and cash for the foreseeable future. This analysis has considered the existing debt levels, committed funding and liquidity positions under debt covenants and the ability to generate cash from trading operations. The Group's principal debt facilities comprise a £616.0m term loan which is repayable in November 2027 as well as access to a £30.0 million Revolving Credit Facility which is currently undrawn.

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies (continued)

At the year end, the Group had sufficient liquidity (£48.7 million) and was compliant with its financial covenants. The Directors have considered the business plans which provide financial projections through to the end of December 2022. The Group's current suite of contracts are of a long-term nature with reputable, creditworthy counterparties who are deemed to pose limited credit risk. This provides a stable income stream that is forecast to comfortably cover the Group's operational cost base and allow it to meet its trading and other obligations for the foreseeable future out of internal cash resources. Finally, the assets of the two trading entities within the Group, NSMP Operations Limited and Teesside Gas & Liquids Processing, are critical to UKCS natural gas resources and essential to the UK's security of energy supply. Currently, up to 20% of UK supply passes through our assets. Since the onset of the COVID-19 pandemic, there has been no disruption of supply or diminution in volumes, other than usual seasonal variations.

The Directors have considered a range of scenarios which reflect our experience of how the pandemic impacted our business in 2020 and the steps taken to adapt to working in a different environment. The base case scenario assumes that whilst there may be periods of lockdown in 2021, this will not impact our ability to remain operational. The base case also considers potential delays on completion of offshore projects and the resulting impact on revenue.

The Directors have also considered severe, but plausible downside scenarios which would result in further reductions in revenue and EBITDA from the base case. This could result from a worsening economic climate and reduced commodity prices. In each of the scenarios modelled, the financial covenants were comfortably met with facility headroom remaining.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for the period to the end of December 2022 and therefore have prepared the financial statements on a going concern basis.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

a) Tangible and intangible fixed assets (judgement)

Management estimation is required to determine the appropriate asset lives over which to depreciate the Group's tangible and intangible fixed assets, in light of ongoing technological developments and the Group's strategic plans.

b) Fair values of acquired assets and liabilities (judgement)

Management judgement is required to determine the fair value of acquired assets and liabilities. The fair value of assets and liabilities acquired on acquisition involved the use of valuation techniques and the estimation of future cash flows to be generated over a number of years. The estimation required the combination of assumptions including revenue growth and discount rate.

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of Selkie Investments Midstream Topco Limited and its subsidiary undertakings, Selkie Investments Midstream Midco 1 Limited, Selkie Investments Midstream Midco 2 Limited, Selkie Investments Midstream Bidco Limited, North Sea Midstream Partners Limited, NSMP HoldCo 2 Limited, NSMP (TGPP) Limited, Teesside Gas Processing Plant Limited, TGPP 1 Limited, TGPP 2 Limited, Teesside Gas & Liquids Processing, Northern Gas Processing Limited and NSMP Operations Limited, drawn up to 31 December each year.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date, and translation differences are taken to the income statement.

Turnover

Turnover arises from income derived from the transportation and processing of natural gas within the United Kingdom and other sundry related income net of value added tax. Turnover is recognised for the transported and processed gas on an accruals basis as the services are provided to customers. Turnover also arises from charging certain categories of operational expenses to customers.

Amounts received and receivable from customers in respect of services not yet delivered or obligations not fulfilled at the year end are classified as deferred income until the service is delivered or obligations fulfilled.

Finance expense/income

Interest income and expense is calculated using the effective interest rate method and is recorded in the income statement in the period to which it relates. Arrangement fees and expenses in respect of the Group's debt facilities are amortised over the period which the Group expects the facility to be in place.

Business combinations and goodwill

The Group accounts for business combinations using the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of the equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliability, in which case the value is incorporated in goodwill. Intangible assets are only recognised separately from goodwill where they are separable and arise from contractual or other legal rights. Where the fair value of contingent liabilities cannot be reliably measured, they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair value of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected life which is estimated to be 20 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment of goodwill are recognised.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Interest costs arising on the financing of fixed assets under construction are capitalised.

The costs of statutory shutdowns (statutory inspections required for Health and Safety purposes) are capitalised and depreciated over the period until the next anticipated shutdown. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows.

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies (continued)

Tangible fixed assets (continued)

The end of the useful economic life of assets or the duration of economic lives are as follows:

Freehold buildings	–	2033 – 2036
Plant and machinery	–	2033 – 2036
Computer equipment	–	over 3 years (included within plant and machinery)
Capitalised shutdown costs	–	over 3 – 6 years (included within plant and machinery)

Tangible fixed assets *(continued)*

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Where fixed assets have been acquired but paid for by contributions from a third party, these have been recognised gross in the appropriate tangible fixed asset category. The contribution from the third party is shown as deferred income within non-current liabilities and will be released to the income statement in line with the depreciation of the fixed assets concerned.

Assets under construction are stated at cost. The assets are not depreciated until they are available for use. Interest costs arising on the financing of fixed assets under construction are capitalised when the cost is directly attributable to the acquisition, construction, or production of a qualifying asset.

Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Stocks

Stocks are stated at the lower of cost or net realisable value. Cost comprises cost of purchase and includes charges such as freight and duty where appropriate. Net realisable value is the actual or estimated sales value less all further costs to completion and all costs to be incurred in selling and distribution.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments. Basic financial assets, including trade and other receivables, cash and bank balances and investments, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If such an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss or the reversal of a prior period impairment loss, is recognised in immediately in the income statement.

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies (continued)

***Financial instruments** (continued)*

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. The fees are amortised over the period of the facility to which it relates. Should a loan facility be refinanced before the end of the term, any unamortised fees are released to the income statement.

Preference shares are classified as debt instruments where they rank *pari passu* with the shareholder loan notes in respect of interest payments and redemption.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of derivatives is measured using observable market data and derived from the present value of future cashflows discounted at rates obtain by means of the current yield curve appropriate for those instruments. Changes in the fair value of derivatives are recognised in the income statement in finance costs or finance income as appropriate. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Decommissioning costs

Where a legal or constructive obligation has been incurred, a provision is made for the net present value of the estimated cost of decommissioning at the end of the producing lives of the assets. The unwinding of the discount on the provision is included in the income statement within finance costs. Any changes to the estimated costs or discount rates are dealt with prospectively.

Current taxation

Current tax, including UK corporation tax and foreign tax, is recognised on taxable profits or losses for the current and past periods. Current tax is measured at the amounts of tax expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation

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

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the statement of financial position date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the statement of financial position date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable.

Notes to the financial statements

for the year ended 31 December 2020

1. Accounting policies (continued)

Deferred taxation (continued)

- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Share capital

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

Distributions to equity holders

Dividends to the Group's shareholders are recognised in the statement of changes in equity when paid.

Related party transactions

The Group has taken advantage of the exemptions given in FRS 102.33.1A and FRS102.33.7, not to disclose transactions with wholly owned related parties and key management personnel.

2. Group turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties in respect of the Group's continuing activity as stated in the Strategic report, and arises wholly within the UK. The directors consider there to be only one principal activity within the group, being the transportation and processing of hydrocarbons from the North Sea.

3. Group operating profit

This is stated after charging/(crediting):

		12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Auditor's remuneration:			
Audit of the financial statements of the Group*		175	150
Other fees to auditor	- taxation compliance	48	113
	- taxation advisory	3	9
		226	272
Depreciation of owned tangible fixed assets		81,713	103,302
Amortisation of goodwill		7,943	10,061
Release of deferred income relating to third party funded assets		(4,468)	(5,639)
Foreign exchange gain		(39)	(21)
Loss on disposal of fixed assets		40	19

*The audit fee for the financial statements above includes all companies in the Selkie Investments Midstream Topco Limited Group.

Notes to the financial statements

for the year ended 31 December 2020

4. Directors' emoluments

The emoluments of the directors who receive emoluments in their capacity as directors of this Company are as follows:

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Emoluments	604	635

The emoluments in respect of the highest paid director:

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Emoluments	362	508

There were no employer pension contributions in the year.

5. Staff costs

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Wages and salaries	2,458	2,440
Social security costs	316	307
Pensions	132	152
	2,905	2,899

The average monthly number of employees of the Group during the year was as follows:

	2020 No.	*2019 No.*
Management	9	7
Directors	3	3

Notes to the financial statements

for the year ended 31 December 2020

6. Finance income

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Bank deposit account interest	21	97
Interest due from customers	10	13
	31	110

7. Finance costs

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Interest on bank loans	12,429	20,223
Interest rate swap fees	2,030	4,937
Amortisation of loan issue costs	14,998	3,213
Unwinding of discount on decommissioning provision	886	-
Loss on revaluation of financial instruments	14,916	10,077
Shareholder loan note interest	52,596	66,112
Preference share interest	3,593	4,456
Other bank fees	50	45
Other interest	44	11
	101,542	109,074

8. Taxation

(a) Tax on profit

The tax charge is made up as follows:

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
UK corporation tax on loss for the year/period	11,468	15,458
Adjustments in respect of prior years	412	-
Total current tax	11,880	15,458
Deferred tax:		
Origination and reversal of timing differences	(9,042)	(8,677)
Adjustments in respect of prior years	6	-
Effect of changes in tax rate	19,509	(35)
Total deferred tax charge/(credit) (note 17)	10,473	(8,712)
Total tax charge on loss	22,353	6,746

Notes to the financial statements

for the year ended 31 December 2020

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	12 months to 31 Dec 2020 £000	*18 months to 31 Dec 2019 £000*
Loss before tax	(62,504)	(30,161)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2019: 19.25%)	(11,876)	(5,730)
Effects of:		
Disallowable expenses	8,909	8,697
Income not taxable	(849)	(1,677)
Adjustments to tax charge in respect of previous years	418	-
Deferred tax not provided	6,242	-
Tax rate changes	19,509	5,264
Other relief	-	(1,157)
Other	-	329
Total tax charge for the year/period (note 8(a))	22,353	6,746

(c) Factors affecting future tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. The Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 17 March 2020 by way of a special resolution. Accordingly, these rates are applicable in the measurement of deferred tax assets and liabilities as at 31 December 2020. Deferred tax has been provided at 19% being the rate at which temporary differences are expected to reverse.

The 2021 UK Budget announcements on 3 March 2021 included measures to support economic recovery as a result of the impact of the COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. This change was not substantively enacted at the balance sheet date and hence it has not been reflected in the measurement of deferred tax balances at the period end. If the Group's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax charge of £52.8 million.

The Company is registered in Jersey and is UK tax resident.

Notes to the financial statements

for the year ended 31 December 2020

9. Intangible fixed assets

	Goodwill
	£000
Cost:	
At 1 January 2020 and 31 December 2020	135,619
Amortisation:	
At 1 January 2020	10,061
Charged during the year	7,943
At 31 December 2020	18,004
Net book value:	
At 31 December 2020	117,615
At 1 January 2020	125,558

Goodwill has arisen principally due to the recognition of the deferred tax liabilities for the difference between the assigned values, and the tax bases of the assets acquired in a business combination at amounts that do not reflect fair value. The Group amortises goodwill based on its useful life which has been deemed to be 20 years.

10. Tangible fixed assets

Group

	Freehold land	*Buildings*	*Plant and machinery*	*Assets under construction*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 1 January 2020	14,678	613	1,389,343	62,374	1,467,008
Additions	–	–	583	3,966	4,549
Transfers	–	–	290	(290)	–
Disposals	–	–	(226)	–	(226)
At 31 December 2020	14,678	613	1,389,990	66,050	1,471,331
Depreciation:					
At 1 January 2020	–	34	102,531	–	102,565
Provided during the year	–	27	81,686	–	81,713
Disposals	–	–	(185)	–	(185)
At 31 December 2020	–	61	184,032	–	184,093
Net book value:					
At 31 December 2020	14,678	552	1,205,958	66,050	1,287,238
At 1 January 2020	14,678	579	1,286,812	62,374	1,364,443

Notes to the financial statements

for the year ended 31 December 2020

11. Debtors

	2020	*2019*
	£000	*£000*
Trade debtors	1,564	2,733
Prepayments	1,805	1,980
Accrued income	33,593	39,013
Other taxes and social security	2,295	883
Corporation tax	345	–
	39,602	44,609

12. Creditors: amounts falling due within one year

	2020	*2019*
	£000	*£000*
Trade creditors	214	223
Accrued shareholder loan note interest	2,389	4,498
Corporation tax	–	7,367
Other taxes and social security costs	224	60
Accruals	22,492	18,711
Derivative financial instruments (note 22)	–	13,621
Deferred income	2,146	118
Loans due within one year (note 14)	61,469	84,339
	88,934	128,937

Accruals include amounts owing to third parties towards construction work which has been carried out pre-period end.

Notes to the financial statements

for the year ended 31 December 2020

13. Creditors: amounts falling due after one year

Amounts falling due between one and five years

	2020	*2019*
	£000	*£000*
Bank loan (note 14)	266,688	268,899

Amounts falling due after more than five years

	2020	*2019*
	£000	*£000*
Bank loan (note 14)	272,765	243,649
Derivative financial instruments (note 22)	6,252	–
Shareholder loan notes	466,328	467,706
Preference shares	30,995	31,087
Deferred income	141,004	143,694
	917,344	886,136
Total creditors falling due more than one year	1,184,032	1,155,035

On 24 September 2018, the Group issued loan notes of £467.7 million at a fixed rate of 11%. The shareholder loan notes are listed and traded on the International Stock Exchange and are repayable in 2028. During year £1.4 million of the loan notes were delisted and redeemed.

The Group also has 3,108,659,038 £0.01 of preference shares issued. These shares entitle the holder to interest of 11% per annum. These preference shares rank *pari passu* with the shareholder loan notes in respect of interest payments and redemption. Therefore, the Directors conclude that they meet the definition of a liability and have accounted for these as such. The dividend on these preference shares has been recorded and classified as an interest expense in profit or loss. During the year, £0.1m of the preference shares were redeemed.

Notes to the financial statements

for the year ended 31 December 2020

14. Bank loan

The bank loan, which is wholly repayable within 7 years, can be analysed as follows:

	2020	*2019*
	£000	*£000*
Due within one year	63,665	86,870
Less: Unamortised issue costs	(2,196)	(2,531)
	61,469	84,339
Due after one year	552,335	524,720
Less: Unamortised issue costs	(12,882)	(12,172)
	539,453	512,548
Total	600,922	596,887

As part of financing of the NSMP Group acquisition, the Company entered into a Facility Agreement with a syndicate of banks. The Facility Agreement gave the Company and Group access to a £697.8 million Term Loan, a £20.0 million Revolving Credit Facility (“RCF”) and a £50.0 million Debt Service Reserve Facility (“DSRF”). The period of availability of the facility was 7 years and the interest rate was based on LIBOR plus a margin. The Group drew down on the full-Term Loan facility on 24 September 2018 and the effective interest charged for the period was 2.36%. The loan was repaid during 2020 as part of the refinancing and replaced with a new facility detailed below.

On 11 November 2020, the Group completed its refinancing which gives the Group and Company access to a £616.0 million Term Loan, a £30.0 million Revolving Credit Facility (“RCF”) and an incremental indebtedness facility, both of which are currently undrawn. The Group drew down on the full Term loan facility on 11 November 2020 which carries interest rates at LIBOR plus 1.80% to 2.85% and has a tenor of 7 years with capital repayments commencing in June 2021.

The Company also entered into an interest rates swap agreement which hedged 100% of the total Term Loan facility across the corresponding amortisation profile. The recorded year end mark-to-mark valuation of the swaps showed an out-of-the-money position of £6.2 million (note 12).

The Term Loan is secured by way of a debenture containing provisions for both fixed and floating charges over the assets of the Selkie Investments Midstream Bidco Limited Group of companies.

Notes to the financial statements

for the year ended 31 December 2020

15. Deferred income: amounts falling due after one year

	2020 *£000*	*2019* *£000*
Construction contributions	118,420	120,913
Processing income where obligation unfulfilled at the year end	22,584	22,781
	141,004	143,694

16. Decommissioning provision

	2020 *£000*	*2019* *£000*
At 1 January / on incorporation	58,152	–
Acquired	–	57,048
Change in estimates	162	–
Charged in the year	886	1,104
At 31 December	59,200	58,152

The Company provides for the estimated future decommissioning costs on its infrastructure assets at the balance sheet date. It is expected that the majority of this expenditure will be incurred beyond a period of 20 years. Decommissioning provisions are discounted at a risk-free rate of 1.5% (2019: 1.5%) and the unwinding of the discount is presented within finance costs. This provision has been created based on third party estimates. Assumptions based on the current economic environment have been made, which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to consider any material changes to the assumptions.

Notes to the financial statements

for the year ended 31 December 2020

17. Deferred taxation

Deferred taxation is provided in the financial statements as follows:

	Provided 2020 £000	*Provided 2019 £000*
Fixed asset timing differences	185,383	174,904
Non trading timing differences	(21)	(24)
Losses	(96)	(86)
Undiscounted provision for deferred tax	185,266	175,794

	£000
At 1 January 2020	174,794
Deferred tax charge/(credit) for the year (note 8(a))	10,472
Provision at 31 December 2020	185,266

In addition, there are deferred tax assets of £11.2 million (2019: £9.7 million) relating to provisions and £11.8m (2019: £6.1 million) relating to disallowed interest under the Corporate Interest Restriction rules which have not been recognised due to uncertainty over the realisation of the asset.

18. Issued share capital and reserves

Allotted, called up and fully paid	*No.*	*2020 £000*	*No.*	*2019 £000*
'A' Ordinary shares of £0.01 each	5,929,426,080	59,294	5,929,426,080	59,294
'B' Ordinary shares of £0.01 each	393,960,962	3,940	393,960,962	3,940
'C' Ordinary shares of £0.01 each	523,880,000	5,238	523,880,000	5,238
		68,472		68,472

As at 31 December 2020, the share capital comprised of three classes of ordinary shares. Each A and B ordinary share carries equal voting and dividend rights. C ordinary shares carry no voting rights but holds equal dividend rights to the other ordinary share classes. In the prior period, 63,015,652 Ordinary 'C' shares were repurchased for a total consideration of £630,156. The shares are currently held in treasury.

The Company has issued 3,099,502,866 £0.01 preference shares which have been accounted for as a liability. During the year 9,156,172 were redeemed (see note 13).

Profit and loss reserve
This reserve records the cumulative amount of realised profits and losses less any distributions of dividends.

Notes to the financial statements

for the year ended 31 December 2020

19. Notes to the Group statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	2020	*2019*
	£000	*£000*
Operating profit	39,007	78,803
Amortisation of goodwill	7,943	10,061
Depreciation	81,713	103,302
Increase in decommissioning provision	162	1,103
Loss on disposal of fixed assets	41	19
Release of deferred income	(4,666)	–
(Increase) in stock	(28)	–
Decrease in debtors	5,354	22,327
Increase in creditors	5,398	2,130
	134,924	217,745

(b) Analysis of net debt:

	At 1 Jan 2020	*Cash flow*	*Other non-cash movements**	*At 31 Dec 2020*
	£000	*£000*	*£000*	*£000*
Cash at bank	12,864	5,785	–	18,649
Bank loans**	(596,886)	(4,410)	375	(600,921)
Derivative financial instruments	(13,621)	22,285	(14,916)	(6,252)
Preference shares	(31,087)	92	–	(30,995)
Shareholder loan notes	(467,706)	1,378	–	(466,328)
	(1,096,436)	25,130	(14,541)	(1,085,847)

*Non-cash movements relate to unamortised loan issue costs

**Bank loans are stated net of unamortised issue costs of £15.1 million.

20. Capital commitments

	2020	*2019*
	£000	*£000*
Contracted but not provided for in the financial statements	1,200	800

Notes to the financial statements

for the year ended 31 December 2020

21. Other financial commitments

Under the terms of an operating and maintenance contract with px (TGPP) Limited, px (TGPP) Limited is committed to providing the staff and resources to operate TGPP and manage its routine business activities and obligations of the Group. Commitments under this contract are £1.2 million per annum for 6 years.

Further commitments with px Limited to provide an Operations, Maintenance and Management Agreement for the St Fergus terminal and related pipelines. Commitments under this contract are £4.0 million per annum for 6 years.

22. Financial instruments

	2020	*2019*
	£000	*£000*
Financial liabilities at fair value through income statement:		
Interest rate swap	6,252	13,621
Financial assets measured at amortised cost:		
Trade debtors	1,564	2,734
Accrued income	33,593	39,013
Corporation tax	344	–
Financial liabilities recorded at amortised cost:		
Trade creditors	214	223
Shareholder loan notes	466,328	467,706
Preference shares	30,995	31,087
Corporation tax	–	7,367
Other taxes	225	60
Accruals	22,492	18,712
Bank loans*	600,921	596,887

An interest rate swap is in place, fixing the rate payable at 0.273% on 100% of the notional amortisation profile of the bank loan being £616.0 million.

*Bank loans are stated net of amortised issue costs.

23 Related party transactions

The Group has taken advantage of the exemption available under FRS102.331A and FRS102.337 not to disclose transactions with other members of the Group.

24. Ultimate controlling party

The Directors consider the Group and Company's ultimate controlling party to be the Kuwait Investment Authority ("KIA"), which is registered at Ministries Complex, Al Murqab, P.O. Box: 64, Safat, Zip Code: 13001, Kuwait City, Kuwait.