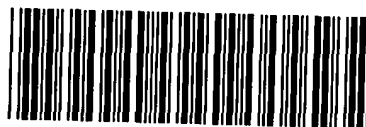


Dragon LNG Group Limited

**Annual Report and Financial
Statements for the year ended
31 December 2019**

Registered Number 05237839

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DRAGON LNG GROUP LIMITED

Annual Report and Financial Statements for the year ended 31 December 2019

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DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Business background and ownership

Dragon LNG Group Limited is a joint venture between BG Energy Holdings Limited (BGEH) - a UK registered company controlled by Royal Dutch Shell plc, and Ancala LNG Limited - a UK registered company owned by investment funds managed by Ancala Partners LLP, who each own 50% of the issued share capital. The company owns 100% of Dragon LNG Limited.

Ancala LNG Limited acquired the 50% shareholding previously owned by Petronas LNG Sendirian Berhad (PLSB) on 2 July 2019.

Dragon LNG Limited owns and operates a liquefied natural gas ("LNG") import and storage terminal in Milford Haven, West Wales.

Dragon LNG Limited has signed a twenty year Throughput Agreement with its customers Shell Energy Europe Limited and Petronas Energy Trading Limited who each have access to 50% of the terminal capacity. This agreement commenced in 2009. Subject to maintaining the operational availability of the terminal, this largely fixes the group's main revenue stream over this period.

Review of the business

Revenue decreased by £1.5m (2.1%). The key components of this variance are;

- Decreased electricity export revenue (-£11.4m). Export volumes to the grid reduced to nil following cessation of cogen plant operations in November 2018;
- Increased fuel gas income (+£3.6m) following cessation of cogen operations;
- Increased electricity recharge income from customers (+£3.2m) as the customers are invoiced for the full cost of reliquefaction plant electricity consumption.
- Increased tariffs chargeable to customers (+£3.0m) following start-up of the reliquefaction plant in place of the cogen plant;

Cost of revenue increased by 36.5% which is mainly due to the increased electricity import costs (+£9.6m) following the cessation of onsite electricity generation in November 2018. Closure of the cogen plant has resulted in cost savings on CO2 emissions (£3.4m), Climate Change Levy (£2.6m) and raw water (£0.3m)

Administrative expenses increased by 9.2% - the main element of this increase was a full year's depreciation charge on the reliquefaction plant (£6.3m), partially offset by a £1.1m reduction in cogen decommissioning costs.

Profit before tax decreased by £8.8m to £5.8m as a result of the reduced revenue and increased costs.

During the year dividends totalling £30.9m (2018 - £36.4m) were paid to the shareholders. There was a net cash outflow of £7.9m (2018 - outflow of £5.2m) resulting in a year end cash balance of £2.9m.

The group had total equity of £266.4m at 31 December 2019 (2018: £293.0m)

DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019 (continued)

Principal risks and uncertainties

The management of the business and execution of the group's strategy are subject to a number of risks.

The most significant of these is operational risk - the need to maintain the availability of the terminal at the level required in the Throughput Agreement (between the group and its customers). To minimise the risk of lost income and the reduced liquidity that would arise from terminal unavailability, the plant is maintained in line with its comprehensive maintenance programme, which reflects approved manufacturer and/or vendor guidelines and a stock of key spares are securely held by the group.

Another aspect of operational risk relates to the fact that the group's activities are considered to be potentially hazardous and environmentally sensitive. All activities are planned and organised in order to minimise health, safety and environmental impacts and the group works closely with all of the relevant regulatory bodies.

The group does not take title of any of the gas processed by the terminal and so is not exposed to any gas price risk other than in relation to the cost of fuel gas used during the regasification process – the group has chosen not to enter into contracts to fix these prices in the market.

Electricity import costs are subject to price risk from changes in the market price of electricity – the group has chosen not to enter into contracts to fix these prices in the market.

Financial risk management

Interest rate risk is negligible because the group does not have any borrowings (other than a small short-term overdraft facility) on which interest is being charged.

Credit risk is the risk that a customer fails to pay an amount due, causing the group to incur a financial loss. The two main customers are large multinational companies (and one is a subsidiary of one of the Dragon Group shareholders), consequently credit risk is considered minimal.

Foreign currency risk relating to normal operations is considered low given the low level of foreign currency transactions (approximately 1% of total expenditure).

The group pays the market price for any electricity imported from the grid. The cost of any gas used (or saved) during the regasification process is based upon the market price of gas at the time. Consequently, the group is subject to fluctuations arising from variations in the market price of electricity and gas. The group has chosen not to hedge these risks.

DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019 (continued)

Key performance indicators (KPIs)

The management consider the following measures to be of key importance in assessing the group's performance;

Profitability

	2019 £'000	2018 £'000	Change
Total revenue	67,727	69,181	-2.1%
Administration expenses excluding depreciation and inventory provisions	15,297	17,195	-11.0%
Profit before taxation	5,841	14,558	-59.9%

Revenue is approximately £1.5m lower than in 2018. The cessation of cogen operations in November 2018 and commencement of the reliquefaction plant has resulted in higher tariffs, electricity recharges and fuel gas income, offset by the loss of electricity export income.

Administration expenses excluding depreciation decreased as a result of continued efficiency savings and a reduction in cogen maintenance costs. Cogen decommissioning costs were £1.1m higher in 2018 – mainly due to a large accrual for future demolition costs.

Shareholder payments

	2019 £'000	2018 £'000	Change
Dividends paid	30,941	36,401	-15.0%

Shareholder payments in 2019 were lower due lower profitability and an increase in capital expenditure.

Non-financial performance indicator

	2019	2018	Change
Staff turnover	4.0%	14.1%	-10.1%

Staff turnover is calculated by expressing the number of leavers during the year as a percentage of the average number of employees during that year. During 2019 three employees retired and had not been replaced by the end of the year. The 2018 figure is higher due the departure of several apprentices towards the end of their training.

DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019 (continued)

SECTION 172(1) STATEMENT

Decision making

The board of directors comprises of four directors – two from each of the shareholders of Dragon LNG Group Limited – Royal Dutch Shell plc and Ancala Partners LLP (from 2 July 2019, formerly Petronas LNG Sendirian Berhad).

The board meets on a quarterly basis at meetings that are also attended by the Extended Leadership Team (ELT) of Dragon LNG Limited. The ELT are responsible for the day to day management of the group. The ELT includes the Managing Director who is seconded from Royal Dutch Shell plc and the Head of Finance and Administration who is seconded from Ancala Partners LLP.

The board regularly meets to discuss a broad range of topics including;

- Health, safety & environmental performance (HSE)
- Financial performance
- Cash flow
- Continuous improvement
- Industry benchmarking
- Commercial performance and opportunities
- Audit & compliance
- Business risk management
- Operations and asset integrity
- Company performance scorecard
- Major projects

On an annual basis the Board reviews and approves the annual plans for HSE Improvement, Audit, Stakeholder Engagement, Corporate Social Responsibility, Business plans and Budgets.

In addition to the board meetings the directors also attend annual business risk and process safety workshops at the terminal when they have the opportunity to tour the site and speak with staff.

The strategic objectives of the group are to be Safe, Reliable, Competitive and Agile in a changing market. These objectives are central to all the decisions made by the directors.

The board believes that the long-term success of the group is dependent on how it works with a range of key stakeholders. These stakeholders are considered in their decision making and therefore ensures the directors' duties under Section 172 of the Companies Act 2006 are met.

Stakeholder engagement

Employees

People and safety are the group's main priorities, our terminal operates safely, reliably and competitively because of our team of highly skilled, experienced and qualified employees. The group has a structured annual training plan and regularly assesses the competency of all key staff through its robust Competency Assurance Framework – performance against this framework is a KPI that is reported to and reviewed by the Board as part of the group's overall asset integrity.

Employee engagement in decision making is achieved through regular staff communications briefings to update staff on topical issues and regular meetings of the Works Council which is made up of employee representatives and chaired by the Managing Director. Employee engagement surveys are also carried out on a regular basis to highlight opportunities for improvement and development of an action plan, which is shared with the Board.

DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019 (continued)

SECTION 172(1) STATEMENT (continued)

Further channels of communication are provided by a 'Fit For the Future' continuous improvement scheme, safety observation cards which can be submitted by any employee or business partner and a confidential 'Speak Up' line.

Dragon operates a company scorecard, performance against which is measure on a monthly basis and communicated to staff. This also forms part of our reward and recognition and provides a basis for discussion around prioritisation, decision making and business performance.

Community

Community engagement includes regular meetings of the Community Liaison Committee at which members of the local community can meet with members of the ELT to discuss plant operations and raise any concerns that they may have.

The group also nominates and supports a local charity of the year, arranges charity volunteering days for employees, sponsors various local events and has a close working relationship with Pembrokeshire College.

With Dragon LNG's corporate social responsibility (CSR) strategy being youth development and training in Pembrokeshire, its principal charitable donations since 2005 have focused on delivering the UK award winning 'Dragon LNG Darwin Experience' (DLNGDE) through registered charity The Darwin Centre – the Board has recently approved an extension to continue its support until end of 2020.

Environmental

Prior to construction of the terminal, the group undertook an Environmental Impact Assessment (EIA), consulting with over 50 organisations, including local interest groups and statutory and non-statutory bodies.

Key concerns were addressed to safeguard the Pembrokeshire Marine Special Area of Conservation by reducing the visual impact of the facility and minimising loss of terrestrial habitat. In all cases, a minimum impact philosophy was adopted and the final landscaping and water features provide environmental gain in terms of biodiversity and nature conservation. The group has completed several projects to enhance the natural environment such as planting a wildflower meadow, developing a reptile friendly area and grazing rare breeds.

The group has an Environmental Management System (EMS) which meets the requirements of ISO14001. This ensures all our operational activities that impact the environment are risk assessed. Based on the environmental risk assessment, actions are put in place to eliminate, reduce and mitigate environmental impact.

The Board have recently reviewed and approved the group's Energy Saving Opportunities Report which identifies future energy efficiency projects.

Customers

The group has two key customers who have each contracted to purchase 50% of the available terminal capacity in a twenty-year throughput agreement (TA) that runs until 2029.

Regular monthly customer calls are held with the customers and representatives of the group's ELT to discuss any issues or concerns and potential opportunities. The Board is aware of these topics through the quarterly commercial board paper and other briefings where required.

Customer representatives regularly visit the site and enjoy frequent interaction and discussion with the ELT and staff.

DRAGON LNG GROUP LIMITED

Strategic Report for the year ended 31 December 2019 (continued)

SECTION 172(1) STATEMENT (continued)

Suppliers

The group values the importance of good relationships with suppliers and business partners and relies on them to provide a high level of service where safety is always paramount.

To promote this relationship and encourage two-way conversations the group invites key vendors to a Contractor Forum. At this event the group has the opportunity to share its strategic objectives with the vendors and reinforce the message that safety is at the heart of everything that we do. The meetings also allow best industry practices to be shared and for vendors to raise any issues or suggestions that they may have to improve the quality of our working relationship.

The group operates and maintains an approved vendor list, where suppliers have been approved through a robust qualification process and regular vendor audits.

Major contracts, including high value, long term and key contracts, are highlighted to the Board in the quarterly commercial board paper and approved by them at Board meetings.

Regulators and Governmental Organisations

The group has excellent relationships with key regulatory and governmental organisations which include National Resources Wales (NRW), the Health and Safety Executive (HSE), HM Revenue and Customs (HMRC), National Grid, Milford Haven Port Authority, Pembrokeshire County Council and the Centre for the Protection of National Infrastructure (CPNI).

We co-operate with all requests for information and encourage site visits where the ELT and other employees are available to provide any information requested.

Relationships with regulators are regularly discussed in various HSE, commercial, operations and asset integrity Board papers.

Principal decisions taken by the board during the year

During 2019 the principal decisions taken by the board included;

- Approval of the annual audited financial statements for FY2018;
- Approval of the 2020 Business Plan & budget
- Approval of the 2020 Health, Safety & Environment (HSE) plan
- Approval of annual audit plan
- Approval of the 2019 dividend payments which were broadly in line with the amounts included in the 2019 budget which takes into account the availability of cash to meet its ongoing operations
- Approval of the Modern Slavery Statement;
- Approval of key vendor contract extensions;
- Approval of extension to Darwin project
- Approval of Renewables Project working group

DRAGON LNG GROUP LIMITED

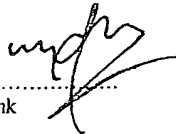
Strategic Report for the year ended 31 December 2019 (continued)

Future developments

In the coming year the group's vision is 'To provide our customers with competitive access to the UK's natural gas market through a safe and reliable LNG terminal while remaining profitable and agile in the evolving energy sector'.

Safety will continue to be the number one priority of the group. In addition to this a key focus for 2020 will be plant and energy optimisation alongside the safe and efficient decommissioning of the cogen plant, and the continuation of the group's digitalisation projects.

On behalf of the Board of Directors



.....
Jan Maarten Rene Meijerink
Director

17 March 2020

DRAGON LNG GROUP LIMITED

Directors' Report for the year ended 31 December 2019

The directors present their report and audited financial statements of the group for the year ended 31 December 2019.

Results and dividends

The consolidated group results are shown on page 14. During the year total dividends recommended and paid amounted to £30,941,190 (2018: £36,401,400).

Directors and their interests

The directors who served during the year and up to the date of signing the financial statements were:

Jan Maarten Rene Meijerink
Thomas Summers

Lee Stephen Mellor	Appointed 2 July 2019
Timothy Power	Appointed 2 July 2019

Ziaril Faiz Bin Zakaria	Resigned 2 July 2019
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None of the directors had any interests in the shares of the company as at either year end.

Peter Van Duzer served as company secretary during the year.

Strategic report

The following information required in the Directors' Report has been included in the Strategic Report:

- Financial risk management (see page 3)
- Future developments (see page 8)

DRAGON LNG GROUP LIMITED

Directors' Report for the year ended 31 December 2019 (continued)

Statement of Directors' responsibilities in respect of the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

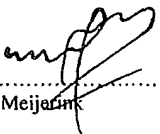
Statement of disclosure of information to auditors

As part of the audit process each director has confirmed, as at the date of approval of the financial statements, that:

- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) they have taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

It is intended that PricewaterhouseCoopers LLP shall remain in office as auditors of the company.

On behalf of the Board of Directors


.....
Jan Maarten Rene Meijdam
Director

17 March 2020

DRAGON LNG GROUP LIMITED

Independent auditors' report to the members of Dragon LNG Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Dragon LNG Group Limited's group financial statements and company financial statements (the "financial statements"):

give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and the group's and company's cash flows for the year then ended;

have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company Statements of Financial Position as at 31 December 2019; the Consolidated Statement of Comprehensive Income, the Group and Company Statements of Changes in Equity, the Group and Company Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

DRAGON LNG GROUP LIMITED

Independent auditors' report to the members of Dragon LNG Group Limited

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

DRAGON LNG GROUP LIMITED

Independent auditors' report to the members of Dragon LNG Group Limited

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Jonathan Bound (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
17 March 2020

DRAGON LNG GROUP LIMITED

Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

Registered Number 05237839

	Note	2019 £'000	2018 £'000
Revenue	3	67,727	69,181
Cost of revenue		(12,598)	(9,230)
Gross profit		55,129	59,951
Administrative expenses		(47,143)	(43,154)
Operating profit	4	7,986	16,797
Finance income	5	31	64
Finance costs	5	(2,176)	(2,303)
Profit before taxation		5,841	14,558
Income tax expense	6	(1,488)	(3,086)
Profit after taxation		4,353	11,472

The above results are derived from continuing operations in the United Kingdom. There are no items of 'Other comprehensive income' and therefore the Profit after taxation equates to the Total Comprehensive Income for the year.

DRAGON LNG GROUP LIMITED

Statements of Financial Position as at 31 December 2019

	Note	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	7	334,963	-	362,207	-
Investments	8	-	259,803	-	290,744
Goodwill	9	6,523	-	6,523	-
Deferred tax assets	16	10,574	-	11,985	-
		352,060	259,803	380,715	290,744
Current assets					
Inventories	10	2,761	-	2,758	-
Trade and other receivables	11	2,140	-	2,538	-
Cash and cash equivalents	12	2,896	33	10,874	33
		7,797	33	16,170	33
TOTAL ASSETS		359,857	259,836	396,885	290,777
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	13	10,615	-	20,190	-
Lease liabilities	14	1,895	-	1,769	-
		12,510	-	21,959	-
Non-current liabilities					
Lease liabilities	14	21,772	-	22,715	-
Provisions for liabilities	15	29,072	-	28,363	-
Deferred tax liabilities	16	30,127	-	30,884	-
		80,971	-	81,962	-
Capital and reserves					
Ordinary shares	17	1	1	1	1
Retained earnings		266,375	259,835	292,963	290,776
TOTAL EQUITY		266,376	259,836	292,964	290,777
TOTAL LIABILITIES AND EQUITY		359,857	259,836	396,885	290,777

The notes on pages 18 to 44 form part of these financial statements.

The financial statements on pages 14 to 44 were authorised for issue by the board of directors on 17th March 2020 and were signed on its behalf by:

Jan Maarten Rene Meijerink
Director
17 March 2020

DRAGON LNG GROUP LIMITED

Statements of Changes in Equity for the year ended 31 December 2019

Company	Ordinary shares	Retained earnings	TOTAL EQUITY
	£'000	£'000	£'000
Balance at 1 January 2018	1	327,177	327,178
Dividends paid	-	(36,401)	(36,401)
Balance at 31 December 2018	1	290,776	290,777
Balance at 1 January 2019	1	290,776	290,777
Dividends paid	-	(30,941)	(30,941)
Balance at 31 December 2019	1	259,835	259,836

Group	Ordinary shares	Retained earnings	TOTAL EQUITY
	£'000	£'000	£'000
Balance at 1 January 2018	1	317,892	317,893
Profit for the year	-	11,472	11,472
Dividends paid	-	(36,401)	(36,401)
Balance at 31 December 2018	1	292,963	292,964
Balance at 1 January 2019	1	292,963	292,964
Profit for the year	-	4,353	4,353
Dividends paid	-	(30,941)	(30,941)
Balance at 31 December 2019	1	266,375	266,376

DRAGON LNG GROUP LIMITED

Statements of Cash Flows for the year ended 31 December 2019

	Note	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Cash flows from operating activities					
Cash generated from operations	19	39,425	-	46,782	-
Income tax paid		(615)	-	(1,423)	-
Income tax received		509	-	-	-
Net cash generated from operating activities		39,319	-	45,359	-
Cash flows from investing activities					
Purchases of property, plant & equipment		(13,091)	-	(11,082)	-
Dividends from subsidiary		-	30,941	-	36,401
Interest received		31	-	64	-
Interest payable on leases		(1,394)	-	(1,407)	-
Receipt of consideration	8	-	-	2	2
Net cash (used in)/generated from investing activities		(14,454)	30,941	(12,423)	36,403
Cash flows from financing activities					
Capital repayment on leases		(1,829)	-	(1,693)	-
Short term loan repaid		-	-	(1)	(1)
Dividends paid	18	(30,941)	(30,941)	(36,401)	(36,401)
Net cash used in financing activities		(32,770)	(30,941)	(38,095)	(36,402)
Net (decrease)/increase in cash and cash equivalents		(7,905)	-	(5,159)	1
Foreign exchange loss on Euro account		(73)	-	(151)	-
Cash and cash equivalents at beginning of year		10,874	33	16,184	32
Cash and cash equivalents at end of year	12	2,896	33	10,874	33

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019

1 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE

The financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 17th March 2020. Dragon LNG Group Limited is a private limited company limited by shares and incorporated and domiciled in England and Wales. The registered office address is at Main Road, Waterston, Milford Haven, Pembrokeshire, SA73 1DR.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006. In accordance with section 408 of the Companies Act, the exemption not to present the Income Statement of the company has been taken.

The financial statements have been prepared on the going concern basis under the historic cost convention (except for certain fixed assets held at a frozen valuation). The financial statements are prepared in GBP sterling and all values are rounded to the nearest thousand pounds unless otherwise stated.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to all the years presented unless otherwise stated.

Consolidation

The financial statements comprise a consolidation of the accounts of the company and its subsidiary undertakings. All inter-company transactions are eliminated on consolidation. Consistent accounting policies have been used to prepare the consolidated financial statements.

New accounting standards adopted during the year

The group adopted IFRS 16 Leases for the first time which is effective for periods beginning on 1 January 2019. Full details of the impact of this adoption is set out in note 25.

New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is that they will not have a material impact of the financial statements.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue arises from the provision of services carried out under contractual relationships with customers. During the year these services are primarily the storage and regasification of LNG. The group recognises revenue as it transfers control over its services to the customer. Further information of revenue from customer contracts is set out in note 3.

Interest payable and receivable

Interest payable and receivable is calculated on an accruals basis.

Property, plant and equipment

Other than as noted below, non-current assets are held at cost which represents purchase price together with any incremental costs that are directly attributable to bringing the asset into working condition for its intended use.

Long term, nil-rent leases of the land and jetty assets required for the construction of the LNG facility were transferred from a subsidiary company by means of a distribution in specie at market value. Under the initial implementation provisions that were applicable at the time, the group has not adopted a policy of on-going revaluation, and the market value at the time of the distribution has been frozen as deemed cost. As the economic value and economic life of these interests are inextricably linked to the LNG terminal's economic life, they are being written off over the estimated economic life of the terminal or the original lease term as appropriate.

Other non-current assets are depreciated at rates calculated to write off the costs, less estimated residual value of each asset over its expected useful life on a straight line basis. The lives adopted for this purpose are as follows:

Jetty	60 years
Property improvements	15 years
Administration building	30 years
Tools & equipment	5 years
Office equipment	3-5 years
Plant & machinery	11-20 years
Vehicles	5 years
Decommissioning asset	20 years

Land and assets under construction are not depreciated.

Impairment of non-financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific asset or group of assets is impaired. Impairment is determined as the higher of;

- For assets carried at fair value, impairment is the difference between cost and fair value
- For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar asset

If such evidence exists, any impairment loss is recognised in the income statement.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred income tax is provided using the liability method on all timing differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognised for all timing differences calculated at the tax rate that is expected to apply to the period when the liability is settled. Deferred tax is charged in the income statement or statement of total comprehensive income as appropriate. Deferred tax assets are recognised for all deductible timing differences to the extent that it is probable that taxable profits will be available against which the deductible timing differences can be utilised.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial assets

Recognition and de-recognition of financial assets

A financial asset is recognised when the group becomes party to the contractual provisions of the instrument.

A financial asset is derecognised where:

- (a) the rights to receive cash flows from the asset have expired;
- (b) the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- (c) the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Classification of financial assets

The group classifies its financial assets in accordance with the measurement categories included within IFRS 9:

- measured subsequently at fair value (either through other comprehensive income, or through profit or loss), or
- measured at amortised cost.

All financial assets held by the group are debt instruments (note 23). The classification of these financial assets depends on the entity's business model for managing the assets and the contractual terms of the cash flows. The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

Measurement of financial assets

At initial recognition, the group measures debt instruments at their fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The group subsequently measures its financial assets based on the cash flow characteristics of the asset:

- Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Assets that are not held for collection of contractual cash flows, or where those cash flows do not represent solely payments of principal and interest are measured at fair value (either through profit or loss, or through other comprehensive income).

Impairment of financial assets

The group assesses on a forward looking basis the Expected Credit Loss ("ECL") associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk, and takes into account any collateral the group holds that would mitigate such losses. Note 24 details how the group determines whether there has been a significant increase in credit risk, and its approach with respect to providing for ECLs.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less where deposits can be recalled on demand, usually within forty-eight hours.

Inventories

Spare part inventory is stated at cost, determined using the weighted average cost method with appropriate adjustments for provisions against surplus inventory, deterioration, obsolescence or other loss in value. Costs are those expenses incurred in bringing the materials to their present location and condition.

Trade and other receivables

Trade and other receivables are stated at their gross amounts less any provisions for uncollectible amounts.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the group has an obligation (legal or constructive) arising from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Leases

From 1 January 2019 the group has changed its accounting policy for leases where the group is the lessee in accordance with IFRS 16. The new policy is described below and the impact of the change in note 25.

The group leases the jetty foreshore from the Crown Estate as well as various vehicles. Rental contracts are typically made for fixed periods. The foreshore lease is for 60 years (ending in 2066) and the vehicle leases are for 3-5 years. The contractual arrangement with Air Products for the provision of a nitrogen plant is also falls within the definition of a lease.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Leases (continued)

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Dragon LNG Limited, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Until 31 December 2018 leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to statement of comprehensive income on a straight-line basis over the period of the lease.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The financial statements are prepared in GBP sterling which is the group's functional and presentation currency.

Foreign currency transactions are recorded in GBP sterling at the approximate rates of exchange prevailing at the time of each transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated to GBP sterling at the year-end rates of exchange, and exchange differences arising thereon are taken to the income statement.

Income taxes

The actual income tax charged on profits is determined in accordance with UK tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used to determine the liability for the tax to be paid in the period.

Dividends

Dividend distributions are recognised in the year in which the dividends are paid.

Critical accounting estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below;

- Deferred tax asset and liability

The group has recognised a deferred tax liability of £30,127,000 (2018: £30,884,000) relating to timing differences between book and tax values of non-current assets. It has also recognised a deferred tax asset of £10,574,000 (2018: £11,985,000) in relation to taxable trading losses and an inventory provision – management are confident that there will be future taxable profits against which this deferred tax asset can be utilised.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates (continued)

- Provision for decommissioning

The group is required to dismantle the terminal at the end of its useful life. A provision has been established based upon engineering estimates of the costs involved, inflated to the estimated decommissioning date then discounted to reflect the time value of money. As adjustments and any updates to the estimated engineering costs are made, these are recorded prospectively with the provision and related decommissioning asset being adjusted during the year in which the updated assessment is made. It should be noted that the engineering report on which this provision is based has a stated accuracy of +/- 30%.

- Annual impairment review

In accordance with IFRS regulations the group is required to carry out an annual impairment review in which the carrying value of the group's assets are compared against the present value of estimated future cash flows. In calculating this present value estimates have also been made regarding the terminal's economic life, the residual value of the terminal and the discount rate applied to future cash flows.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

3 REVENUE

	2019 £'000	2018 £'000
LNG storage and regasification and other services	67,727	57,483
Electricity generation	-	11,698
	67,727	69,181

i. Regasification services

The group's main source of income is generated from LNG storage and regasification services, realised from the availability of processing capacity at its Terminal in Milford Haven. There is a long term Throughput Agreement entered into with Shell Energy Europe Limited and Petronas Energy Trading Limited who each have access to 50% of the terminal capacity.

Regasification services comprises of berthing slots at the Terminal to receive and unload LNG carriers, storage space and redelivery capacity to allow the flow of natural gas to the UK Network Transmission System.

The group recognises the provision of a fully integrated regasification service as a single performance obligation satisfied over time with revenue recognised as the service is rendered. Regasification services are charged monthly in arrears, recognised as accrued revenue at the period end and settled within 15 - 30 days from date of invoice (note 11).

ii. Electricity generation

During the previous year the group also generated electricity at the Terminal which was sold to a small number of local entities as well as being exported into the National Grid. Electricity generation ceased in November 2018 and is not expected to restart in the future.

The group recognised the provision of electricity as a single performance obligation satisfied over time with revenue recognised as the service is rendered. The electricity generated is billed monthly in arrears, recognised as accrued revenue at the period end and settled within 15 – 30 days from date of invoice (note 11).

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	31,747	25,380
Profit on sale of assets	-	(250)
Remuneration of auditors – audit related assurance services	39	39
Remuneration of auditors – non audit services (tax advice)	16	14
Operating lease charges	-	119
Payroll costs;		
Wages and salaries	4,918	5,250
Social security costs	614	667
Other pension costs	564	483
	6,096	6,400

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

	2019	2018
Operations and maintenance	57	58
Administration	18	20
	75	78

The remuneration of the directors is paid and dealt with by the shareholders, Royal Dutch Shell plc, Petronas LNG Sendirian Berhad (PLSB)(until 2 July 2019) and Ancala Partners LLP. Dragon LNG Group Limited is not recharged for the services of the directors, nor is it practicable to allocate their remuneration related to their services to the group.

5 NET FINANCE EXPENSE

	2019 £'000	2018 £'000
Finance income		
Interest on short term deposits	31	64
Total finance income	31	64
Finance costs		
Unwinding of discount on decommissioning provision	(709)	(746)
Interest on leases	(1,394)	(1,407)
Foreign exchange impacts	(73)	(150)
Total finance expenses	(2,176)	(2,303)
Net finance expense	(2,145)	(2,239)

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

6 INCOME TAX EXPENSE

	2019 £'000	2018 £'000
Current tax		
Corporation tax at 19.00 % (2018: 19.00%) on profit for the year	734	648
Adjustments in respect of previous years	100	(538)
Total current tax	834	110
Deferred tax		
Current year	1,048	2,821
Adjustments in respect of previous years	(283)	452
Effect of changes in tax rates	(111)	(297)
Total deferred tax	654	2,976
Total tax charge reported in the Income Statement	1,488	3,086

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

6 INCOME TAX EXPENSE (continued)

The taxation assessed for the year is higher (2018: higher) than the rate applying in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Profit before taxation	5,841	14,558
Profit before taxation multiplied by the UK rate of Corporation Tax of 19.00% (2018: 19.00%)	1,110	2,766
Effects of:		
Expenses not deductible for tax purposes	672	703
Tax rate changes	(111)	(297)
Adjustments in respect of previous years	(183)	(86)
Total income tax	1,488	3,086

The changes in the main corporation tax rate were substantively enacted as part of the Finance Bill 2016. The main corporation tax rate was reduced from 20% to 19% effective from 1 April 2017 and will reduce to 17% from 1 April 2020. As this rate was substantively enacted prior to the balance sheet date the effects should be reflected in the deferred tax workings. Therefore, deferred tax balances for this period are expected to reverse at 19% from 1 January 2020 and at 17% from 1 April 2020. However, the closing deferred tax balances have been calculated at the 17% on the basis that the differences if the relevant amounts were recognised at 19% are not material.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

7 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Jetty	Land	Property Improvements	Admin Building	Tools & Equipment	Office Equipment	Plant & Machinery	Assets Under Construction	Vehicles	Decomm- issioning Asset	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation											
At 1 January 2018	23,000	6,000	1,717	282	697	1,533	559,783	54,899	94	12,743	660,748
Additions	-	-	-	-	-	162	1,525	14,875	-	9,227	25,789
Transfers	-	-	-	-	-	-	69,774	(69,774)	-	-	-
At 31 December 2018	23,000	6,000	1,717	282	697	1,695	631,082	-	94	21,970	686,537
Accumulated Depreciation											
At 1 January 2018	3,194	-	1,055	55	697	1,427	287,120	-	94	5,308	298,950
Charge for year	383	-	114	9	-	68	23,694	-	-	1,112	25,380
Disposals	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	3,577	-	1,169	64	697	1,495	310,814	-	94	6,420	324,330
Net Book Value											
At 31 December 2018	19,423	6,000	548	218	-	200	320,268	-	-	15,550	362,207
At 31 December 2017	19,806	6,000	662	227	-	106	272,663	54,899	-	7,435	361,798

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

7 PROPERTY, PLANT AND EQUIPMENT – GROUP (continued)

	Jetty	Land	Property Improvements	Admin Building	Tools & Equipment	Office Equipment	Plant & Machinery	Assets Under Construction	Vehicles	Decomm- issioning Asset	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation											
At 1 January 2019	23,000	6,000	1,717	282	697	1,695	631,082	-	94	21,970	686,537
Additions	877	-	73	-	-	164	3,219	-	170	-	4,503
At 31 December 2019	23,877	6,000	1,790	282	697	1,859	634,301	-	264	21,970	691,040
Accumulated Depreciation											
At 1 January 2019	3,577	-	1,169	64	697	1,495	310,814	-	94	6,420	324,330
Charge for year	402	-	131	9	-	98	29,603	-	46	1,458	31,747
At 31 December 2019	3,979	-	1,300	73	697	1,593	340,417	-	140	7,878	356,077
Net Book Value											
At 31 December 2019	19,898	6,000	490	209	-	266	293,884	-	124	14,092	334,963
At 31 December 2018	19,423	6,000	548	218	-	200	320,268	-	-	15,550	362,207

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

7 PROPERTY, PLANT AND EQUIPMENT – GROUP (continued)

As set out in the basis of preparation note, property, plant and equipment include a directors' valuation of the jetty. This was transferred from a subsidiary company by means of a distribution in specie at a directors' valuation of £23m.

The land upon which the terminal is built was also originally transferred from a subsidiary company by means of a distribution in specie at a directors' valuation of £25m. As part of IFRS conversion work during 2015, this land was revalued by Messrs Lambert Smith Hampton at £6m as at 1 January 2014 and is now the asset's deemed cost going forward.

Plant and machinery includes the capitalised cost of a right of use assets that are leased by the company (see note 14).

The company has no property, plant and equipment.

8 INVESTMENTS

	2019 £'000	2018 £'000
Cost as at 1 January	290,744	327,147
Reduction due to dividend received from subsidiary	(30,941)	(36,401)
Reduction due to partial refund of original consideration	-	(2)
Cost as at 31 December	259,803	290,744

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The company's subsidiary undertakings are:

Subsidiary	Business	Share of Equity Capital	Country of registration
Dragon LNG Limited	LNG terminal operator	100%	England and Wales
Milford Energy Limited	Dormant	100%	England and Wales

The registered address for both of these companies is Main Road, Waterston, Milford Haven, Pembrokeshire, SA73 1DR.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

9 GOODWILL

	Group £'000
Net book value :	
As at 1 January 2019	6,523
As at 31 December 2019	6,523

The recoverable amount of the group's goodwill and other non-current assets has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management for the next financial year. Cash flows beyond that period are estimated using longer term projections up to the end of the current Throughput Agreement the group has with its customers. Given the predominantly fixed nature of the group's revenue under the Throughput Agreement, the key assumptions within the value in use calculations are the discount rate of 8% and the terminal value of the facility at the end of the current Throughput Agreement.

10 INVENTORIES

Inventories comprise operating spares used in the group's maintenance activities. These inventories are held at cost which at the year-end amounted to £2,761,000 (2018 - £2,758,000). The value of stock issues charged to the Income Statement during the year was £297,000 (2018 - £381,000).

A provision for the full book value of the cogen spares (£823k) has been made following the cessation of cogen operations in November 2018. In addition to this, a general provision of £500,000 (2018: £400,000) has been created to allow for stock obsolescence.

11 TRADE AND OTHER RECEIVABLES

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Trade receivables	56	-	51	-
Amounts owed by joint venture shareholders (see note 22)	290	-	643	-
Other receivables	367	-	302	-
Prepayments	1,427	-	888	-
Corporation tax recoverable	-	-	358	-
Other taxation and social security	-	-	296	-
	2,140	-	2,538	-

Trade receivables are non-interest bearing and are generally settled on terms of between 15 and 30 days. No provision for impairment has been made at 31 December 2019 as all receivables are considered current and there is no indication of impairment at the balance sheet date. Details of the group's approach to providing for expected credit losses can be found in note 24.

Amounts due from joint venture shareholders and other receivables primarily comprise of revenue earned but not yet invoiced. No interest is payable on the balances due from joint venture shareholders which are normal trading balances with standard payment terms.

The carrying amount of trade and other receivables are held at amortised cost and are considered approximate to their fair value.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

12 CASH AND CASH EQUIVALENTS

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Cash at bank	2,896	33	10,874	33
	2,896	33	10,874	33

Cash is held in the form of current account balances and short term treasury deposits. Interest is earned at floating rates based upon the daily spot rates.

Cash includes a Euro current account with a balance of €395,596 (2018 – €3,131,156). This has been converted to Sterling at the year-end conversion rate of £1 = €1.18 (2018 £1 = €1.11). The carrying value of cash is held at amortised cost and is considered to approximate to its fair value.

13 TRADE AND OTHER PAYABLES

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Trade payables	2,703	-	8,294	-
Accrued expenses	3,974	-	9,731	-
Amounts owed to joint venture shareholders (see note 22)	2,935	-	2,165	-
Other taxation and social security	633	-	-	-
Corporation tax payable	370	-	-	-
	10,615	-	20,190	-

It is group policy that payments to suppliers are made in accordance with agreed terms and conditions.

Amounts due to joint venture shareholders are interest free and primarily comprise costs incurred but not yet invoiced. They are normal trading balances with standard payment terms.

The carrying amount of trade and other payables are held at amortised cost and are considered approximate to their fair value.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

14 LEASES

The group leases the jetty foreshore from the Crown Estate as well as various vehicles. Rental contracts are typically made for fixed periods. The foreshore lease is for 60 years (ending in 2066) and the vehicle leases are for 3-5 years. The contractual arrangement with Air Products for provision of a nitrogen plant also falls within the definition of a lease. Full details of the accounting policy for leases provided in note 2.

Amounts recognised in the statement of financial position

	2019 £'000	2018 £'000
Right-of-use assets (net book value)		
Plant & machinery – Nitrogen plant	18,671	20,538
Jetty	858	-
Vehicles	90	-
	19,619	20,538
	2019 £'000	2018 £'000
Lease liabilities		
Current	1,895	1,769
Non-current	21,772	22,715
	23,667	24,484

In the previous year the group only recognised lease assets and liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant & equipment and the liabilities disclosed separately in the statement of financial position. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 25.

Additions to the right-of-use assets during the 2019 financial year were £1,011,651.

Amounts recognised in the statement of comprehensive income

	2019 £'000	2018 £'000
Depreciation charge on right-of-use assets		
Plant & machinery – Nitrogen plant	1,867	1,867
Jetty	19	-
Vehicles	45	-
	1,931	1,867
	2019 £'000	2018 £'000
Interest expense	1,394	1,407
	1,394	1,407

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

15 PROVISIONS FOR LIABILITIES

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Terminal decommissioning provision - at 1 January	28,363	-	18,390	-
Increase in provision following updated cost estimate	-	-	9,227	-
Unwinding of discount charged to the Income Statement	709	-	746	-
At 31 December	29,072	-	28,363	-

Dragon LNG Limited is required at the end of the project life to decommission its facilities. In accordance with IAS 37, a decommissioning provision has been established to meet this obligation based on the current best estimate of the future costs to be incurred at the end of the terminal's life which is estimated to be 20 years. The amount has been calculated on a discounted basis with the impact of the discount unwinding each year being charged as a finance cost in the Income Statement.

16 DEFERRED INCOME TAX - GROUP

Movement in deferred tax (assets) and liabilities:

	Non current (assets)/ liabilities £'000	Timing difference s £'000	Tax losses £'000	Derivative £'000	TOTAL £'000
Balance at 1 January 2018	28,541	(68)	(12,550)	-	15,923
Charge to income statement	1,105	-	1,419	-	2,524
Adjustments in respect of previous years	1,238	-	(786)	-	452
Balance at 31 December 2018	30,884	(68)	(11,917)	-	18,899
Charge/(credit) to income statement	(562)	(2)	1,501	-	937
Adjustments in respect of previous years	(195)	(193)	105	-	(283)
Balance at 31 December 2019	30,127	(263)	(10,311)	-	19,553
Deferred tax assets	-	(263)	(10,311)	-	(10,574)
Deferred tax liabilities	30,127	-	-	-	30,127
Total	30,127	(263)	(10,311)	-	19,553

The deferred tax asset of £10,574k includes an amount of £1,824k recoverable within one year. The deferred tax liability of £30,127k includes an amount of £1,348k payable within one year.

The company does not have any deferred tax balances.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

17 ORDINARY SHARES

Group and company	2019 Number	2019 £	2018 Number	2018 £
Ordinary shares of £0.01 each	86,670	866.70	86,670	866.70
Total	86,670	866.70	86,670	866.70

18 DIVIDENDS

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Equity dividends on ordinary shares (£357.00 per £0.01 share (2018: £420.00 per £0.01 share))	30,941	30,941	36,401	36,401
	30,941	30,941	36,401	36,401

19 CASH GENERATED FROM OPERATIONS

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Operating profit	7,986	-	16,797	-
Depreciation on property, plant & equipment	31,747	-	25,380	-
(Increase)/decrease in inventories	(3)	-	807	-
Decrease in trade and other receivables	40	-	774	-
(Decrease)/increase in trade and other payables	(345)	-	3,024	-
Cash generated from operations	39,425	-	46,782	-

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

20 CAPITAL COMMITMENTS

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Contracts placed for future capital expenditure not provided in the financial statements	531	-	3,511	-
Total	531	-	3,511	-

21 IMMEDIATE AND ULTIMATE PARENT COMPANIES

The Dragon LNG Group Limited share capital is held 50% by BG Energy Holdings Limited and 50% by Ancala LNG Limited.

BG Energy Holdings Limited is a wholly owned subsidiary of BG Group Limited (formerly BG Group plc) which is ultimately controlled by Royal Dutch Shell plc, a company registered in England and Wales.

Ancala LNG Limited is owned by investment funds managed by Ancala Partners LLP, a limited liability partnership registered in England and Wales. Ancala LNG Limited acquired the 50% shareholding previously owned by Petronas LNG Sendirian Berhad on 2 July 2019.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

22 RELATED PARTY TRANSACTIONS

Related party transactions are set out below.

	Invoiced or accrued during the year 2019 £'000	Outstanding as at 31 December 2019 £'000	Invoiced or accrued during the year 2018 £'000	Outstanding as at 31 December 2018 £'000
Income & Recharges				
Royal Dutch Shell Plc and its subsidiaries	33,723	290	40,276	412
Petroliam Nasional Berhad and its subsidiaries	16,382	N/A	28,735	231
	50,105	290	69,011	643
Purchases				
Royal Dutch Shell Plc and its subsidiaries	15,816	2,914	5,187	2,151
Petroliam Nasional Berhad and its subsidiaries	127	N/A	205	14
Ancala Partners LLP and its subsidiaries	82	21	-	-
	16,025	2,935	5,392	2,165

The outstanding purchases figures above include costs that will be deducted from revenue in the following month.

Key management compensation

Key management includes the company directors and the group's resident senior management team.

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Salaries and other short-term employee benefits	760	-	919	-
Pension contributions	16	-	16	-
Total	776	-	935	-

There are no other benefits or share based payments to key management. The above figures include payroll costs and the costs of secondees recharged to the group by its shareholders.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

23 FINANCIAL INSTRUMENTS

The table below provides a summary of the group and company's financial instruments.

Group	Financial assets at amortised cost £'000	Total £'000
Financial assets - 2019		
Cash and cash equivalents	2,896	2,896
Trade and other receivables (excluding prepayments and tax)	713	713
Total	3,609	3,609
Financial assets - 2018		
Cash and cash equivalents	10,874	10,874
Trade and other receivables (excluding prepayments and tax)	996	996
Total	11,870	11,870

The company's financial assets were cash and cash equivalents of £33,000 (2018: £33,000) all held at amortised cost.

The group and company's financial assets are held in a business model whose purpose is to collect contractual cash flows and consist solely of principal and interest. Financial assets are initially measured at fair value and are subsequently measured at amortised cost.

There has been no change to the measurement categories of financial instruments as a result of adopting IFRS 9, and no financial assets have been de-recognised in the period.

Group	Financial liabilities at amortised cost £'000	Total £'000
Financial liabilities - 2019		
Lease liabilities	23,667	23,667
Trade and other payables (excluding tax)	9,612	9,612
Total	33,279	33,279
Financial liabilities - 2018		
Lease liabilities	24,484	24,484
Trade and other payables (excluding tax)	20,190	20,190
Total	44,674	44,674

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

23 FINANCIAL INSTRUMENTS (continued)

The company's financial liabilities were trade and other payables of £nil (2018: £nil) all held at amortised cost.

24 FINANCIAL RISK MANAGEMENT

Liquidity risk

The group's principal financial risk is the liquidity risk that would arise if the terminal was unavailable for use by the customers, resulting in a lost income and reduced availability of cash. As described in the Strategic Report, the group seeks to minimise this risk by maintaining the plant to a high standard. Should shortage of liquidity become an issue the group has the flexibility to reduce the dividend payments to its shareholders.

The group has no obligation to make any payments to shareholders and has no third party finance liabilities other than leases, and short term trade and other payables as summarised below;

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due after 3 years	TOTAL
	£'000	£'000	£'000	£'000	£'000
At 31 December 2019					
Trade and other payables	10,615	-	-	-	10,615
Lease obligations	1,895	1,977	2,043	17,752	23,667
TOTAL	12,510	1,977	2,043	17,752	34,282
At 31 December 2018					
Trade and other payables	20,190	-	-	-	20,190
Lease obligations	1,769	1,849	1,932	18,934	24,484
TOTAL	21,959	1,849	1,932	18,934	44,674

From time to time the firm accesses a small, short term overdraft facility but this is not considered to increase liquidity risk.

Electricity price risk

The group pays the market price for the electricity it imports from the national grid, so expenditure is subject to fluctuations arising from variations in the electricity price. During 2019 the average electricity price was £44/MWh (2018 - £57/MWh). Based upon forecast 2020 import volumes, an increase of £1/MWh would cost the group £52,000 in additional import costs (net of customer recharges). The group has currently chosen not to hedge this risk.

Gas price risk

The group receives the market price for the fuel gas allowance that it does not use, so income is subject to fluctuations arising from variations in the gas price. During 2019 the average gas price was £12,000/GWh. Based upon forecast 2020 export volumes, a decrease of 1% in the gas price would cost the company £14,000 in lost income. The company has currently chosen not to hedge this risk.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

24 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

The group does not have any borrowings (other than a small, short term overdraft facility) upon which interest is being charged so this risk is minimal. Any surplus cash is placed on short term treasury deposit at an average rate of 0.50% (2018 – 0.45%). Interest earned during the year on these deposits amounted to £31,000 (2018 - £64,000), so any reduction in interest rates will have an insignificant effect on the group.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's exposure to credit risk is indicated by the carrying amount of its assets which consist principally of bank balances and trade receivables. The directors believe that this risk is minimal as the bank balances are held with a major financial institution and the receivables are due from large multinational companies.

The maximum exposure to credit risk is represented by the carrying values of the assets below;

	2019 £'000	2018 £'000
Cash and cash equivalents	2,896	10,874
Trade and other receivables	2,140	2,538
	5,036	13,412

Expected Credit Loss Assessment ("ECL"s)

The group's trade and other receivables are subject to consideration in respect of ECLs.

The main component of trade and other receivables are prepayments for business rates and insurance, with the remainder being balances due from the group's two main customers (both major international oil and gas companies). The group has therefore not made any provision for ECL at the reporting date.

The group keeps this position under regular review, using available reasonable and supportive forward looking information including:

- monitoring the continued timely collection of receivables,
- changes in counterparty credit ratings,
- any actual or expected changes in the industry or economic conditions that could cause a significant change to the borrower's ability to meet its obligations,
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value or nature of collateral supporting the obligation, or the quality of any third party guarantees or credit enhancements.

A default on a financial asset is when the counterparty fails to make contractual payments within 30 days past due in making contractual payment.

Financial assets are written off when there is no reasonable expectation of recovery. The group establishes a provision for doubtful debts if they are more than 180 days past due. The group continues to engage in enforcement activity until it is determined that the debt is uncollectible, at which point the outstanding amount is written off in full.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

24 FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk

In the normal course of operations foreign currency transactions represent less than 1% of total costs so this risk is considered minimal.

The group has a Euro current account which had a balance of €395,596 (2018 - €3,131,156) at the year end. This account was set up during 2015 to facilitate payments to the supplier of the reliquefaction plant. The balance on this account is expected to reduce to nil during 2020 as the final payments are made.

Capital risk

The group does not have any borrowings (other than the leases and a small, short term overdraft facility) and is entirely funded by equity. Consequently, gearing calculations are not required and capital risk is negligible.

25 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the company's financial statements.

As indicated in note 2 above, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 'Leases' and Interpretation 4 'Determining whether an Arrangement contains a Lease'.

DRAGON LNG GROUP LIMITED

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

25 CHANGES IN ACCOUNTING POLICIES (continued)

Measurement of lease liabilities

	2019 £'000
Operating lease commitments previously disclosed as at 31 December 2018	1,625
Discount calculated using the lessee's incremental borrowing rate at the date of initial application	(594)
Maintenance element of commitments excluded from lease liability calculations	(19)
Lease liability recognised as at 1 January 2019	1,012

	2019 £'000
Analysis of lease liability recognised at 1 January 2019	
Current lease liabilities	60
Non-current lease liabilities	952
	1,012

Measurement of right-of-use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment – increase by £1,011,651
- right-of-use assets (included in PPE above) – increase by £1,011,651
- lease liabilities – increase by £1,011,651

The net impact on retained earnings on 1 January 2019 was nil.

Lessor accounting

The company does not act as a lessor so did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.