Registered number: 04248952

Centrica Offshore UK Limited

Annual Report and Financial Statements

for the year ended 31 December 2016

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 2016

The Director presents the Strategic Report of Centrica Offshore UK Limited ('the Company') for the year ended 31 December 2016.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101').

Principal activities
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 (the minimum volume of gas required in Rough to provide the necessary pressure to deliver working gas volumes to customers following cessation of storage operations), once the regulatory consent is gained and once operation as a storage facility has finished. The Company also has the obligation to decommission the Rough facility after extracting the cushion gas.

Review of business
The Company reported a loss for the financial year of £49,358,000 (2015: profit of £17,252,000).

In July 2015 the Company received consent from the Oil and Gas Authority to increase the reservoir size of Rough by 4.5TWh (equivalent to 15 billion cubic feet (bcf) and 6 bcf was sold in 2015). As a result, the capacity of Rough was partially recovered and the remaining nine bcf of the cushion gas associated with this was sold by Centrica Offshore UK Limited in the first half of the year.

In September 2016, the Company and its parent Centrica Storage Limited, concluded that having regard to its age, condition and design-life, it was no longer feasible to operate the 47/8A installation. It has therefore permanently withdrawn the installation from service. 47/8A had up to six wells available for withdrawal, out of a total of up to 30 wells in the Rough field. Only four of the wells on the 47/8A installation have been in recent use (two of the wells have been plugged for several years) and the remaining four wells have only been used for production.

As a result of the decision, the Company has written off 47/8A Plant and Machinery of £633,000 (2015: nil) and related abandonment asset of £68,676,000 (2015: £nil), as an exceptional charge. The decommissioning provision was increased due to the earlier expected abandonment of the 47/8A asset, following the decision to permanently withdraw the installation, resulting in a change of £21,700,000 (2015: £nil). All activities on 47/8A are now being classed as abandonment expense. Other substantial increases in the abandonment provision were primarily due to a reduction in the discount rate.

Financial position
The financial position of the Company is presented in the statement of financial position on page 11. The shareholders deficit at 31 December 2016 was £10,873,000 (31 December 2015: equity of £38,485,000).

The market value of cushion gas is significantly higher than the book value.

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 56-64 of the Centrica Annual Report and Accounts 2016 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.

Asset integrity risk
The Company is expected to be loss making until Centrica Storage Limited stops using Rough for gas storage and the Company gets consent to blow down the Rough field. At this point the underlying cushion gas will be extracted and sold by the Company. The Company is therefore dependent on the Rough assets' integrity in order to extract future cushion gas. However the Company believes this is not a major risk as Centrica Storage Limited remains committed to maintaining the Rough asset to operate safely, in order to facilitate storage and gas production.

Exit from the European Union
The UK referendum vote in June to leave the European Union has added to the uncertainties faced by the business. However, we believe that the direct impact on the business of these events is limited in the short-term. Many details of the implementation process remain unclear. Extricating from the European Union treaties is a task of immense complexity but with that being said, the business is well-positioned to manage any market impacts. There are also potential tax consequences of the withdrawal agreement which we will continue to reassess (at each reporting date) to ensure our tax provisions reflect the most likely outcome following the withdrawal.

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. Nine bcf was sold in 2016 (2015: six bcf) at an average price of 30p/th (2015: 30p/th).

Further information about KPIs, in the context of the Group, can be found in the Annual Report and Accounts 2016 of the Group which does not form part of this report.

Approved by the Board on 30 May 2017 and signed on its behalf by:

Jeremy Thom
By order of the board for and on behalf of Centrica Secretaries Limited
Company Secretary
30 May 2017

Company number: 04248952, England and Wales

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

The Director presents his report and the audited Financial Statements of Centrica Offshore UK Limited ('the Company') for the year ended 31 December 2016.

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

G C McKenna

Principal activities
The Company produces gas and condensate from the Rough reservoir, 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 Company reported a loss for the financial year of £49,358,000 (2015: profit of £17,252,000).

No dividends were paid during the year and the Director does not recommend the payment of a final dividend (2015: nil).

Future developments
The Director anticipates that the Company will make losses before tax, in the medium 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 production of the cushion gas.

Financial risk management
The Director has established objectives and policies for managing financial risks, to enable the Company 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.

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

Events since the statement of financial position date
On 12 April 2017, Centrica Storage Limited announced it would not be available for injection operations in the 2017/18 storage year due to a number of different potential containment failure modes in a number of the wells. Centrica Storage Limited will continue to conduct further testing and analysis in order to determine the future pathway for commercial operations of the facilities.

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 166 bcf at 31 December 2016 (2015:175 bcf). Nine bcf was converted into working storage gas and sold in 2016.

Centrica Offshore UK Limited
Director's Report for the year ended 31 December 2016 (continued)

Statement of Director's Responsibilities
The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 12 month period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The 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 them to ensure that the financial statements comply with the Companies Act 2006.

The Director 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.

In the case of the director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all the steps that they 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.

Reappointment of 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 from 1 January 2017. Consequently, PricewaterhouseCoopers LLP will remain auditors of Centrica Offshore UK Limited until the formal resignation process has been completed later in 2017, after which Deloitte LLP will be appointed as auditors of Centrica Offshore UK Limited.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office, until the formal resignation process has been completed.

Approved by the Board on 30 May 2017 and signed on its behalf by:

Jeremy Thom
By order of the board for and on behalf of Centrica Secretaries Limited
Company Secretary
30 May 2017

Company number: 04248952, England and Wales

Registered Office:
1st Floor
20 Kingston Road
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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 2016 and of its loss 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:

- the statement of financial position as at 31 December 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have 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; and
- 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.

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

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 Directors' Responsibilities set out on page 5, the directors are 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 directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Bruce Collins

Bruce Collins (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 May 2017

Centrica Offshore UK Limited
Income Statement
for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	4	28,917	24,021
Cost of sales	5	(10,493)	(6,797)
Gross profit		18,424	17,224
Operating costs	5	(2,525)	(15)
Operating profit before exceptional items		15,899	17,209
Exceptional items:			
Impairment of property, plant & equipment	6	(69,309)	-
Operating (loss)/profit after exceptional items		(53,410)	17,209
Finance costs	8	(6,133)	(4,607)
(Loss)/profit before income tax		(59,543)	12,602
Income tax credit	10	10,185	4,650
(Loss)/profit for the year from continuing operations		(49,358)	17,252

The notes on pages 13 to 23 form an integral part of these financial statements.

Centrica Offshore UK Limited
Statement of Comprehensive Income
for the year ended 31 December 2016

	2016 **£000**	2015 £000
(Loss)/profit for the year	(49,358)	17,252
Other comprehensive income	-	-
Total comprehensive (loss)/income for the year	(49,358)	17,252

The notes on pages 13 to 23 form an integral part of these financial statements.

Centrica Offshore UK Limited
Statement of Financial Position
as at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	11	173,487	169,339
Deferred tax asset	14	64,278	42,223
		237,765	211,562
Current assets			
Trade and other receivables	12	57,370	55,636
		57,370	55,636
Total assets		295,135	267,198
Current liabilities			
Trade and other payables	13	(7,040)	(16,488)
Provisions for liabilities	15	(22,737)	-
		(29,777)	(16,488)
Non-current liabilities			
Provisions for liabilities	15	(276,231)	(212,225)
		(276,231)	(212,225)
Total liabilities		(306,008)	(228,713)
Net (liabilities)/assets		(10,873)	38,485
Equity			
Share capital	16	4,500	4,500
Accumulated losses/retained earnings		(15,373)	33,985
Total (deficit)/equity		(10,873)	38,485

The notes on pages 13 to 23 form an integral part of the financial statements.

These financial statements on pages 9 to 23 were approved and authorised for issue by the Board of Directors on 30 May 2017 and were signed on its behalf by:

G McKenna
Director
30 May 2017

The Company's Registered number is 04248952.

Centrica Offshore UK Limited
Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £000	Accumulated Losses/ Retained Earnings £000	Total £000
At 1 January 2016	4,500	33,985	38,485
Loss for the year	-	(49,358)	(49,358)
Total comprehensive loss	-	(49,358)	(49,358)
At 31 December 2016	4,500	(15,373)	(10,873)

	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

The notes on pages 13 to 23 form an integral part of these financial statements.

Centrica Offshore UK Limited
Notes to the Financial Statements for the year ended 31 December 2016

1 General information

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

These financial statements were authorised for issue by the Board on 30 May 2017.

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 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.

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 pound sterling (with all values rounded to the nearest thousands (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.

Going concern
The Company had net current assets and total net liabilities at the Statement of Financial Position date of £27,593,000 and £(10,873,000) respectively (2015: assets of £39,148,000 and £38,485,000 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.

2 Principal accounting policies (continued)

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.

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" (CGU)).

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% (2015: 7.5%).

2 Principal accounting policies (continued)

Impairment of non-financial assets (continued)

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 arm's length prices. Condensate is sold to third parties.

Cost of sales

Cost of sales include depreciation of assets used for gas production - notably cushion gas and the abandonment asset.

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. The discount rate is reviewed annually. The real discount rate is 1.2% (2015: 2.2%).

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.

2 Principal accounting policies (continued)

Taxation (continued)

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.

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. When cash is dispersed in respect of amounts provided for the related provision is released.

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.

2 Principal accounting policies (continued)

Financial assets and liabilities (continued)

(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.

(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 judgements 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. Decommissioning costs are expected to be incurred over a five year period. Decommissioning costs for 47/8A are expected to be incurred between 2017 and 2022.

Decommissioning costs are discounted at 1.2% (2015: 4.2%). Inflation is assumed at 1.9% (2015: 2.2%). The decommissioning asset related to 47/8A has been written off in the year as a result of the expectation to decommission before production of the majority of the cushion gas.

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 201.

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

Gas and liquids reserves (continued)

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

	2016	2015
	£000	£000
By activity:		
Sale of cushion gas	28,546	23,433
Sale of condensate	371	588
	28,917	24,021
By geography:		
UK	28,917	24,021
	28,917	24,021

5 Analysis of costs by nature

	2016	2015
	£000	£000
Cost of sales: Year ended 31 December		
Depreciation	10,287	6,867
Other direct costs	206	(70)
Total cost of sales	10,493	6,797
Other operating costs: Year ended 31 December		
Auditors' remuneration for audit services	15	15
Operating costs	2	-
Decommissioning provision revision (in respect of 47/8A)	2,508	-
Total other operating costs	2,525	15
Total costs: Year ended 31 December		
Depreciation	10,287	6,867
Other costs	2,731	(55)
Total costs	13,018	6,812

6 Exceptional items

The following exceptional items were recognised in arriving at operating profit of the reporting period:

	2016	2015
	£000	£000
Impairment of plant and machinery	633	-
Impairment of abandonment asset	68,676	-
	69,309	-

As a result of the decision to permanently suspend operations at 47/8A, the Company has written off the 47/8A Plant and Machinery and related abandonment asset as an exceptional charge.

7 Employee costs

The Company has no employees (2015: nil) and no staff costs (2015: nil).

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

8 Finance cost

	2016	2015
	£000	£000
Unwind of discount on decommissioning provisions	6,133	4,607
	6,133	4,607

9 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2016	2015
	£000	£000
Audit of the financial statements	15	15
	15	15

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 Statements of its ultimate parent, Centrica plc.

Centrica Offshore UK Limited
Notes to the Financial Statements for the year ended 31 December 2016 (continued)

10 Income tax

	2016	2015
	£000	£000
Tax (credited) to the income statement		
Current tax		
Current tax on profits for the year	7,008	8,530
Adjustments in respect of prior years	4,862	(1,851)
Total current income tax	11,870	6,679
Deferred taxation		
Current year	(15,250)	(5,018)
Adjustments in respect of prior years	-	-
Effect of changes in tax rates	(6,805)	(6,311)
Total deferred tax	(22,055)	(11,329)
Tax per income statement	(10,185)	(4,650)

Factors affecting tax charge for year

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

	2016	2015
	£000	£000
Loss (profit) on ordinary activities before taxation	(59,543)	12,602
Tax on (loss)/ profit at standard UK rate of 20.00% (2015: 20.25%).	(11,909)	2,552
Effects of:		
Adjustments in respect of prior years	4,861	(1,851)
Expenses not deductible	202	142
Transfer pricing adjustments	321	(668)
Tax rate changes	(6,805)	(6,311)
Effects of group relief/other reliefs	3,145	1,486
Tax credit for the year	(10,185)	(4,650)
Income tax credit reported in the income statement	(10,185)	(4,650)

Factors that may affect future tax charges
The main rate of corporation tax for the year to 31 December 2016 was 20%. The corporation tax rate will reduce to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020 following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016 respectively. These enacted rates have been reflected in these financial statements when providing for deferred tax.

Upstream oil and gas activities are taxed at a UK corporation tax rate of 30% (2015: 30%) plus a supplementary charge of 10% (2015: 20%).

11 Property, plant and equipment

	Plant & Machinery £000	Abandonment Asset £000	Cushion Gas £000	Total £000
Cost				
At 1 January 2016	36,075	122,967	33,101	192,143
Additions	-	-	-	-
Inflationary adjustment	-	6,961	-	6,961
Provision revision	-	76,866	-	76,866
Disposals	(83)	-	-	(83)
At 31 December 2016	35,992	206,794	33,101	275,887
Depreciation				
At 1 January 2016	4,815	5,391	12,598	22,804
Charge for the year	2,584	6,620	1,083	10,287
Impairment	633	68,676	-	69,309
At 31 December 2016	8,032	80,687	13,681	102,400
Net book value				
At 31 December 2016	27,960	126,107	19,420	173,487
At 31 December 2015	31,260	117,576	20,503	169,339

The abandonment asset provision revision increase includes a £19,385,000 (2015: £nil) relating to unwinding the discount to reflect the reduced estimated withdrawal period for cushion gas, £21,700,000 (2015: £nil) from the decision to decommission the 47/8A platform earlier than previously planned, and £35,781,000 relating to a reduction in the real discount rate from 2.2% to 1.2%. The proportion of the asset allocated to 47/8A was impaired in the year, see note 6.

There were no assets in the course of construction during 2016 (2015: £nil).

12 Trade and other receivables

	2016 £000	2015 £000
Amounts owed by Group undertakings	57,370	55,636
	57,370	55,636

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

13 Trade and other payables

	2016 £000	2015 £000
Amounts owed to Group undertakings	7,008	16,473
Other payables	32	15
	7,040	16,488

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

14 Deferred taxation

	2016 £000	2015 £000
At 1 January	42,223	30,894
Deferred tax charge to income statement for the period	22,055	11,329
At 31 December	64,278	42,223

	2016 £000	2015 £000
Non current assets	(4,866)	(5,101)
Temporary differences trading	69,144	47,324
	64,278	42,223

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:

	2016 £000	2015 £000
Net deferred tax assets	69,144	47,324
Net deferred tax liabilities	(4,866)	(5,101)
	64,278	42,223
Deferred tax assets		
Recoverable after 12 months	69,144	47,324
	69,144	47,324
Deferred tax liabilities		
Payable within 12 months	2,535	801
Payable after 12 months	2,331	4,300
	4,866	5,101

15 Provisions for liabilities

	Decommissioning 2016 £000
At 1 January 2016	212,225
Charged to the income statement	
- Increase due to discount unwinding	6,133
- Increase due to reduction in discount rate in respect to 47/8A	2,508
Capitalised:	
Inflationary adjustment	6,961
Increase due to decision to decommission 47/8A early	21,700
Provision revision	19,385
Increase due to reduction in discount rate in respect of 47/3B and Easington terminal	35,781
Utilisation	(5,725)
At 31 December 2016	298,968
Non-current liabilities	276,231
Current liabilities	22,737

15 Provisions for liabilities (continued)

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.

16 Capital and reserves

Share capital

Allotted, called up and fully paid shares:

	2016		2015	
	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.

17 Parent and ultimate parent undertaking

The immediate parent undertaking is Centrica Storage Limited, a company registered in England and Wales.

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

18 Non-adjusting events that occurred after the financial year

On 12 April 2017, Centrica Storage Limited (the parent company) announced it would not be available for injection operations in the 2017/18 storage year due to a number of different potential containment failure modes in a number of the wells. Centrica Storage Limited will continue to conduct further testing and analysis in order to determine the future pathway for commercial operation of the facilities.

There is not expected to be any significant impact for the Company as cushion gas can still be withdrawn.