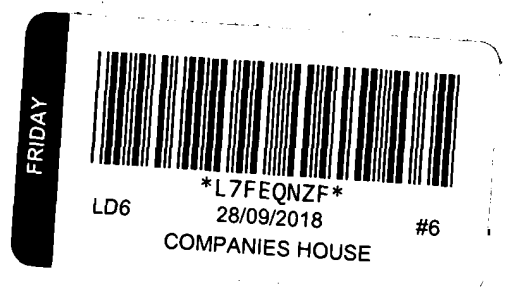


Company Registration No. 5119310

Scira Offshore Energy Limited

**Annual Report and Financial Statements
for the year ended 31 December 2017**



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Officers and professional advisers

Directors

Beate Myking	(Appointed 24 November 2017)
Mona Riis	(Appointed 24 November 2017)
Emil Orderud	(Appointed 24 November 2017)
Bjørn Drangsholt	(Resigned 22 December 2017)
Michael Meyer	(Appointed 30 March 2017, resigned 22 December 2017)
David Flood	(Appointed 31 March 2017, resigned 22 December 2017)
Adam Irwin	(Appointed 22 December 2017, resigned 22 January 2018)
Fabio D'Alonzo	(Appointed 22 December 2017, resigned 22 January 2018)
Hugh Crossley	(Appointed 22 January 2018)
Robert Fradley	(Appointed 22 January 2018)
Pablo Saavedra	(Appointed 13 April 2018)
Nathan Wakefield	(Appointed 22 December 2017, resigned 13 April 2018)
Unni Hongseth	(Resigned 31 March 2017)
Olav Hetland	(Resigned 30 March 2017)
Sverre Trollnes	(Resigned 24 November 2017)
Trine Ingebjørg Ulla	(Resigned 24 November 2017)
Ingrid Fossgard-Moser	(Resigned 24 November 2017)

Karl Smith
Alexis Ulens

Secretary

David Rumble	(Resigned 30 March 2017)
Timothy Hardy	(Appointed 30 March 2017, resigned 7 December 2017)
Bjorn Harald Berge	(Appointed 7 December 2017)

Registered office

Wind Farm Place
Edgar Road
Walsingham
Norfolk
NR22 6EJ

Auditor

KPMG LLP
Botanic House
100 Hills Road
Cambridge
CB2 1AR

Bank

Danske Bank
ICB London
75 King William Street
London
EC4N 7DT

Deutsche Bank N.A.
London Branch
1 Great Winchester Street
London
EC2N 2DB

Nordea Bank Norge ASA
Middelthunsgt 17
Oslo
Norway

J P Morgan Chase Bank N.A.
London Branch
25 Bank Street
London
E14 5JP

Strategic report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activity of Scira Offshore Energy Limited (the "Company") is the operation of the Sheringham Shoal offshore wind farm located between 17 and 23 kilometres (10 to 15 miles) off the Norfolk Coast north of Sheringham and Cromer on the border of international waters.

Review of business

Summary

The sole activity of Scira Offshore Energy Limited (the "Company") is the operation of the Sheringham Shoal Offshore Wind Farm.

The diamond-shaped wind farm covers approximately 35 square kilometres (13 square miles) and consists of 88 wind turbines on foundations fixed to the seabed. Transmission to the grid is via one onshore substation and two offshore substations which are dedicated solely to transmission of electrical output from the wind farm. The transmission assets were constructed by the Company and were sold to an offshore transmission owner (OFTO) in 2013.

On 1 April, contractual responsibility for all operational activities under the Operator Management Service Agreement were transferred from the Statkraft group to the Equinor (formerly Statoil) group. All site personnel previously engaged with Statkraft in providing operator and administrative services were transferred to Equinor under the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014.

For the 2017 year, production output amounted to 1,136 GWh (2016: 1,040 GWh) with a capacity factor of 41% (2016: 37%).

The directors have elected to continue to prepare the financial statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Financial performance

The profit for the year after tax amounted to £42,735k (2016: £8,706k).

Financing

The Company is financed through a mixture of debt and equity. As at 31 December 2017 shareholder equity investment amounted to £447.1m (2016: £447.1m) with the remaining funding provided by shareholder loans amounting to £302.1m (2016: £375.1m). Liquidity is kept through cash reserves which amounted to £3.3m (2016: £6.7m).

Production

The Company's revenues come from sales of power and Renewable Obligation Certificates (ROCs) through Power Purchase Agreements.

Power production is determined by asset availability and prevailing wind speed.

Future outlook

During 2018 the Company is expected to make a net profit, and the windfarm to be cash generative for the remainder of the operational life of the wind farm. Future years are expected to develop further the operational performance experienced in 2017. It is anticipated that aside from expected variations in wind speed and minor variations resulting from the wake effect of other wind farms in the area, production and cost performance will be in line with that achieved in previous years of full operation. From time to time both National Grid and UK Power Networks have to carry out essential work / refurbishments to their respective networks to ensure continued security of supply. On occasions, this results in reduced network capacity for the export of power from the Sheringham Shoal Offshore wind farm.

Corporate social responsibility

The Company strives to achieve an open and constructive dialogue with all stakeholders and the directors are working to develop the Company in a manner which increases the value for the shareholders and the local community in which the Company operates. The Company supports local activities; in 2017 a contribution of £100,000 to the Norfolk Community Foundation was made (2016: £100,000) together with a number of additional initiatives which amounted to £10,000 (2016: £10,325). This is an ongoing contribution, implemented during the construction phase to support local projects undertaken by local residents.

Principal risks and uncertainties

The management of the risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact.

- The nature of operations exposes the Company to health, safety, security and environmental (HSSE) risks. For 2017 this related to operation and maintenance activities offshore which involved transport and access to wind turbine generators (WTGs) and substations, work on high voltage systems, operation of marine vessels and lifting activities associated with the repair and maintenance of offshore installations. The organisation under the operatorship of Equinor has been structured and integrated to address the nature of activities with appropriate structures and procedures in place to handle these risks and to meet the requirements of UK legislation.
- Some of the final construction related activities, including rectification work to address certain issues associated with foundation design, remain to be completed although it is unlikely that these will affect production output.
- The Company sells power based on a recognised index and is exposed to price variations that occur within the index. In addition, as the value of the Renewable Obligation Certificate (ROC) Recycle Fund in respect of the 2017/2018 obligation period is not published until quarter 4 2018, the Company is exposed to the risk that the fund value when published will be lower than anticipated.
- The risk of lower than anticipated production owing to the unpredictable nature of wind as a resource is mitigated by appropriate planning processes to ensure that WTG

availability for production is maximised during periods of high mean wind speed. To further facilitate this, extensive experience is also gained from operational experience from the owners' organisations.

- There is a risk of adverse legislation changes against the Company impacting its ability to make returns on the investment made. Green certificates contribute significantly towards profitability; the risk is managed by close monitoring of, and involvement in, the developments in applicable renewable regimes in the UK.
- The failure of one or more turbines or part of the transmission assets could lead to high reinvestment costs and impact the Company's ability to trade. In this case, the Company has maintenance contracts in place in the event of such failure and insurance policies to cover loss of business interruptions.

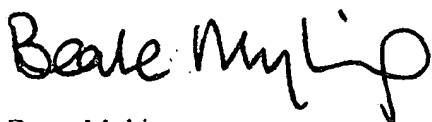
Directors' Indemnity Provision

During the period under review, the shareholders as employers of the officers of the Company had in place indemnity provisions in favour of their respective directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

Events after the balance sheet date

There were no events after the balance sheet date.

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



Beate Myking
Director
25 September 2018

Directors' report

(Registered number 5119310)

The directors present the annual report and the audited financial statements for the year ended 31 December 2017.

Going concern

The directors have considered the use of the going concern basis in the preparation of the financial statements in light of resources available to the Company and current market conditions, and concluded that it is appropriate. Further detail regarding the adoption of the going concern basis can be found in note 2 to the financial statements.

Directors

The directors who held office during the period and up to the date of this report were:

Beate Myking	(Appointed 24 November 2017)
Mona Riis	(Appointed 24 November 2017)
Emil Orderud	(Appointed 24 November 2017)
Bjørn Drangsholt	(Resigned 22 December 2017)
Michael Meyer	(Appointed 30 March 2017, resigned 22 December 2017)
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Trine Ingebjørg Ulla	(Resigned 24 November 2017)
Ingrid Fossgard-Moser	(Resigned 24 November 2017)
Karl Smith	
Alexis Ulens	

Policy on financial risk management

The financial risk management of the Company is detailed in note 3 to the Company's financial statements.

Charitable and political donations

The Company made charitable donations during the year of £110,000 (2016: £110,325). No contributions were made to a political party during the year.

Directors' indemnity provision

Details of the directors' indemnity provision is included in the Strategic Report.

Post balance sheet events

There were no events after the balance sheet date.

Auditor

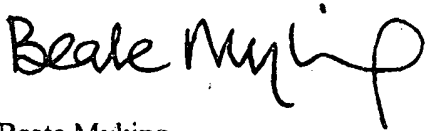
Each of the persons who are a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

KPMG LLP were reappointed auditor to the Company in the year. KPMG LLP has indicated their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming general meeting at which this report and financial statements are presented.

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



Beate Myking
Director
25 September 2018

Scira Offshore Energy Limited
Wind Farm Place
Edgar Road
Walsingham
Norfolk
NR22 6EJ

Statement of Directors' responsibilities in respect of the Strategic Report, The Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the members of Scira Offshore Energy Limited

Opinion

We have audited the financial statements of Scira Offshore Windfarm Limited ("the company") for the year ended 31 December 2017 which comprise the Income statement, Statement of financial position, Statement of changes in Equity and the Statement of Cash Flow, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 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 or
 - the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

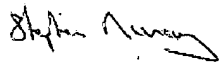
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



Stephen Muncey (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Botanic House
100 Hills Road
Cambridge
CB2 1AR

Date: 26 September 2018

Income statement

For the year ended 31 December 2017

(Registered number 5119310)

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Revenue	5	160,754	120,884
Cost of sales		(77,880)	(76,241)
Gross profit		82,874	44,643
Administrative expenses		(10,169)	(10,093)
Operating profit	8	72,705	34,550
Finance income	9	12	130
Finance costs	9	(21,063)	(25,495)
Profit on ordinary activities before tax		51,654	9,185
Taxation	10	(8,919)	(479)
Profit for the year		42,735	8,706

The results for both years have been derived wholly from continuing operations.

There was no income or expense in either year presented other than that disclosed above. Accordingly a Statement of other comprehensive income is not presented.

The notes on pages 17 to 41 form an integral part of these financial statements.

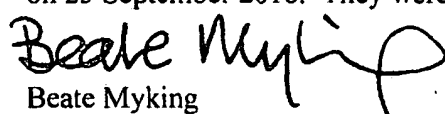
Statement of financial position

As at 31 December 2017

(Registered number 5119310)

	Notes	31 December 2017 £'000	31 December 2016 £'000
Non-current assets			
Property, Plant & Equipment	11	1,069,712	1,124,869
		<u>1,069,712</u>	<u>1,124,869</u>
Current assets			
Inventories		364	1,420
Trade and other receivables	12	81,105	45,905
Cash and cash equivalents		3,324	6,687
		<u>84,793</u>	<u>54,012</u>
Total assets		<u>1,154,505</u>	<u>1,178,881</u>
Current liabilities			
Trade and other payables	13	45,029	39,222
		<u>45,029</u>	<u>39,222</u>
Non-current liabilities			
Loans from shareholders	14	287,016	367,015
Finance liability	14	173,136	178,896
Provisions	15	109,448	105,526
Deferred tax liability	19	15,724	6,805
		<u>585,324</u>	<u>658,242</u>
Total liabilities		<u>630,353</u>	<u>697,464</u>
Net assets		<u>524,152</u>	<u>481,417</u>
Equity			
Share capital	16	447,123	447,123
Share premium account	16	1,000	1,000
Retained earnings	16	76,029	33,294
Total equity		<u>524,152</u>	<u>481,417</u>

The notes on pages 17 to 41 form an integral part of these financial statements. The financial statements of the Company were approved by the Board of Directors and authorised for issue on 25 September 2018. They were signed on its behalf by:


Beate Myking
Director

Statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
1 January 2016	447,123	1,000	24,588	472,711
Profit for the year	-	-	8,706	8,706
At 31 December 2016	447,123	1,000	33,294	481,417
1 January 2017	447,123	1,000	33,294	481,417
Profit for the year	-	-	42,735	42,735
At 31 December 2017	447,123	1,000	76,029	524,152

The notes on pages 17 to 41 form an integral part of these financial statements.

Cash flow statement

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net cash flow from operating activities	20	93,042	105,071
Cash flows from operating activities			
Interest (paid)/received		(17,223)	(21,002)
Purchase of property, plant and equipment		(1,006)	(7,693)
Net cash from operating activities		74,813	76,376
Cash flows from financing activities			
Loan repayments		(73,000)	(75,000)
Financial liability repayments		(5,176)	(4,624)
Net cash (used in)/from financing activities		(78,176)	(79,624)
Net increase/(decrease) in cash during the year		(3,363)	(3,248)
Cash at beginning of the year		6,687	9,935
Cash at the end of the year		3,324	6,687

The notes on pages 17 to 41 form an integral part of these financial statements.

Notes to the financial statements

1. Corporate information

Scira Offshore Energy Limited (the “Company”) is a limited company registered in England and Wales with registered number 5119310. The Company is incorporated and domiciled in the United Kingdom. The address of the Company’s registered office is Wind Farm Place, Edgar Road, Walsingham, Norfolk NR22 6EJ.

The Company is 40% owned by Equinor New Energy Limited (formerly Statoil Wind Limited), 40% owned by Equitix Offshore 5 Limited, and 20% owned by UK GIB Sheringham Shoal Investment Limited. On 22 December 2017, Statkraft UK Limited sold its 40% shareholding to Equitix Offshore 5 Limited. There is no ultimate controlling party of the Company.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The financial statements have also been prepared in accordance with IFRS as adopted by the European Union and therefore comply with Article 4 of the EU IAS regulation.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Going Concern

The Company’s business activities, together with the factors likely to affect its future development and performance are set out in the Strategic Report. The Strategic Report also sets out the financial position of the Company; the Company’s objectives, policies and processes for managing its capital; its financial risk management objectives and details of its exposure to credit and liquidity risk.

The Company is in a net asset position, and is cash generative. Considering all relevant factors, including review of the Company’s cash flow forecasts and relationship with its shareholders, the directors have reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the financial statements (continued)

2.3 Changes to accounting policies, new accounting standards and interpretations

The following new and relevant amendments and interpretations were adopted effectively from 1 January 2017:

IAS 7 (amendments) *Related to disclosure initiative*

IAS12 (amendments) *Related to Recognition of Deferred Tax Assets for Unrealised Losses*

The adoptions of these amendments did not have a significant impact on the financial statements of the Company.

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	<i>Financial Instruments (effective date 1 January 2018)</i>
IFRS 15	<i>Revenue from Contract with Customers (effective date 1 January 2018)</i>
IFRS 16	<i>Leases (effective date 1 January 2019)</i>
IFRS 17	<i>Insurance Contracts (effective date to be confirmed)</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration (effective date to be confirmed)</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments (effective date to be confirmed). [Describe effect of adoption]</i>
Amendments to IAS 40	<i>Transfers of Investment Property (effective date to be confirmed)</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures (effective date to be confirmed)</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions Contracts (effective date to be confirmed)</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed)</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation (effective date to be confirmed)</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods other than the items listed below:

IFRS 15 may have an impact on revenue recognition and related disclosures in particular the distinction between revenue derived from Renewable Obligation Certificates and that from sales of power on a recognised market index. The effects of the introduction of the standard are yet to be fully ascertained and will be reviewed in a full impact assessment that will be carried out in due course.

Notes to the financial statements (continued)

IFRS 16 may have an impact on operating leases and related disclosures, specifically the finance lease in respect of the sale of the transmission assets to an Offshore Transmission Owner which has been treated as a sale and leaseback transaction, and also the lease with the Crown Estate for the rental of the seabed. In regard to both transactions the effects of the new standard have yet to be ascertained and will be reviewed in a full impact assessment that will be carried out in due course.

2.4 Foreign currency translation

(a) Functional and presentation currency

The functional currency for the Company is pounds sterling and is determined by the currency of the primary economic environment in which it operates. This is also the presentation currency of the Company.

(b) Transactions and balances

Transactions denominated in currencies other than the functional currency of the Company are initially recorded in the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-measured at the rate of exchange prevailing at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions which are translated at the rate prevailing at the date of the transactions, or on the translation of monetary assets and liabilities which are translated at period-end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are not re-translated.

2.5 Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and is derived from the Company's principal activity which is the generation of electricity from wind turbines.

This is derived from the direct generation of electricity from wind turbines and from green certificates. Renewable Obligation Certificates (ROCs) granted to the Company are recognised within income as eligible electricity is generated. They are held at the best estimate of the prevailing market value at the time they are generated. Sale of power and ROCs is governed by Power Purchase Agreements (PPAs).

This revenue is recognised when generation meets the grid supply point at which time it is measured by the appointed meter operator agent.

Notes to the financial statements (continued)

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value on a straight line basis over the useful economic life of the asset. Expected useful life is estimated based on experience, historical data and accounting judgements, and is adjusted in the event of any changes to such estimates. The evaluation of residual values is also subject to estimates.

	Depreciation period (years)
Buildings	24
Plant and equipment	24

A change in estimated expenditures for dismantling, removal and restoration of an asset is added to or deducted from the carrying value of the related asset. To the extent that the change would result in a negative carrying value, this effect is recognised in net income. The change in depreciation charge is recognised prospectively. Any additions since commencement of operations will be depreciated over a shorter life than the 24 years noted above and will be depreciated over the remaining life of the windfarm.

2.7 Impairments of property, plant & equipment

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but ensuring that the increased carrying amount does not exceed the original carrying amount before the impairment loss was booked. A reversal of impairment loss is recognised in profit or loss.

2.8 Provisions

Provisions are recognised where there is an existing obligation as a result of a past event, and where it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, account is taken of present values in calculating the size of the provision.

Notes to the financial statements (continued)

2.9 Financial assets

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of a financial instrument. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

2.9.1 Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.9.2 Impairment of financial assets

Financial assets, other than those carried at fair value through the profit and loss account, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

2.9.3 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the financial statements (continued)

2.10 Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.10.1 Equity

Ordinary shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

2.10.2 Financial liabilities

The Company does not hold any financial liabilities classified as held at fair value through profit or loss. Consequently all financial liabilities are recognised as “other financial liabilities” and are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a short period, to the net carrying amount on initial recognition.

2.10.3 Derecognition of financial liabilities

The Company derecognises a financial liability when, and only when, the Company’s obligations are discharged, cancelled or they expire.

2.10.4 Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Contingent lease payments are recognised on an accruals basis in the period the commitment becomes due.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

2.10.5 Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the financial statements (continued)

2.10.6 Financing income and expenses

Financing expenses comprise interest payable, finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

2.11 Taxation

Income tax comprises current and deferred tax. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted, or substantively enacted, at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with banks.

Notes to the financial statements (continued)

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, such as foreign exchange, credit, liquidity and interest rate risk.

(a) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from currency exposures, primarily with respect to Norwegian Kroner and Euros. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. The Company does not use derivative instruments to manage its foreign currency risk.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to discharge an obligation. The Company is potentially exposed to credit risk through trade and other receivables due. The profile of these balances is principally with other group companies, which the directors believe limits the risk of non-payment.

(c) Liquidity risk

Due to the revenues receivable from power generation at the wind farm, the Company is expected to remain cash-generative for the foreseeable future.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Company consists of debt – which includes borrowings disclosed in note 14, and equity attributable to the shareholders of the Company; comprising issued capital, share premium and retained earnings.

(d) Interest rate risk

The Company's interest rate risk arises from long-term borrowings from shareholders. Borrowings issued are subject to variations in the one month London Interbank Offered Rate (LIBOR) which exposes the Company to cash flow interest rate risk.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairments

Significant investments are made in property, plant and equipment. These non-current assets are tested for possible impairment where there are indicators of loss of value. Calculating the recoverable amount requires a series of estimates concerning future cash flows, of which price paths and production volume are the most important.

Notes to the financial statements (continued)

(b) Decommissioning

Provision for future decommissioning costs is made in full when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Management use the work of subject matter experts to assess the expected obligation where this is material.

The amount recognised is the present value of the estimated future expenditure using the market assessment of the time value of money, with a corresponding increase in the associated asset. The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the income statement.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the asset.

(c) Renewable Obligation Certificate Recycle Fund

Provision of accrued income in respect of the Renewable Obligation Certificate (ROC) Recycle Fund for the 2017/2018 obligation period is included using an externally provided estimate.

4.2 Critical judgements in applying the entity's accounting policies

(a) Property, plant and equipment

Property, plant and equipment is depreciated over its expected useful life, which in turn forms the basis for annual depreciation in the income statement. Expected useful economic life is based on experience, historical data and accounting judgements, and is adjusted in the event of any changes of estimates.

(b) Deferred tax

Deferred tax assets associated with brought forward trading losses are recognised in the balance sheet. Deferred tax assets are recognised to the extent that the utilisation of the asset is considered probable. Management policy is for the Company to recognise such assets only when profits are expected to continue in the immediate future.

(c) Revenue recognition

Revenue is recognised when the amount can be reliably measured, and it is probable that future economic benefits will continue. Where payment is received in advance of the service performed, the amount is deferred and recognised in the period to which the service relates.

5. Revenue

Revenue is in relation to income from generation of wind-powered electricity, and is stated net of VAT. The company sells all production and associated certificates produced to entities within shareholder groups:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
United Kingdom - Other	1,046	1,040
Norway – Statoil ASA	63,883	47,954
Germany – Statkraft Markets GmbH	95,825	71,890
	<u>160,754</u>	<u>120,884</u>

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Sales of power	46,598	34,934
Renewable certificates	113,110	84,883
Other	1,046	1,067
	<u>160,754</u>	<u>120,884</u>

6. Directors' emoluments

The directors are employed by the shareholder entities in respect of whom no recharge of costs was made to the Company for the services provided. It is not possible to calculate directors remuneration attributable to activities relating to the Company.

7. Employee information

The Company had no employees during either year. Staff engaged in operation and administration of the wind farm during the financial period were employed by the Statkraft group until 31 March 2017 under an Operation and Management Services agreement which was novated to the Equinor (formerly Statoil) Group with effect from 1 April 2017 at which point site based staff were transferred to employment within the Equinor group.

8. Operating Profit

The following items have been included in arriving at operating profit / (loss):

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Depreciation	57,357	56,552
Operating lease payments	1,565	1,404
Fees payable to the Company's auditor:		
- for the audit of the Company's annual accounts	44	35

Operating lease payments due have been charged to the income statement for the period to which they relate. No non-audit services were performed by the Company's auditor in either period.

9. Net finance costs

(a) Finance income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest receivable on bank deposits	12	87
Net foreign exchange gain	-	43
	<u>12</u>	<u>130</u>

(b) Finance costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest payable on parent company loans	8,938	11,203
Interest payable on finance liability	9,367	9,774
Other finance: Asset retirement Obligation discount	2,728	4,443
Bank interest payable	3	75
Other financial expense	27	-
	<u>21,063</u>	<u>25,495</u>

10. Taxation

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax	-	-
Deferred tax		
Current year	(8,942)	(1,673)
Prior year	(355)	1,194
Impact of rate change	378	-
Total deferred tax	(8,919)	(479)
Total tax expense for the year	(8,919)	(479)
Profit before tax	51,654	9,185
Tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	9,943	1,837
Effects of:		
Non taxable IFRS adjustments	(200)	(208)
Disallowable expenses	382	230
Difference in tax rates	(1,183)	(186)
Prior year adjustments	355	(1,194)
Impact of rate charge	(378)	-
Total charge	8,919	479

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on enacted or substantively enacted legislation (20% to 31 March 2017, 19% from 1 April 2017 to 31 March 2020 and 17% from 1 April 2020).

11. Property, Plant & Equipment

	Capitalised Decommissioning costs £'000	Capitalised interest £'000	Transmission assets £'000	Wind farm assets £'000	Total £'000
2017					
Cost					
As at 1 January 2017	86,830	15,828	204,143	1,067,090	1,373,891
Additions	-	-	292	714	1,006
Change in assumptions	1,194	-	-	-	1,194
31 December 2017	88,024	15,828	204,435	1,067,804	1,376,091
Accumulated depreciation					
As at 1 January 2017	16,428	3,228	38,109	191,257	249,022
Charge for the period	3,775	840	8,516	44,226	57,357
31 December 2017	20,203	4,068	46,625	235,483	306,379
Net book value					
31 December 2017	67,821	11,760	157,810	832,321	1,069,712

At 31 December 2017 the net carrying amount of leased plant and machinery was £157,810k (2016: £166,034k). The leased equipment secures lease obligations (see note 18).

12. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Trade debtors	632	-
Amounts owed by related parties	2,616	32
Prepayments	883	2,153
Accrued income	76,361	43,038
VAT receivable	613	682
	81,105	45,905

There are no trade and other receivables past due and not provided for. The directors consider that the carrying value of trade and other receivables approximately equals their fair value.

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Credit risk is limited due to the majority of balances being with group undertakings.

13. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	751	329
Amounts due to related parties	60	497
Accruals	5,635	4,837
Shareholder loans	15,093	8,079
Transmission asset finance liability	5,688	5,104
Transmission asset deferred income	16,113	17,152
Other creditors	1,689	3,224
	<u>45,029</u>	<u>39,222</u>

Trade payables and accruals comprise amounts outstanding for trade purchases and on-going costs. The average credit period on purchases included in trade payables is 18 days (2016: 26 days); interest is not charged on these trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. All liabilities recorded above are expected to be settled within twelve months of the reporting date and hence all are disclosed as current liabilities.

The directors consider that the carrying amount of trade and other payables approximately equals their fair value.

14. Borrowings

	31 December 2017 £'000	31 December 2016 £'000
Non-current		
Loans from shareholders	287,016	367,015
Finance liability	<u>173,136</u>	<u>178,896</u>
	<u>460,152</u>	<u>545,911</u>
Current (note 13)		
Loans from shareholders	15,093	8,079
Finance liability	<u>5,688</u>	<u>5,104</u>
	<u>20,781</u>	<u>13,183</u>

Non-current borrowings include loan agreements with shareholders and the finance liability in respect of the transmission assets. The shareholder loans accrue interest at a floating rate based on LIBOR plus a margin applied to that balance. The cash value of the shareholder loans is repayable in full in 2020 including any outstanding accrued interest balance with the finance lease repayable in 2033. No

borrowings are secured with the exception of the finance lease in respect of the transmission assets which are owned by an Offshore Transmission Owner (OFTO).

15. Provisions

	Decommissioning £'000
As at 1 January 2016	101,083
Changes in estimate provision	-
Unwinding of discount	4,443
At 1 January 2017	<u>105,526</u>
Change in estimate provision	1,194
Unwinding of discount	2,728
At 31 December 2017	<u>109,448</u>

Provision for decommissioning reflects the decommissioning strategy for the wind farm submitted to and approved by the former Department of Energy and Climate Change incorporating updated cost estimates. Decommissioning is expected to occur in approximately 2036 with this dependent on the evaluation of an option to repower the wind farm for a second term. The provision is calculated on the basis of an inflation rate of 2% with a discount rate of 2.556%.

16. Equity

	2017 £'000	2016 £'000
Share capital	447,123	447,123
Share premium account	1,000	1,000
Retained earnings	76,029	33,294
At 31 December	<u>524,152</u>	<u>481,417</u>

Share capital comprises 447,122,826 shares of £1 each. The Company is 40% owned by Equinor New Energy Limited (formerly Statoil Wind Limited), 40% owned by Equitix Offshore 5 Limited and 20% owned by UK GIB Sheringham Shoal Investment Limited. On 22 December 2017, Statkraft UK Limited sold its 40% shareholding to Equitix Offshore 5 Limited.

17. Related party transactions

The Company is a joint venture undertaking and is 40% owned by Equinor New Energy Limited (formerly Statoil Wind Limited), 40% owned by Equitix Offshore 5 Limited, 20% owned by UK GIB Sheringham Shoal Investment Limited. As noted above, the 40% holding owned by Statkraft UK Limited was sold to Equitix Offshore 5 Limited on 22 December 2017.

Related party transactions that involve a transfer of resources, services or obligations are disclosed regardless of whether a price is charged. Therefore, disclosure is required in respect of guarantees, gifts or other non-reciprocal transfers of assets or services, asset swaps or other similar transactions between related parties.

The following transactions were carried out with related parties:

(a) Revenue received from shareholder entities

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Statkraft Markets GmbH	95,826	71,890
Statoil ASA	63,883	47,954
	<u>159,709</u>	<u>119,844</u>

(b) Year-end balances receivable

	31 December 2017 £'000	31 December 2016 £'000
Statkraft Energy Limited	-	4
Statkraft Markets GmbH	2,239	-
Equinor ASA (formerly Statoil ASA)	9	28
Equinor UK Ltd (formerly Statoil (UK) Ltd)	368	-
	<u>2,616</u>	<u>32</u>

17. Related party transactions (continued)

(c) Costs recharged from shareholder entities

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Statkraft AS	91	342
Statkraft Energi AS	-	17
Statkraft Energy Limited	2,430	4,462
Statkraft Markets GmbH	2	74
Statkraft UK Limited	620	897
Equinor UK Limited (formerly Statoil (UK) Ltd)	2,327	35
Equinor ASA (formerly Statoil ASA)	217	35
	<u>5,687</u>	<u>5,862</u>

(d) Year-end balances payable

	31 December 2017 £'000	31 December 2016 £'000
Statkraft Energy Limited	-	480
Statkraft AS	14	17
Statkraft UK Limited	6	-
Equinor ASA (formerly Statoil ASA)	40	-
	<u>60</u>	<u>497</u>

17. Related party transactions (continued)

(e) Loans from shareholder entities

	31 December	31 December
	2017	2016
	£'000	£'000
Equinor New Energy Ltd (formerly Statoil Wind Ltd)	114,807	146,806
Statkraft AS	-	146,806
UK GIB Sheringham Shoal Investment Limited	57,402	73,403
Equitix Offshore 5 Limited	114,807	-
	<u>287,016</u>	<u>367,015</u>

During the year the loan from Statoil Co-ordination Centre NV was assigned to Statoil Wind Limited (subsequently renamed to Equinor New Energy Limited). In addition, during the year the loan from Statkraft Treasury Centre SA was assigned to Statkraft AS. The resultant loan from Statkraft AS was novated to Equitix Offshore 5 Limited on 22 December 2017 as a consequence of Statkraft's divestment of its shares in the company on that date.

(f) Interest on parent company loans

	Year ended	Year ended
	31 December	31 December
	2017	2016
	£'000	£'000
Statoil Co-ordination Center SA	3,575	4,481
Statkraft Treasury Centre SA	-	4,481
UK GIB Sheringham Shoal Investment Limited	1,788	2,241
Equitix Offshore 5 Limited	3,575	-
	<u>8,938</u>	<u>11,203</u>

(g) Other transactions and year-end balances with related parties

Non-current loans with related parties are also disclosed in note 14. Intercompany financial transactions in the period are disclosed further, see note 9b.

Statkraft Energy Limited, Statkraft UK Limited, Statkraft AS, Statkraft Treasury Centre SA, Statkraft Markets GmbH, are wholly owned subsidiaries of Statkraft SF. Statkraft divested its shareholding in the company on 22 December 2017 to Equitix Offshore 5 Limited.

The Statoil group and its subsidiaries underwent a rebranding on 16 May 2018 changing corporate identity from Statoil to Equinor. Equinor UK Limited (formerly Statoil (UK) Limited and Equinor New Energy Limited (formerly Statoil Wind Limited) are wholly owned subsidiaries of Equinor ASA (formerly Statoil ASA).

17. Related party transactions (continued)

UK Green Investment Sheringham Shoal Limited (formerly UK GIB Sheringham Shoal Investment Limited) is a wholly owned subsidiary of UK Green Investment Bank Limited (formerly UK Green Investment Bank plc).

Equitix Offshore 5 Limited, is a wholly owned subsidiary of Equitix Offshore 4 Limited.

18. Commitments

Operating lease commitments

	31 December 2017 £'000	31 December 2016 £'000
Lease payments under operating leases recognised in the period	1,565	1,404
Minimum value of lease repayments under non-cancellable operating leases:		
	£'000	£'000
Within 1 year	1,102	1,080
Within 2 to 5 years inclusive	4,623	4,531
After 5 years	64,249	65,402
	69,974	71,013

Operating lease commitments include rental of the seabed from the Crown Estate for a total duration of 50 years, ground lease rental in respect of the operational base for a period of 50 years and rental of additional storage space for a period of 20 years. In respect of the rental agreement with the Crown Estate the operating lease is variable being based on the production output for the relevant period with the stipulation of a minimum rental based on 778 GWh per annum.

Finance lease commitments

	31 December 2017 £'000	31 December 2016 £'000
Within 1 year	5,688	5,104
Within 2 to 5 years inclusive	38,268	26,467
After 5 years	134,868	152,429
	178,824	184,000

18. Commitments

Finance lease commitments reflect the sale of transmission assets to an Offshore Transmission Owner ("OFTO") during July 2013 which has been treated as a sale and leaseback transaction. The repayments reflect the enhanced local transmission network use of system (TNUoS) charges over a period of 20 years from which is calculated an implicit interest rate which is used to determine the annual financing charge.

19. Deferred tax

Deferred tax assets and liabilities are offset when the taxes concerned relate to the same taxation authority.

The gross movement on the deferred tax amount is as follows:

	31 December 2017 £'000	31 December 2016 £'000
At 1 January	(6,805)	(6,325)
Prior year adjustment	(355)	1,193
Rate change	378	-
Income statement (charge)/credit	(8,942)	(1,673)
Net deferred tax(liability)/asset at 31 December	(15,724)	(6,805)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances is as follows:

	31 December 2017 £'000	31 December 2016 £'000
Deferred tax assets on tax losses and decommissioning provision		
Credited to income statement	1,106	1,470
	<u>1,106</u>	<u>1,470</u>
Deferred tax liabilities relating to accelerated tax depreciation		
Charged to income statement	(10,025)	(1,949)
	<u>(10,025)</u>	<u>(1,949)</u>
Net charge to income statement	<u>(8,919)</u>	<u>(479)</u>

The following are major deferred tax balances recognised by the Company.

	Accelerated tax depreciation £'000	Capitalised interest £'000	Decommissioning £'000	Total £'000
As at 1 January 2016	(8,140)	(3,037)	4,852	(6,325)
Prior year adjustment	577	616	-	1,193
Rate change	-	-	-	-
Income statement charge	(3,295)	152	1,470	(1,673)
As at 1 January 2017	<u>(10,858)</u>	<u>(2,269)</u>	<u>6,322</u>	<u>(6,805)</u>
Prior year adjustment	(355)	-	-	(355)
Rate change	378	-	-	378
Income statement charge	(10,191)	143	1,106	(8,942)
31 December 2017	<u>(21,026)</u>	<u>(2,126)</u>	<u>7,428</u>	<u>(15,724)</u>

A deferred income tax asset is recognised for decommissioning to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on enacted or substantively enacted legislation (20% to 31 March 2017, 19% from 1 April 2017 to 31 March 2020 and 17% from 1 April 2020).

20. Cash flow from operating activities

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net profit for the year	42,735	8,706
Adjustment for:		
Depreciation	57,357	56,552
Net finance costs	21,051	25,365
Taxation	8,919	479
Revaluations	(1,194)	-
Operating cash flow before movements in working capital	128,868	91,102
(Increase)/decrease in trade and other receivables	(35,219)	12,009
Increase/(decrease) in trade and other payables	(1,664)	2,136
Increase/(decrease) in inventory	1,057	(176)
Cash flow from operating activities	93,042	105,071

21. Capital commitments

There were no capital commitments at the balance sheet date.

22. Financial instruments

	31 December 2017 £'000	31 December 2016 £'000
Fair value of financial instruments		
Financial assets		
Trade and other receivables	81,105	45,905
Cash and cash equivalents	3,324	6,687
	84,429	52,592
Financial liabilities		
Borrowings	(287,016)	(367,015)
Trade and other payables	(45,029)	(39,222)
	(332,045)	(406,237)

The carrying value of all financial assets and liabilities closely approximate to their fair value:

- Cash and cash equivalents comprise balances held with banks. Since the balances mature in less than 90 days, the carrying value is considered to be fair value.
- The fair value of the borrowings is approximate to their carrying value.

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Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements.

31 December 2017

	Carrying amount	Contractual cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
	£'000	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities						
Finance lease liabilities	178,824	265,339	14,771	15,067	47,033	188,468
Shareholder loans	302,109	313,298	147,911	106,116	59,271	-
Trade and other payables	811	811	811	-	-	-
	<u>481,744</u>	<u>579,448</u>	<u>163,493</u>	<u>121,183</u>	<u>106,304</u>	<u>188,468</u>

31 December 2016

	Carrying amount	Contractual cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
	£'000	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities						
Finance lease liabilities	184,000	280,430	14,513	14,804	46,211	204,902
Shareholder loans	375,094	395,184	89,265	98,397	207,522	-
Trade and other payables	826	826	826	-	-	-
	<u>559,920</u>	<u>676,440</u>	<u>104,604</u>	<u>113,201</u>	<u>253,733</u>	<u>204,902</u>

Interest rate sensitivity analysis

An increase of 1% in interest rates at the balance sheet date would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

	31 December 2017 £'000	31 December 2016 £'000
Decrease in equity	3,405	4,103
Decrease in profit	3,405	4,103

A decrease in interest rates to zero at the balance sheet date would have increased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

	31 December 2017 £'000	31 December 2016 £'000
Increase in equity	2,062	1,764
Increase in profit	2,062	1,764

Foreign exchange sensitivity analysis

A 5% percent weakening in the currencies shown against pound sterling at 31 December 2017 would have increased equity and profit and loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 December 2016.

	31 December 2017 £'000	31 December 2016 £'000
Euro	-	62
NOK	3	37
USD	14	64
DKK	-	1

A 5% percent strengthening of the above currencies against pound sterling at 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

23. Dividends

There were no dividends paid or proposed during either 2017 or 2016.

24. Post balance sheet events

There were no post balance sheet events.