

Please See Note 28 on Page 44

Selkie Investments Midstream Bidco Limited

Report and Financial Statements

31 December 2021

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31/08/2022

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COMPANIES HOUSE

Directors

G Barbaro

J Barry

A Heppel

Secretary

Vistra Company Secretaries Limited

Independent auditor

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Strategic Report

The Directors present their Strategic report for the year ended 31 December 2021.

Principal activity and review of the business

Selkie Investments Midstream Bidco Limited (“the Company”) and its subsidiaries (“the Group”) are part of the Selkie Investments Group (“the Selkie Group”) that was formed in September 2018 for the purpose of owning and operating midstream gas infrastructure assets in the North Sea. The Group comprises one parent company, Selkie Investments Midstream Bidco Limited, and nine subsidiaries.

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.

In November 2021, the Group acquired a 10% participating share in the Acorn Development Project which is focused on carbon capture and storage and uses existing technology to accelerate decarbonisation. Acorn project costs are held within ‘Other intangible assets’ unamortised until an assessment of its economic commerciality is determined.

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.

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 actions in the period.

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

SFGT processed 198 bcf of gas in the year (2020: 202 bcf) from a number of fields in the WoS and NNS. The decrease in the volumes processed during the year is attributable to the impact of lower volumes from the GLA and Alwyn fields, partially offset by additional volumes from the infill well drilling at the Rhum field and the start-up of Martin Linge in the second half of 2021.

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 75 bcf of gas in the year (2020: 88 bcf) from the CNS. The decrease is due to lower gas nominations under the Company’s flexible processing agreements as well as the impact of lower volumes from the J-Block and Stella Harrier fields. This has been partially offset by additional volumes from the Vorlich field.

TGPP processed 15 bcf of gas in the year (2020: 11 bcf) from the SNS. The increase is due to higher volumes processed from the Breagh field.

Strategic Report (continued)

Financial performance

The Group's operating loss for the year was £121.4 million (2020: operating profit of £39.3m) and the loss after tax was £179.0 million (2020: £81.2 million). The decrease in profit before tax is consistent with the decreased flows from certain shipper fields. In addition, during the year, the Group recognised an impairment charge of £136.7m within the income statement relating to its TGPP assets.

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 2022.

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	Profit after tax

EBITDA represents earnings before interest, taxation, depreciation, amortisation and certain non-recurring items. Net debt represents external loans less cash and bank balances held. Some of the KPIs listed above are disclosed and/or referred to earlier within the Strategic Report.

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 energy transition projects 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.

Government Policy

The Group provides transportation, processing and liquefaction of hydrocarbons for various customers in the UK. Accordingly, policies enacted by the UK governments could have a material impact on the ability of the Group to operate effectively and efficiently. The Directors regularly discuss relevant developments and ensure the Group's strategy appropriately reflects the importance of our current core business and the ongoing energy transition.

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 2022.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Inherent risks

Future volumes - 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 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 active and regular dialogue with current and potential customers to maximise its ability to secure future volumes.

NGL export routes – The business requires export routes for the non-gas liquids (NGL) which are extracted as part of the processing services provided at SFGT and TGPP in order to ensure continuous, long term service provision to its customers. The Group keeps all such arrangements under review to ensure ongoing availability and also evaluates alternatives where appropriate.

Covenant compliance - 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 the Facility Agreement 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 Agreements.

Brexit

The Directors have regularly monitored and assessed the legal, financial, commercial, and operational effects of Brexit throughout the year. The Directors have performed a post Brexit review and reconfirmed its review that Brexit is not considered to be a principal risk for the Group or Company as the majority of the business is external to the EU.

Emerging risks

The recent Russian invasion of Ukraine brings uncertainty, a need for increased alternative energy supplies and disruption to supply chains. Whilst the Group has no assets or investments in Russia or Ukraine, the emerging geo-political risk creates increasingly volatile conditions in capital and commodity markets. Analysis of the business exposure to the situation and sanctions has been undertaken concluding there to be no concerns of material impact on the Group. We will continue to monitor the situation carefully.

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.

Strategic Report (continued)

Section 172 Reporting

Directors of the Company are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing have regard, among other matters to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

To assist them in discharging their duty under s172 Companies Act 2006, directors undertake a number of stakeholder engagement activities to provide them with the information they need to understand the views of stakeholders. This information helps directors to have regard to stakeholder interest, and the likely long-term consequences, including to the reputation of the Company, when making decisions and setting strategy. The Company's key stakeholders were considered in 2021 and they are listed below with examples of the stakeholder engagement activities that took place in 2021.

Why we engage	Stakeholder Priorities	How we engage	How the Board engaged
Shareholders			
We rely on the support and engagement of our shareholders to allow us to operate the Company effectively and to enable success for them and the rest of our stakeholders. Our shareholders support the Company's focus on delivering success over the long term, rather than relying on short-term results.	<p>Strong financial performance</p> <p>Good governance practices</p> <p>Transparency and openness</p> <p>Adoption of sustainable business practices</p>	Representatives from both shareholders sit on the Company's Board as well as the various sub-committees. The Directors are committed to maintaining an ongoing dialogue with shareholders which is facilitated through scheduled Board and committee meetings as well as frequent Board workshops and interaction via various shareholder working groups.	The comments and views of the Group's shareholders were reflected in the broader strategic direction of the company, including the 2021 budget and business plan, and several investment opportunities approved by the Board. In coming to their decision to approve the 2021 budget and business plan, the Board also had regard to the matters set out in Section 172(1) of the Companies Act 2006.

Strategic Report (continued)

Employees			
<p>The Board recognises the importance of the contribution made by our employees, who deliver the highest levels of service for our customers and clients. Engagement with employees helps to attract, build and retain a high calibre talent pool and ensure that our employees remain enthusiastic about their work and the Company. Regularly listening to employees' feedback ensures they feel valued with their views recognised and acted upon.</p>	<p>A safe working environment</p> <p>A fair, supportive, diverse, and inclusive culture where employee feedback is valued</p> <p>A commitment to invest in training and development</p> <p>Ensuring appropriate rewards for their contributions</p>	<p>Engagement with employees takes place regularly through line managers/members of the Leadership Team as well as regular team meetings. The regular meetings are held which cover a variety of topics including updates on business performances and provide opportunity for real time feedback, which is listened and acted upon.</p>	<p>As lockdown restrictions have changed and government guidance on returning to workplaces has evolved, communication with employees has been key. Throughout the year, our focus has been on employee wellbeing and morale, ensuring our employees feel supported and engaged, both at a team and at a business level, as well as understanding our position in relation to returning to work.</p>
Customers			
<p>Our customer needs are at the core of what we do. We focus on building trust by delivering on our commitments to provide safe, efficient and reliable gas transportation and processing services to them across our assets. Staying close to our customers' evolving needs allows us to adapt our strategic approach, to ensure we stay relevant in an ever-changing industry.</p>	<p>A customer-led proposition</p> <p>A focus on treating customers fairly</p> <p>Strong relationships and specialist expertise</p> <p>Consistent and adaptable to the changing market conditions</p>	<p>Relationships with customers are developed at all levels through daily business activities allowing us to gain an understanding of their views and priorities. Our primary focus in our interaction with current and future customers is delivering:</p>	<p>Board members are encouraged to periodically attend customer engagements. However, customer relations are primarily managed by our experienced Commercial Team along with other senior leaders within NSMP and px Group. The NSMP Chief Executive Officer and other team members regularly engage with customers on variety of issues.</p>

Strategic Report (continued)

	Excellent SHE performance	
	SHE is a key priority for NSMP across all our business activities. This premise is shared with px Group who, as a business which specialises in the management of Major Accident Hazard sites and industrial processes, places SHE at the heart of its operations.	
	Efficient and reliable operations across all our sites	
	NSMP in conjunction with px Group are focussed on improving maintenance efficiency in a controlled manner that does not compromise the long-term safety, integrity, and reliability of the site. We work with our customers to align maintenance and outage schedules to continue to maintain high availability across all facilities	
	Delivering sustainable long-term gas export solutions	
	NSMP is committed to ensuring the long-term integrity of its facilities and pipelines. Rigorously adhered to inspection plans are in place to help ensure excellent levels of asset integrity. NSMP is committed to only spending what is required to maintain the safety and long-term integrity of the facilities and pipelines for the benefit of all our customers.	
	Enduring relationships underpinned with trust and performance	
	As focussed midstream infrastructure owners with no upstream ownership, NSMP are naturally incentivised to work alongside our customers to maximise the levels of throughput with no potential conflicts that can arise in producer-owned systems. This is complemented by a straightforward 100% ownership of the FUKA and TGPP systems thereby allowing for rapid decision making and a dynamic approach by NSMP to its business activities	

Strategic Report (continued)

Partners and Suppliers			
<p>px Group is the company's principal partner that operates and maintains the assets at St Fergus and Teesside pursuant to underlying legal agreements. px Group shares the Company's commitment to safety and have operated and maintained the assets to very high quality and standards. px Group act as the Company's agent in relation the appointment and engagement of other suppliers in the value chain. These relationships are well managed by px Group on behalf of the Company and ensures that parties adhere and deliver to appropriate and agreed service levels.</p>	<p>Appropriate and clear payment procedures</p> <p>Strong and sustainable relationships with px Group</p> <p>Clear Governance procedures</p> <p>Fair and equitable business conduct</p>	<p>We work collaboratively with px Group, our long term operating partner, and recognise it is our ambition to be both the operator of choice and partner of choice in our operations and development activities. We engage with px Group via regular formal meetings (such as joint operating committees) and ongoing informal engagements. Our relationship is built on mutual trust and respect. px Group supports the Company to manage relationships within the supply chain, ensures best practice is shared and seeks out synergies to improve performance.</p>	<p>The Board receive feedback from the NSMP management team on the various engagements with members of the px Group. The Board also have direct interactions with px Group during site visits and annual SHE review meetings.</p>
Government and Regulators			
<p>Engagement with our regulators preserves our licence to operate and allows us to set or influence the direction for future regulations.</p>	<p>Compliance with applicable regulation</p> <p>Recognition of the importance of resilience and risk management</p> <p>Provision of high-quality information and regulatory reporting</p> <p>Active consideration of risks relating to sustainability and other climate matter</p>	<p>The Company continued to engage at multiple levels with regulatory bodies and responded to all material regulator consultations, with dedicated teams within NSMP working to communicate business strategy and investment decisions.</p>	<p>Members of the Board are available to participate in meetings with regulators, as appropriate.</p>

Strategic Report (continued)

Local Communities			
The Company is committed to ensuring that its operations make a positive impact on its environment and its local communities at Teesside and St Fergus.	<p>A suitable strategy for approaching sustainability issues</p> <p>Support for community initiatives</p> <p>Job creation</p>	<p>During the year, the Company has provided financial support to a number of charitable organisations and, together with px Group, has supported a number of social activities that benefit the local communities at St Fergus and Teesside. The Board is mindful that it is increasingly important to demonstrate responsible business behaviour with regards to the environment. We perceive that key material issues for our environment generally relate to; the direction of travel and progress relating to environmental concerns, awareness of topical issues and the sharing of best practice, reducing carbon emissions and the Company's overall environmental footprint, and the creation of a sustainable business for the future.</p>	<p>We continued to support our local communities and providing opportunities for those from less-advantaged backgrounds. The Directors are kept up to date with the Company's initiatives on ESG matters. During 2021, the Board revalidated the Company's strategy which includes embracing the Energy Transition. Energy Transition is a standing item of the Board's agenda and, therefore, the Directors discuss business opportunities that relate to Energy Transition on a regular basis. A key decision in 2021 supporting the commitment to the environment and Energy Transition was the Group's investment in the Acorn Carbon Capture & Storage Project at St Fergus.</p>

KEY STRATEGIC DECISIONS IN 2021

When making decisions, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests as well the need to maintain a reputation of high standards of business conduct. During 2021 COVID-19 continued to impact on our customers, our people and the communities in which we operate. We worked closely with our long-term operating partner, to ensure that our facilities continued to function while complying with applicable COVID-19 guidance. For our people, we provided extensive support throughout the period of restrictions, focusing on wellbeing and mental health support, as well as practical assistance for working at home. Nonetheless, the Board made some key decisions and having considered the likely consequences in the long term, it was concluded that the following decisions are in the interests of all stakeholders and protect the reputation of the business as they further strengthen its financial profile of the business and position it for long-term success. These decisions are:

Investment Opportunities

Over the course of the year, the Board appraised several potential investment opportunities and approved two key transactions; the investment in Acorn Carbon Capture project at our St. Fergus gas terminal. The Board also continued to receive regular updates and maintain oversight of the Energy Transition workstream.

Strategic Report (continued)

Revalidation of the Strategy

The Board recognises the evolving environment in which business operates and the need to secure a viable and profitable business in the long-term. During 2021, the Board reviewed the strategy for our business, which includes a commitment to support and participate in Energy Transition opportunities as they evolve. This positions our business as a progressive one which is well placed to play an important role in Energy Transition particularly the context of carbon capture and storage, and the evolving hydrogen industry.

Distributions

A focus for the business is to generate a return for shareholders with distributions an integral part of that return and this is considered biannually. In assessing the timing and quantum of the distributions, the needs of the business, including working capital, liquidity, and funding growth opportunities, as well as risks and sensitivities are key considerations for the Board. On both occasions in which this was discussed, modest distributions were supported to allow the retention of capital within the Group to facilitate future development.

Strategic Report (continued)

Streamlined Energy and Carbon Reporting (“SECR”)

Greenhouse Gas Emissions Data

In line with the Greenhouse Gas Protocol (“GHG”) Corporate Accounting and Reporting Standard, Selkie Investments Midstream Bidco Limited (“the Company”) continues to be engaged in a process aimed at reducing our energy and greenhouse gases, which is a response to increased customers’ requirements, corporate legislation, and in-line with our internal strategy.

This has been achieved by:

- controlling our consumption of natural and energy resources where possible;
- managing our energy and resultant emissions better; and
- sharing sustainable development principles within the organisation, with a view to expanding with stakeholders and associated parties.

We have a longstanding commitment to tackling climate change. We have also committed to source 100% of our electricity from renewable sources where possible by 2030.

Methodology

We have reported all of emission sources under the Companies Act 2006 (Strategic Report and Director’s Reports) Regulations 2013 as required. The Company can report figures below, calculated based on the GHG Protocol Corporate Standard using emissions factors from UK government-produced 2021 conversion factor guidance.

Reporting corresponds with our financial year and reflect emissions from the leased, owned, and controlled assets for which The Company is responsible.

The Company maintain scope one (1) and two (2) emissions, which are generated from our offices and operational premises, namely the St Fergus gas terminal and Teesside gas processing plant, respectively. We also maintain a small levels of emissions from business owned or controlled vehicles covered under scope 3.

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition).

The reporting period is the fiscal year 2021, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary. Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

Recorded energy consumption during the year was 217,057,718.68 kWh (217,057.7 MWh).

2021 Emissions (tonnes CO₂ equivalent)

Scope 1 (natural gas, transport, industrial gas, and oils)	76,454.23
Scope 2 (electricity)	6,883.94
Scope 3 (transport)	0.2
Total	83,338.38
Scopes one, two and three carbon intensity metric Emissions	344 tonnes/£m revenue

Strategic Report (continued)

Streamlined Energy and Carbon Reporting ("SECR") (continued)

The following is a comparison of emissions over our last two fiscal years:

Emissions Comparison	2020	2021	Percentage Change
Total Emissions	81,756 tCO ₂ e	83,338 tCO ₂ e	1.935 increase

Efficiency Measures Taken

The Company has been actively engaged in measures to reduce its energy throughout the reporting period as follows:

- 1) Study to produce an emissions reduction roadmap was commissioned.
- 2) Breagh heater minimum turn down project was commissioned (i.e. started up) to match reduced plant load.
- 3) Column fin fan coolers cleaned for increased efficiency.
- 4) Working from home policy implemented during COVID-19 pandemic for non-essential staff (reducing number of road miles).
- 5) High efficiency air compressors procured.
- 6) Design for the upcoming major project - Breagh compressor installation - switched from a gas turbine drive to an electric drive.

Objectives for 2022

The Company has initiated several objectives for the forthcoming fiscal year (to be reported on in the next set of accounts) as follows:

- 1) Electricity: Reduce our baseline electricity consumption year on year through effective management.
- 2) Lighting: Continue to evolve and install low energy lighting across our building portfolio where applicable.
- 3) Prepare for the Energy Savings Opportunity Scheme (ESOS) phase 3 compliance process.

The Company will report on progress in our next set of financial accounts.

Approved on behalf of the Board



Andrew Heppel
Director
1 June 2022

Directors' report

The Directors present their Directors' report for the year ended 31 December 2021.

The Company has chosen in accordance with Section 414(c)(ii) of the Companies Act 2006 to set out in the Strategic Report the following, which the directors believe to be of significant importance:

- Review of the business
- Future developments
- Principal risks and uncertainties

Results and dividends

The Group recorded an operating loss of £121.4 million (2020: operating profit of £39.3 million). Cash flow from operations generated £133.6 million (2020: £148.1 million). The Group recorded a loss after tax of £179.0 million (2020: £81.2 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

J Barry

A Heppel

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 23 and 24 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 2023. 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 in recent years with the impacts of a global pandemic, an uncertain path towards a lower carbon economy and, more recently, the conflict in Ukraine, our stable business model has delivered a resilient financial performance in 2021 with strong cash flow generation and delivery of shareholder returns. Whilst forecasting activity levels in an uncertain economic environment remains challenging, we expect that our relative resilience will continue, and we also see significant opportunities from the accelerating pace of Energy Transition.

The Directors have undertaken a rigorous assessment of going concern and liquidity to the end of December 2023 (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 agreements.

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 terms loans of £616.0 million and €88.0 million repayable in November 2027 and November 2028 respectively, as well as Shareholder loan notes of £515 million. In addition, the Group has access to Revolving Credit Facilities of £30.0 million and €5.0 million.

Directors' report (continued)

Going concern (continued)

At the year end, the Group had sufficient liquidity (£49.8million) and was compliant with its financial covenants. The Directors have considered the business plans which provide financial projections through to the end of December 2023. 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. Finally, the assets of the trading entities within the Group are critical to the UK and Norway natural gas resources and essential to the security of energy supply. Since the onset of the COVID-19 pandemic, there has been no disruption of supply or diminution in volumes, other than usual seasonal variations delivered by these assets.

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, reduced commodity prices or increased energy prices. In each of the scenarios modelled, the financial covenants were 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 31 December 2023 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 appoint Ernst & Young LLP as auditor of the Group and Company.

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



Andrew Heppel

Director

1 June 2022

Directors' report (continued)

Going concern (continued)

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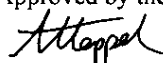
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A resolution was passed at the Annual General Meeting to appoint Ernst & Young LLP as auditor of the Group and Company.

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



Andrew Heppel

Director

1 June 2022

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company 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 Bidco Limited

Opinion

We have audited the financial statements of Selkie Investments Midstream Bidco Limited ('the parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Group income statement, the Group and Company statement of financial position, the Group and Company statement of changes in equity, Group statement of cash flows and the related notes 1 to 28, 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" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent Company's affairs as at 31 December 2021 and of the Group's loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent Company 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 and parent Company's ability to continue as a going concern for the period to 31 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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 Bidco Limited

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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 entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the parent Company and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies Act 2006) and the relevant tax compliance regulations.

Independent auditor's report (continued)

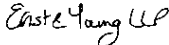
to the members of Selkie Investments Midstream Bidco Limited

- We understood how the parent Company 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 parent Company'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 and their propensity to influence efforts made by management to manage the earnings of the parent Company. We considered the controls that the parent 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 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 parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent 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 parent Company and the parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Kate Jarman (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
1 June 2022

Group income statement

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Turnover	2	242,046	231,653
Cost of sales		(194,604)	(163,404)
Gross profit		47,442	68,249
Administrative expenses		(32,071)	(28,914)
Impairment of assets	10,11	(136,732)	–
Operating (loss)/profit	3	(121,361)	39,335
Finance income	6	22,327	31
Finance costs	7	(70,369)	(101,159)
Loss before taxation		(169,403)	(61,793)
Tax charge on loss	8	(9,551)	(19,414)
Loss after taxation		(178,954)	(81,207)

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.

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not part of these financial statements. The Company made a profit in the current period of £13.6 million (2020: loss of £61.5 million).

Group statement of financial position

At 31 December 2021

	Notes	2021 £000	2020 £000
Fixed assets			
Intangible assets	10	103,755	117,615
Tangible assets	11	1,086,308	1,287,238
Other long term assets	13	16,075	–
		<u>1,206,138</u>	<u>1,404,853</u>
Current assets			
Stocks		439	407
Debtors	14	145,621	116,577
Cash at bank and in hand	22(b)	38,284	18,649
		<u>184,344</u>	<u>135,633</u>
Creditors: amounts falling due within one year	15	(683,292)	(615,947)
Net current liabilities		<u>(498,948)</u>	<u>(480,313)</u>
Total assets less current liabilities		<u>707,190</u>	<u>924,538</u>
Creditors: amounts falling due after one year	16	(613,669)	(686,708)
Provisions for liabilities and charges			
Decommissioning provision	19	(62,991)	(59,200)
Deferred taxation	20	(216,120)	(185,266)
Net liabilities		<u>(185,590)</u>	<u>(6,636)</u>
Capital and reserves			
Share capital	21	59,294	59,294
Profit and loss reserve	21	(244,884)	(65,930)
Total Shareholders' Deficit		<u>(185,590)</u>	<u>(6,636)</u>

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



Andrew Heppel
Director
1 June 2022

Company statement of financial position

At 31 December 2021

	Notes	2021 £000	2020 £000
Fixed assets			
Investments	12	798,819	798,819
Other long term assets	13	16,075	–
		<u>814,894</u>	<u>798,819</u>
Current assets			
Debtors	14	630,545	615,978
Cash at bank and in hand		15,010	557
		<u>645,555</u>	<u>616,535</u>
Creditors: amounts falling due within one year	15	(930,271)	(828,601)
Net current liabilities		<u>(284,716)</u>	<u>(212,066)</u>
Total assets less current liabilities		<u>530,178</u>	<u>586,753</u>
Creditors: amounts falling due after one year	16	(475,549)	(545,705)
Net assets		<u>54,629</u>	<u>41,048</u>
Capital and reserves			
Called up share capital	21	59,294	59,294
Profit and loss reserve	21	(4,665)	(18,246)
Total Shareholders' Equity		<u>54,629</u>	<u>41,048</u>

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

Andrew Heppel
Director
1 June 2022

Statement of changes in equity

for the year to 31 December 2021

Group

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' equity £000</i>
At 1 January 2020	59,294	15,277	74,571
Loss for the year	—	(81,207)	(81,207)
At 31 December 2020	59,294	(65,930)	(6,636)
Loss for the year	—	(178,954)	(178,954)
At 31 December 2021	59,294	(244,884)	(185,590)

Company

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' equity £000</i>
At 1 January 2020	59,294	43,221	102,515
Loss for the year	—	(61,467)	(61,467)
At 31 December 2020	59,294	(18,246)	41,048
Profit for the year	—	13,581	13,581
At 31 December 2021	59,294	(4,665)	54,629

Group statement of cash flows

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Net cash inflow from operating activities	22(a)	133,620	148,118
Taxation paid		(8,700)	(19,593)
Net cash generated from operating activities		124,920	128,525
Cash flow from investing activities			
Payments to acquire tangible fixed assets		(9,590)	(6,524)
Contributions received for tangible fixed assets		1,773	1,975
Finance income		–	31
Net cash used in investing activities		(7,817)	(4,518)
Cash flow from financing activities			
Finance costs ¹		(63,803)	(94,965)
Receipt of loan facility (net of costs)		30,000	601,945
Repayments of existing loan facility		(63,665)	(611,589)
Repayment of parent company loan		–	(13,613)
Net cash used in financing activities		(97,468)	(118,222)
Net increase in cash		19,635	5,785
Cash and cash equivalents at the beginning of the year		18,649	12,864
Cash and cash equivalents at the end of the year	22(b)	38,284	18,649

¹ Finance costs in 2021 include interest on parent company loan (£50.3 million), interest on bank loan (£12.1 million) and swap fees (£1.4 million).

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies

General information

Selkie Investments Midstream Bidco 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 Bidco Limited ("the Company") is a limited liability company incorporated in England. The Registered Office is Suite 1, 3rd Floor, 11-12 St. James's Square, London.

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

The Group and Company's 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 Act 2006.

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 and functional currency of the Group and Company and rounded to the nearest £000.

Basis of consolidation

The Group financial statements consolidate the financial statements of 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. No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006

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 23 and 24 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 2023. The documented assessment process is proportionate in depth and nature to the size, level of risk and complexity of the Group and its operations.

The Directors have received confirmation from Selkie Investments Midstream Topco Limited, the Company's parent undertaking, that it intends to support the Company for the period to the end of December 2023, by directing cash flows to ensure the Company has sufficient funds available.

Despite the challenges in recent years with the impacts of a global pandemic, an uncertain path towards a lower carbon economy and, more recently, the conflict in Ukraine, our stable business model has delivered a resilient financial performance in 2021 with strong cash flow generation and delivery of shareholder returns. Whilst forecasting activity levels in an uncertain economic environment remains challenging, we expect that our relative resilience will continue, and we also see significant opportunities from the accelerating pace of Energy Transition. The Directors have undertaken a rigorous assessment of going concern and liquidity to the end of December 2023 (the going concern period)

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies (continued)

Going concern (continued)

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 terms loans of £616.0 million and €88.0 million repayable in November 2027 and November 2028 respectively, as well as Shareholder loan notes of £515 million. In addition, the Group has access to Revolving Credit Facilities of £30.0 million and €5.0 million.

At the year end, the Group had sufficient liquidity (£49.8million) and was compliant with its financial covenants. The Directors have considered the business plans which provide financial projections through to the end of December 2023. 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. Finally, the assets of the trading entities within the Group are critical to the UK and Norway natural gas resources and essential to the security of energy supply. Since the onset of the COVID-19 pandemic, there has been no disruption of supply or diminution in volumes, other than usual seasonal variations delivered by these assets.

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, reduced commodity prices or increased energy prices. In each of the scenarios modelled, the financial covenants were 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 2023 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)

The Company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

b) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 8 for the carrying amount of the property, plant and equipment and Tangible fixed assets accounting policy below for the useful economic lives for each class of assets.

c) Taxation (estimate)

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets and liabilities that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

d) Impairment of non-financial assets (estimate)

Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the business plan and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows. Further details of the assumptions used are given in note 11.

e) 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.

f) Provisions and accruals for liabilities

Management estimation is required to determine the appropriate amounts of accruals and provisions for decommissioning obligations, bad and doubtful debts, customer rebates and certain administrative expenses and accruals. The judgments estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other relevant factors. Decommissioning costs will be incurred by the Group at the end of the operating life of most of the facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including the expected timing, extent, and amount of expenditure. On the basis that all other assumptions in the calculation remain the same a 10 percent increase in the cost estimates, and a 10 percent decrease in the discount rates used to assess the final decommissioning obligation, would result in increase and decrease to the decommissioning provision of approximately £2.7 million and £2.7 million respectively. This change would be principally offset by a change to the value of the associated asset unless the asset is fully depreciated, in which case the change in estimate is recognised directly within the income statement.

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies (continued)

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 reliably, 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.

Other intangible assets

Other intangible assets represent participating interest in the Acorn Project. Spend is capitalised and held unamortised until an assessment of its economic commerciality is determined.

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

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies (continued)

Tangible fixed assets (continued)

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)

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.

Investments in subsidiaries

Investments in subsidiary companies are included in the financial statements at historical cost less accumulated impairment losses.

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 carry 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 2021

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.

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.
- Deferred tax assets are recognised when the Directors consider that it is more likely than not that there will be taxable profits which the future reversal of the timing difference can be deducted.

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies (continued)

Deferred taxation (continued)

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 and other distributions due to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Board. These amounts are recognised in the statement of changes in equity.

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, being the transportation and processing of hydrocarbons from the North Sea.

3. Group operating (loss) / profit

This is stated after charging/(crediting):

	2021	2020
	£000	£000
Auditor's remuneration:		
Audit of the financial statements of the Group*	249	175
Other fees to auditor		
- taxation compliance	48	48
- taxation advisory	34	3
	<u>331</u>	<u>226</u>
Depreciation of owned tangible fixed assets	81,857	81,713
Amortisation of goodwill	7,943	7,943
Release of deferred income relating to third party funded assets	(4,545)	(4,666)
Foreign exchange gain	(42)	(39)
Loss on disposal of fixed assets	422	40
	<u></u>	<u></u>

*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 2021

4. Directors' emoluments

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

	2021 £000	2020 £000
Emoluments	702	604

The emoluments in respect of the highest paid director:

	2021 £000	2020 £000
Emoluments	402	362

There were no employer pension contributions in the year.

5. Staff costs

	2021 £000	2020 £000
Wages and salaries	3,030	2,458
Social security costs	383	315
Pensions	189	132
	3,602	2,905

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

	2021 No.	2020 No.
Management	15	9
Directors	3	3

Notes to the financial statements

for the year ended 31 December 2021

6. Finance income

	2021 £000	2020 £000
Bank deposit account interest	–	21
Interest due from customers	–	10
Gain on revaluation of financial instruments	22,327	
	<u>22,327</u>	<u>31</u>

7. Finance costs

	2021 £000	2020 £000
Interest on bank loans	11,451	12,429
Interest rate swap fees	1,388	2,030
Amortisation of loan issue costs	2,196	14,998
Unwinding of discount on decommissioning provision	916	886
Loss on revaluation of financial instruments	–	14,916
Interest due to parent undertaking	54,379	55,807
Other bank fees	8	50
Other interest	31	43
	<u>70,369</u>	<u>101,159</u>

8. Taxation

(a) Tax on profit

The tax charge is made up as follows:

	2021 £000	2020 £000
UK corporation tax on loss for the year	(21,330)	(19,383)
Adjustments in respect of prior years	27	28,325
Total current tax	<u>(21,303)</u>	<u>8,942</u>
Deferred tax:		
Origination and reversal of timing differences	(19,381)	(9,042)
Adjustments in respect of prior years	1,410	6
Effect of changes in tax rate	48,825	19,509
Total deferred tax charge (note 19)	<u>30,854</u>	<u>10,473</u>
Total tax charge on loss	<u>9,551</u>	<u>19,414</u>

Notes to the financial statements

for the year ended 31 December 2021

8. Taxation (continued)

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

The tax assessed for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 £000
Loss before tax	(169,403)	(61,793)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(32,187)	(11,741)
Effects of:		
Disallowable expenses	19,192	2,912
Income not taxable	(864)	(849)
Effects of group relief	(24,347)	(24,989)
Adjustments to tax charge in respect of previous years	1,437	28,330
Deferred tax not provided	(2,431)	6,242
Tax rate changes	48,825	19,509
Other	(74)	—
Total tax charge for the year (note 8(a))	9,551	19,414

(c) Factors affecting future tax charges

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017.

Finance Act 2021 included an increase in the UK's main corporation tax rate to 25%, effective from 1 April 2023. This rate change was enacted on 24 May 2021. Therefore, this rate change has been reflected in the remeasurement of deferred tax at the balance sheet date.

9. Profit attributable to members of Company

The profit dealt with in the financial statements of the Company was £13.6 million (2020: loss £61.5 million).

Notes to the financial statements

for the year ended 31 December 2021

10. Intangible fixed assets

	<i>Goodwill</i>	<i>Other fixed assets</i>	<i>Total</i>
		<i>£000</i>	<i>£000</i>
Cost:			
At 1 January 2021	135,619	–	135,619
Additions	–	4,460	4,460
Impairment	(10,377)	–	(10,377)
At 31 December 2021	125,242	4,460	129,702
Amortisation:			
At 1 January 2021	18,004	–	18,004
Charged during the year	7,943	–	7,943
At 31 December 2021	25,947	–	25,947
Net book value:			
At 31 December 2021	99,295	4,460	103,755
At 1 January 2021	117,615	–	117,615

During the year, the Group recognised a pre-tax impairment charge of £10.4m to the goodwill balance directly attributable to the Teesside Gas Processing Plant (“TGPP”). The Group uses a value-in-use method to calculate the recoverable amount of the cash generating unit (CGU). In determining the value-in-use, an appropriate discounted cash flow model was used, incorporating cash flow projections included within the financial budgets and the Groups’ business plan and long-term forecasts. Refer to Note 11 for assumptions used in determining the value-in-use.

In November 2021, NSMP acquired a 10% participating share in the Acorn Development Project which is focused on carbon capture and storage and uses existing technology to accelerate decarbonisation. Spend capitalised during the year include an initial accession payment of £3.2m (representing 10% share of historic costs incurred from inception) plus the company’s 10% share of expenditure between acquisition as well as other directly attributable costs incurred internally on the project. Acorn project costs are held within ‘Other intangible assets’ unamortised until an assessment of its economic commerciality is determined.

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.

Notes to the financial statements

for the year ended 31 December 2021

11. Tangible fixed assets

Group

	Freehold land £000	Buildings £000	Plant and machinery £000	Assets under construction £000	Total £000
Cost:					
At 1 January 2021	14,678	613	1,389,990	66,050	1,471,331
Additions	–	–	495	7,209	7,704
Transfers	–	–	4,481	(4,481)	–
Disposals	–	–	(136)	(398)	(534)
At 31 December 2021	14,678	613	1,394,830	68,380	1,478,501
Depreciation and impairment:					
At 1 January 2021	–	61	184,032	–	184,093
Provided during the year	–	30	81,827	–	81,857
Disposals	–	–	(112)	–	(112)
Impairment	–	–	126,355	–	126,355
At 31 December 2021	–	91	392,102	–	392,193
Net book value:					
At 31 December 2021	14,678	522	1,002,728	68,380	1,086,308
At 1 January 2021	14,678	552	1,205,957	66,050	1,287,238

During the year, the Group recognised an impairment charge of £136.7m within the income statement. This represents a write-down of goodwill (£10.4m) and property, plant and equipment assets (£126.4m) associated with TGPP offset by a tax credit in respect of reductions to the deferred tax liabilities associated on the Group's assets with no remaining net book value.

The Group uses a value-in-use method to calculate the recoverable amount of the CGU. In determining the value-in-use, an appropriate discounted cash flow model was used, incorporating cash flow projections included within the financial budgets and the Groups' business plan and long-term forecasts. In certain circumstances, impairments on property, plant and equipment are reversible in the future.

The modelling and projections in the impairment analysis are based on a wide range of forward looking assumptions, many of which are inherently uncertain, including market outlook and pricing, processing volumes and expenditures. For TGPP these assumptions include: pricing levels of the liquid gas spread (LGS); levels of future customer volumes and associated tariff revenues from the TGPP catchment areas (both from producing and under development fields and to be developed prospects); forward power prices; the level and timing of operating and capital expenditures, corporate tax rates; and an appropriate discount rate. LGS pricing forecasts are based on market conditions and forward pricing curves for relevant hydrocarbon products. Customer flow and volumes profiles are based on production forecasts for fields and prospects within TGPP's catchment area. Operating expenditure and capital expenditure are derived from the Group's Business Plan. These assumptions are reviewed annually by management and the board, and volume projections provided by an independent consultant.

Notes to the financial statements

for the year ended 31 December 2021

11. Tangible fixed assets (continued)

The impairment arises primarily due to the reduction in our LGS pricing forecasts as a result of the significant movements and volatility in the prices for hydrocarbon products stemming from the recent increased demand in natural gas post the COVID-19 pandemic and the adverse impacts and market uncertainties caused by the Russian invasion of the Ukraine. The impairment also reflects the various updates and revision to the Group's current Business Plan, none of which in themselves would have triggered an impairment and compared to those at the time when the original asset values were determined.

The Group has run a sensitivity analysis on its LGS pricing and volume assumptions, and the results are set out below:

Scenario	Impact on Impairment Value
LGS prices 50% lower and TGPP volumes processed 10% lower	£25.0m higher
LGS prices 50% higher and TGPP volumes processed 10% higher	£26.6m lower

Capitalised interest included within the cost of plant and machinery amounts to £1.3 million (2020: £1.3 million).

12. Investments

Company

Shares in subsidiary
undertakings
£000

Cost:

At 1 January 2021 and 31 December 2021

798,819

Subsidiary undertakings

The Company's investments at the statement of financial position date in the share capital of companies include the following (* denotes held indirectly):

North Sea Midstream Partners Limited

Nature of business: Investment holding company

Class of shares: Ordinary

% Holding: 100%

Registered address: 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG

NSMP HoldCo 2 Limited*

Nature of business: Investment holding company

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

NSMP (TGPP) Limited*

Nature of business: Transportation and processing of natural gas

Class of shares: Ordinary

% Holding: 100%

Registered address: 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG

Notes to the financial statements

for the year ended 31 December 2021

12. Investments (continued)

NSMP Operations Limited*

Nature of business: Transportation and processing of natural gas

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

Teesside Gas Processing Plant Limited*

Nature of business: Investment holding company

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

TGPP 1 Limited*

Nature of business: Investment holding company

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

TGPP 2 Limited*

Nature of business: Investment holding company (unaudited dormant Company)

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

Teesside Gas & Liquids Processing*

Nature of business: Processing and extraction of liquids from natural gas (Unlimited Company)

Class of shares: Ordinary

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

Northern Gas Processing Limited*

Nature of business: Fractionation of natural gas liquids

Class of shares: Ordinary and Preference

% Holding: 100%

Registered address: Suite 1, 3rd Floor, 11-12 St James's Square, London, SW1Y 4LB

13. Other long-term assets

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Derivative financial instruments	16,075	—	16,075	—

Notes to the financial statements

for the year ended 31 December 2021

14. Debtors

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade debtors	4,665	1,564	–	–
Loans to group companies	–	–	393,993	426,956
Amounts owed by group undertakings	–	–	85,962	81,773
Amounts owed by parent undertakings	107,234	77,094	–	–
Group tax relief	–	–	150,158	106,456
Prepayments	1,993	1,688	–	–
Accrued income	28,909	33,593	–	–
Accrued intercompany interest receivable	–	–	432	793
Other taxes and social security	2,530	2,293	–	–
Corporation tax	290	345	–	–
	<u>145,621</u>	<u>116,577</u>	<u>630,545</u>	<u>615,978</u>

On 24 September 2018, the Company granted a loan of £461.7 million to NSMP (TGPP) Limited at a fixed rate of 4%. During the year £32.9 million (2020: £34.8 million) of the loan was repaid. The loan is repayable on demand.

15. Creditors: amounts falling due within one year

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade creditors	794	214	–	–
Loans from parent undertakings	494,353	494,353	494,353	494,353
Amounts owed to group undertakings	–	–	331,491	268,258
Amounts owed to parent undertakings	69,641	36,157	3,825	–
Accrued intercompany interest	–	–	6,605	2,526
Corporation tax	–	–	–	–
Other taxes and social security costs	110	224	7	1
Accruals	21,534	21,384	86	1,994
Derivative financial instruments (note 24)	–	–	–	–
Deferred income	2,956	2,146	–	–
Loans due within one year (note 17)	93,904	61,469	93,904	61,469
	<u>683,292</u>	<u>615,947</u>	<u>930,271</u>	<u>828,601</u>

On 24 September 2018, the Company received a loan of £508.0 million from Selkie Investments Midstream Midco 2 Limited at a fixed rate of 11%. No repayments were made during the year (2020: £13.6 million). The loan is repayable on demand.

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

Notes to the financial statements

for the year ended 31 December 2021

16. Creditors: amounts falling due after one year

Amounts falling due between one and five years

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Bank loan (note 17)	260,522	266,688	260,522	266,688

Amounts falling due after more than five years

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Bank loan (note 17)	215,027	272,765	215,027	272,765
Derivative financial instruments (note 24)	–	6,252	–	6,252
Deferred income (note 18)	138,120	141,004	–	–
	353,147	420,020	215,027	279,017

17. Bank loan

The bank loan, which is wholly repayable within 6 years, can be analysed as follows:

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Due within one year	96,100	63,665	96,100	63,665
Less: Unamortised issue costs	(2,196)	(2,196)	(2,196)	(2,196)
	93,904	61,469	93,904	61,469
Due after one year	486,236	552,335	486,236	552,335
Less: Unamortised issue costs	(10,687)	(12,882)	(10,687)	(12,882)
	475,549	539,453	475,549	539,453
Total	569,453	600,922	569,453	600,922

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. 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 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. The Company also entered into interest rate swap agreements 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 in-the-money position of £16.1 million (note 13).

Notes to the financial statements

for the year ended 31 December 2021

18. Deferred income

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Construction contributions	115,650	118,420	–	–
Processing income where obligation unfulfilled at the year end	22,470	22,584	–	–
	<u>138,120</u>	<u>141,004</u>	<u>–</u>	<u>–</u>

19. Decommissioning provision

Group	2021 £000	2020 £000
At 1 January	59,200	58,152
Acquired	–	–
Change in estimates	2,875	162
Charged in the year	916	886
At 31 December	<u>62,991</u>	<u>59,200</u>

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% (2020: 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 2021

20. Deferred taxation

Deferred taxation is provided in the financial statements as follows:

Group	Provided 2021 £000	Provided 2020 £000
Fixed asset timing differences	216,268	185,383
Non trading timing differences	(21)	(21)
Losses	(127)	(96)
Undiscounted provision for deferred tax	<u>216,120</u>	<u>185,266</u>
		£000
At 1 January 2021		185,266
Deferred tax charge for the year (note 8(a))		30,854
Provision at 31 December 2021		<u>216,120</u>

In addition, there are deferred tax assets of £15.0 million (2020: £11.2 million) relating to provisions and £12.0m (2020: £11.8 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.

21. Issued share capital and reserves

		2021 £000		2020 £000
Allotted, called up and fully paid	No.		No.	
Ordinary shares of £0.01 each	5,929,436,080	59,294	5,929,436,080	59,294

Notes to the financial statements

for the year ended 31 December 2021

22. Notes to the Group statement of cash flows

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

	2021 £000	2020 £000
Operating (loss)/ profit	(121,361)	39,335
Impairment	136,732	–
Amortisation of goodwill	7,943	7,943
Depreciation	81,857	81,713
Loss on disposals	534	41
Increase in decommissioning provision	2,875	162
Release of deferred income	(4,659)	(4,666)
Increase in stock	(32)	(28)
Decrease in debtors	960	5,441
Increase in creditors	28,771	18,177
	<u>133,620</u>	<u>148,118</u>

(b) Analysis of net debt:

	At 1 Jan 2021 £000	Cash flow £000	Other non-cash movements* £000	At 31 Dec 2021 £000
Cash at bank	18,649	19,635	–	38,284
Bank loans**	(600,921)	33,664	(2,196)	(569,453)
Derivative financial instruments	(6,252)	–	22,327	16,075
Parent company loan	(494,353)	–	–	(494,353)
	<u>(1,082,877)</u>	<u>53,299</u>	<u>20,131</u>	<u>(1,009,447)</u>

*Non-cash movements relate to unamortised loan issue costs and the partial repayment of an intercompany loan.

**Bank loans are stated net of unamortised issue costs of £12.9 million.

23. Capital commitments

	2021 £000	2020 £000
Contracted but not provided for in the financial statements	<u>767</u>	<u>1,200</u>

Notes to the financial statements

for the year ended 31 December 2021

24. 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.

25. Financial instruments

	2021	2020
	£000	£000
Financial assets/(liabilities) at fair value through income statement:		
Interest rate swap	16,075	(6,252)
Financial assets measured at amortised cost:		
Trade debtors	4,665	1,564
Accrued income	28,909	33,593
Amounts owed by Group undertakings	107,234	77,094
Corporation tax	290	345
Other taxes	2,530	2293
Financial liabilities recorded at amortised cost:		
Trade creditors	794	214
Amounts owed to Group undertakings	69,641	36,157
Corporation tax	—	—
Other taxes	110	224
Accruals	21,534	21,384
Bank loans*	569,453	600,922

An interest rate swap is in place, fixing the rate payable at 0.286% on 100% of the notional amortisation profile of the bank loan being £616.0 million.

*Bank loans are stated net of amortised issue costs.

26. Related party transactions

The Company has taken advantage of the exemption available under FRS102.33.1A and FRS102.33.7A not to disclose transactions with other members of the Selkie Investments Midstream Topco Limited group.

Notes to the financial statements

for the year ended 31 December 2021

27. Parent undertaking and ultimate controlling party

The Company is a wholly owned subsidiary of Selkie Investments Midstream Bidco 2 Limited.

Selkie Investments Midstream Topco Limited is the parent undertaking for the largest and smallest group of undertakings for which group financial statements are drawn up. Copies of the group financial statements can be obtained from 3rd Floor, 44 Esplanade, St Helier, JE4 9WG, Jersey.

The Directors consider the 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.

28. Subsidiaries and audit exemptions

The Group will be exempting the following companies from an audit in 2021 under Section 479A of the Companies Act 2006.

NSMP Holdco 2 Limited (Registered No. 09711318)

Teesside Gas Processing Plant Limited (Registered No. 5740797)

TGPP 1 Limited (Registered No. 5799781)

All of these companies are fully consolidated in the Group Financial Statements