

**Registered No: 04963083**

**South Hook Gas Company Ltd.**  
**Report and Financial Statements**  
**31 December 2020**



## **CORPORATE INFORMATION**

### **31 December 2020**

#### **Directors**

Ali Al-Kaabi (Qatar)

Ebrahim Al-Mannai (Qatar)

Mohammed Al-Emadi (Qatar)

Noora Ali Al-Kharji (Qatar)

Joseph Pergler (Qatar)

Hend Al Darwish (Qatar)

#### **Independent Auditors**

PricewaterhouseCoopers LLP

One Kingsway, Cardiff, CF10 3PW

#### **Bankers**

Citigroup N.A.

Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB

#### **Solicitors**

CMS Cameron McKenna LLP

Mitre House, 160 Aldersgate Street, London, EC1A 4DD

#### **Registered Office**

Level 28, The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom

**STRATEGIC REPORT****31 December 2020**

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

**Business background and ownership**

The principal objectives of the Company are to purchase up to 15.6 million Metric tonnes per annum (MTA) of Liquefied Natural Gas (LNG) and to market and deliver up to 2.1 billion cubic feet per day of natural gas from Qatar's North Field to the United Kingdom (UK) market.

The Company has signed the following agreements for the purchase and sale of gas to the UK market:

- A Sale and Purchase Agreement (SPA) with Qatar Liquefied Gas Company Limited (2) (QG2) for the sale and purchase of LNG. Arrangements under this agreement commenced in July 2009. Under this agreement, the Company is entitled to recover its operating costs and general and administrative costs.
- A Sale and Purchase Agreement (SPA) with Qatar Liquefied Gas Company Limited (4) (QG4) for the sale and purchase of LNG. Arrangements under this agreement commenced in January 2019.
- A Terminal Capacity Agreement (TCA) with South Hook LNG Terminal Company Ltd. (SHLNG) for the reception and regasification of LNG and transfer of pipeline gas. Arrangements under this agreement commenced in March 2009.
- A Gas Sale and Purchase Agreement (GSPA) with ExxonMobil Gas Marketing Europe Ltd (EMGME) for the sale of pipeline gas to the UK market. Arrangements under this agreement commenced in December 2009.
- A Gas Sale Agreement (GSA) with ExxonMobil Gas Marketing Europe Ltd (EMGME) for the sale of pipeline gas to the UK market. Arrangements under this agreement commenced in January 2019.

The activities of the Company are governed by a Joint Venture Agreement with Shareholders dated 31 August 2004. The shareholders' interests in the Company are as follows:

Qatar Petroleum Gas Trading (QG II) Limited (QP)	70%
ExxonMobil Qatargas (II) Trading Company Limited (EM)	30%

**Strategy**

The Company's strategy is to manage LNG cargo deliveries to the South Hook terminal (the Terminal) from the Qatargas 2 project in Qatar and seek to maximise the use of available redelivery capacity at the Terminal via various third party access arrangements.

**Review of the business**

During 2020, 4.1 million tonnes (2019 – 3.4 million tonnes) of LNG were delivered under the SPA with QG2 and costs amounted to £252.7 million (2019 - £513.5 million). QG2 supplied 21% higher volumes to the Company in 2020 than in 2019. LNG is a globally traded commodity and QG2 have diverted fewer cargoes to other markets in 2020. In addition, QG4 have supplied volumes to the Company with associated costs of £71.1 million (2019 - £232.2 million).

During 2020, 74,629 GWh of gas (2019 – 73,045 GWh), equating to approximately 9.0% (2019 – 8.3%) of the total gas supplies to the UK National Transmission System, were delivered under the GSPA and GSA with EMGME and revenue amounted to £512.0 million (2019 – £954.7 million).

The Company's other principal agreement is the TCA with SHLNG and during 2020 costs under this agreement amounted to £199.3 million (2019 – £191.8million). This arrangement is treated as a lease.

## STRATEGIC REPORT (continued)

31 December 2020

### Key financial performance indicators

Management consider the following measures to be key in assessing the Company's financial performance:

	2020 £'000	2019 £'000	Change %
Revenue	555,087	980,550	(43%)
Operating Profit	103,410	97,427	6%
Pre-Tax Loss for the year	(32,651)	(35,876)	9%
Loss for the year	(16,961)	(29,730)	43%
Total Equity	(379,973)	(363,012)	(5%)
Net current assets (current assets less current liabilities)	39,915	42,365	(6%)
Average number of employees	17	16	6%

Revenue for the year at £555 million decreased by 43% on the Revenue for the previous year (2019 - £981 million). Revenue is driven primarily by the sale of pipeline gas and the value is impacted by the gas sale price and the number of LNG cargoes the Company receives in the year. The gas sale price was considerably lower in 2020 compared to 2019.

The Operating Profit for the year at £103.4 million increased by 6% on the Operating Profit for the previous year (2019 - £97.4 million). As a result of the contract structure for gas sales and LNG purchases, the Company is largely unaffected by changes in wholesale gas prices or variations in the volume of gas sold or the volume of LNG purchased.

The loss for the year before taxation at £32.7 million is 9% lower than the loss for the year before taxation for the previous year (2019 – loss of £35.9million). This loss is principally driven by depreciation charges and accounting for interest on the lease liability.

The loss for the year at £17.0 million decreased by 43% compared with the previous year (2019 - £29.7m), largely because of changes in the rate of UK Corporation Tax to 19% (previously 17%) and the resulting reassessment of the brought forward deferred tax asset position.

As a result of the loss for the year of £17.0 million, total equity declined by a further 5%.

Net current assets (current assets less current liabilities) for the year decreased by 6%, with decreases in cash, increases in lease payables and decreases in trade receivables offsetting the impact of increases in inventory and decreases in trade payables.

Average number of employees increased to 17 for the year as a contractor role has been moved to a permanent position.

In the opinion of the Directors the Company has achieved its key financial performance indicators by: meeting its obligations under its commercial agreements; managing its operating and administrative costs within budget; and having in place additional agreements that allow the Company to further market excess terminal capacity.

### Key non-financial performance indicators

Together with financial performance the Company's three remaining critical success factors are: managing internal processes to ensure that the Company has a robust governance and internal control framework; developing and maintaining high calibre and motivated staff; and managing effectively the Company's relationships with its stakeholders.

In the opinion of the Directors the Company has achieved its key non-financial performance indicators and has taken steps to ensure that it will continue to do so in the future.

**STRATEGIC REPORT (continued)****31 December 2020****Looking forward and future developments**

The primary focus of the Company in the forthcoming year will be to continue delivering its corporate objectives under its four critical success factors: Financial Performance; Internal Processes; People; and Stakeholders. The Company will continue to focus on applying the highest level of excellence in all its activities as well as meeting its obligations under its commercial agreements and controlling both operating and administrative costs.

During 2021 the Company will continue to develop arrangements to maximise the use of the capacity it has acquired under the Terminal Capacity Agreement with SHLNG.

With the development of the Company, the UK may potentially benefit from reduced greenhouse emissions as natural gas replaces higher carbon emitting fuels such as coal and oil.

**Principal risks and uncertainties**

The Company has entered into long-term agreements with related parties for the procurement of LNG, regasification of LNG and for the sale of gas to the UK market. However, the Company is largely protected from volatility in the UK gas market by the contracts entered into with these related parties. Furthermore, the Company has entered into a number of agreements that allows it access to alternative regasification capacity should capacity be unavailable under the arrangements with SHLNG.

The Company does face a number of other risks and uncertainties, some of which are inherent in the nature of its operations. Management looks at the risks faced and implements what it believes to be appropriate methods or strategies to manage those risks to the extent that it is able to do so. The Board periodically reviews its chosen strategies to ensure it continues to meet the challenges faced. The key risks within the business can be summarised as follows:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk is indicated by the carrying amount of its assets which consist principally of bank balances and receivables. Management believes that because the counter parties are banks and related parties with high credit ratings assigned by international credit rating agencies, the credit risk is minimal.

***Liquidity risk***

The Company limits its liquidity risk by ensuring it is paid within applicable due dates by its customers, therefore, enabling the Company to meet its contractual obligations as they fall due.

***Currency risk***

Currency risk is the risk that the value of financial instruments will fluctuate because of changes in foreign exchange rates. The Company does not hedge its currency exposure. However, management is of the opinion that the Company's exposure to currency risk is minimal as the majority of the transactions are executed in GBP sterling.

***Operational risk***

Events along the supply chain (such as ship delays and terminal trips) could adversely affect the Company's ability to meet gas sales commitments and fulfil obligations to support the safe operation of the terminal. Management is fully aware of the uncertainties and risks, and work closely with counterparties to manage the risks and mitigate potential impacts.

**STRATEGIC REPORT (continued)****31 December 2020****Statement pursuant to section 172(1) Companies Act 2006*****The Board's approach to the section 172(1) duty and decision-making***

The primary purpose of the Company, as outlined above, is to manage LNG cargo deliveries to the Terminal from the Qatargas 2 project in Qatar and seek to maximise the use of available redelivery capacity at the Terminal via various third-party access arrangements.

The Board, appointed by the Company's shareholders, are responsible for the effective oversight of the Company and have implemented a governance structure to support the long-term success of the Company to deliver sustainable value to shareholders as a whole. Responsibility for the day-to-day management of the Company is delegated to a shareholder-appointed General Manager, who plays a key role in ensuring the Company is operating in accordance with the direction set by the Board. The Board works closely with the General Manager to determine and approve the Company's strategic direction and objectives, business plans and activities, and to embed the desired culture throughout the organisation.

The key means of embedding this culture is through the Company's Board-approved Code of Business Ethics policy, along with a number of supporting policies and procedures. These policies describe the Company's desire to carry out its business in accordance with the highest ethical standards, and emphasise the importance of upholding ethical principles such as honesty, integrity, respect, reliability, fairness, and openness. The Company has in place a controls framework to ensure proper functioning of the Company's governance arrangements.

The Board acknowledges that the long-term success of the Company is critically dependent on the way it works with a number of important stakeholders. Key stakeholders are considered in the Board's decision-making, and in doing so, ensures the directors' duty is discharged under section 172 of the Companies Act 2006.

The Company's management provides annual and ad hoc training to directors on directors' duties under the Companies Act 2006 and otherwise at law. The duties of s172 of the Companies Act 2006 are reflected in the Company's Board-approved Corporate Social Responsibility policy, embedding a culture of best corporate governance practice throughout the Company. The directors confirm as part of their participation in Board meetings and in their approval of Board resolutions that they have satisfied themselves that they have discharged such relevant duties.

***Stakeholder engagement***

Details of the Company's focus on key stakeholder relationship management is set out below, and how this engagement is reported up to the Board to support its decision-making. An overview of developments in the Company's engagement with stakeholders is reported to the Board on a regular basis. In most cases, this will be in the form of periodic updates from the General Manager.

***Employees***

The Company aims to attract and retain the best human resources through its recruitment and training opportunities so that its people operate at an optimum level and contribute to achieving the goals of the business.

As provided in the Company's policies, the Company is committed to equal opportunities for all, free from discrimination and harassment. The Company values the contribution of all employees. All job applicants and employees, customers, visitors or contractors will receive equal treatment regardless of sex, race, disability, sexual orientation, religion or belief, age, marital or civil partnership status, nationality or ethnic origins. Within the Company, applicants and employees will be recruited, selected, trained and promoted on objective grounds, i.e. on the basis of their abilities to contribute most effectively to the success of the Company. Wherever possible, the

**STRATEGIC REPORT (continued)****31 December 2020**

Company will assist disabled employees to enable them to work for the Company and maximise their contribution and performance.

The Board's policies have created a culture in the Company where the Company values its employees' involvement in its activities and staff is kept up to date on the Company's performance, plans and objectives together with potential impacts on them as employees through regular formal and informal meetings and updates.

The Company arranges for an employee engagement survey to be implemented usually every two years by an external consultancy. Individual directors or the Board collectively occasionally hold meetings in the Company's offices with management and employees to understand status of key business activities or to participate in Board meetings.

*Suppliers*

The Company and QG2 are parties to a long-term LNG SPA in respect of the Qatargas 2 project in Qatar and a TCA for an equivalent term with South Hook LNG Terminal Company Ltd ("SHLNG"). Proactive engagement with both QG2 and SHLNG is crucial to ensure the Company is able to meet the obligations set out in the SPA and TCA respectively and ensure the efficient functioning of the value-chain, to deliver long-term value to the shareholders as a whole. There are regular communications between the Company and both QG2 and SHLNG through both formal and informal meetings at the business level (subject to and in accordance with all applicable information sharing constraints).

The Board also ensures it monitors the Company's business relationships with its suppliers through its review and approval of the Company's twice-annual payment practices report pursuant to section 3 of the Small Business, Enterprise and Employment Act 2015.

The Board ensures that the Company adopts a responsible approach to supply chain matters in compliance with the Modern Slavery Act 2015, considering and approving the Company's annual statement in respect of this legislation.

*Community*

Pursuant to the Board-approved Environmental and Corporate Social Responsibility policies, the Company is committed to being a good corporate citizen and recognises the importance of being an active member of the community. The Company has encouraged and enabled employees to participate in charitable events throughout the year.

During the year the Company has supported several charities within the UK.

*Environment*

The Company reports to the Board on the findings of its report under the relevant phase of the Energy Savings Opportunity Scheme ("ESOS"), as prepared by the Company's external specialist consultancy. The Board approves the report prior to its submission by the Company and provides guidance and required actions to the Company to address any findings of the consultancy.

The Company recently appointed an Environmental Officer who has the remit to promote strategies to reduce the carbon footprint of the Company.

**STRATEGIC REPORT (continued)****31 December 2020***Customers*

The Company has in place a sale and purchase agreement with EMGME for the sale and purchase of pipeline gas into the UK market. Proactive engagement with EMGME is crucial to ensure the Company is able to meet the obligations set out in the GSPA and ensure the efficient functioning of the value-chain, to deliver long-term value to the shareholders as a whole. There are regular communications between the Company and EMGME through both formal and informal meetings, at the business level (subject to and in accordance with all applicable information sharing constraints).

As the LNG market evolves in north-west Europe, the Board has approved the execution by the Company of a number of natural gas sales agreements and regasification processing capacity agreements with market participants, where such business opportunities are identified by the Company. The Board analyses the potential risk and reward presented by these opportunities, including the recognition of the long-term benefit of promoting the use by third parties of unutilised primary processing capacity in the preservation of SHLNG's exemption granted from the Office for Gas and Electricity Markets ("Ofgem").

Pursuant to the Board-approved Customer Take On policy, the Company ensures that appropriate due diligence is performed on customers and suppliers in respect of key business activities in order to identify any counterparty risks. The activities of the Company's employees are to be performed in accordance with the Board-approved Anti-Fraud, Corruption and Bribery policy.

*Regulators & Government Organisations*

The Company has regular interactions with a number of regulators and government organisations including Ofgem, the Department for Business, Energy and Industrial Strategy ("BEIS"), and Her Majesty's Revenue and Customs ("HMRC").

Maintaining a transparent and constructive relationship with all regulators is critical to the ongoing success of the Company, and delivering value to the shareholders as a whole. The Company takes a proactive approach to engagement with these stakeholders through regular meetings and communication in respect to both current and future business developments.

The Board is regularly updated with any relevant information with respect to the business level interactions with regulators via periodic briefings, and during face-to-face meetings. As part of the Company's tax compliance framework, the Board annually approves a tax strategy.

*Principal decisions taken in the year*

The Board endorsed for Shareholder approval the *2021 annual budget and 2022-2025 long-range business plan* of the Company. The Board confirmed the Company would continue to execute its chosen strategy to deliver long-term shareholder value. With the recovery of operating costs and general and administrative costs facilitated by the SPA, the impact of global and economic risks is considered minimal, however, key external challenges and changes to the regulatory and business environment were embedded as appropriate.

The Board continues to consider and approve opportunities identified by the Company's management to ensure that *unutilised primary processing capacity* at the South Hook LNG terminal ("Terminal") can be offered to and used by interested third parties for the long-term benefit of the Company and its shareholders as a whole.

The Board have received regular updates on the potential risks associated with *the UK's withdrawal from the European Union*.

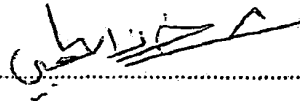


**STRATEGIC REPORT (continued)**

**31 December 2020**

In light of the ever-changing risks associated with *Cyber Security*, the Board approved a number of enhancements to the Company's business and process control systems.

On behalf of the Board



Ali Al-Kaabi

Chairman

Approved by the Board of Directors on: 24 MAY 2021

## **DIRECTORS' REPORT**

**31 December 2020**

The Directors present their report and audited financial statements for the year ended 31 December 2020.

### **Directors of the Company**

The Directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Ali Al Kaabi

Ebrahim Al-Mannai

Mohammed Al-Emadi

Noora Ali Al-Kharji

Edmund Brand (resigned 10 October 2020)

Joseph Pergler

Hend Al Darwish (appointed 10 October 2020)

### **Looking forward and future developments**

These are set out in page 4 of the Strategic Report.

### **Financial Instruments**

The Company's financial risk management, objectives, policies and exposure to risk is set out in page 4 of the Strategic Report and in Note 20.

### **Going concern**

The financial statements have been prepared on a going concern basis because in the opinion of the Directors, the Company has in place a contract and financing structure that ensures it is able to meet all financial commitments as they fall due. The net liabilities of £379,973,000 (2019: £363,012,000) are the result of the lease obligations reported in note 15, the profile of the accounting entries is different to the profile of the cash payments made to the lessor for the use of the leased asset. At the end of the lease, the total of the accounting entries and the total cash payments to the lessor will be equal.

### **Qualifying third-party indemnity provisions**

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and as at the date of approving the Directors' report.

### **Political contributions**

There were no political contributions during the year (2019 – nil).

## DIRECTORS' REPORT

31 December 2020

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

(000) tCO<sub>2</sub>e  
2020

Scope 1 (direct emissions)	27
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The Company has chosen tCO<sub>2</sub>e per square ft of floor space occupied as its intensity ratio. An intensity ratio is a way of defining the Company's emissions data in relation to an appropriate business metric, allowing comparison of energy efficiency performance over time and with other similar types of organisations. During the year, the Company's intensity ratio amounted to 5.2 kgCO<sub>2</sub>e per square ft of floor space occupied.

#### *Methodologies used in calculating energy and carbon reporting data*

The SECR methodology as specified in "Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting and greenhouse gas reporting" has been used in conjunction with Government GHG reporting conversion factors. The Company's Scope 2 and Scope 3 emissions are not material in the context of SECR requirements.

#### *Measures for increasing the Company's efficiency during the year*

We are committed to responsible energy management and will practice energy efficiency throughout our organisation, wherever it is cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the global community and we understand we have a role to play in reducing greenhouse gas emissions. During the year the Company has implemented energy conservation measures, focusing on the replacement of equipment with more modern and energy efficient alternatives and encouraging the use of videoconferencing where possible.

### Directors' statement as to disclosure of information to independent Auditors

The Directors who were members of the board at the time of approving the Directors' Report are listed on page 1. Having made enquires of fellow Directors and of the Company's Auditors, each of these Directors confirm that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are 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 Auditors are aware of that information.

## DIRECTORS' REPORT

31 December 2020

### Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

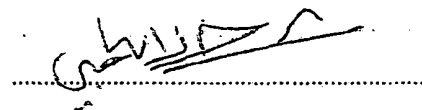
The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Independent Auditors

PricewaterhouseCoopers LLP have been appointed by the Company's Shareholders as the Statutory Auditors for the year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and their reappointment will be considered at the next Annual General Meeting.

On behalf of the Board



Ali Al-Kaabi  
Chairman

Approved by the Board of Directors on: 24 MAY 2021

South Hook Gas Company Ltd.

Private company limited by shares incorporated and domiciled in England and Wales.

### Registered Office

Level 28, The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH HOOK GAS COMPANY LTD.**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, South Hook Gas Company Ltd.'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### **Independence**

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

#### **Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH HOOK GAS COMPANY LTD. (CONTINUED)**

### **Reporting on other information**

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH HOOK GAS COMPANY LTD. (CONTINUED)**

### ***Auditors' responsibilities for the audit of the financial statements***

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK tax legislation and non-compliance with the requirements of the Regulation on Wholesale Energy Market Integrity and Transparency ("REMIT"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent transactions designed to overstate the performance and financial position of the company that are consolidated within the group financial statements of the parent company. Audit procedures performed included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing the REMIT compliance plan and Board minutes;
- Identifying and testing journal entries, in particular those having unusual account combinations or posted by senior management;
- Obtaining third party confirmations of all the Company's banking arrangements together with the counterparty to the Terminal Capacity Agreement in relation to the lease obligation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH HOOK GAS COMPANY LTD. (CONTINUED)**

### ***Use of this report***

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

### **Other required reporting**

#### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Jonathan Bound (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cardiff

Date: 24 May 2021



## INCOME STATEMENT

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	4	555,087	980,550
Cost of sales		(392,165)	(800,545)
<b>Gross profit</b>		<b>162,922</b>	180,005
Selling and distribution costs		(3,039)	(2,898)
Administrative expenses		(3,946)	(4,137)
Other income		29,520	991
Other operating costs		(82,047)	(76,534)
<b>Operating profit</b>	5	<b>103,410</b>	97,427
Finance costs	8	(136,083)	(133,446)
Finance income		22	143
<b>Loss for the year before taxation</b>		<b>(32,651)</b>	(35,876)
Income tax	9	15,690	6,146
<b>Loss for the year</b>		<b>(16,961)</b>	(29,730)

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Loss for the year	(16,961)	(29,730)
Total comprehensive expense for the year	(16,961)	(29,730)

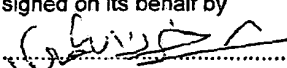
## STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	579,201	621,770
Deferred tax assets	11	96,210	80,520
		<b>675,411</b>	<b>702,290</b>
<b>Current assets</b>			
Inventories	12	11,688	3,424
Trade and other receivables	13	39,944	62,338
Cash and cash equivalents	14	38,265	39,752
		<b>89,897</b>	<b>105,514</b>
<b>TOTAL ASSETS</b>		<b>765,308</b>	<b>807,804</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Non-current liabilities</b>			
Lease obligations	15	1,095,299	1,107,667
		<b>1,095,299</b>	<b>1,107,667</b>
<b>Current liabilities</b>			
Trade payables and other payables	16	37,542	54,325
Lease obligations	15	12,440	8,824
		<b>49,982</b>	<b>63,149</b>
<b>Total liabilities</b>		<b>1,145,281</b>	<b>1,170,816</b>
<b>Capital and reserves</b>			
Called up share capital	17	31,300	31,300
Accumulated losses		(411,273)	(394,312)
<b>Total Equity</b>		<b>(379,973)</b>	<b>(363,012)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>765,308</b>	<b>807,804</b>

The notes on pages 21 to 40 form part of these financial statements.

The financial statements on pages 16 to 40 were approved by the Board on 24 MAY 2021 and signed on its behalf by

  
 Ali Al-Kaabi  
 Chairman  
 Date: 24 MAY 2021  
 Registered number: 04963083

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	<i>Share capital £'000</i>	<i>Accumulated Losses £'000</i>	<i>Total £'000</i>
Balance as of 1 January 2019	31,300	(364,582)	(333,282)
Loss for the year	-	(29,730)	(29,730)
Total comprehensive expense	-	(29,730)	(29,730)
Balance as of 31 December 2019 and 1 January 2020	31,300	(394,312)	(363,012)
<b>Loss for the year</b>	<b>-</b>	<b>(16,961)</b>	<b>(16,961)</b>
<b>Total comprehensive expense</b>	<b>-</b>	<b>(16,961)</b>	<b>(16,961)</b>
<b>Balance as of 31 December 2020</b>	<b>31,300</b>	<b>(411,273)</b>	<b>(379,973)</b>

## STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Operating activities</b>			
Cash flows from operating activities	18	142,593	132,508
Interest received		22	143
<b>Net cash flows generated from operating activities</b>		<b>142,615</b>	<b>132,651</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	10	(42)	(30)
<b>Net cash flows used in investing activities</b>		<b>(42)</b>	<b>(30)</b>
<b>Financing activities</b>			
Payment of lease liabilities		(144,060)	(138,091)
<b>Net cash flows used in financing activities</b>		<b>(144,060)</b>	<b>(138,091)</b>
<b>Decrease in cash and cash equivalents in the year</b>		<b>(1,487)</b>	<b>(5,470)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>39,752</b>	<b>45,222</b>
<b>Cash and cash equivalents at end of the year</b>		<b>38,265</b>	<b>39,752</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors dated 24 March 2021. South Hook Gas Company Ltd. is a private company limited by shares incorporated in the United Kingdom and domiciled in England and Wales. The registered office is located at Level 28, The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom.

#### 1.1 Statement of Compliance

The Company's Financial Statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) in conformity with the Companies Act 2006.

### 2. Accounting policies

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

#### 2.1 Basis of preparation

The financial statements of South Hook Gas Company Ltd. have been prepared on a historical cost basis. The financial statements are presented in GBP Sterling and are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial statements have been prepared on a going concern basis because in the opinion of the Directors, the Company has in place a contract and financing structure that ensures it is able to meet all financial commitments as they fall due.

#### 2.2 Changes to accounting policy and disclosures

##### New standards and interpretations issued but not yet effective

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. The Company does not anticipate a material impact within its financial statements as a result of the applicable standards and interpretations.

#### 2.3 Summary of significant accounting policies

##### Revenue recognition

Revenue is measured by reference to the consideration specified in a contract with a customer, excluding amounts collected on behalf of third parties and excluding discounts, rebates and sales taxes or duty. The Company recognises revenue as it transfers control over its goods and services to the customer.

##### Other income

Other income relates to operating lease income and the recovery of costs from a related entity, QG2. The Company recognises other income on an accruals basis.

##### Interest income

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 2. Accounting policies (continued)

#### 2.3 Summary of significant accounting policies (continued)

##### Plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	–	10 years
Furniture, fixtures and office equipment	–	5 years
Computer and electronic equipment	–	3 to 5 years
Right of Use Asset (Terminal)	–	Over the term of the lease (25 years)
Right of Use Asset (The Shard)	–	Over the term of the lease (20 years)

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

All expenditures on plant and equipment exceeding £2,000 in value are capitalised.

##### Leases

##### Company as a lessee

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

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

Lease payments to be made under reasonably certain contract extension options are also included in the measurement of the liability. These payments are discounted using the interest rate implicit within the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 2. Accounting policies (continued)

#### 2.3 Summary of significant accounting policies (continued)

##### Financial Assets

##### *Recognition and de-recognition of financial assets*

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Classification of financial assets*

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

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

All financial assets held by the Company are debt instruments (note 20). The classification of these financial assets depends on the entity's business model for managing the assets and the contractual terms of the cash flows. The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

##### *Measurement of financial assets*

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

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

- Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Assets that are not held for collection of contractual cash flows, or where those cash flows do not represent solely payments of principal and interest are measured at fair value (either through profit or loss, or through other comprehensive income).



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 2. Accounting policies (continued)

#### 2.3 Summary of significant accounting policies (continued)

##### Financial Assets (continued)

###### *Impairment of financial assets*

The Company assesses on a forward looking basis the ECLs associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk, and takes into account any collateral the Company holds that would mitigate such losses. Note 13 details how the Company determines whether there has been a significant increase in credit risk, and its approach with respect to providing for ECLs.

###### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Further information about the Company's policies in respect of trade and other receivables can be found in note 13.

###### *Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

###### *Financial liabilities*

###### *Recognition and de-recognition of financial liabilities*

A financial liability is recognised when the Company becomes party to the contractual provisions of the instrument.

A financial liability is derecognised when the Company's obligations under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

###### *Trade and other payables*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. They are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

###### *Loans and borrowings*

Loans and borrowings are initially measured at fair value, plus directly attributable transaction costs (e.g. cost of raising finance) and subsequently measured at amortised cost using the effective interest rate method.

###### *Deferred taxation*

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

Deferred tax liabilities are recognised for all temporary differences calculated at the tax rate that is expected to apply to the period when the liability is settled. Deferred tax is charged in the income statement.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are offset against deferred tax liabilities only when both the deferred tax assets and liabilities relate to income tax levied by the same taxation authority.

###### *Income taxes*

Taxation is provided in accordance with UK Tax Law.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 2. Accounting policies (continued)

#### 2.3 Summary of significant accounting policies (continued)

##### General and administration expenses

Administration, other general overhead and non-project related costs are expensed as incurred. Other operating costs includes all depreciation.

##### Foreign currencies

The financial statements are prepared in GBP Sterling, which is the Company's functional and presentation currency.

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

##### Inventory

Inventory is valued at the lower of cost, determined based on the most recent purchase price, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

##### Use of estimates and key judgements

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

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

##### - Deferred tax assets/Deferred tax liability

The Company has recognised deferred tax assets amounting to £96,210,000 (2019 – £80,520,000) for various timing differences as the Directors are confident that sufficient taxable profits will be available against which the deferred tax asset can be utilised.

### 3. Segment information

The Company does not operate in a segmental structure with its sole activities being the purchase of LNG and sale of gas and regasification services in the UK market.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 4. Revenue

	2020 £'000	2019 £'000
Sale of pipeline gas	512,009	954,651
Sale of regasification services	43,078	25,899
	<b>555,087</b>	<b>980,550</b>

#### Nature of goods and services provided to customers

The following provides a more detailed description of the activities which generate revenue for the Company

##### i. Sale of pipeline gas

The Company's main source of income is generated from the sale of pipeline gas for supply into the UK National Transmission System.

The Company recognises the sale of pipeline gas as a single performance obligation satisfied over time with revenue recognised as the gas is supplied.

Pipeline gas sales are invoiced monthly in arrears, recognised as accrued revenue at the period end and settled within 10 - 20 days from date of invoice (note 13).

##### ii. Sale of regasification services

The Company's other source of income is generated from the sale of regasification services, realised from the availability of spare processing capacity at the South Hook terminal in Milford Haven.

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

The Company recognises the provision of a fully integrated regasification service as a single performance obligation satisfied over time with revenue recognised as the service is rendered.

Regasification services are charged monthly in arrears, recognised as accrued revenue at the period end and settled within 10 - 20 days from date of invoice (note 13).

#### Contract Balances

The receivable balances arising from contracts with customers are disclosed in note 13. There were no contract assets or contract liabilities held during the year.

#### Practical expedients

The Company applies the practical expedient in paragraph 121(b) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognise that amount as revenue.

The Company applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effect of a significant financing component as all funds are expected to be received from customers within 12 months of the transfer of services.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 5. Operating Profit

This is stated after charging/(crediting):

	2020 £'000	2019 £'000
Depreciation	41,836	41,953
Operating lease income (Right-of-use asset)	(974)	(991)
Employee benefit expense (Note 7)	2,086	2,379
Auditors' remuneration in respect of audit of financial statements	40	40

### 6. Directors' and key management personnel emoluments

	2020 £'000	2019 £'000
Emoluments – Other key management personnel	256	348
Emoluments – Directors	149	152
	405	500

Note: Directors' and key management personnel emoluments include an amount of £149,000 (2019 – £152,000) that is outstanding at the year end to the four (2019 – four) Qatar Petroleum nominated Directors and ExxonMobil International Ltd for the services of two Directors (2019 – two Directors). These amounts are included within trade and other payables at the year-end (Note 16).

Key management personnel are considered to be each of the Directors plus the Company's General Manager.

Amounts of £12,000 (2019 - £21,000) were paid to key management in relation to the Company defined contribution pension scheme. None of the Directors benefit from the Company defined contribution pension scheme.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

## 7. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	1,580	1,894
Social security costs	215	251
Other pension costs – defined contribution scheme	291	234
<b>Total</b>	<b>2,086</b>	<b>2,379</b>

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

	2020 No.	2019 No.
Administration	17	16

## 8. Finance costs

	2020 £'000	2019 £'000
Finance charges payable under finance leases	136,083	133,446
<b>Total finance costs</b>	<b>136,083</b>	<b>133,446</b>

## 9. Income tax

(a) Income tax

	2020 £'000	2019 £'000
<b>Current income tax:</b>		
Current tax for the year	-	-
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences	15,673	6,093
Adjustment in respect of previous periods	17	53
<b>Total tax reported in the income statement</b>	<b>15,690</b>	<b>6,146</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 9. Income tax (continued)

#### (b) Reconciliation of the total income tax

The income tax included in the income statement for the year differs from (2019 – differs from) the standard rate of corporation tax in the UK of 19% (2019 – 19%) The differences are explained below:

	2020 £'000	2019 £'000
Loss for the year before taxation	(32,651)	(35,876)
At standard rate of corporation tax in the UK of 19% (2019 – 19%)	6,204	6,816
<i>Effects of:</i>		
Adjustment in respect of change in tax rate	9,475	(717)
Depreciation on non-qualifying expenditure	(6)	(6)
Expenditures not allowable for income tax purposes	-	-
Adjustments in respect of previous periods	17	53
<b>Income tax credit included in the income statement</b>	<b>15,690</b>	<b>6,146</b>

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019 - 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the company's deferred tax balances at the period end were remeasured at 25% this would result in an additional deferred tax credit of £30,383,000.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 10. Property, plant and equipment

	<i>Leasehold improvements</i>	<i>Furniture, fixtures, and office equipment</i>	<i>Computer and electronic equipment</i>	<i>Right-of- use asset</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>					
At 1 January 2020	2,226	1,133	221	1,033,397	1,036,977
Fair Value adjustment	-	-	-	(775)	(775)
Additions	-	42	-	-	42
<b>At 31 December 2020</b>	<b>2,226</b>	<b>1,175</b>	<b>221</b>	<b>1,032,622</b>	<b>1,036,244</b>
<b>Accumulated Depreciation:</b>					
At 1 January 2020	1,294	1,085	220	412,608	415,207
Charge for the year	172	18	1	41,645	41,836
<b>At 31 December 2020</b>	<b>1,466</b>	<b>1,103</b>	<b>221</b>	<b>454,253</b>	<b>457,043</b>
<b>Net Book Value:</b>					
<b>At 31 December 2020</b>	<b>760</b>	<b>72</b>	<b>-</b>	<b>578,369</b>	<b>579,201</b>
At 31 December 2019	932	48	1	620,789	621,770

	<i>Leasehold improvements</i>	<i>Furniture, fixtures, and office equipment</i>	<i>Computer and electronic equipment</i>	<i>Right-of- use asset</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>					
At 1 January 2019	2,226	1,103	221	1,017,741	1,021,291
Adjustment on transition to IFRS 16 (Right-of-use asset)	-	-	-	15,656	15,656
Additions	-	30	-	-	30
<b>At 31 December 2019</b>	<b>2,226</b>	<b>1,133</b>	<b>221</b>	<b>1,033,397</b>	<b>1,036,977</b>
<b>Accumulated Depreciation:</b>					
At 1 January 2019	1,123	1,041	218	370,872	373,254
Charge for the year	171	44	2	41,736	41,953
<b>At 31 December 2019</b>	<b>1,294</b>	<b>1,085</b>	<b>220</b>	<b>412,608</b>	<b>415,207</b>
<b>Net Book Value:</b>					
<b>At 31 December 2019</b>	<b>932</b>	<b>48</b>	<b>1</b>	<b>620,789</b>	<b>621,770</b>
At 31 December 2018	1,103	62	3	646,869	648,037

The net book value of right-of-use assets comprises plant and machinery of £565,450,000 (2019 £606,159,000) and land and buildings of £12,919,000 (2019 £14,630,000). The depreciation charge comprises to £40,710,000 (2019 £40,710,000) in respect of plant and machinery and £935,000 (2019 £1,026,000) in respect of land and buildings.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 11. Deferred tax assets

	<i>Finance lease £'000</i>	<i>Property plant and Equipment £'000</i>	<i>Taxable loss £'000</i>	<i>Total £'000</i>
Balance at 1 January 2019	154,813	(94,854)	14,415	74,374
(Charge)/Credit to the income statement	(570)	5,764	952	6,146
<b>Balance at 31 December 2019</b>	<b>154,243</b>	<b>(89,090)</b>	<b>15,367</b>	<b>80,520</b>

	<i>Finance lease £'000</i>	<i>Property plant and Equipment £'000</i>	<i>Taxable loss £'000</i>	<i>Total £'000</i>
Balance at 1 January 2020	154,243	(89,090)	15,367	80,520
Credit/(Charge) to the income statement	16,986	(3,824)	2,528	15,690
<b>Balance at 31 December 2020</b>	<b>171,229</b>	<b>(92,914)</b>	<b>17,895</b>	<b>96,210</b>
Deferred tax made up as follows:				
Deferred tax liability	-	(92,914)	-	(92,914)
Deferred tax asset	171,229	-	17,895	189,124
<b>Total</b>	<b>171,229</b>	<b>(92,914)</b>	<b>17,895</b>	<b>96,210</b>

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit is probable. The amount of the deferred tax asset expected to be settled within one year is £nil (2019: £nil).

### 12. Inventories

	<b>2020 £'000</b>	<b>2019 £'000</b>
Raw Materials – Liquefied natural gas	<b>11,688</b>	3,424
	<b>11,688</b>	3,424

The cost of inventories recognised as an expense and included in cost of sales amounted to £323,792,000 (2019 - £745,683,000).



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 13. Trade and other receivables

	2020 £'000	2019 £'000
Accrued trade receivables	35,872	58,588
Prepaid expenses	499	405
Other receivables	3,573	3,345
	<b>39,944</b>	<b>62,338</b>

Trade and other receivables are non-interest bearing and are generally on terms of 20 days (2019 – 20 days). Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost with a deemed effective interest rate of zero. No provision for impairment has been made as at 31 December 2020 (2019 – £nil), as all receivables are considered to be recoverable in full and none (2019: none) are past due.

#### *Expected Credit Loss Assessment*

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

The Company has not made any provision for ECL at the reporting date as all trade and other receivables are considered to be recoverable in full and the company has experienced no historic instances of counterparty default.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 14. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash and cash equivalents	38,265	39,752
	<b>38,265</b>	<b>39,752</b>

Note:

- (i) Cash and cash equivalents are exposed to interest rate risk. The average interest rate as of 31 December 2020 is 0.06% (2019: 0.34%).
- (ii) The assignment of the bank account in favour of the lenders of a related party is disclosed in note 19.
- (iii) Cash and cash equivalents are initially measured at fair value and are subsequently measured at amortised cost with a deemed effective interest rate of zero.

### 15. Lease obligations

The Company has a lease over the terminal capacity at Milford Haven. The lease is for a period of 25 years and the escalation and other charges are detailed in the Terminal Capacity Agreement between the Company and SHLNG. The Company also has a lease of the entire 28<sup>th</sup> floor of The Shard for a period of 20 years. This was previously classified as an operating lease and is now classified as a right-of-use asset within Property, plant and equipment.

	£'000
Carrying value at 1 January 2019	1,105,480
Adjustment on transition to IFRS 16 (Right-of-use asset)	15,656
Lease payments	(138,091)
Lease interest	133,446
Carrying value at 31 December 2019	1,116,491
<b>Fair Value adjustment</b>	<b>(775)</b>
<b>Lease payments</b>	<b>(144,060)</b>
<b>Lease interest</b>	<b>136,083</b>
<b>Carrying value at 31 December 2020</b>	<b>1,107,739</b>

Lease Payable of £12,440,000 (2019: £8,824,000) in relation to Phases I and II of the terminal construction and in relation to the lease of the entire 28<sup>th</sup> floor of The Shard falls due within one year.

The Fair Value adjustment reflects a revision to the future estimated lease commitments following conclusion of a rent review.

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 15. Lease obligations (continued)

	2020 £'000	2019 £'000
Future minimum payments due:		
Not later than one year	148,631	142,157
Later than one year but not later than five years	632,318	604,747
Later than five years	1,647,702	1,775,597
	<b>2,428,651</b>	<b>2,522,501</b>
Less finance charges allocated to future periods	(1,320,912)	(1,406,010)
<b>Present value of minimum lease payments</b>	<b>1,107,739</b>	<b>1,116,491</b>

The present value of minimum lease payments is analysed as follows:

	2020 £'000	2019 £'000
Not later than one year	132,428	126,963
Later than one year but not later than five years	426,816	411,938
Later than five years	548,495	577,590
<b>Present value of minimum lease payments</b>	<b>1,107,739</b>	<b>1,116,491</b>

### 16. Trade payables and other payables

	2020 £'000	2019 £'000
Trade payables	32,671	48,535
Accrued expenses	4,145	2,123
Other payables	726	3,667
	<b>37,542</b>	<b>54,325</b>

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2020, the Company had an average of 5 days (2019 – 20 days) purchases owed to trade creditors.

### 17. Called up Share capital

	2020		2019	
	No.	£'000	No.	£,000
<i>Authorised, allotted, called up and fully paid</i>				
<b>Ordinary shares of £1 each</b>	<b>31,300,000</b>	<b>31,300</b>	<b>31,300,000</b>	<b>31,300</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 18. Cash flows from operating activities

	2020 £'000	2019 £'000
Loss for the year before taxation	(32,651)	(35,876)
Adjustments for:		
Depreciation of plant, property and equipment	41,836	41,953
Finance cost	136,083	133,446
Finance income	(22)	(143)
	145,246	139,380
Working capital adjustments:		
Decrease / (Increase) in trade receivables and prepayments	22,394	(25,744)
(Decrease) in trade and other payables	(16,783)	(7,424)
(Increase) / Decrease in inventory	(8,264)	26,296
<b>Cash flows from operating activities</b>	<b>142,593</b>	<b>132,508</b>

### 19. Loan guarantees and assignments

The Company has assigned its receivables and created a security over all bank accounts in favour of the lenders of South Hook LNG Terminal Company Limited and Qatar Liquefied Gas Company Limited (2).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 20. Financial risk management

#### Objectives and policies

The Company's principal financial assets comprise of related party receivables and cash.

Aside from the lease liability set out in note 15, the Company's principal financial liabilities comprise accounts payable. The main purpose of these financial liabilities is to raise finance for the Company's operations.

The main risks arising from the Company's financial instruments are: interest rate risk; liquidity risk; and credit risk. The Company's approach to managing such risks, and the nature of the Company's control environment is shown below.

#### Financial instruments

		2020 £000	2019 £000
<b>Financial assets</b>			
<i>at amortised cost:</i>			
Trade & other Receivables (excluding prepayments)	13	39,445	61,933
Cash and cash equivalents	14	38,265	39,752
		<b>77,710</b>	<b>101,685</b>
<b>Financial liabilities</b>			
<i>at amortised cost:</i>			
Trade and other payables	16	37,542	54,325
Lease obligations	15	1,107,739	1,116,491
		<b>1,145,281</b>	<b>1,170,816</b>

Financial assets are initially measured at fair value and are subsequently measured at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 20. Financial risk management (continued)

#### Interest rate risk

The Company is exposed to interest rate risk on its interest bearing assets (Bank accounts) however the related interest income is not significant. The effect of changes in interest rates would therefore not at this time have a significant impact on the results of the Company for 2020. Refer to Note 14 for quantitative disclosures.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk is indicated by the carrying amount of its assets which consist principally of receivables and bank balances. Management believes that because the counterparties for its cash holdings are banks with high credit ratings assigned by international credit rating agencies, the credit risk is minimal. The Company's receivables are predominately with EMGME (a related party) and the Company has received a guarantee from ExxonMobil South Hook Surety Corporation (a company registered in the state of Delaware, USA) in respect of these receivables. Management believes that any credit risk for both parties is within acceptable limits. All receivables at 31 December 2020 are current.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of financial position. The Company's maximum exposure to credit risk as at 31 December 2020 is set out in Notes 13, 14 and 21.

#### Liquidity risk

The company limits its liquidity risk by managing its operating cash levels to meet its obligations as they fall due. Accounts payable are normally settled within 30 days.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2020, based on contractual payment dates and current market interest rates.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 20. Financial risk management (continued)

#### Liquidity risk (continued)

	<i>Less than 6 months £'000</i>	<i>6 months to 1 year £'000</i>	<i>1 to 5 years £'000</i>	<i>More than 5 years £'000</i>	<i>Total £'000</i>
As at 31 December 2020:					
Trade and other payables	37,542	-	-	-	37,542
Lease obligations	74,315	74,316	632,318	1,647,702	2,428,651
<b>Total</b>	<b>111,857</b>	<b>74,316</b>	<b>632,318</b>	<b>1,647,702</b>	<b>2,466,193</b>

	<i>Less than 6 months £'000</i>	<i>6 months to 1 year £'000</i>	<i>1 to 5 years £'000</i>	<i>More than 5 years £'000</i>	<i>Total £'000</i>
As at 31 December 2019:					
Trade and other payables	54,325	-	-	-	54,325
Lease obligations	71,078	71,079	604,747	1,775,597	2,522,501
<b>Total</b>	<b>125,403</b>	<b>71,079</b>	<b>604,747</b>	<b>1,775,597</b>	<b>2,576,826</b>

#### Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Company includes within debt the lease liability. Capital includes equity attributable to the equity holders of the Company.

	<b>2020 £'000</b>	<b>2019 £'000</b>
Lease obligations	1,107,739	1,116,491
<b>Total debt</b>	<b>1,107,739</b>	<b>1,116,491</b>
Equity	(379,973)	(363,012)
<b>Total Capital</b>	<b>(379,973)</b>	<b>(363,012)</b>
<b>Capital and debt</b>	<b>727,766</b>	<b>753,479</b>
Gearing ratio	152%	148%

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 21. Fair value of financial instruments

Financial instruments comprise of financial assets and financial liabilities and are all held at amortised cost.

Financial assets consist of trade receivables, cash and bank balances. Financial liabilities consist of trade and other payables, accrued expenses and finance lease liabilities.

Management believe that the fair values of financial instruments are not materially different from their carrying values.

### 22. Related party transactions

These represent transactions with related parties, i.e. shareholders, Directors and senior management of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Details of related party transactions are disclosed below:

- (i) During 2020, the Company incurred costs from Qatargas Operating Company Limited for services amounting to £34,000 (2019 - £42,000). These services included accounting support, commercial support, SAP implementation and support.
- (ii) The Company signed a 25 year Ex-Ship LNG Sale and Purchase Agreement with QG2 for the purchase of up to 15.6 MTA of LNG for delivery to the South Hook LNG receiving terminal at Milford Haven, Wales, United Kingdom. The costs under this agreement amounted to £252,689,000 (2019 - £513,472,000).
- (iii) The Company signed a terminal capacity agreement with SHLNG for the reception, regasification of LNG and transfer of the gas to a distribution pipeline for sale by the Company. The costs under this agreement amounted to £199,342,000 (2019 - £191,769,000).
- (iv) The Company has entered into a cost reimbursement agreement with a related party, QG2. The Company will in certain circumstances, receive as reimbursement the terminal processing fees that it will be paying to SHLNG. The costs reimbursed under this agreement amounted to £28,545,000 (2019 - £nil).
- (v) During 2020, the Company purchased system entry capacity rights and system entry commodity charges amounting to £40,391,000 (2019 - £37,679,000) from EMGME.
- (vi) The Company has entered into an agreement (GSPA) with a related party, EMGME for the sale of gas. The amount sold under this agreement in 2020 amounted to £439,111,000 (2019 - £717,167,000).
- (vii) ExxonMobil South Hook Surety Corporation has provided a deed of guarantee and indemnity to the Company over the receivables due from EMGME under the GSPA.
- (viii) The Company has entered into an agreement (SPA) with a related party, QG4, for the purchase of LNG. The costs under this agreement in 2020 amounted to £71,103,000 (2019 - £232,211,000).
- (ix) The Company has entered into an agreement (GSA) with a related party, EMGME for the sale of gas. The amount sold under this agreement in 2020 amounted to £72,898,000 (2019 - £237,484,000).
- (x) During 2020, the Company incurred costs from ExxonMobil International Ltd for services amounting to £41,000 (2019 - £42,000) in respect of Directors fees.
- (xi) The Company has entered into a service agreement to sublet and manage office space to SHLNG. During 2020, costs under this agreement amounted to £14,000 (2019 - £14,000).
- (xii) The Company paid £1,578,000 (2019 - £1,032,000) in respect of rent to Teighmore Limited. Teighmore Limited is ultimately controlled by the Government of Qatar.

Qatar Petroleum and Exxon Mobil Corporation have significant interests in QG2, Qatargas Operating Company Ltd and South Hook LNG Terminal Company Ltd. Qatar Petroleum have a significant interest in QG4. Qatar Petroleum is wholly owned by the Government of the State of Qatar.

ExxonMobil South Hook Surety Corporation and EMGME's ultimate shareholder is Exxon Mobil Corporation.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

### 22. Related Party Transactions (continued)

At year-end, the following amounts were receivable from or due to the shareholders or their affiliates. The net amounts are included within the balance shown in notes 13 and 16.

	2020		2019	
	Receivable	Payable	Receivable	Payable
	£'000	£'000	£'000	£'000
Qatargas Operating Company Ltd	-	3	-	6
Qatar Liquefied Gas Company Ltd (2)	35,279	11,688	24,352	10,489
Qatar Liquefied Gas Company Ltd (4)	-	-	-	19,978
South Hook LNG Terminal Company Ltd	-	16,076	-	16,042
ExxonMobil Gas Marketing Europe Ltd	571	4,905	28,605	2,026
ExxonMobil International Ltd	-	41	-	42
	<b>35,850</b>	<b>32,713</b>	<b>52,957</b>	<b>48,583</b>