PETRONAS ENERGY TRADING LIMITED

Consolidated and Company financial statements
for the year ended
31 December 2017

Company Registration No: 03359379 (England and Wales)

PETRONAS ENERGY TRADING LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2017

PETRONAS ENERGY TRADING LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

Directors

Ahmad Adly Alias	
Habibul Rahman Kadir Shah	
Ezhar Yazid Bin Mat Jaafar	(appointed on 23 March 2017)
Mohamed Fasluddeen Bin Abdul Hadi	(appointed on 23 March 2017)
Nasmiza Binti Ismail	(appointed on 23 March 2017)
Adnan Zainol Abidin	(resigned on 23 March 2017)
Mohd Anuar Taib	(resigned on 23 March 2017)
Mohamed Firouz Asnan	(resigned on 23 March 2017)
Klaus Reinisch	(resigned on 13 January 2017)

Secretary
Nailesh Kantilal Rambhai

Registered office
One New Ludgate
9th Floor, 60 Ludgate Hill
London
EC4M 7AW

Company number
03359379

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
JP Morgan
25 Bank Street
Canary Wharf
London E14 5JP

CIMB Bank Berhad
London Branch
27 Knightsbridge
London SW1X 7YB

Citibank
25 Canada Square
Canary Wharf
London E14 5LB

HSBC
City of London Branch
60 Queen Victoria Street
London EC4N4TR

STRATEGIC REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

Petroliam Nasional Berhad is the ultimate parent and will together with its subsidiaries be referred to as "the PETRONAS Group".

Principal Activities

The principal activities of PETRONAS Energy Trading Limited (the "Company") and its subsidiaries (collectively, the "Group") during the year were to monetise and add value to the natural gas positions of the PETRONAS Group in the UK, Ireland and Northwest Europe through optimisation of its gas supply, marketing and capacity positions. The Company is also responsible for monetising its capacity at Dragon LNG's import, storage and re-gasification terminal in Milford Haven Waterway in Pembrokeshire, South West Wales ("Dragon LNG"), and its gas storage capacity at Humbly Grove Energy Limited in Alton, Hampshire. Dragon LNG is 50% owned by PETRONAS LNG Sdn Bhd, the Company's immediate parent company. The Company also continues to provide other support services to other operating units within the PETRONAS Group.

The principal activities of Humbly Grove Energy Limited and its subsidiaries were to safely operate and provide a flexible and responsive gas storage facility for the benefit of the Company and it also handles the associated production and sale of crude oil from the reservoirs identified in the oil production licence PL116b. The oil continues to be sold through oil sale and purchase agreements.

As part of the Company's strategy to add resilience and value to its existing natural gas portfolio, the Company continues to hold a minority share in an investment vehicle, MPF Holdings, together with a consortium of investors (the "MPF Consortium") led by Macquarie Group Ltd. The MPF Consortium owns three UK gas-fired power stations operating under the "Calon Energy" company name; the 489MW Baglan Bay gas-fired Power Station in Wales, the 819MW gas-fired Sutton Bridge Power Station in Lincolnshire, and the 832MW gas-fired Severn Power Station in Newport, Wales. The Company remains involved in the decision making of the MPF Consortium through its representation on the Board of Directors as well as its role in the MPF Consortium Risk Management Committee, tasked to set the commercial directions and dispatch as well as hedging policies and guidelines for the combined 2.1 GWh power station portfolio.

Business Strategy

The Group is an energy trading and gas marketing company, generating profits from its core business segments:

- Underground Gas Storage, including optimisation of its gas storage facility; and
- Gas Marketing of flexible gas supplies.

The Group's main growth focus is on its profitable gas supply and marketing business. Through sourcing and acquiring additional gas supply volumes from third-party producers in Europe, the Group has continued to increase its profitability by adding value through its extensive European gas infrastructure and midstream portfolio.

While gas supply and marketing has been growing in terms of profitability and volume in 2017, the gas storage business profitability however continues to be challenging. With seasonal as well as locational gas price spreads at very low levels, the Group has implemented operational efficiencies initiatives at its Humbly Grove site to reduce its gas storage operating and capacity costs in order to remain competitive in the gas storage sector and use its transportation optimisation capabilities going forward more effectively to mainly add value to the sourced gas supplies.

The Group has also diversified its core gas portfolio exposure with gas-to-power generation capacity through its investment in MPF Holdings.

Key Performance Indicators (KPIs)

Business review

The Group's financial performance during the year are as follows:

	2017 GBP'000	2016 GBP'000	Change (%)
Gross profit/(loss)	812	(4,685)	> 100%
Loss for the year	(8,200)	(17,216)	52%
Total equity	45,753	79,368	(42%)

The Group recorded an improvement in loss for the year by 52% from the previous year. During the year, the Group's strategy of generating profitability from optimising its gas market positions continues to be driven and measured by four main KPIs: Profitability, Cost Control, Health and Safety and Talent Retention and Development. Overall profitability and cost control remain the two key financial KPIs. While external market challenges remain for the Group's gas storage business, the growing capability in gas supply and marketing is helping to diversify its source of profitability. The Group has instilled a stronger cost control discipline over the year to combat the challenging market conditions. Finally, the Group has continued to invest strategically into its most important asset which is its talent to achieve its long-term staff retention KPI to attract, retain and further develop its talent to ensure knowledge transfer and career growth driven by its performance culture.

Business Environment, Principal Risks and Uncertainties

The United Kingdom and European gas markets are increasingly becoming oversupplied while demand remains flat. This has led to a downward movement in prices for natural gas and related products (commodity price risk) further influenced by the drop in global oil prices. This has also meant that seasonal and geographical price spreads have narrowed (price spread risk), and the Group is investing in growing its gas supply and marketing positions to extract profitable marketing margins from these new business opportunities to counter the challenging gas storage and transportation markets. A depressed oil market throughout 2017 saw production curtailment by key producing countires having minimal impact on crude prices through out the first three quarters. As a result of the fall in oil prices the Group has now fully impaired its oil facilities in Humbly Grove. The gas commodity price risk, together with interest rate risk, constitutes market risk. Market, credit and liquidity risks represent the principal financial risks to the Group.

Future developments

The Group continues to explore new opportunities for marketing of upstream gas from UK & Norwegian continental shelfs to leverage on its existing marketing and trading capabilities. In addition, the Group is also exploring opportunity to gas marketing in selected countries in the EU with a view to diversifying the geographical portfolio.

Challenges

While local and imported gas supplies were still abundant in 2017 and the system had sufficient flexibility to balance, profitability from gas storage and transportation is increasingly challenged. This market supply situation in combination with historically mild weather, reduced number of trading participants and overall gas trading activity has inevitably led to lower gas price spreads, reducing the opportunity for the Group to fully optimise its gas storage positions. However, by increasing its focus on gas supply and marketing, the Group is actively diversifying its risks and looking to monetise its capabilities through marketing physical volumes and flexibility to retailers and other market participants profitably.

By Order of the Board

Mohamed Fasluddeen Bin Abdul Hadi
Director

Date 2 March 2018

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

Events after the reporting date

There were no significant events after the reporting period.

Dividends

The Group has not declared any dividend during the year (2016 – £nil) and the Directors do not recommend the payment of a dividend.

Statement of Going Concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposure to market, credit and liquidity risks are detailed out in the Strategic Report.

The financial position of the Group and the Company is set out in the financial statements. The liquidity position and borrowing facilities of the Group and the Company are set out in Note 33 to the financial statements. The Group is also part of a group that has considerable financial resources.

Having considered the Group's financial position, including the amounts payable to other PETRONAS Group companies as well as the Group's forecast and projections, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Group, with the support from the PETRONAS Group, has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors and Directors' interests

The Directors of the Company who served during the year and subsequent to the year end were as follows:

Ahmad Adly Alias	
Habibul Rahman Kadir Shah	
Ezhar Yazid Bin Mat Jaafar	(appointed on 23 March 2017)
Mohamed Fasluddeen Bin Abdul Hadi	(appointed on 23 March 2017)
Nasmiza Binti Ismail	(appointed on 23 March 2017)
Klaus Reinisch	(resigned on 13 January 2017)
Adnan Zainol Abidin	(resigned on 23 March 2017)
Mohd Anuar Taib	(resigned on 23 March 2017)
Mohamed Firouz Asnan	(resigned on 23 March 2017)

Auditors

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the Group's and the Company's auditor for the next year.

Directors Indemnity Provisions

During the period under review, the Company had in force an indemnity provision in favour of the 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.

PETRONAS ENERGY TRADING LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' Statement as to the Disclosure of Information to the Auditor

The Directors who were members of the board at the time of approving the directors' report are listed on the Company information page. Having made enquiries of fellow directors and of the Company's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of the Company's report of which the Company's auditor is unaware; and

- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

Mohamed Fasluddeen Bin Abdul Hadi
Director

Date 2 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards, 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 the Company and the profit or loss of the Group and 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

Mohamed Fasluddeen Bin Abdul Hadi
Director

Date 2 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRONAS ENERGY TRADING LIMITED

Opinion

We have audited the financial statements of PETRONAS Energy Trading Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise of the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the Statement of Cash Flows and the related notes 1 to 37, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2017 and of the group's and the parent company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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 or the parent 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Ernst + Young LLP

Paul Wallek (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 5 March 2018

PETRONAS ENERGY TRADING LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	GROUP		COMPANY	
		2017	2016 Restated*	2017	2016 Restated*
		£'000	£'000	£'000	£'000
Net trading income		25,025	21,985	24,554	20,182
Revenue	4	7,426	7,951	3,721	5,497
Cost of sales		(27,019)	(31,022)	(17,832)	(23,432)
Selling and distribution costs		(4,620)	(3,599)	(4,620)	(3,599)
Gross profit/(loss)		812	(4,685)	5,823	(1,352)
Other income	5	305	229	305	229
Other expenses	6	(1,243)	(1,245)	(1,224)	(1,305)
Administrative expenses		(8,465)	(9,560)	(8,372)	(8,894)
Impairment	7	(1,884)	(2,461)	-	(92,362)
Operating loss	8	(10,475)	(17,722)	(3,468)	(103,684)
Finance income	9	7,198	6,667	7,289	6,729
Finance costs	10	(4,564)	(5,538)	(7,865)	(8,792)
Loss before taxation		(7,841)	(16,593)	(4,044)	(105,747)
Income tax charge	13	(359)	(623)	(86)	(107)
Loss for the year		(8,200)	(17,216)	(4,130)	(105,854)
Other comprehensive income					
- Deferred tax credit recognised through reserves		359	623	86	107
- Available-for-sale financial assets (decrease)/increase in fair value		(45,774)	30,165	(45,774)	30,165
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR		**(53,615)**	**13,572**	**(49,818)**	**(75,582)**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 2.1, Note 2.2, and Note 3.

The notes set out on pages 15 to 55 are an integral part of these financial statements.

PETRONAS ENERGY TRADING LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

GROUP

	Note	Share Capital £'000	Retained deficit £'000	Merger Reserve £'000	Capital Contribution Reserve £'000	Revaluation Reserve £'000	Total £'000
As at 1 January 2017		273,044	(227,418)	(7,349)	3,910	37,181	79,368
Loss for the year		-	(8,200)	-	-	-	(8,200)
Increase in share capital		20,000	-	-	-	-	20,000
Available-for-sale financial assets change in fair value		-	-	-	-	(45,774)	(45,774)
Deferred tax credit recognised through reserves		-	-	-	359	-	359
As at 31 December 2017		**293,044**	**(235,618)**	**(7,349)**	**4,269**	**(8,593)**	**45,753**
As at 1 January 2016		225,644	(160,448)	(7,349)	3,287	7,016	68,150
Restatement of prior periods	3.3	-	(49,754)	-	-	-	(49,754)
Restated equity as at 1 January 2016		225,644	(210,202)	(7,349)	3,287	7,016	18,396
Loss for the year		-	(17,216)	-	-	-	(17,216)
Increase in share capital		47,400	-	-	-	-	47,400
Available-for-sale financial assets change in fair value		-	-	-	-	30,165	30,165
Deferred tax credit recognised through reserves		-	-	-	623	-	623
As at 31 December 2016		**273,044**	**(227,418)**	**(7,349)**	**3,910**	**37,181**	**79,368**

COMPANY

	Note	Share Capital £'000	Retained deficit £'000	Merger Reserve £'000	Capital Contribution Reserve £'000	Revaluation Reserve £'000	Total £'000
As at 1 January 2017		273,044	(245,158)	-	5,430	37,181	70,497
Loss for the year		-	(4,130)	-	-	-	(4,130)
Increase in share capital		20,000	-	-	-	-	20,000
Available-for-sale financial assets change in fair value		-	-	-	-	(45,774)	(45,774)
Deferred tax credit recognised through Reserves		-	-	-	86	-	86
As at 31 December 2017		**293,044**	**(249,288)**	**-**	**5,516**	**(8,593)**	**40,679**
As at 1 January 2016		225,644	(111,699)	-	5,323	7,016	126,284
Restatement of prior periods	3.3	-	(27,605)	-	-	-	(27,605)
Restated equity as at 1 January 2016		225,644	(139,304)	-	5,323	7,016	98,679
Loss for the year		-	(105,854)	-	-	-	(105,854)
Increase in share capital		47,400	-	-	-	-	47,400
Available-for-sale financial assets change in fair value		-	-	-	-	30,165	30,165
Deferred tax credit recognised through Reserves		-	-	-	107	-	107
As at 31 December 2016		**273,044**	**(245,158)**	**-**	**5,430**	**37,181**	**70,497**

The notes set out on pages 15 to 55 are an integral part of these financial statements.

PETRONAS ENERGY TRADING LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	GROUP 2017 £'000	GROUP 2016 Restated* £'000	GROUP 1 Jan 2016 Restated* £'000	COMPANY 2017 £'000	COMPANY 2016 Restated* £'000	COMPANY 1 Jan 2016 Restated* £'000
ASSETS							
Property, plant and equipment	14	80,938	83,155	90,514	63,406	67,445	71,437
Intangible assets	15	156	300	878	156	300	878
Investment in subsidiaries	18	-	-	-	-	-	56,447
Available-for-sale investment	19	17,102	62,876	32,711	17,102	62,876	32,711
Long term receivables	20	64,960	64,960	64,960	64,960	64,960	64,960
TOTAL NON-CURRENT ASSETS		163,156	211,291	189,063	145,624	195,581	226,433
Inventories	21	50,854	76,119	78,291	50,505	75,837	77,645
Trade and other receivables	22	391,544	401,870	203,859	389,599	400,261	199,991
Loans due from subsidiaries	24	-	-	-	52,060	48,811	82,975
Cash and cash equivalents	25	4,900	10,874	20,461	3,915	9,878	19,502
TOTAL CURRENT ASSETS		447,298	488,863	302,611	496,079	534,787	380,113
TOTAL ASSETS		**610,454**	**700,154**	**491,674**	**641,703**	**730,368**	**606,546**
EQUITY							
Share capital	26	293,044	273,044	225,644	293,044	273,044	225,644
Retained deficit		(235,618)	(227,418)	(210,202)	(249,288)	(245,158)	(139,304)
Capital contribution reserve	27	4,269	3,910	3,287	5,516	5,430	5,323
Revaluation reserve	27	(8,593)	37,181	7,016	(8,593)	37,181	7,016
Merger reserve	27	(7,349)	(7,349)	(7,349)	-	-	-
TOTAL EQUITY		45,753	79,368	18,396	40,679	70,497	98,679
Long term creditor		-	-	275	-	-	-
Long term borrowings	30	41,320	61,320	108,720	41,320	61,320	108,720
Finance lease liability	16	-	-	-	54,078	54,892	55,591
Provisions	28	17,106	13,943	14,083	338	333	327
TOTAL NON-CURRENT LIABILITIES		58,426	75,263	123,078	95,736	116,545	164,638
Trade and other payables	29	336,643	382,597	176,132	336,474	382,627	172,638
Finance lease liability	16	-	-	-	814	699	591
Short term borrowings	30	168,000	160,000	170,000	168,000	160,000	170,000
Provisions	28	1,632	2,926	4,068	-	-	-
TOTAL CURRENT LIABILITIES		506,275	545,523	350,200	505,288	543,326	343,229
TOTAL LIABILITIES		564,701	620,786	473,278	601,024	659,871	507,867
TOTAL EQUITY AND LIABILITIES		**610,454**	**700,154**	**491,674**	**641,703**	**730,368**	**606,546**

By Order of the Board

Mohamed Fasluddeen Bin Abdul Hadi
Director

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 2.1, Note 2.2, and Note 3.

The notes set out on pages 15 to 55 are an integral part of these financial statements.

PETRONAS ENERGY TRADING LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	GROUP 2017 £'000	GROUP 2016 £'000	COMPANY 2017 £'000	COMPANY 2016 £'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation		(7,841)	(16,593)	(4,044)	(105,747)
Adjustments for:					
Depreciation of property, plant & equipment	8	4,542	5,297	4,081	4,075
Amortisation of intangible assets	8	263	630	263	630
Net abandonment cost		(1,252)	(1,284)	-	-
Impairment loss	7	1,884	2,461	-	92,362
Interest income	9	(7,198)	(6,667)	(7,289)	(6,729)
Interest expense	10	4,564	5,538	7,865	8,792
Operating (losses)/profit before changes in working capital		(5,038)	(10,618)	876	(6,617)
Changes in working capital		(3,177)	15,648	(2,973)	17,447
Cash (used in)/generated from operations		**(8,215)**	**5,030**	**(2,097)**	**10,830**
Interest income		12	23	103	85
Interest expenses		(3,996)	(4,189)	(7,860)	(8,062)
Net cash (used in)/generated from operating activities		(12,199)	864	(9,854)	2,853
CASH FLOWS FROM INVESTING ACTIVITIES					
Net purchase of property, plant and equipment and intangible assets		(1,775)	(451)	(161)	(135)
Short term loan to subsidiary		-	-	(3,249)	(1,751)
Net cash used in investing activities		(1,775)	(451)	(3,410)	(1,886)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of share capital		20,000	-	20,000	-
Repayment of borrowings	30	(74,000)	(115,000)	(74,000)	(115,000)
Drawdown of borrowings	30	62,000	105,000	62,000	105,000
Payment of finance lease liabilities		-	-	(699)	(591)
Net cash generated from/(used in) financing activities		8,000	(10,000)	7,301	(10,591)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,974)	(9,587)	(5,963)	(9,624)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		10,874	20,461	9,878	19,502
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	4,900	10,874	3,915	9,878

The notes set out on pages 15 to 55 are an integral part of these financial statements.

1. BASIS OF PREPARATION

1.1 Statement of compliance

The consolidated financial statements of PETRONAS Energy Trading Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 26 February 2018. The Company is incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the Company information page. The principal activities of the Group are set out in the Strategic Report on pages 4 - 5.

The consolidated financial statements of the Group and of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRSs.

As of 1 January 2017, the Group and the Company had adopted amendments to IFRS and IFRS Interpretation Committee ("IFRIC") (collectively referred to as "pronouncements") that have been issued by the International Accounting Standard Board ("IASB") as described fully in note 36. The adoption of these pronouncements do not have any material impact to the financial statements of the Group and of the Company.

IASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in note 37.

1.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.3 Functional and presentation currency

The consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Group's consolidated financial statements are presented in GBP Sterling ("£"), which is the Group's functional currency. All values are rounded to the nearest thousand (£'000), except when otherwise indicated.

1.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to makc judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

(i)	Note 7	: Impairment;
(ii)	Note 13	: Taxation;
(iii)	Note 14	: Property, plant and equipment;
(iv)	Note 15	: Intangible assets;
(v)	Note 16	: Finance lease;
(vi)	Note 18	: Investments in subsidiaries;
(vii)	Note 28	: Provisions; and
(viii)	Note 38	: Financial instruments

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its financial statements:

2.1 Changes in accounting policies

As a consequence of the significant development of its business into gas trading moving from predominantly gas storage with physical delivery business, the Company has applied the exemption permitted under IAS 2 Inventories for commodity broker-trader to value inventories at fair value less cost to sell. Management believes that valuation of inventories at fair value less cost to sell is more reflective of the nature of the Company's business which derives economic benefits from gas trading. The changes have been applied retrospectively in these consolidated financial statements including in the notes to the financial statements.

At the same time, the Company changed its presentation of revenue from its trading activities from a gross basis to a net basis by reporting net trading income/(loss) instead of gross revenue and cost of sales as it did previously. The Directors consider that gross revenue is not a meaningful measure of the results of the Company and that this is best represented by net trading income. Comparatives for the year ended 31 December 2016 have been restated on this basis.

2.2 Correction of an error

Upon the Company's acquisition of 100% equity of Humbly Grove Energy Limited ("HGEL") in 2011, the amortisation period of a pre-existing gas storage agreement ("GSA") between HGEL and the Company was treated as part of the acquired asset under 'Prepaid lease'. This GSA was acquired by the Company from a third party prior to its acquisition of 100% equity in HGEL.

When the consolidated financial statements for the year ended 31 December 2012 was prepared, the book value approach was used to consolidate the Company with HGEL. This combination was a combination between entities under common control, and as such outside the scope of IFRS 3 Business Combinations.

Whilst there is no specific guidance within IFRS on how to account for business combinations under common control, where the book value approach is used the financial statements are prepared using the 'carry-over' principle, treating the two entities as having been combined since they were under common control. On this basis, the Group should be viewed as originally entering into the GSA with the third party and subsequently reacquiring the GSA in 2011. The Group should have recognised the required rights as a prepaid asset to be amortised over the remaining period of the original GSA of four years instead of 23 years previously recognised.

Consequently the 'prepaid lease asset' recognised by the Group in the consolidated financial statements would have been fully amortised by 31 December 2015, reducing the overall net assets of the Group and profits for each year from 2012 to 2015. This has a consequent impact on the impairment charge that would need to be recognised for the year ended 31 December 2016.

The rectification of a material error in prior period financial statements is covered by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Errors result from the misapplication of policies, oversight or the misinterpretation of facts and circumstances that exist at the reporting date and were made in a prior period. The correction of a material prior-period error is made by either:

— restating the comparative amounts for the prior period(s) presented in which the error occurred; or
— Restating the opening balances of assets, liabilities and equity for the earliest prior period presented if the error occurred before the earliest prior period presented. [IAS 8.42]

The impact of the correction to these financial statement are highlighted in Note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation

Subsidiaries are entities, including structured entities, controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases. All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

2.6 Net trading income

Net trading income is attributable to the Group's main business. The Group undertakes significant activities which, for the purposes of disclosure in the financial statements of the Group have been classified as 'trading'.

All commodity contracts and derivative financial instruments entered into by the Company as part of its gas trading activities are recognised in the financial statements on the date of trade. Net trading income includes realised gains/(losses) on all settled contracts. All open contracts are include at fair value and unrealised gains and losses are recognised within the net trading income.

Gas storage and transportation capacity revenues and costs related to underlying trading activities are recognised on an accruals basis within net trading income.

2.7 Non-trading revenue recognition

A breakdown of non-trading revenues is disclosed in Note 4 to the consolidated financial statements. Non-trading revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

2.8 Borrowings costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.9 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit nor loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Taxation

Deferred tax (continued)
Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the future taxable profit will be available against which the related tax benefit can be realised.

The tax expense represents the sum of the tax currently payable and deferred tax.

Sales Tax
Revenues, expenses and assets are recognised net of the amount of sales tax, except:

a) Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
b) Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.10 Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange gains or losses on translation are included in the statement of comprehensive income.

2.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation for property, plant and equipment other than freehold land, and oil and gas properties, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment (continued)

The estimated useful lives of the other property, plant and equipment are as follows:

Plant and equipment – gas assets	-	10-30 years
Land and Buildings	-	23 years
Finance lease asset	-	23 years
Furniture and fittings	-	3-5 years
Computer equipment	-	3 years

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.12 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy as stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease in accordance with the accounting policy below although the arrangement does not take the legal form of a lease.

Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as borrowings.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period. Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the Group's and the Company's statement of financial position. Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease.

2.13 Investments

Long term investments in subsidiaries in the Company's financial statements unless the investment is classified as available for sale. The cost of investments includes transaction costs. The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (note 2.15 (i)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives. The amortisation method and the useful life for intangible assets are reviewed at least at each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2.15 Financial instruments

A financial instrument is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales under a contract whose terms require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in note 2.21.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method (note 2.15(v)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial instruments (continued)

i) Financial assets (continued)

Available-for-sale financial investments

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains and losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss.

After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised within other comprehensive income, except for impairment losses, foreign exchange gains or losses and any changes in fair value arising from revised estimates of future cash flows, which are recognized in profit or loss.

ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

Fair value adjustments on loans and advances due to holding company at initial recognition, if any, are taken to capital reserves within equity in the Company's financial statements.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

Loan and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Financial instruments (continued)

iii) Derivative financial instruments

The Group and the Company use derivative financial instruments such as forward contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value on derivatives during the year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non–financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses recognised in the profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

vi) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Impairment

i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

ii) Other assets

The carrying amounts of other assets, other than inventories, deferred tax assets, and non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups.

The recoverable amount is the greater of the asset's fair value less cost to sell and its 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 that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised, Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the profit or loss, a reversal of that impairment loss is also recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and deposits held with other institutions for trading purpose.

2.18 Inventories

Inventories in the form of natural gas are valued at fair value less costs to sell. Movement in fair value less costs to sell are recognised in profit or loss in the period of the change. The fair values is measured at the price for the soonest available delivery of gas at the reporting date.

Spare parts, oil and fuel gas are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.19 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in note 28.

2.20 Employee benefits

Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

Defined contribution plans

The Group makes contributions to defined contribution pension schemes. Such contributions are recognised as an expense in the profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Fair value measurement

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

ii) Non-financial assets

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted pries (unadjusted) in active markets for identifiable assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

The Group and the Company recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3 RESTATEMENT OF PRIOR PERIODS

3.1 Impact of change in accounting policies in the current year

The impact of change in accounting policies as highlighted in note 2.1 on the financial statement line items for the prior periods are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (extract)	GROUP 2016	Increase/ (Decrease)	2016 Restated*
	£'000	£'000	£'000
Net trading income	-	21,985	21,985
Revenue	1,936,996	(1,929,045)	7,951
Cost of sales	(1,961,078)	1,928,892	(32,186)
Losses from financial instruments	(29,387)	29,387	-
Selling & distribution cost	(3,599)	-	(3,599)
Gross loss	(57,068)	-	(5,849)
Other profit or loss items	(31,730)	(619)	(32,349)
LOSS FOR THE YEAR	(88,798)	50,600	(38,198)
Other comprehensive income	30,788	-	30,788
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(58,010)	50,600	(7,410)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (extract)	GROUP 31 Dec 2016	Increase	31 Dec 2016 Restated*	31 Dec 2015	Decrease	1 Jan 2016 Restated*
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Property, plant and equipment	67,601	-	67,601	90,514	-	90,514
Prepaid lease	15,741	-	15,741	20,983	-	20,983
Other non-current assets	128,136	-	128,136	98,549	-	98,549
TOTAL NON-CURRENT ASSETS	211,478	-	211,478	210,046	-	210,046
Prepaid lease	980	-	980	1,166	-	1,166
Inventories	53,124	22,995	76,119	105,896	(27,605)	78,291
Other current assets	412,744	-	412,744	224,320	-	224,320
TOTAL CURRENT ASSETS	466,848	22,995	489,843	331,382	(27,605)	303,777
TOTAL ASSETS	**678,326**	**22,995**	**701,321**	**541,428**	**(27,605)**	**513,823**
TOTAL LIABILITIES	620,786	-	620,786	473,278	-	473,278
Retained deficit	(249,246)	22,995	(226,251)	(160,448)	(27,605)	(188,053)
Share capital and other reserves	306,786	-	306,786	228,598	-	228,598
TOTAL EQUITY	57,540	22,995	79,368	68,150	(27,605)	40,545
TOTAL EQUITY AND LIABILITIES	**678,326**	**22,995**	**701,321**	**541,428**	**(27,605)**	**513,823**

3 RESTATEMENT OF PRIOR PERIODS (continued)

3.1 Impact of change in accounting policies in the current year (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (extract)	COMPANY 2016 £'000	Increase/ (Decrease) £'000	2016 Restated* £'000
Net trading income	-	20,182	20,182
Revenue	1,934,542	(1,929,045)	5,497
Cost of sales	(1,953,508)	1,930,076	(23,432)
Losses from financial instruments	(29,387)	29,387	-
Other profit or loss items	(108,101)	-	(108,101)
LOSS FOR THE YEAR	(156,454)	50,600	(105,854)
Other comprehensive income	30,272	-	30,272
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(126,182)	50,600	(75,582)

STATEMENT OF FINANCIAL POSITION (extract)	31 Dec 2016 £'000	Increase £'000	31 Dec 2016 Restated* £'000	31 Dec 2015 £'000	Decrease £'000	1 Jan 2016 Restated* £'000
			COMPANY			
ASSETS						
TOTAL NON-CURRENT ASSETS	195,581	-	195,581	226,433	-	226,433
Inventories	52,842	22,995	75,837	105,250	(27,605)	77,645
Other current assets	458,950	-	458,950	302,468	-	302,468
TOTAL CURRENT ASSETS	511,792	22,995	534,787	407,718	(27,605)	380,113
TOTAL ASSETS	**707,373**	**22,995**	**730,368**	**634,151**	**(27,605)**	**606,546**
TOTAL LIABILITIES	659,871	-	659,871	507,867	-	507,867
Retained deficit	(268,153)	22,995	(245,158)	(111,699)	(27,605)	(139,304)
Share capital and other reserves	315,655	-	315,655	237,983	-	237,983
TOTAL EQUITY	47,502	22,995	70,497	126,284	(27,605)	98,679
TOTAL EQUITY AND LIABILITIES	**707,373**	**22,995**	**730,368**	**634,151**	**(27,605)**	**606,546**

3 RESTATEMENT OF PRIOR PERIODS

3.2 Correction of an error

The impact of correction of an error as highlighted in Note 2.2 on the financial statement line items for the prior periods are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (extract)	GROUP		
	2016	Increase	2016 Restated*
	£'000	£'000	£'000
Revenue	1,936,996	-	1,936,996
Cost of sales	(1,961,078)	1,164	(1,959,914)
Losses from financial instruments	(29,387)	-	(29,387)
Selling & distribution cost	(3,599)	-	(3,599)
Gross (loss)/profit	(57,068)	1,164	(55,904)
Impairment	(22,279)	19,818	(2,461)
Other profit or loss items	(9,451)	-	(9,451)
LOSS FOR THE YEAR	(88,798)	20,982	(67,816)
Other comprehensive income	30,788	-	30,788
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(58,010)	20,982	(37,028)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (extract)	GROUP					
	31 Dec 2016	Increase/ (Decrease)	31 Dec 2016 Restated*	31 Dec 2015	Decrease	1 Jan 2016 Restated*
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Property, plant and equipment	67,601	15,554	83,155	90,514	-	90,514
Prepaid lease	15,741	(15,741)	-	20,983	(20,983)	-
Other non-current assets	128,136	-	128,136	98,549	-	98,549
TOTAL NON-CURRENT ASSETS	211,478	(187)	211,291	210,046	(20,983)	189,063
Prepaid lease	980	(980)	-	1,166	(1,166)	-
Inventories	53,124	-	53,124	105,896	-	105,896
Other current assets	412,744	-	412,744	224,320	-	224,320
TOTAL CURRENT ASSETS	466,848	(1,167)	465,868	331,382	(1,166)	330,216
TOTAL ASSETS	**678,326**	**(1,167)**	**677,159**	**541,428**	**(22,149)**	**519,279**
TOTAL LIABILITIES	620,786	-	620,786	473,278	-	473,278
Retained deficit	(249,246)	(1,167)	(250,413)	(160,448)	(22,149)	(182,597)
Share capital and other reserves	306,786	-	306,786	228,598	-	228,598
TOTAL EQUITY	57,540	(1,167)	56,373	68,150	(22,149)	46,001
TOTAL EQUITY AND LIABILITIES	**678,326**	**(1,167)**	**677,159**	**541,428**	**(49,754)**	**519,279**

The correction of error as per Note 2.2 did not have any impact to the Company's prior period's financial statements.

3 RESTATEMENT OF PRIOR PERIODS

3.3 Total restatement of prior periods

The combination of the impact of change in accounting policies and correction of an error on the financial statement line items for the prior periods are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (extract)	GROUP 2016	Increase/ (Decrease)	2016 Restated*
	£'000	£'000	£'000
Net trading income		21,985	21,985
Revenue	1,936,996	(1,929,045)	7,951
Cost of sales	(1,961,078)	1,930,056	(31,022)
Losses from financial instruments	(29,387)	29,387	-
Selling & distribution cost	(3,599)	-	(3,599)
Gross (loss)/profit	(57,068)	52,383	(4,685)
Impairment	(22,279)	19,818	(2,461)
Other profit or loss items	(9,451)	(619)	(10,070)
LOSS FOR THE YEAR	(88,798)	71,582	(17,216)
Other comprehensive income	30,788	-	30,788
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(58,010)	71,582	13,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (extract)	GROUP 31 Dec 2016	Increase/ (Decrease)	31 Dec 2016 Restated*	31 Dec 2015	Decrease	1 Jan 2016 Restated*
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Property, plant and equipment	67,601	15,556	83,155	90,514	-	90,514
Prepaid lease	15,741	(15,741)	-	20,983	(20,983)	-
Other non-current assets	128,136	-	128,136	98,549	-	98,549
TOTAL NON-CURRENT ASSETS	211,478	(187)	211,291	210,046	(20,983)	189,063
Prepaid lease	980	(980)	-	1,166	(1,166)	-
Inventories	53,124	22,995	76,119	105,896	(27,605)	78,291
Other current assets	412,744	-	412,744	224,320	-	224,320
TOTAL CURRENT ASSETS	466,848	22,015	488,863	331,382	(28,771)	302,611
TOTAL ASSETS	**678,326**	**21,828**	**700,154**	**541,428**	**(49,754)**	**491,674**
TOTAL LIABILITIES	620,786	-	620,786	473,278	-	473,278
Retained deficit	(249,246)	21,828	(227,418)	(160,448)	(49,754)	(210,202)
Share capital and other reserves	306,786	-	306,786	228,598	-	228,598
TOTAL EQUITY	57,540	21,828	79,368	68,150	(49,754)	18,396
TOTAL EQUITY AND LIABILITIES	**678,326**	**21,828**	**700,154**	**541,428**	**(49,754)**	**491,674**

3 RESTATEMENT OF PRIOR PERIODS (continued)

3.3 Total restatement of prior periods (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (extract)	COMPANY 2016 £'000	Increase/ (Decrease) £'000	2016 Restated* £'000
Net trading income	-	20,182	20,182
Revenue	1,934,542	(1,929,045)	5,497
Cost of sales	(1,953,508)	1,930,076	(23,432)
Losses from financial instruments	(29,387)	29,387	-
Other profit or loss items	(108,101)	-	(108,101)
LOSS FOR THE YEAR	(156,454)	50,600	(105,854)
Other comprehensive income	30,272	-	30,272
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(126,182)	50,600	(75,582)

COMPANY

STATEMENT OF FINANCIAL POSITION (extract)	31 Dec 2016 £'000	Increase £'000	31 Dec 2016 Restated* £'000	31 Dec 2015 £'000	Decrease £'000	1 Jan 2016 Restated* £'000
ASSETS						
TOTAL NON-CURRENT ASSETS	195,581	-	195,581	226,433	-	226,433
Inventories	52,842	22,995	75,837	105,250	(27,605)	77,645
Other current assets	458,950	-	458,950	302,468	-	302,468
TOTAL CURRENT ASSETS	511,792	22,995	534,787	407,718	(27,605)	380,113
TOTAL ASSETS	**707,373**	**22,995**	**730,368**	**634,151**	**(27,605)**	**606,546**
TOTAL LIABILITIES	659,871	-	659,871	507,867	-	507,867
Retained deficit	(268,153)	22,995	(245,158)	(111,699)	(27,605)	(139,304)
Share capital and other reserves	315,655	-	315,655	237,983	-	237,983
TOTAL EQUITY	47,502	22,995	70,497	126,284	(27,605)	98,679
TOTAL EQUITY AND LIABILITIES	**707,373**	**22,995**	**730,368**	**634,151**	**(27,605)**	**606,546**

	GROUP		COMPANY	
	2017	2016	2017	2016
4 REVENUE	£'000	£'000	£'000	£'000
Management charges	2,556	3,298	2,621	3,298
Oil sales	3,685	2,298	-	-
Capacity charges	307	1,009	307	1,009
Others	878	1,346	793	1,190
	7,426	7,951	3,721	5,497

	GROUP		COMPANY	
	2017	2016	2017	2016
5 OTHER INCOME	£'000	£'000	£'000	£'000
Cost recovery income	305	229	305	229

	GROUP		COMPANY	
	2017	2016	2017	2016
6 OTHER EXPENSES	£'000	£'000	£'000	£'000
Loss on foreign exchange	1,222	1,245	1,224	1,305
Others	21	-	-	-
	1,243	1,245	1,224	1,305

7 IMPAIRMENT

7.1 Impairment on oil & gas properties

As at 31 December 2017, the Group recognised impairment losses on certain plant and equipment amounting to £1.9 million (2016: £2.5 million). The impairment losses primarily related to oil and gas properties as a result of the prolonged low oil price and gas seasonal spreads outlook.

In arriving at the impairment loss amounts, the recoverable amount of each impaired cash-generating unit is compared with the recoverable amount of the cash-generating unit. The Group's recoverable amount for the impaired CGU was determined from the value in use calculations, using cash flow projections. The Group uses a range of long term assumptions including prices, volumes, margins and costs based on market forecast, past performance and management's expectations of market developments. The projected cash flows were discounted using discount rates ranging between 6.6% and 8.5%. No indicators for impairment reversals were identified in 2017.

	GROUP	
	2017	2016 Restated*
Total impairment loss for the year are as follows:	£'000	£'000
Impairment on oil plant within plant & equipment (Note 14)	1,884	-
Impairment on gas storage plant within plant & equipment (Note 14)	-	2,461
	1,884	**2,461**

7 IMPAIRMENT (continued)

7.2 Impairment on investment in subsidiaries

Consequent to the impairment assessment and the subsequent recognition of impairment loss on oil & gas properties held by the Group as detailed in note 7.1 above, the Company recognised impairment loss on its 100% investment Humbly Grove Energy Limited ("HGEL") as at 31 December 2016.

The recoverable amount was determined using cash flow projections. The Company uses a range of long term assumptions including prices, volumes, margins and costs based on market forecast, past performance and management's expectations of market developments. The projected cash flows were discounted using discount rates of ranging between 6.6% and 8.5%.

	COMPANY	
	2017	2016
Total impairment loss for the year are as follows:	£'000	£'000
Impairment on equity investment in HGEL (Note 18)	-	56,447
Impairment on loans due from HGEL (Note 24)	-	35,915
	-	92,362

	GROUP		COMPANY	
	2017	2016	2017	2016
8 OPERATING LOSS	£'000	£'000	£'000	£'000
Operating loss is stated after charging / (crediting):				
Loss on foreign exchange (Note 6)	1,222	1,245	1,224	1,305
Employee benefits expense (Note 11)	8,070	7,858	5,081	5,026
Rental of land and buildings	776	785	776	785
Depreciation of property, plant and equipment (Note 14)	4,542	5,297	4,081	4,075
Impairment (Note 7)	1,884	2,461	-	92,362
Amortisation of intangible assets (Note 15)	263	630	263	630
Unwinding of discount on abandonment provision (Note 10)	568	625	5	6

	GROUP		COMPANY	
	2017	2016	2017	2016
9 FINANCE INCOME	£'000	£'000	£'000	£'000
Interest income on bank balance	12	23	8	22
Interest income arising from loans due from subsidiaries	-	-	95	63
Interest income arising from non-current loan notes	7,186	6,644	7,186	6,644
	7,198	6,667	7,289	6,729

	GROUP		COMPANY	
	2017	2016	2017	2016
10 FINANCE COSTS	£'000	£'000	£'000	£'000
Interest on borrowings	3,996	4,189	3,969	4,129
Interest on shareholders' loan	-	724	-	724
Interest on finance lease liability	-	-	3,891	3,933
Unwind discount on abandonment provisions	568	625	5	6
	4,564	5,538	7,865	8,792

11 EMPLOYEE BENEFITS

	GROUP 2017 £'000	GROUP 2016 £'000	COMPANY 2017 £'000	COMPANY 2016 £'000
Wages and salaries	5,744	5,845	3,320	3,491
National insurance contributions	909	950	634	668
Pension costs	640	675	445	480
Others	777	388	682	387
	8,070	7,858	5,081	5,026
The average number employees (including executive directors) during the year	82	89	45	52

Director remuneration

The aggregated remuneration of the remunerated Directors for the year for the Company was:

	COMPANY 2017 £'000	COMPANY 2016 £'000
- Directors emoluments (gross)	424	412
- Pension	-	40
	424	452
Aggregated remuneration of the highest paid Director	221	452

Director emoluments comprise salary and benefits earned by Directors during the relevant financial year, plus cash bonuses awarded. Pensions represent the estimated cost to the Company of providing defined benefit pensions to the executive Director.

12 AUDITORS' REMUNERATION

	GROUP 2017 £'000	GROUP 2016 £'000	COMPANY 2017 £'000	COMPANY 2016 £'000
Audit of the financial statements	109	237	109	237
Audit of subsidiaries	50	118	-	-
Total audit	159	355	109	237
Audit related assurance services	-	55	-	55
Taxation compliance services	37	41	11	12
Total non-audit services	37	96	11	67
Total auditors' remuneration	196	451	120	304

		GROUP		COMPANY	
		2017	2016	2017	2016
13	**TAXATION**	**£'000**	**£'000**	**£'000**	**£'000**
	The taxation charge / (credit) is made up as follows:				
13.1	**Amounts recognised through the Income Statement**				
	Current tax:				
	Corporation tax on profits for the period	-	-	-	-
	Adjustments in respect of previous periods	-	-	-	-
		-	-	-	-
	Deferred tax:				
	Increase in deferred tax provision in the period	359	359	86	86
	Adjustments in respect of previous periods	-	-	-	-
	Rate change adjustment	-	264	-	21
	Total tax charge/(credit) recognised through the Income Statement	359	623	86	107
13.2	**Amounts recognised through Reserves**				
	Current tax:				
	Arising in respect of transitional adjustments due to adoption of IFRS	-	-	-	-
	Deferred tax:				
	Decrease in deferred tax provision	(359)	(359)	(86)	(86)
	Adjustments in respect of previous periods	-	-	-	-
	Rate change adjustment	-	(264)	-	(21)
	Total tax (credit)/charge recognised through Reserves	(359)	(623)	(86)	(107)

Factors affecting tax charge / (credit) for the period:
The tax assessed for the period is lower than the standard rate of income tax in the UK (19.25%) (2016: 20.00%). The differences are explained below:

	GROUP 2017 £'000	GROUP 2016 £'000	COMPANY 2017 £'000	COMPANY 2016 £'000
Loss on ordinary activities before tax	(7,841)	(16,593)	(4,044)	(105,747)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 for 20.00%)	(1,509)	(3,319)	(778)	(21,149)
Effects of:				
Expenses not deductible for tax purposes	45	819	52	760
Impairment of investment	-	-	-	18,472
Utilisation of tax losses in respect of which deferred tax not previously recognised	(96)	(99)	-	-
Impact of transitional adjustments	293	400	-	101
Movement of unrecognised deferred tax	2,236	2,786	812	1,902
Impact of higher tax rates for ring fence activities	(610)	(228)	-	-
Rate change adjustment	-	264	-	21
Total tax charge / (credit) for the period	359	623	86	107

13 TAXATION (continued)

13.3 Deferred tax asset / (liability)

	Opening Balance	(Charged)/ released to income	Released to equity	Closing Balance
Group				
As at 31 December 2017				
Losses	1,418	(607)	-	811
Others	(1,418)	248	359	(811)
	-	(359)	359	-
As at 31 December 2016				
Losses	6,356	(4,938)	-	1,418
Others	(6,356)	4,315	623	(1,418)
	-	(623)	623	-
Company				
As at 31 December 2017				
Losses	(279)	227	-	52
Others	279	(141)	(86)	(52)
	-	86	(86)	-
As at 31 December 2016				
Losses	(4,475)	4,196	-	(279)
Others	4,475	(4,089)	(107)	279
	-	107	(107)	-

13.4 Deferred tax not recognised

Group

A potential deferred tax asset of £47.3 million (2016: £51.1 million) has not been recognised at the year end, on the basis that the availability of suitable taxable profits arising in the future against which the temporary difference could reverse is not considered probable.

The unrecognised deferred tax asset is in relation to tax losses of £36.8 million (2016: £33.9 million), decelerated capital allowances of £4.6 million (2016: £8.3 million), abandonment provision and asset of £5.9 million (2016: £5.4 million), fair value on derivatives of NIL (2016: £3.5 million) and other temporary difference of £0.01 million (2016: £0.01 million).

Company

A potential deferred tax asset of £22.5 million (2016: £25.7 million) has not been recognised at the year end, on the basis that the availability of suitable taxable profits arising in the future against which the temporary difference could reverse is not considered probable.

The unrecognised deferred tax asset is in relation to tax losses of £114.3 million (2016: £115.5 million), decelerated capital allowances of £17.7 million (2016: £14.0 million), and unrealised losses on derivative contracts and other provisions of £0.04 million (2016: gain of £21.8 million).

14 PROPERTY, PLANT AND EQUIPMENT

Group	Land & Buildings £'000	Plant & Equipment £'000	Computer hardware £'000	Furniture and fittings £'000	Total £'000
Cost					
At 1 January 2016	279	179,740	392	2,369	182,780
Additions	-	313	32	57	402
Disposals		-	-	(3)	(3)
At 31 December 2016	279	180,053	424	2,423	183,179
Additions	-	4,153	21	35	4,209
Disposals	-	-	(2)	-	(2)
At 31 December 2017	279	184,206	443	2,458	187,386
Accumulated depreciation and impairment					
At 1 January 2016	279	91,310	371	306	92,266
Depreciation charge	-	4,861	22	414	5,297
Impairment loss	-	2,461	-	-	2,461
At 31 December 2016	279	98,632	393	720	100,024
Depreciation charge	-	4,105	26	411	4,542
Impairment loss	-	1,884	-	-	1,884
Disposal	-	-	(2)	-	(2)
At 31 December 2017	279	104,621	417	1,131	106,448
Net book value					
At 31 December 2016	-	81,422	31	1,703	83,155
At 31 December 2017	-	79,585	26	1,327	80,938

Company	Plant & Equipment £'000	Computer hardware £'000	Furniture and fittings £'000	Total £'000
Cost				
At 1 January 2016	90,161	392	2,320	92,873
Additions	-	32	51	83
At 31 December 2016	90,161	424	2,371	92,956
Additions	-	7	35	42
At 31 December 2017	90,161	431	2,406	92,998
Accumulated depreciation				
At 1 January 2016	20,792	371	273	21,436
Depreciation charge for the year	3,651	22	402	4,075
At 31 December 2016	24,443	393	675	25,511
Depreciation charge for the year	3,651	20	410	4,081
At 31 December 2017	28,094	413	1,085	29,592
Net book value				
At 31 December 2016	65,718	31	1,696	67,445
At 31 December 2017	62,067	18	1,321	63,406

The Company:
The carrying value of property, plant and equipment held under finance leases as at 31 December 2017 was £62.1 million (31 December 2016: £65.7 million)

15 INTANGIBLE ASSETS

	GROUP AND COMPANY 2017 £'000	GROUP AND COMPANY 2016 £'000
Software		
Cost		
At 1 January	3,907	3,855
Additions	119	52
At 31 December	4,026	3,907
Accumulated amortisation		
At 1 January	3,607	2,977
Amortisation for the year	263	630
At 31 December	3,870	3,607
Net book value	156	300

16 FINANCE LEASE: THE COMPANY

The Company entered into a contract with its subsidiary, HGEL for the exclusive provision of gas storage services, facilities and associated assets. On the basis that the risks and rewards incidental to these assets have been transferred to the Company, liability has been recorded representing the net present value of minimum future lease payments.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are, as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
Period	**2017 £'000**	**2016 £'000**	**2017 £'000**	**2016 £'000**	**2017 £'000**	**2016 £'000**
Less than one year	4,656	4,590	3,842	3,891	814	699
Between one and five years	19,987	19,434	14,661	14,974	5,326	4,460
More than 5 years	75,329	80,537	26,577	30,106	48,752	50,432
	99,972	104,561	45,080	48,971	54,892	55,591

	2017 £'000	2016 £'000
Present value of minimum lease payment		
Due in one year	814	699
Due in more than one year	54,078	54,892
	54,892	55,591

17 OPERATING LEASE: THE GROUP AND THE COMPANY

Future minimum lease payments under non-cancellable operating leases are as follows:

	GROUP AND COMPANY 2017 £'000	GROUP AND COMPANY 2016 £'000
Period		
Less than one year	965	965
Between one and five years	3,841	3,851
More than 5 years	2,209	3,163
	7,015	7,979

		COMPANY	
		2017	2016
18	**INVESTMENTS IN SUBSIDIARIES**	£'000	£'000
	Unquoted shares at cost	44,531	44,531
	Fair value adjustments on interest-free loans extended to subsidiaries	11,916	11,916
		56,447	56,447
	Less: Impairment losses	(56,447)	(56,447)
		-	-

The subsidiary undertakings of the Company at 31 December 2017 and 2016 are as set out below:

	Country of incorporation	Interest held	Principal activities
Humbly Grove Energy Ltd	UK	100%	Provision of storage facilities
# Humbly Grove Energy Services Ltd	UK	100%	Service company
# Overseas Gas Storage Services Ltd	UK	100%	Dormant
# Gas Storage Limited	UK	100%	Dormant

Subsidiaries held indirectly

		GROUP		COMPANY	
		2017	2016	2017	2016
19	**AVAILABLE-FOR-SALE INVESTMENT**	£'000	£'000	£'000	£'000
	Unquoted equity shares – MPF Holdings Ltd				
	As at 1 January	62,876	32,711	62,876	32,711
	(Decrease)\Increase in valuation	(45,774)	30,165	(45,774)	30,165
	As at 31 December	17,102	62,876	17,102	62,876

The unquoted equity shares are classified as available-for-sale investments. As such, they are recorded at fair value with the gain or loss as a result of changes in fair value recorded in other comprehensive income. Accumulated fair value changes are recycled to the income statement on disposal, or when the investment is impaired.

The Group uses an income approach in deriving the fair value of the investment. The methodology uses the discounted future cash flows that are expected to be generated by the investment. In preparing the valuation, the Group obtained independently prepared cash flow projections which were based on industry expert market forecast and latest available business plan. The cash flow projections are discounted using discount rate comparable to the market and industry. The discount rates used for valuation as at 31 December 2017 were 11.0% (2016: 7.5%). Management is of the view that this is the most appropriate valuation method to measure the fair value the investment in the absence of recently completed transactions.

The Company's assessment of the fair value of the available-for-sale investment as at the year end resulted in decrease of the carrying value of the investment of £45.77 million (2016: increase of £30.16 million).

		GROUP		COMPANY	
		2017	2016	2017	2016
20	**LONG-TERM RECEIVABLES**	£'000	£'000	£'000	£'000
	Non-current loan notes – MPF Holdings Ltd	64,960	64,960	64,960	64,960

The non-current loan notes are carried at amortised cost which generates a fixed income of 8% per annum, which are held to maturity (30 June 2022).

		GROUP		COMPANY	
		2017	2016	2017	2016
21	**INVENTORIES**	**£'000**	**£'000**	**£'000**	**£'000**
	Natural gas	50,505	75,837	50,505	75,837
	Spare parts	271	280	-	-
	Oil	4	2	-	-
	Fuel gas	74	-	-	-
		50,854	76,119	50,505	75,837

		GROUP		COMPANY	
		2017	2016	2017	2016
22	**TRADE AND OTHER RECEIVABLES**	**£'000**	**£'000**	**£'000**	**£'000**
	Trade receivables	2,920	3,708	2,182	3,127
	Receivables from related parties	1,165	226	1,209	237
	VAT receivable	1,839	748	1,795	748
	Prepayments	1,803	1,361	596	518
	Accrued interest receivable	30,320	23,134	30,320	23,134
	Accrued trade income	322,308	321,060	322,308	320,864
	Derivative assets (Note 23.1)	31,189	51,633	31,189	51,633
		391,544	401,870	389,599	400,261

Receivable from other related parties arose in the normal course of business. Due to the nature of these receivables the carrying value approximates their fair value. None of receivables above are past due or impaired.

		GROUP		COMPANY	
23	**DERIVATIVE ASSETS AND LIABILITIES**	**2017 £'000**	**2016 £'000**	**2017 £'000**	**2016 £'000**
23.1	**Derivative assets**				
	Forward commodity contracts	26,710	39,843	26,710	39,843
	Options	4,479	11,790	4,479	11,790
		31,189	51,633	31,189	51,633
23.2	**Derivative liabilities**				
	Forward foreign exchange contracts	683	1,911	683	1,911
	Forward commodity contracts	39,792	67,474	39,792	67,474
	Options	719	1,866	719	1,866
		41,194	71,251	41,194	71,251

		COMPANY	
		2017	2016
24	**LOANS DUE FROM SUBSIDIARIES**	**£'000**	**£'000**
	Loan due from subsidiaries	87,975	84,726
	Less: impairment losses (Note 7.2)	(35,915)	(35,915)
	As at 31 December	52,060	48,811

The loans due from subsidiaries (other than the interest free loan) bear interest at rate of LIBOR plus 1%.

	GROUP		COMPANY	
	2017	2016	2017	2016
25 CASH AND CASH EQUIVALENTS	£'000	£'000	£'000	£'000
Cash at banks	4,808	10,793	3,823	9,797
Cash deposits	92	81	92	81
	4,900	10,874	3,915	9,878

Cash at banks balances are interest bearing.

The cash deposit amounting to £0.09 million (2016: £0.08 million) represent deposits to other institutions for gas delivery at the year end.

	GROUP		COMPANY	
	2017	2016	2017	2016
26 SHARE CAPITAL	No of shares '000	No of shares '000	No of shares '000	No of shares '000
Issued capital				
Ordinary shares of £1 each	293,044	273,044	293,044	273,044
Ordinary shares issued and fully paid				
As at 1 January	273,044	225,644	273,044	225,644
Increase during the period	20,000	47,400	20,000	47,400
As at 31 December	293,044	273,044	293,044	273,044

	GROUP		COMPANY	
	2017	2016	2017	2016
27 RESERVES	No of shares '000	No of shares '000	No of shares '000	No of shares '000
Capital contribution reserve				
As at 1 January	3,910	3,287	5,430	5,323
Deferred tax credit recognised through Reserves	359	623	86	107
As at 31 December	4,269	3,910	5,516	5,430

The capital contribution reserve arises on the revaluation of interest free loans from related parties. The fair value of these loans is calculated based on the present value of future cash payments discounted using the prevailing market rate of interest for similar instruments.

Available-for-sale reserve
This reserve records the changes in fair value of available-for-sale investments. On disposal or impairment, the cumulative changes in fair value are transferred to the profit or loss.

Merger reserve
Merger reserve represents the difference between the values of shares issued by the Company in exchange for the value of shares acquired in respect of the acquisition of subsidiaries.

28 PROVISIONS

Provision for decommissioning of oil and gas properties and other property, plant and equipment is recognised when there is an obligation to decommission and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The provision recognised is the present value of the estimated future costs determined in accordance with local conditions and requirements.

A corresponding asset of an amount equivalent to the provision is also created. This asset is depreciated in accordance with the policy set out in Note 2.11. The increase in the present value of the provision for the expected costs due to the passage of time is included within finance costs.

Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal events actually occurs are uncertain. Because actual timing and net cash outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, the carrying amounts of provisions, together with the interest rate used in discounting the cash flows and inflation rate, are regularly reviewed and adjusted to take account of such changes. The inflation rate used to determine the obligation as at 31 December 2017 was 2.0% (2016: 1.2%). The projected cash flows were discounted using discount rates of 1.8% (2016: 1.8%) for oil abandonment provision and 7.2% (2016: 7.2%) for gas abandonment provision. Changes in the expected future costs are reflected in both the provision and the asset.

The movement in decommissioning provision during the year are as follows:

		Abandonment provision		
	Other assets	**Oil assets**	**Gas assets**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Group				
As 1 January 2016	327	12,403	5,421	18,151
Increase in provision	-	214	62	276
Provision utilised	-	(1,046)	-	(1,046)
Change in discount rate and inflation rate	-	(290)	(847)	(1,137)
Unwinding of discount	6	228	391	625
At 31 December 2016	333	11,509	5,027	16,869
Increase in provision	-	162	-	162
Provision utilised	-	(1,503)	-	(1,503)
Change in discount rate and inflation rate	-	1,722	920	2,642
Unwinding of discount	5	201	362	568
At 31 December 2017	338	12,091	6,309	18,738
Due within one year	-	2,926	-	2,926
Due in more than one year	333	8,583	5,027	13,943
As at 31 December 2016	333	11,509	5,027	16,869
Due within one year	-	1,632	-	1,632
Due in more than one year	338	10,459	6,309	17,106
As at 31 December 2017	338	12,091	6,309	18,738

	Dilapidation provision	
	Other assets	**Total**
Company	**£'000**	**£'000**
As 1 January 2016	327	327
Unwinding of discount	6	6
At 31 December 2016	333	333
Unwinding of discount	5	5
At 31 December 2017	338	338
Due in more than one year as at 31 December 2016	333	333
Due in more than one year as at 31 December 2017	338	338

	GROUP		COMPANY	
	2017	2016	2017	2016
29 TRADE AND OTHER PAYABLES	£'000	£'000	£'000	£'000
Trade payables	457	1,522	328	989
Payable to related parties	2,379	173	3,973	2,876
Accrued trade expenses	290,520	307,497	288,963	305,467
Other accruals	2,093	2,154	2,016	2,044
Derivative liabilities (Note 23.2)	41,194	71,251	41,194	71,251
	336,643	382,597	336,474	382,627

Payables to related parties arose in the normal course of business. Due to the nature of these payables the carrying value approximates their fair value.

	GROUP & COMPANY	
	2017	2016
30 BORROWINGS	£'000	£'000
Non-current secured		
Term loan	41,320	61,320
Current unsecured		
Revolving credits	168,000	160,000
Total borrowings	209,320	221,320

The term loan, repayable in November 2020 is secured against one the Company's bank account. The revolving credits due to external banks repayable within one year.

Reconciliation of movement of liabilities to cash flows arising from financing activities during the year are as follows:

	Term Loan	Revolving credits	Total
	£'000	£'000	£'000
Balance as at 1 January 2017	61,320	160,000	221,320
Changes from financing cash flows			
Drawdown	-	62,000	62,000
Repayment	(20,000)	(54,000)	(74,000)
Total changes from financing cash flows	(20,000)	8,000	(12,000)
Balance as at 31 December 2017	41,320	168,000	209,320

31 RELATED PARTIES DISCLOSURE

Significant transactions with related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and an entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Group.

Key management personnel compensation

	Group		Company	
	2017	2016	2017	2016
Key management	£'000	£'000	£'000	£'000
Directors remuneration and benefits	613	635	424	452

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Sales of goods and services		Purchases of goods and services	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Group				
Immediate parent and ultimate parent companies	10	-	350	978
Associated companies	284,518	151,692	287,033	187,898
Company				
Immediate parent and ultimate parent companies	10	-	350	975
Associated companies	284,518	151,692	287,033	187,898
Subsidiaries	626	138	12,387	13,559

Outstanding at the year end	Amount owed by at year end		Amount owed to year end	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Group				
Immediate parent and ultimate parent companies	4	3	2,419	90
Associated companies	1,166	223	15	83
Company				
Immediate parent and ultimate parent companies	4	3	2,419	90
Associated companies	1,166	223	15	83
Subsidiaries	52,081	48,822	1,573	2,703

Sales and purchase of goods includes sales and purchases of LNG and Natural Gas. Sales and purchase of services includes administration and management related fee and recharge of expenses. All transactions have been entered into in the normal course of business and have been established on a commercial basis.

32 IMMEDIATE AND ULTIMATE PARENT COMPANIES

The immediate parent of the Company is PETRONAS LNG Sdn Bhd, a Company incorporated in Kuala Lumpur, Malaysia. The ultimate parent of the Group and of which the Company is a member is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated in Malaysia. Copies of PETRONAS's financial statements can be obtained from Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia.

33 FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i. Loans and receivables ("L&R");
ii. Fair value through profit or loss ("FVTPL")
   - Held for trading ("HFT"),
iii. Available-for-sale financial assets ("AFS");
iv. Loans and borrowings ("L&B").

31 December 2017	**Note**	**AFS**	**L&R/ (L&B)**	**FVTPL - HFT**	**Total Carrying amount**
Group		**£'000**	**£'000**	**£'000**	**£'000**
Financial assets					
Available-for-sale investment	19	17,102	-	-	17,102
Long term receivables	20	-	64,960	-	64,960
Trade and other receivables	*	-	358,552	-	358,552
Derivative assets	23	-	-	31,189	31,189
Cash and cash equivalents	25	-	4,900	-	4,900
		17,102	428,412	31,189	476,703
Financial liabilities					
Trade and other payables	*	-	(293,356)	-	(293,356)
Derivative liabilities	23	-	-	(41,194)	(41,194)
Borrowings	30	-	(209,320)	-	(209,320)
		-	(502,676)	(41,194)	(543,870)

31 December 2016		**AFS**	**L&R/ (L&B)**	**FVTPL - HFT**	**Total Carrying amount**
Group		**£'000**	**£'000**	**£'000**	**£'000**
Financial assets					
Available-for-sale investment	19	62,876	-	-	62,876
Long term receivables	20	-	64,960	-	64,960
Trade and other receivables	*	-	348,876	-	348,876
Derivative assets	23	-	-	51,633	51,633
Cash and cash equivalents	25	-	10,874	-	10,874
		62,876	424,710	51,633	539,219
Financial liabilities					
Trade and other payables	*	-	(309,192)	-	(309,192)
Derivative liabilities	23	-	-	(71,251)	(71,251)
Borrowings	30	-	(221,320)	-	(221,320)
		-	(530,512)	(71,251)	(601,763)

* These balances exclude non-financial instruments balances.

33 FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

31 December 2017	**Note**	**AFS**	**L&R/ (L&B)**	**FVTPL - HFT**	**Total Carrying amount**
Company		**£'000**	**£'000**	**£'000**	**£'000**
Financial assets					
Available-for-sale investment	19	17,102	-	-	17,102
Long term receivables	20	-	64,960	-	64,960
Trade and other receivables	*	-	357,814	-	357,814
Derivative assets	23	-	-	31,189	31,189
Loans due from subsidiaries	24	-	52,060	-	52,060
Cash and cash equivalents	25	-	3,915	-	3,915
		17,102	478,749	31,189	527,040
Financial liabilities					
Finance lease liability	16		(54,892)		(54,892)
Trade and other payables	*	-	(293,264)	-	(293,264)
Derivative liabilities	23	-	-	(41,194)	(41,194)
Borrowings	30	-	(209,320)	-	(209,320)
		-	(557,476)	(41,194)	(598,670)

31 December 2016		**AFS**	**L&R/ (L&B)**	**FVTPL - HFT**	**Total Carrying amount**
Company		**£'000**	**£'000**	**£'000**	**£'000**
Financial assets					
Available-for-sale investment	19	62,876	-	-	62,876
Long term receivables	20	-	64,960	-	64,960
Trade and other receivables	*	-	348,110	-	348,110
Derivative assets	23	-	51,633	-	51,633
Loans due from subsidiaries	24	-	48,811	-	48,811
Cash and cash equivalents	25	-	9,878	-	9,878
		62,876	523,392	-	586,268
Financial liabilities					
Finance lease liability	16	-	(55,591)	-	(55,591)
Trade and other payables	*	-	(309,332)	-	(309,332)
Derivative liabilities	23	-	-	(55,591)	(55,591)
Borrowings	30	-	(221,320)	-	(221,320)
		-	(586,243)	(55,591)	(641,834)

* These balances exclude non-financial instruments balances.

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management

The Group and the Company are exposed to various risks that are particular to its core business. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates, foreign currency exchange rates, and commodity prices.

The Group has policies and guidelines in place that are based on a consistent approach in line with the established financial risk management across the PETRONAS Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the Group and the Company's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from their receivables from customers. Credit risks are controlled s in line with the PETRONAS Group policies and guidelines.

Receivables

The Group and the Company minimise credit risk by ensuring that all potential counterparties are assessed prior to registration and entering into new contracts. Existing counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's and the Company's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits and letter of credit.

Liquidity risk

Liquidity risk is the risk that the Group and Company will not be able to meet its financial obligations as they fall due. The Group's and Company's exposure to liquidity risk arises principally from its trade and other payables, and borrowings. In managing its liquidity risk, the Group and the Company maintain sufficient cash and access to credit facilities.

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities bases on contractual undiscounted payments:

			Contractual cash flow			
Group	**Carrying amount**	**Total**	**Within one year**	**1-2 years**	**2-5 years**	**More than 5 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 31 December 2017						
Long term borrowings	41,320	45,674	1,506	-	44,168	-
Trade and other payables	293,356	293,356	293,356	-	-	-
Derivative liabilities	41,194	41,194	33,150	7,693	351	-
Borrowings	168,000	168,000	168,000	-	-	-
	543,870	548,224	496,012	7,693	44,519	-
As at 31 December 2016						
Long term borrowings	61,320	61,320	2,157	-	67,556	-
Trade and other payables	309,192	309,192	309,192	-	-	-
Derivative liabilities	71,251	71,251	59,463	10,862	926	-
Short term borrowings	160,000	160,000	160,000	-	-	-
	601,763	610,156	530,812	10,862	68,482	-
Company						
As at 31 December 2017						
Long term borrowings	41,320	45,674	1,506	-	44,168	-
Finance lease liability	54,892	99,971	4,656	4,789	15,197	75,329
Trade and other payables	293,264	293,264	293,264	-	-	-
Derivative liabilities	41,194	41,194	33,150	7,693	351	-
Short term borrowings	168,000	168,000	168,000	-	-	-
	598,670	648,103	500,576	12,482	59,716	75,329
As at 31 December 2016						
Long term borrowings	61,320	69,713	2,157	-	67,556	-
Finance lease liability	55,591	104,561	4,590	4,656	14,778	80,537
Trade and other payables	309,332	309,332	309,332	-	-	-
Derivative liabilities	71,251	71,251	59,463	10,862	926	-
Short term borrowings	160,000	160,000	160,000	-	-	-
	657,494	714,857	535,542	15,518	83,260	80,537

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes that the Group and the Company is exposed to include interest rates, foreign currency exchange rates, commodity prices, and other indices that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. All interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines. The interest rate profile of the Group's and the Company's interest bearing financial instruments based on carrying amount as at reporting date is as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Fixed rate instruments				
Non-current loan notes	64,960	64,960	64,960	64,960
	64,960	64,960	64,960	64,960
Floating rate instruments				
Loans due from subsidiaries (non interest free)	-	-	9,125	5,876
Long term borrowings	(41,320)	(61,320)	(41,320)	(61,320)
Short term borrowings	(168,000)	(160,000)	(168,000)	(160,000)
	(209,320)	(221,320)	(200,195)	(215,444)

With all other variables held constant, the Company's loss before tax is affected through the impact on floating rate borrowings. An increase of 25 basis points (2016 – 30 basis points) in interest rates at the reporting date would have increased the loss before taxation by £0.5 million (2016: £0.6 million). A reduction of 25 basis points (2016 – 25 basis points) in interest rates at the reporting date would have an equal and opposite effect.

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in its functional currencies and/or when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are GBP and Euro.

The Group and the Company's foreign exchange management policy are to minimise economic and significant transactional exposures arising from currency movements. The Group coordinates the handling of foreign exchange risks centrally typically by matching receipts and payments for the same currency. When deemed necessary and appropriate, the Group will enter into derivative financial instruments to hedge and minimise its exposures to the foreign currency movements.

The Group's and Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	GROUP & COMPANY	
	2017	2016
	£'000	£'000
Euro denominated assets		
Cash and bank balances	272	434
Accrued trade income	76,190	64,697
Forward commodity contracts	3,564	6,750
Options	658	-
	80,684	71,881
Euro denominated liabilities		
Accrued trade expenses	(69,754)	(56,599)
Forward foreign exchange contracts	(683)	(1,911)
Forward commodity contracts	(18,087)	(13,335)
Options	(380)	-
	(88,904)	(71,845)
Net exposure	(8,220)	36

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2017 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2017 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgment and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in Euro exchange rate, with all other variables held constant. The impact on the Group's loss before taxation is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in Euro rate	Effect on loss before taxation 2017 £'000	Effect on loss before taxation 2016 £'000
Foreign exchange rates	+10%	(822)	(4)
	-10%	822	4

Commodity price risk

The Group is exposed to changes in gas prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group enters into various financial instruments. In effecting these transactions, the Group operates within policies and procedures designed to ensure that risks are minimised. All financial instruments positions are marked-to-market and reported to management for performance monitoring and risk management purposes on a daily basis.

The following table shows the effect of price changes from natural gas on the Group and the Company:

	Change in year-end price	Effect on loss before taxation 2017 £'000	Effect on loss before taxation 2016 £'000
Gas Prices	+30%	3,820	(4,970)
	-30%	(4,820)	4,970

Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these instruments.

The following table analyses financial instruments carried at fair value and those not carried out at fair value for which fair value is disclosed, together with their fair values and carrying amounts in the statement of financial position.

	Fair value of financial instruments carried at fair value			
Group	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
31 December 2017				
Financial Assets				
Available-for-sale investment	-	-	17,102	17,102
Non-current loan notes	-	64,960	-	64,960
Forward commodity contracts	26,710	-	-	26,710
Options	-	4,479	-	4,479
	26,710	69,439	17,102	113,251

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Fair value information (continued)

Group	Fair value of financial instruments carried at fair value Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2017				
Financial Liabilities				
Forward foreign exchange contracts	-	(683)	-	(683)
Forward commodity contracts	(39,792)	-	-	(39,792)
Options	-	(719)	-	(719)
	(39,792)	(1,402)	-	(41,194)

Group	Fair value of financial instruments not carried at fair value Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying amount £'000
31 December 2017				
Financial Liabilities				
Long term borrowing	-	(41,320)	-	(41,320)

Group	Fair value of financial instruments carried at fair value Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2016				
Financial Assets				
Available-for-sale investment	-	-	62,876	62,876
Non-current loan notes	-	64,960	-	64,960
Forward commodity contracts	39,843	-	-	39,843
Options	-	11,790	-	11,790
	39,843	76,750	62,876	179,469
Financial liabilities				
Forward foreign exchange contracts	-	(1,911)	-	(1,911)
Forward commodity contracts	(67,474)	-	-	(67,474)
Options	-	(1,866)	-	(1,866)
	(67,474)	(3,777)	-	(71,251)

Group	Fair value of financial instruments not carried at fair value Level 1 £'000	Level 2 £'000	Level 3 £'000	Carrying amount £'000
31 December 2016				
Financial liabilities				
Long term borrowing	-	(61,320)	-	(61,320)

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Fair value information (continued)

Company

	Fair value of financial instruments carried at fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets				
Available-for-sale investment	-	-	17,102	17,102
Loans due from subsidiaries	-	-	52,060	52,060
Non-current loan notes	-	64,960	-	64,960
Forward commodity contracts	26,710	-	-	26,710
Options	4,479	-	-	4,479
	31,189	64,960	69,162	165,311
Inventory carried at fair value	50,505	-	-	50,505
Financial liabilities				
Forward foreign exchange contracts	-	(683)	-	(683)
Forward commodity contracts	(39,792)	-	-	(39,792)
Options	-	(719)	-	(719)
	(39,792)	(1,402)	-	(41,194)

Company

	Fair value of financial instruments not carried at fair value			
	Level 1	**Level 2**	**Level 3**	**Carrying amount**
31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities				
Long term borrowing	-	(41,320)	-	(41,320)

Company

	Fair value of financial instruments carried at fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2016	**£'000**	**£'000**	**£'000**	**£'000**
Financial Assets				
Available-for-sale investment	-	-	62,876	62,876
Loans due from subsidiaries	-	64,960	-	64,960
Non-current loan notes	-	48,811	-	48,811
Forward commodity contracts	39,843	-	-	39,843
Options	-	11,790	-	11,790
	39,843	125,561	62,876	228,280
Inventory carried at fair value	75,837	-	-	75,837
Financial liabilities				
Forward foreign exchange contracts	-	(1,911)	-	(1,911)
Forward commodity contracts	(67,474)	-	-	(67,474)
Options		(1,866)	-	(1,866)
	(67,474)	(3,777)	-	(71,251)

	Fair value of financial instruments not carried at fair value			
	Level 1	**Level 2**	**Level 3**	**Carrying amount**
31 December 2016	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities				
Long term borrowing	-	(61,320)	-	(61,320)

33 FINANCIAL INSTRUMENTS (continued)

Financial Risk Management (continued)

Fair value information (continued)

There were no transfers between Level 1 and Level 2 during the year (2016 : nil). The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3:

	2017 £'000	2016 £'000
Opening balance	62,876	32,711
Gains recognised in other comprehensive income	(45,774)	30,165
Closing balance	17,102	62,876

The key unobservable inputs used in the valuation model is the Weighted Average Cost of Capital ("WACC") used in discounting the cash flow projection. A reduction 50 basis points (2016: 25 basis points) of the rate of WACC would increase the Other Comprehensive Income by £4.8 million (2016: £4.0 million). An increase in 50 basis point (2016: 25 basis points) of the rate of WACC would decrease the Other Comprehensive Income by £4.6 million (2016: £3.9 million).

Income/(expense), net gains and losses arising from financial instruments

Group **2017**	Interest income £'000	Interest expense £'000	Impair-ment loss £'000	Others £'000	Total £'000
Financial instruments at fair value through profit or loss	-	-	-	5,942	5,942
Available-for-sale recognised in equity	-	-	-	(45,774)	(45,774)
Loan and receivables recognised in profit or loss	7,198	-	-	(1,222)	5,976
Financial liabilities at amortised cost	-	(3,996)	-	-	(3,996)
	7,198	(3,996)	-	(41,054)	(37,852)
2016					
Financial instruments at fair value through profit or loss	-	-	-	(29,796)	(29,796)
Available-for-sale recognised in equity				30,165	30,165
Loan and receivables recognised in profit or loss	6,667	-	-	(1,244)	5,423
Financial liabilities at amortised cost	-	(4,912)	-	-	(4,912)
	6,667	(4,912)	-	(875)	880
Company **2017**					
Financial instruments at fair value through profit or loss	-	-	-	5,942	5,942
Available-for-sale recognised in equity	-	-	-	(45,774)	(45,774)
Loan and receivables recognised in profit or loss	7,289	-	-	(1,224)	6,065
Financial liabilities at amortised cost	-	(7,860)	-	-	(7,860)
	7,289	(7,860)	-	(41,056)	(41,627)

33 FINANCIAL INSTRUMENTS (continued)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company 2016	**Interest income £'000**	**Interest expense £'000**	**Impair-ment loss £'000**	**Others £'000**	**Total £'000**
Financial instruments at fair value through profit or loss	-	-	-	(29,796)	(29,796)
Available-for-sale recognised in equity	-	-	-	30,165	30,165
Loan and receivables recognised in profit or loss	6,729	-	(35,915)	(1,305)	(30,491)
Financial liabilities at amortised cost	-	(8,786)	-	-	(8,786)
	6,729	(8,786)	(35,915)	(936)	(38,908)

34 CAPITAL MANAGEMENT

The Company defines capital as total equity and debt of the Company. The objective of the Company's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and maximises shareholder value. As a subsidiary of Petroliam Nasional Berhad ("PETRONAS"), the Company's approach in managing capital is set out in the PETRONAS Group Corporate Financial Policy.

35 CONTINGENT LIABILITIES

There were no contingent liabilities at the end of the year.

36 ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

During the year, the Group adopted the following pronouncements that have been issued by International Accounting Standard Board ("IASB") and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2017
Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 7: Disclosure Initiative
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The initial application of the above mentioned pronouncements did not have any material impact to the financial statements of the Group.

37 PRONOUNCEMENTS NOT YET IN EFFECT

The following pronouncement that have been issued by IASB will become effective in future financial periods and have not been adopted by the Group in these financial statements:

Effective for annual periods beginning on or after 1 January 2018
IFRS 9 *Financial Instruments (2014)*
IFRS 15 *Revenue from Contracts with Customers*
Amendments to IFRS 15 *Revenue from Contracts with Customers: Clarifications to IFRS 15*
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

Effective for annual periods beginning on or after 1 January 2019
IFRS 16 *Leases*
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Group and the Company are expected to apply the above mentioned pronouncements beginning from the respective dates the pronouncements become effective.

i. **IFRS 15 Revenue from Contracts with Customers**
IFRS 15 replaces the guidance in IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15, Agreements for Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and IFRIC 131, Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

ii. **IFRS 9 Financial Instruments**
IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting.

iii. **IFRS 16 Leases**
IFRS 16 replaces existing leases guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, IFRIC 115 Operating Leases – Incentives, and IFRIC 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The adoption of the above pronouncements is not expected to have material impact on the financial statements of the Group in the period of initial application.