

Registration number: 09920361

Centrica LNG UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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Centrica LNG UK Limited

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Centrica LNG UK Limited

Strategic Report for the Year Ended 31 December 2017

The Directors present their Strategic Report for Centrica LNG UK Limited (the 'Company') for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is the trading of liquified natural gas ('LNG'), utilising Centrica group plc's (the 'Group') share of the LNG terminal at the Isle of Grain and Free on Board ('FOB') trading. The Company has a contract with a fellow Group company, British Gas Trading Limited ('BGTL'), to use the rights granted to BGTL to utilise capacity at the Isle of Grain LNG receiving terminal, which enables the Company to land cargoes of LNG at the Isle of Grain facility. The primary purpose of the Isle of Grain contract is to contribute to the secure supply of the British Gas customer base; from 2014, the Company pays BGTL the following: costs in relation to Isle of Grain slots sold to the Company; and a monthly fee to BGTL to reflect its usage of other LNG capacity for optimisation purposes. The Company will also market LNG capacity for BGTL and any profits will be shared.

Review of the business

The financial position of the Company was in line with expectations and is monitored by the Directors of the Company.

During 2016, the Directors of Centrica LNG Company Limited ('CLNG Co') approved a reorganisation to separate out the UK based trading and shipping previously included within CLNG Co into two new entities. From 1st July 2016 all Isle of Grain trading is housed within the Company and LNG vessel chartering is housed within the entity Pioneer Shipping Limited ('Pioneer'). As part of a restructure, on 1st July 2016, CLNG Co sold all UK assets to the Company, consisting of LNG inventory at the Isle of Grain, Nitrogen Plant at the Isle of Grain and net debtors/creditors relating to the Isle of Grain part of the LNG business at book value. The Company started trading on the 1st July 2016.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Group and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 52-62 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Exit from the European Union

The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. Many details of the implementation process continue to remain unclear. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Key performance indicators (KPIs)

The Directors of the Group use a number of KPIs to monitor process against the Group's strategy. The financial and non-financial performance indicators, which include the Company, are discussed on pages 30 and 31 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Centrica LNG UK Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

Future developments

The Group continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company.

Approved by the Board on 22 June 2018 and signed on its behalf by:

 Samantha Hood.

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 09920361

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica LNG UK Limited

Directors' Report for the Year Ended 31 December 2017

The Directors present their report and the Financial Statements for the year ended 31 December 2017.

Directors of the Company

The Directors who held office during the year were as follows:

Stuart Craig Dee (resigned 20 October 2017)

David Lee Dunlavy

Arturo Faustino Gallego Diaz

Cassim Mangerah

Jonathan Damian Westby

Peter John Worby (appointed 20 October 2017)

Results and dividends

The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2017 is £6,906,000 (2016: £11,478,000).

No dividends were paid during the period and the Directors do not recommend the payment of a final dividend.

Future developments

Future developments are discussed in the Strategic Report on page 2.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

Events after the reporting period

Events after the reporting period are detailed in note 20 to the financial statements.

Directors' and officers' liabilities

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Centrica LNG UK Limited

Directors' Report for the Year Ended 31 December 2017 (continued)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Centrica LNG UK Limited


Directors' Report for the Year Ended 31 December 2017 (continued)

Auditors

Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditor for the financial year commencing 1 January 2017. Consequently, PricewaterhouseCoopers LLP ('PwC') ceased to hold office as auditor of the Company in 2017. Pursuant to Section 519 of the Companies Act 2006, PwC has confirmed that there are no circumstances in connection with their ceasing to hold office that need to be brought to the attention of the members or creditors of the Company.

Following the resignation of PwC as auditors of the Company and, pursuant to Section 487 of the Companies Act 2006, Deloitte LLP were appointed as auditors of the Company.

Approved by the Board on 22 June 2018 and signed on its behalf by:

 Samantha Hood.

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 09920361

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica LNG UK Limited

Independent Auditors' Report to the members of Centrica LNG UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Centrica LNG UK Limited which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We are required by ISAs (UK) to report in respect of the following matters 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 Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Centrica LNG UK Limited

Independent Auditors' Report to the members of Centrica LNG UK Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, 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 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.

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 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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.

Centrica LNG UK Limited

**Independent Auditors' Report to the members of Centrica LNG UK Limited
(continued)**

Report on other legal and regulatory requirements

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 the Directors' Report have been prepared in accordance with applicable legal requirements.


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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



James Leigh FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
2 New Street Square
London
United Kingdom
EC4A 3BZ

22 June 2018

Centrica LNG UK Limited

Income Statement for the Year Ended 31 December 2017

	Note	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Revenue	4	174,110	85,971
Cost of sales	5	<u>(179,529)</u>	<u>(97,079)</u>
Gross loss		(5,419)	(11,108)
Operating costs	5	(2,033)	(307)
Exceptional items - impairment charges	5	<u>-</u>	<u>(2,482)</u>
Operating loss		(7,452)	(13,897)
Finance cost	7	<u>(1,100)</u>	<u>(451)</u>
Loss before income tax		(8,552)	(14,348)
Income tax	9	<u>1,646</u>	<u>2,870</u>
Loss for the year from continuing operations		<u>(6,906)</u>	<u>(11,478)</u>
Loss for the period		<u><u>(6,906)</u></u>	<u><u>(11,478)</u></u>

The notes on pages 13 to 25 form an integral part of these financial statements.

Centrica LNG UK Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Loss for the year		<u>(6,906)</u>	<u>(11,478)</u>
Total comprehensive loss for the year		<u><u>(6,906)</u></u>	<u><u>(11,478)</u></u>

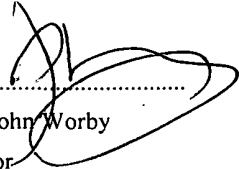
The notes on pages 13 to 25 form an integral part of these financial statements.

Centrica LNG UK Limited

Statement of Financial Position as at 31 December 2017

	Note	31 December 2017 £ 000	31 December 2016 £ 000
Non-current assets			
Intangible assets	10	-	-
		<u>-</u>	<u>-</u>
Current assets			
Trade and other receivables	11	8,549	8,391
Inventories	12	27,468	22,889
Current tax asset	9	-	2,870
		<u>36,017</u>	<u>34,150</u>
Total assets		<u>36,017</u>	<u>34,150</u>
Current liabilities			
Trade and other payables	13	(47,186)	(36,442)
Derivative financial instruments	14	(6,978)	(9,186)
		<u>(54,164)</u>	<u>(45,628)</u>
Non-current liabilities			
Derivative financial instruments	14	(237)	-
Total liabilities		<u>(54,401)</u>	<u>(45,628)</u>
Net liabilities		<u>(18,384)</u>	<u>(11,478)</u>
Equity			
Called up share capital	15	-	-
Accumulated losses		(18,384)	(11,478)
Total equity		<u>(18,384)</u>	<u>(11,478)</u>

The financial statements on pages 9 to 25 were approved and authorised for issue by the Board of Directors on 22 June 2018 and signed on its behalf by:



 Peter John Worby
 Director

Company number 09920361

The notes on pages 13 to 25 form an integral part of these financial statements.

Centrica LNG UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	-	(11,478)	(11,478)
Loss for the year	-	(6,906)	(6,906)
Total comprehensive income	-	(6,906)	(6,906)
At 31 December 2017	-	(18,384)	(18,384)

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 17 December 2015	-	-	-
Loss for the period	-	(11,478)	(11,478)
Total comprehensive income	-	(11,478)	(11,478)
At 31 December 2016	-	(11,478)	(11,478)

The notes on pages 13 to 25 form an integral part of these financial statements.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1 General information

Centrica LNG UK Limited (the 'Company') is a private company limited by share capital incorporated and domiciled in UK.

The address of its registered office and principal place of business is:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

2 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. In preparing these Financial Statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

From 1 January 2017, the following amendments are effective in the Company's financial statements. Their first time adoption did not have a material impact on the financial statements:

- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- Comparative period reconciliations for share capital;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Centrica plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures. Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value.

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£'000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

These financial statements have been prepared on the historical cost basis except for derivative financial instruments, available for sale financial assets and financial instruments designated at fair value through profit or loss on initial recognition.

Going concern

The financial statements have been prepared on a going concern basis, as described in the Directors' Report.

Summary of significant accounting policies and key accounting estimates

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

Revenue recognition

Revenue is recognised when title over the LNG or gas passes to the customer. Revenue related to the sale of gas and LNG is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Payments received from and paid to LNG counterparties in lieu of cargo delivery are also recognised within turnover. Gas sales and purchases to optimise the performance of the LNG terminal are presented net within revenue. LNG in store trades will be treated in one of two ways; for short-term trades, where there is a connected sale and purchase, the transaction is presented net within revenue, consistent with optimisation activity; for trades where there is no connected sale and purchase, sales will be recognised as revenue and purchases as stock transactions.

Cost of sales

Cost of sales includes the cost of LNG sold during the period and related transportation, shipping costs, material, capacity, service costs, foreign exchange differences relating to the purchase of cargoes and gains and losses arising from changes in the fair value on derivatives.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Foreign currencies

The financial statements of the Company are presented in pounds sterling, which is the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognised in the income statement for the period.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the balance sheet date.

Business combinations, goodwill and 'internal re-organisations'

Internal reorganisations (a 'group reconstruction') are not accounted for as business combination as there is no change of the ultimate controlling party over the underlying business, a 'common control transaction'. Consequently, a group reconstruction resulting from a 'group rationalisation' is accounted for using 'merger accounting' principles so that the entity to which the net assets are transferred ('transferee') records the assets and liabilities acquired at the carrying values in the accounts of the transferor, there is no fair value exercise and purchase price allocation performed. Any difference between the net assets transferred and the consideration paid (if any) is accounted for as a transaction with owners acting in their owners' capacity, as an 'equity transaction'.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired.

- Rights to use the nitrogen plant: 15 years.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Inventories

Inventories of LNG are finished goods and valued on a weighted average basis, at the lower of cost and estimated net realisable value. Net realisable value is determined by reference to forward market prices on the dates that the stock is expected to be sold. If required, the write-down of stock is included in cost of sales.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

Trade and other receivables

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from trading and energy procurement counterparties. Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate ("EIR") (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current period, that will not be invoiced until after the reporting date.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of LNG, it is deemed that there is no active market for physical LNG and these transactions are not within the scope of IAS 39.

The Company uses a range of derivatives to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2016 of the ultimate controlling party being Centrica plc, in the Strategic Report – Principal Risks and Uncertainties on pages 56 to 64.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Determination of fair values - energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
UK regasification and trading	<u>174,110</u>	<u>85,971</u>

All revenue relates to the principal activity of the business and occurred in the United Kingdom.

5 Analysis of costs by nature

	2017		
	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Transportation, distribution and metering costs	(4,304)	-	(4,304)
Commodities costs	(177,196)	-	(177,196)
MTM movement of energy derivatives	1,971	-	1,971
Recharges	-	(2,033)	(2,033)
Total operating costs by nature	<u>(179,529)</u>	<u>(2,033)</u>	<u>(181,562)</u>

	2016		
	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Transportation, distribution and metering costs	(15,993)	-	(15,993)
Commodities costs	(71,900)	-	(71,900)
MTM movement of energy derivatives	(9,186)	-	(9,186)
Impairment charge (i)	-	(2,482)	(2,482)
Recharges	-	(307)	(307)
Total operating costs by nature	<u>(97,079)</u>	<u>(2,789)</u>	<u>(99,868)</u>

(i) An impairment charge was recognised by the Company on the rights to use the nitrogen plant, predominantly due to the reduced level of LNG cargo deliveries being received at the Isle of Grain. The asset has minimal economic value.

6 Employees' costs

The Company has no employees. Any costs relating to employees are borne by other Group companies and recharged to the Company.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

7 Net finance cost

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Interest on amounts owed to Group undertakings	(1,100)	(451)
Total net finance cost	(1,100)	(451)

8 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the Financial Statements provided to the Company.

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Audit of the financial statements	(20)	(24)

Auditors' remuneration relates to fees for the audit of the financial statements of the Company. The prior year audit fee includes both the fee for the statutory audit of the financial statements and an allocation of the audit fee for the Group's consolidated financial statements.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group financial accounts of its ultimate parent, Centrica plc.

9 Income tax

Tax charged/(credited) in the income statement

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Current taxation		
UK corporation tax at 19.25% (2016: 20%)	(1,646)	(2,870)

The main rate of corporation tax for the year to 31 December 2017 was 19.25% (2016: 20%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

9 Income tax (continued)

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the loss before tax are reconciled below:

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Loss before tax	(8,552)	(14,348)
Tax on loss at standard UK rate of 19.25% (2016: 20%)	1,646	2,870
<i>Effects of:</i>		
Group relief	22	-
Transfer pricing adjustments	(22)	-
Total income tax credit	1,646	2,870

10 Intangible assets

Intangible asset: Rights to use the nitrogen plant- amortised over 15 years

	Other intangible assets £ 000
Cost or valuation	
At 1 January 2017	2,482
At 31 December 2017	2,482
Amortisation	
At 1 January 2017	(2,482)
At 31 December 2017	(2,482)
Carrying amount	
At 31 December 2017	-

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Trade and other receivables

	2017 Current £ 000	2016 Current £ 000
Trade receivables	1,130	571
Amounts owed by Group undertakings	7,419	6,914
Accrued income	-	906
	<u>8,549</u>	<u>8,391</u>

The amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

12 Inventories

	31 December 2017 £ 000	31 December 2016 £ 000
Gas in storage	<u>27,468</u>	<u>22,889</u>

Inventories of LNG are finished goods and valued on a weighted average basis, at the lower of cost and estimated net realisable value. Net realisable value is determined by reference to forward market prices on the dates that the stock is expected to be sold. The Company consumed £65.1m (2016: £71.9m) of inventories during the period.

13 Trade and other payables

	2017 Current £ 000	2016 Current £ 000
Trade payables	-	(4,698)
Accrued expenses	(42)	(133)
Amounts owed to Group undertakings	(46,004)	(30,469)
Deferred income	<u>(1,140)</u>	<u>(1,142)</u>
	<u>(47,186)</u>	<u>(36,442)</u>

Included within the net amounts owed to Group undertakings disclosed above is £35,388,000 (2016: £28,378,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.66 and 3.86% per annum during 2017 (2016: 3.04 and 4.04%). The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Derivatives

	2017		2016
	Current £ 000	Non-current £ 000	Current £ 000
Derivatives financial instruments- liabilities	<u>(6,978)</u>	<u>(237)</u>	<u>(9,186)</u>

15 Called up share capital

Allotted, called up and fully paid shares

	2017		2016	
	No.	£	No.	£
1 ordinary share of £1	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

16 Other commitments and contingencies

As at 31 December 2017, the Company has a commodity purchase contract with Qatargas to purchase LNG, which expires in 2023. Commodity purchase commitments are estimated on an undiscounted basis, as follows:

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
LNG purchase contract	<u>2,486,641</u>	<u>3,871,042</u>

At 31 December the maturity analyses of the commodity purchase commitments on an undiscounted basis was as follows:

	Year ended 31 December 2017 £ 000	17 December 2015 to 31 December 2016 £ 000
Within one year	385,826	580,178
Between one and five years	1,680,412	2,082,784
After five years	<u>420,403</u>	<u>1,208,080</u>
	<u>2,486,641</u>	<u>3,871,042</u>

Other guarantees and indemnities

In connection with the Group's energy trading, transportation, upstream and energy supply activities, certain Group companies, including the Company, have entered into contracts under which they may be required to prepay, provide credit support or other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

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Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

17 Financial instruments at fair value

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc.

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities.
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data.
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in managements' best estimate of fair value.

Financial instruments carried at fair value

	Fair value hierarchy			
	2017		2016	
	Fair value and carrying value £ 000	Level 2 £ 000	Fair value and carrying value £ 000	Level 2 £ 000
<i>Derivative financial liabilities - held for trading</i>				
Energy derivatives - for procurement/optimisation	(7,215)	(7,215)	(9,186)	(9,186)
Total financial liabilities at fair value through profit or loss	(7,215)	(7,215)	(9,186)	(9,186)
Total financial instruments at fair value	(7,215)	(7,215)	(9,186)	(9,186)

Centrica LNG UK Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

18 Related party transactions

The Company has taken advantage of the exemptions under FRS 101 from disclosures in respect of related parties transactions with wholly-owned subsidiaries.

Directors' remuneration

The aggregate emoluments paid to Directors in respect of their qualifying services were £808,237 (2016: £160,306). The aggregate value of company contributions paid to a pension scheme in respect of Directors' qualifying services were £20,638 (2016: £4,131).

There was one Director (2016: one) to whom retirement benefits are accruing under a defined benefit pension scheme, five (2016: one) Directors to whom retirement benefits are accruing under a defined contribution pension scheme, four Directors (2016: one) who received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme and no Directors (2016: nil) who exercised share options relating to the ultimate parent company.

The highest paid Director's emoluments and pension contributions in respect of their services to Centrica LNG UK Limited are £384,485 and £7,069 respectively. During the year, the highest paid Director did not exercise share options and received shares under a long term incentive scheme.

19 Parent and ultimate parent undertaking

The immediate parent undertaking is GB Gas Holdings Limited, a company registered in England and Wales.

The ultimate parent is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.

20 Non adjusting events after the financial period

There are no non adjusting events for the Company.