Registered number : 04248952

Centrica Offshore UK Limited

Annual Report and Financial Statements

for the year ended 31 December 2015

Centrica Offshore UK Limited
Annual Report and Financial Statements
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Centrica Offshore UK Limited
Company Information

Director
G C McKenna

Secretary
Centrica Secretaries Limited

Independent auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Registered office
1st Floor
20 Kingston Road
Staines-upon-Thames
Middlesex
TW18 4LG

Registered number
04248952

Centrica Offshore UK Limited
Strategic Report for the year ended 31 December 2015

The Director presents the Strategic Report of Centrica Offshore UK Limited ('the Company') for the year ended 31 December 2015.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The Company's transition date to FRS 101 was 1 January 2014 and comparatives have been restated accordingly.

Review of business
The Company reported a profit for the financial year of £17,252 thousand (2014: loss £4,327 thousand).

The Company continues to lease the seabed and own the production licence for the Rough reservoir, which is currently used as a storage facility by the immediate parent company, Centrica Storage Limited. The Company has title to and sells the condensate produced during the operation of the storage facility. The Company has the right to extract the cushion gas, once the regulatory consent is gained and once operation as a storage facility has finished, which is expected to be in 15 - 20 years time. The Company also has the obligation to decommission the Rough facility after extracting the cushion gas.

During the year, Centrica Storage Limited gained consent to reduce the lower reservoir storage limit by 15 billion cubic feet (bcf), allowing the Company to start selling cushion gas up to the 15bcf limit. By 31 December 2015, 6bcf of this had been sold. The remaining 9bcf was sold in early 2016.

Financial position
The financial position of the Company is presented in the statement of financial position on page 11. Total equity at 31 December 2015 was £38,485 thousand (2014: £21,233 thousand).

Principal risks and uncertainties
The management of the business and the execution of the Company's strategy are subject to a number of risks. Further discussion of these risks and uncertainties in the context of the Centrica Group (the 'Group') as a whole is provided on pages 38-42 of the Centrica Annual Report and Accounts 2015 which do not form part of this report. The additional key business risks and uncertainties affecting the Company have been highlighted below:

Commodity price risk
The key commodity price risk facing the Company is movement in gas and condensate prices. The Financial Risk Management Committee (FRMC) regularly monitors the extent of the Company's commodity price exposure.

Regulatory risk
The Company is required to operate within the regulatory guidelines set by UK and European bodies. These place constraints on the Company's activities. Failure to comply with the regulations set by these bodies carries significant reputational, financial and legal consequences. The regulatory and compliance team for the Centrica Storage Holdings group of companies monitors regulatory risk and updates directors on a regular basis.

Liquidity risk
Cash forecasts identifying the liquidity requirements of the Centrica Storage Holdings group of companies are produced frequently and monitored by the directors. However, due to the timing of cash payments and cash receipts liquidity is not a major risk for the Company.

Key performance indicators (KPIs)

The Director believes that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business, other than the volume of cushion gas sold and the price. 6bcf (62mthms) was sold in 2015 (2014: nil) at an average price of 30p/thm (2014: nil).

Further information about KPIs, in the context of the Group, can be found in the Annual Report and Accounts 2015 of the Group which does not form part of this report.

Approved by the Board on 14 September 2016 and signed on its behalf by:

Jeremy Thom
By order of the board for and on behalf of Centrica Secretaries Limited
Company Secretary
14 September 2016

Company number: 04248952, England and Wales

Registered Office:
1st Floor
20 Kingston Road
Staines-upon-Thames
Middlesex
TW18 4LG

Centrica Offshore UK Limited
Director's Report for the year ended 31 December 2015

The Director presents his report and the audited Financial Statements of Centrica Offshore UK Limited ('the Company') for the year ended 31 December 2015.

Directors

The following persons served as Directors during the year and up to the date of signing this report:

G C McKenna	(Appointed 11.02.2015)
J D Craig	(Resigned 11.02.2015)

Principal activities

The company produces gas and condensate from the Rough reservoir and holds title to the cushion gas and carries the Rough facilities decommissioning provision.

Results and dividends

The results of the Company are set out on page 9.

The profit for the financial year ended 31 December 2015 is £17,252 thousand (2014: loss £4,327 thousand).

No dividends were paid during the year and the Director does not recommend the payment of a final dividend (2014: nil).

Future developments

The Director anticipates that the Company will make losses before tax , in the longer term, on an annual basis due to the impact of the finance charge in relation to the unwinding of the decommissioning liability. The Director considers that all assets are fully recoverable taking into account the estimated present value of the cushion gas (the minimum volume of gas required in Rough to provide the necessary pressure to deliver working gas volumes to customers).

Financial risk management

The Director has established objectives and policies for managing financial risks, to enable Centrica Offshore UK Limited to achieve long-term shareholder value growth within a prudent risk management framework. These objectives and policies of the Company are regularly reviewed as part of Centrica Storage Holdings Group.

The Centrica Storage Holdings Group has a Financial Risk Management Committee (FRMC) which meets on a regular basis.

Events since the statement of financial position date

In June 2016, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices.

Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

Overall, management assesses the direct impacts on the Company to be minimal in the short term. The Company's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy prices in the UK.

Events since the statement of financial position date (continued)

In September 2016, Centrica Storage Limited concluded that it is no longer viable to operate the 47/8A installation. It is therefore permanently withdrawing the installation from service. 47/8A had up to six wells available for withdrawal out of a total of up to 30 wells in Rough field. Refer to the Directors' Report in the Centrica Storage Limited Annual Report and Financial Statements for more information.

This announcement would be expected to lead to earlier decommissioning of the 47/8A installation. The effect of this for the Company will be a negative impact on profit.

Director's and officers' liability

Director's 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.

Gas reserves (unaudited)

The Company has estimated proven and probable gas reserves in the UK. Estimates are made by management based on the results of reserve studies performed by independent third party consultants. The principal field is the Rough field, with estimated net proven and probable reserves of 175 billion cubic feet (bcf) at 31 December 2015 (2014: 181 bcf). 6 bcf was produced in 2015.

Statement of Director's Responsibilities

The director is responsible for preparing the Director's Report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the director to prepare Financial Statements for each financial year. Under that law the Director has elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the director must not approve the Financial Statements unless he is 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has 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 Director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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 auditors
The Director who held office at the date of approval of this Director's Report confirms that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and he has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Director confirms that:

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

Strategic report
The Director has chosen in accordance with section 414C(II) of the Companies Act 2006 to include in the Strategic Report matters otherwise required to be disclosed in the Director's Report as the Director considers these are of strategic importance to the Company.

Independent auditors
In accordance with Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Approved by the Board on 14 September 2016 and signed on its behalf by:

Jeremy Thom
By order of the board for and on behalf of Centrica Secretaries Limited
Company Secretary
14 September 2016

Company number: 04248952, England and Wales

Registered Office:
1st Floor
20 Kingston Road
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Middlesex
TW18 4LG

Centrica Offshore UK Limited
Independent Auditors' Report to the member of Centrica Offshore UK Limited

Report on the financial statements

Our opinion

In our opinion Centrica Offshore UK Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- Statement of Financial Position as at 31 December 2015;
- Income Statement for the year then ended; and
- Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In applying the financial reporting framework, the director has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion 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;
• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Director's remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Director's remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the director

As explained more fully in the Statement of Director's responsibilities, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Director; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Director's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Bruce Collins

Bruce Collins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
LLP Chartered Accountants and Statutory
Auditors London
15 September 2016

Centrica Offshore UK Limited
Income Statement
for the year ended 31 December 2015

	Note	**2015** **£000**	2014 £000
Revenue	4	24,021	479
Cost of sales	5	(6,797)	(1,922)
Gross profit/(loss)		17,224	(1,443)
Operating costs	5	(15)	(14)
Operating profit/(loss)		17,209	(1,457)
Finance cost	7	(4,607)	(4,033)
Profit/(loss) before income tax		12,602	(5,490)
Income tax credit	9	4,650	1,163
Profit/(loss) for the year from continuing operations		17,252	(4,327)

The notes on pages 13 to 24 form an integral part of these financial statements.

Centrica Offshore UK Limited
Statement of Comprehensive Income
for the year ended 31 December 2015

	2015 £000	2014 £000
Profit/(loss) for the year	17,252	(4,327)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	17,252	(4,327)

The notes on pages 13 to 24 form an integral part of these financial statements.

Centrica Offshore UK Limited
Statement of Financial Position
as at 31 December 2015

	Note	2015 £000	2014 £000
Non-current assets			
Property, plant and equipment	10	169,339	164,354
Deferred tax asset	13	42,223	30,894
		211,562	195,248
Current assets			
Trade and other receivables	11	55,636	45,590
		55,636	45,590
Total assets		267,198	240,838
Current liabilities			
Trade and other payables	12	(16,488)	(9,758)
		(16,488)	(9,758)
Non-current liabilities			
Provisions for liabilities	14	(212,225)	(209,847)
		(212,225)	(209,847)
Total liabilities		(228,713)	(219,605)
Net assets		38,485	21,233
Equity			
Share capital	15	4,500	4,500
Retained earnings		33,985	16,733
Total equity		38,485	21,233

The notes on pages 13 to 24 form an integral part of the financial statements.

These financial statements on pages 9 to 24 were approved and authorised for issue by the Board of Directors on 14 September 2016 and were signed on its behalf by:

G McKenna
Director
14 September 2016

The Company's Registered number is 04248952.

Centrica Offshore UK Limited
Statement of Changes in Equity
for the year ended 31 December 2015

	Share capital £000	Retained Earnings £000	Total £000
At 1 January 2015	4,500	16,733	21,233
Profit for the year	-	17,252	17,252
Total comprehensive income	-	17,252	17,252
At 31 December 2015	4,500	33,985	38,485

	Share capital £000	Retained Earnings £000	Total £000
At 1 January 2014	4,500	21,060	25,560
Profit for the year	-	(4,327)	(4,327)
Total comprehensive income	-	(4,327)	(4,327)
At 31 December 2014	4,500	16,733	21,233

The notes on pages 13 to 24 form an integral part of these financial statements.

1 General information

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

These financial statements were authorised for issue by the Board on 14 September 2016.

2 Principal accounting policies

Basis of Preparation
These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 17.

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;
• Disclosures in respect of related parties transactions with wholly-owned subsidiaries;
• Disclosures in respect of capital management;
• The effects of new but not yet effective IFRSs.

Note that the Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:
• Presentation of IAS format financial statements;
• Exemption from the presentation of a third statement of financial position (being the opening statement of financial position of the Company at the date of application of FRS 101, meaning in this instance 1 January 2014).

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.

These financial statements are presented in pounds sterling, (with all values rounded to the nearest thousand pounds [£000] except where otherwise indicated) which is also the functional currency of the Company.

The financial statements are prepared on the historical cost basis.

2 Principal accounting policies (continued)

Going concern

The Company had net current assets and total net assets at the Statement of Financial Position date of £39,148 thousand and £38,485 thousand respectively (2014: £35,832 thousand and £21,233 thousand respectively). The Financial Statements have been prepared on the going concern basis.

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 years presented, unless otherwise stated.

Property, plant and equipment ('PP&E')

PP&E is included in the statement of financial position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the costs can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

PP&E is depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation and amortisation of PP&E assets

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, as follows:

Asset classes	**Depreciation method and rate**
Plant	Straight line, between 5 and 20 years
Equipment and vehicles	Straight line, between 3 and 10 years
Gas Storage facilities	Straight line, up to 40 years

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary, changes are accounted for prospectively.

Cushion gas and the abandonment asset are both depreciated on a unit of production basis.

2 Principal accounting policies (continued)

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.

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 fair value less cost of disposal, the estimated future cash flows are discounted to their present value using a post-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").

Recoverable amount calculations use cash flow projections based on the Group's internal Board-approved three year business plans, which include observable market data where available and liquid. For net realisable value calculations the cash flows are discounted at a post tax rate of 7.5% (2014: 7.5%).

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. 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.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is stated as amounts invoiced to customers for the sale of condensate and cushion gas and excludes value added tax. Revenue is recognised on the transfer of title of cushion gas or condensate. Amounts paid in advance greater than amounts recognised as revenue are treated as deferred income, with any paid in arrears recognised as accrued income.

The company sells gas to the market through its parent company, Centrica Storage Limited. Gas is sold at arms length prices. Condensate is sold to third parties.

Cost of sales

Cost of sales relating to storage services include depreciation of assets used for storage services - notably cushion gas.

2 Principal accounting policies (continued)

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, based on price levels and technology at the statement of financial position date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the income statement within interest expense.

The inflationary unwind of the discount on the decommissioning provision is capitalised to the decommissioning asset.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign 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 statement of financial position date. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax is recognised in respect of all temporary differences identified at the statement of financial position date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) 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 liabilities are offset against deferred tax assets when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

2 Principal accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

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.

(a) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

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 Company 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.

(b) 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.

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the EIR method (although, in practice, the discount is often immaterial). If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) 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. 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.

2 Principal accounting policies (continued)

(d) Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with banks or and similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's income statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

3 Critical accounting judgments and key sources of estimation uncertainty

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of storage facility assets is reviewed periodically and is based on reserves, price levels and technology at the statement of financial position date. Provision is made for the estimated cost of decommissioning at the statement of financial position date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2045, with the majority of the costs expected to be paid between 2035 and 2040. Decommissioning costs are discounted at 4.2%. Inflation is assumed at 2.2%.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual Report and Accounts of the ultimate controlling party being Centrica Plc on page 174.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

4 Revenue

	2015	2014
	£000	£000
By activity:		
Sale of cushion gas	23,433	-
Sale of condensate	588	479
	24,021	479
By geography:		
UK	24,021	479
	24,021	479

5 Analysis of costs by nature

	2015	2014
	£000	£000
Cost of sales: Year ended 31 December		
Depreciation	6,867	1,776
Other direct costs	(70)	146
Total cost of sales	6,797	1,922
Other operating costs: Year ended 31 December		
Auditors' remuneration for audit services	15	14
Total other operating costs	15	14
Total costs: Year ended 31 December		
Depreciation	6,867	1,776
Other costs	(55)	160
Total costs	6,812	1,936

6 Employee costs

The Company has no employees (2014: nil) and no staff costs (2014: nil).

The emoluments of the directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other Centrica plc subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

7 Finance cost

	2015	2014
	£000	£000
Unwind of discount on decommissioning provisions	4,607	4,033
	4,607	4,033

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.

	2015	2014
	£000	£000
Audit of the financial statements	15	14
	15	14

There were no non-audit fees paid to the Company's auditors in 2015 (2014: nil).

9 Income tax

	2015 £000	2014 £000
Tax (credited) to the income statement		
Current tax		
Current tax on profits for the year	8,530	(2,504)
Adjustment in respect of prior years	(1,851)	884
Total current income tax	6,679	(1,620)
Deferred taxation		
Current year	(5,018)	(711)
Effect of changes in tax rates	(6,311)	1,168
Total deferred tax	(11,329)	457
Tax per income statement	(4,650)	(1,163)

Factors affecting tax charge for period

The charge for the year can be reconciled to the profit per the income statement as follows:

	2015 £000	2014 £000
Profit/(loss) on ordinary activities before taxation	12,602	(5,490)
Tax on profit at standard UK rate of 20.25% (2014: 21.49%)	2,552	(1,180)
Effects of:		
Adjustments in respect of prior years	(1,851)	884
Expenses not deductible	142	-
Transfer pricing adjustments	(668)	66
Tax rate changes	(6,311)	1,167
Effects of group relief/other reliefs	1,486	(2,100)
Tax credit for the period	(4,650)	(1,163)
Income tax credit reported in the income statement	(4,650)	(1,163)

Factors that may affect future tax charges
The main rate of corporation tax was reduced to 20% from 1 April 2015. Further reductions were enacted by Finance (No.2) Act 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These enacted reduced rates of corporation tax have been reflected within these financial statements. The Chancellor of the Exchequer has announced a further reduction in the rate, to 17% from 1 April 2020, which is expected to be substantively enacted as part of the Summer Finance Bill 2016 and is therefore not reflected in these financial statements. As such, the previously enacted rate of 18% from 1 April 2020 will not come into effect. The impact of the reduction in the corporate tax rate to 17% on the financial statements is not expected to be significant.

There was no change to the ring fence corporation tax rate of 30%. The supplementary charge rate was reduced under Finance Act 2015 from 32% to 20% with effect from 1 January 2015.

10 Property, plant and equipment

	Plant & Machinery £000	Abandonment Asset £000	Cushion Gas £000	Total £000
Cost				
At 1 January 2015	21,994	125,196	33,101	180,291
Additions	14,081	-	-	14,081
Inflationary adjustment	-	5,540	-	5,540
Provision revision	-	(7,769)	-	(7,769)
At 31 December 2015	36,075	122,967	33,101	192,143
Depreciation				
At 1 January 2015	2,834	1,205	11,898	15,937
Charge for the year	1,981	4,186	700	6,867
At 31 December 2015	4,815	5,391	12,598	22,804
Net book value				
At 31 December 2015	31,260	117,576	20,503	169,339
At 31 December 2014	19,160	123,991	21,203	164,354

There were no assets in the course of construction during 2015 (2014: nil).

11 Trade and other receivables

	2015 **£000**	2014 £000
Amounts owed by Group undertakings	55,636	45,590
	55,636	45,590

12 Trade and other payables

	2015 **£000**	2014 £000
Amounts owed to Group undertakings	16,473	9,743
Other payables	15	15
	16,488	9,758

Amounts owed to Group undertakings are unsecured, repayable on demand and non-interest bearing.

13 Deferred taxation

	2015 £000	2014 £000
At 1 January	30,894	31,351
Deferred tax charge to income statement for the period	11,329	(457)
At 31 December	42,223	30,894

	2015 £000	2014 £000
Non-current assets	(5,101)	(3,202)
Temporary differences trading	47,324	42,928
Temporary differences non-trading	-	(8,832)
	42,223	30,894

Offsetting:
Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015	2014
Net deferred tax assets	47,324	42,928
Net deferred tax liabilities	(5,101)	(12,034)
	42,223	30,894

Deferred tax assets

	2015	2014
Recoverable after 12 months	47,324	42,928
	47,324	42,928

Deferred tax liabilities

	2015	2014
Payable within 12 months	801	8,832
Payable after 12 months	4,300	3,202
	5,101	12,034

14 Provisions for other liabilities and charges

	Decommissioning 2015 £000
At 1 January 2015	209,847
Charged to the income statement	
- Increase due to discount unwinding	4,607
Inflationary adjustment	5,540
Provision revision	(7,769)
At 31 December 2015	212,225

Decommissioning costs
The estimated cost of decommissioning at the end of the life of the storage and production facilities is based on engineering estimates and, in the case of the Rough facility, reports from independent experts. Provision is made for the net present value of the estimated cost of decommissioning at the Statement of Financial Position date. The payment date of total expected future decommissioning costs is uncertain, but is currently anticipated to be in 15 - 20 years for the Rough facility.

15 Capital and reserves

Share capital

Allotted, called up and fully paid shares:

	2015		2014	
	No.	£000	No.	£000
Ordinary shares of £1 each	4,500,000	4,500	4,500,000	4,500
	4,500,000	4,500	4,500,000	4,500

Reserves

Retained earnings
The balance classified as retained earnings includes the profits and losses realised by the company in previous periods that were not distributed to the shareholders of the company at the Statement of Financial Position date.

16 Parent and ultimate parent undertaking

Centrica plc, a company registered in England and Wales is the ultimate holding company and ultimate controlling party. Centrica plc has a 100 percent interest in the equity share capital of Centrica Holdings Limited. Centrica Holdings Limited in turn owns 100 percent of the issued share capital of GB Gas Holdings Limited. GB Gas Holdings Limited owns 100 percent of the issued share capital of Centrica Storage Holdings Limited. Centrica Storage Holdings Limited has a 100 percent interest in the equity share capital of Centrica Storage Limited. Centrica Storage Limited has a 100 percent interest in the equity share capital of Centrica Offshore UK Limited and is the Company's immediate parent undertaking.

Centrica plc is the parent company of the largest and smallest Group for which consolidated financial statements are drawn up. Copies of the Centrica plc consolidated financial statements can be obtained from www.centrica.com.

17 Non-adjusting events that occurred after the financial period

In June 2016, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices.

Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

Overall, management assesses the direct impacts on the Company to be minimal in the short term. The Company's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy prices in the UK.

17 Non-adjusting events that occurred after the financial period (continued)

In September 2016, Centrica Storage Limited concluded that it is no longer viable to operate the 47/8A installation. It is therefore permanently withdrawing the installation from service. 47/8A had up to six wells available for withdrawal out of a total of up to 30 wells in Rough field. Refer to the Directors' Report in the Centrica Storage Limited Annual Report and Financial Statements for more information.

This announcement would be expected to lead to earlier decommissioning of the 47/8A installation. The effect of this for the Company will be a negative impact on profit.

18 Transition to FRS 101

As stated in the 'basis of preparation' note, these are the Company's first Financial Statements prepared in accordance with FRS 101. The accounting policies set out in the policies note have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 101 statement of financial position, the Company has not been required to adjust any amounts reported previously in its financial statements prepared in accordance with its old basis of accounting (UK GAAP).