

Registered number: 03294124

Centrica Storage Limited

Annual Report and Financial Statements

for the year ended 31 December 2015



Centrica Storage Limited
Annual Report and Financial Statements
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Centrica Storage Limited
Company Information

Directors

G C McKenna
I G Dawson

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

03294124

Centrica Storage Limited

Strategic Report for the year ended 31 December 2015

The Directors present the Strategic Report of Centrica Storage 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. For details of the transition to FRS 101 and the effect of the change on the Company's financial position, see note 30.

Principal activities

Centrica Storage Limited operates the Rough storage facility, which is a partially depleted gas field in the United Kingdom. Rough makes an important contribution to the UK's energy security of supply.

Review of business

The Company reported a loss for the financial year of £329 million (2014: profit of £32 million), after exceptional items of £426 million (2014: nil).

Safety continues to be the highest priority. During 2015 a significant effort has been made to improve the safety culture of the business and the Directors believe this has led to better incident reporting. During the year four LTI's were recorded (2014: one). Safety performance will continue to be a key priority for 2016.

Seasonal gas price spreads fell to historically low levels over the second half of 2015, with an abundance of flexible supply across Europe, and they remain at these low levels creating a challenging outlook for the Rough asset. It was announced in April 2015 that all SBUs for the 2015/16 storage year had been sold at 21.1p, only marginally higher than the 20.0p achieved in 2014/15. Subsequent to the year end it was announced that all SBUs sold for the 2016/17 storage year had been sold at 15.4p, which was the lowest SBU price since Centrica acquired the Rough asset in 2002.

In March 2015, it was announced that during a routine inspection of Rough a potential technical issue had been discovered. As a result, the Directors decided to limit the maximum operating pressure of the Rough wells to 3,000 psi, the equivalent of limiting the stock in the Rough asset to 29-32TWh. The highest level reached in 2014 was 41.1TWh. Reflecting the reduced maximum operating pressure, Centrica Storage reduced the number of SBUs sold for the 2016/17 storage year to 340 million, from 455 million in 2015/16. In July 2015 Centrica Storage received consent from the Oil and Gas Authority to increase the reservoir size of Rough by 4.5TWh. As a result, the capacity of Rough was partially recovered and a proportion of the cushion gas associated with this was sold by the Company's subsidiary Centrica Offshore UK Limited in the second half of the year.

On 15 July 2016, the Company announced further potential uncertainties in a number of the wells at the Rough storage facility. Additional testing will be conducted with estimated completion in March to April 2017. In the meantime, because of the uncertainty, no gas can be injected or withdrawn from Rough. Following a feasibility study, the business anticipates returning a number of wells to service for Winter 2016/17 withdrawal season. This uncertainty has been included in the impairment assumptions.

In September 2015, the CMA announced a consultation on the Rough Undertakings, following a request from Centrica Storage in light of the operating pressure limitations of the Rough wells. In May 2016 the CMA agreed to allow Ofgem to vary the Company's capacity obligations in response to the change in Rough's physical capabilities, such that the Company is not required to sell more storage services than Rough can physically deliver.

Forward Summer-Winter spreads continued to decline in the year, from 6.5p at 1 January to 4.5p at 31 December. Standard Bundled Units (SBUs) priced in during 2014 protected the company from the worst of the decrease but average SBU prices decreased from 21.1p to 20.8p. The decrease in forward spreads, updated expenditure assumptions and the limitations caused by the well pressure restriction decreased the forecast future cash flows and as a result, property, plant and equipment has been impaired by £421 million and intangible assets impaired by £5 million.

Centrica Storage Limited

Strategic Report for the year ended 31 December 2015 (continued)

The calculation is particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the Rough asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed to vary the gas spreads by +/- 10%. An increase in spreads of 10%, assuming all other assumptions remain constant, decreases the impairment charge to £357 million post-tax.

Financial position

The financial position of the Company is presented in the statement of financial position on page 12. Total equity at 31 December 2015 was £168 million (2014: £836 million).

Principal risks and uncertainties

The management of the business in 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 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:

Safety and operational risk

The Company is exposed to operational, health and safety and environmental risks through operation and development of the Rough Storage and York Gas Processing assets. The Company identifies the hazards and assesses the risks associated with its activities and decisions on a continuous basis.

Through the assessment of the risk the Company ensures appropriate measures are in place to mitigate or manage those risks so as to prevent / reduce the impact of potential accidents or incidents on people and the business.

Commodity price risk

The key commodity price risk facing the Company is movement in the forward summer/winter gas price spread. The Company's policy is to manage exposure to this spread through the sale of storage capacity prior to the start of the storage year. The Company also has exposure to shorter duration price differentials as a result of the operation of the Rough storage facility and manages this risk by entering into forward gas purchase and sales contracts at fixed prices. The Financial Risk Management Committee (FRMC) regularly monitors the extent of the Company's commodity price exposure.

At 31 December 2015 the net fair value of energy derivatives was a net liability of £4 million (2014: An asset of £4 million) consisting of an asset of £2 million (2014: £7 million) and a liability of £6 million (2014: £3 million).

Regulatory and compliance risk

The Company is required to operate within the regulatory guidelines set by UK and European bodies, as well as specific requirements to comply with the Rough Undertakings. These place constraints on how the Company's products are sold and trading 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. In addition, the Undertakings require quarterly independent compliance reviews and reporting to the Centrica Audit Committee.

People risk

Attracting and retaining the right skills to meet evolving business priorities is critical. The business needs the right people with the right skills in the right role at the right time. Insufficient capability and capacity in senior management and key skilled roles will limit the ability of the company to deliver its strategy.

Centrica Storage Limited
Strategic Report for the year ended 31 December 2015 (continued)

Counterparty credit risk

The Directors' policy is to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings. Exposures are measured in relation to the nature, market value and maturity of each contract or financial instrument. Energy trading activities are only undertaken with counterparties for whom specific credit limits are set. All contracted and potential exposures are reported to the Financial Risk Management Committee (FRMC).

Key performance indicators (KPIs)

The Directors of the Company consider that the most significant financial KPIs for the business is the price obtained for a Standard Bundled Unit (SBU). SBU prices attained were:

Financial KPIs

<i>For the year ended 31 December</i>	2015	2014	Movement %
Average SBU price (calendar year) (pence)	20.8	21.1	(1)%

Summer-winter spreads reached historic lows at the end of 2014, which is a key driver of the 2015 SBU price (SBUs are priced in ahead of each storage year).

Non-Financial KPIs	2015	2014	Movement %
Lost time injuries ("LTI")*	0.37	0.09	311%
Rough asset reliability (%)	93.0	96.0	(3)%

*Number of LTI in the year per 100,000 hours worked

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: 03294124, England and Wales

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

Centrica Storage Limited

Directors' Report for the year ended 31 December 2015

The Directors present their report and the audited financial statements of Centrica Storage Limited ('the Company') for the year ended 31 December 2015.

Future developments

Looking forward, the Company's priorities continue to be the active management of Health, Safety, Environmental, Operational and Regulatory risks, while seeking value-adding opportunities through efficiencies and investment in the Rough asset and the marketing of storage services.

Results and dividends

The results of the Company are set out on page 10.

The loss for the financial year ended 31 December 2015 is £329 million (2014: Profit of £32 million). Included in the loss for the year is an exceptional impairment of £426 million primarily as a result of a declining forward curve for summer-winter spreads towards the end of the year, updated expenditure forecasts and the cost of the 2016/17 outage.

A dividend of £330 million was approved on 3 March 2015, and paid shortly after, before any indication of the later impairment was apparent (2014: £nil).

Financial risk management

The Directors have established objectives and policies for managing financial risks, to enable Centrica Storage Limited to achieve long-term shareholder value growth within a prudent risk management framework. These objectives and policies are regularly reviewed.

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

On 15 July 2016, the Company announced further potential uncertainties in a number of the wells at the Rough storage facility. Additional testing will be conducted with estimated completion in March to April 2017. In the meantime, because of the uncertainty, no gas can be injected or withdrawn from Rough. Following a feasibility study, the business anticipates returning a number of wells to service for Winter 2016/17 withdrawal season. This uncertainty has been included in the impairment assumptions.

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.

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.

In August 2015, CSL announced an extended maintenance period for its 47/8A installation. In March 2016, CSL informed the market that it was withdrawing its 47/8A installation from service while it conducted a review into the feasibility of its continued operations.

In September 2016, CSL has concluded that, having regard to its age, condition and design-life, it is no longer feasible to operate the 47/8A installation. It is therefore permanently withdrawing the installation from service. 47/8A has up to 6 wells available for withdrawal out of a total of up to 30 wells in the Rough field. Only 4 of the wells on the 47/8A installation have been in recent use (2 of the wells have been plugged for several years) and the remaining 4 wells have only been used for production. Permanently withdrawing 47/8A from service will have a minimal impact on Rough's capabilities and CSL has prepared for the possibility that it would never return to service.

Centrica Storage Limited

Directors' Report for the year ended 31 December 2015 (continued)

Events since the Statement of Financial Position date (continued)

All 47/8A assets were written off in the year (see note 7) as a result of the impairment test at the end of 2015. The effect of no longer forecasting operational and capital expenditure on the installation, offset by the revenue benefit, will have an overall positive impact on net present value in future annual impairment tests.

Other events since the Statement of Financial Position date are disclosed in note 29.

Directors

The following persons served as directors during the year and up to the date of signing these financial statements:

G C McKenna (Appointed 11.02.2015)

I G Dawson

J D Craig (Resigned 11.02.2015)

Directors' and officers' liability

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

Employees

The Company had an average of 293 employees for the year ended 31 December 2015 (2014: 302), all of whom were based in the UK. For employees of the Company there are well established and effective arrangements for communication of the Company's results and significant business issues through electronic mail and the Company's intranet and in-house publications, as well as videos and briefing meetings at each business location. When necessary, consultation with employee and trade union representatives also takes place.

The Company takes a positive approach to equality and diversity. The Company achieves this by using appropriate recruitment and selection techniques, ensuring equality of employment opportunity and equal access to development opportunities.

The Company is also committed to providing a work environment free from harassment and discrimination and remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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.

Centrica Storage Limited

Directors' Report for the year ended 31 December 2015 (continued)

Statement of Directors' Responsibilities (continued)

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

Disclosure of information to auditors

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

Each person who was a director at the time this report was approved 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 Directors have 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 Directors' Report as the Directors consider these are of strategic importance to the Company.

Independent auditors

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.

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: 03294124, England and Wales

Registered Office:

1st Floor

20 Kingston Road

Staines-upon-Thames

Middlesex

TW18 4LG

Centrica Storage Limited

Independent Auditors' Report to the member of Centrica Storage Limited

Report on the financial statements

Our opinion

In our opinion Centrica Storage 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 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:

- 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 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;
- 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 Storage Limited

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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' 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 directors

As explained more fully in the Statement of Directors' responsibilities, 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.



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

15 September 2016

Centrica Storage Limited
Income Statement
for the year ended 31 December 2015

	Note	2015 £ million	2014 £ million
Revenue	4	136	151
Cost of sales	5	(108)	(104)
Gross profit		<u>28</u>	<u>47</u>
Operating costs	5	(16)	(15)
Operating profit		<u>12</u>	<u>32</u>
Exceptional items:			
Impairment charges	7	(426)	-
Operating (loss)/profit after exceptional items		<u>(414)</u>	<u>32</u>
Finance income	8	7	12
Finance cost	8	-	(2)
(Loss)/profit before income tax		<u>(407)</u>	<u>42</u>
Income tax credit/(expense)	10	78	(10)
(Loss)/profit for the year from continuing operations		<u>(329)</u>	<u>32</u>

The notes on pages 14 to 48 form an integral part of these financial statements.

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

	2015 £ million	2014 £ million
(Loss)/profit for the year	<u>(329)</u>	<u>32</u>
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net actuarial losses on defined benefit pension schemes	(10)	(1)
Income tax on items that will not be reclassified to profit or loss	1	-
Total comprehensive (loss)/income for the year	<u><u>(338)</u></u>	<u><u>31</u></u>

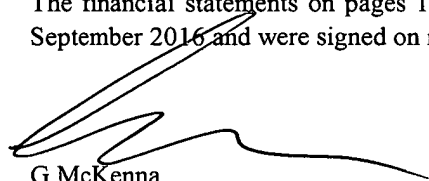
The notes on pages 14 to 48 form an integral part of these financial statements.

Centrica Storage Limited
Statement of Financial Position
as at 31 December 2015

	Note	2015 £ million	2014 £ million
Non-current assets			
Property, plant and equipment	12	10	441
Intangible assets	13	-	6
Investments	14	5	5
Trade and other receivables	15	26	40
Retirement benefit asset	19	7	15
Deferred tax assets	11	23	-
		<u>71</u>	<u>507</u>
Current assets			
Trade and other receivables	15	232	497
Inventories	16	3	33
Derivative financial instruments	27	2	7
		<u>237</u>	<u>537</u>
Total assets		<u>308</u>	<u>1,044</u>
Current liabilities			
Trade and other payables	17	(99)	(107)
Derivative financial instruments	27	(6)	(3)
Current tax liabilities		(3)	-
Provisions for other liabilities and charges	18	(7)	(9)
		<u>(115)</u>	<u>(119)</u>
Non-current liabilities			
Deferred tax liabilities	11	-	(63)
Provisions for other liabilities and charges	18	(25)	(26)
		<u>(25)</u>	<u>(89)</u>
Total liabilities		<u>(140)</u>	<u>(208)</u>
Net assets		<u>168</u>	<u>836</u>
Equity			
Share capital	21	463	463
Retained earnings		(288)	371
Other equity		(7)	2
Total equity		<u>168</u>	<u>836</u>

The notes on pages 14 to 48 form an integral part of these financial statements.

The financial statements on pages 10 to 48 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 03294124.

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

	Share capital £ million	Other equity £ million	Retained earnings £ million	Total £ million
At 1 January 2015	463	2	371	836
Loss for the year	-	-	(329)	(329)
Other comprehensive loss	-	(9)	-	(9)
Total comprehensive loss	<u>-</u>	<u>(9)</u>	<u>(329)</u>	<u>(338)</u>
Dividends	-	-	(330)	(330)
Equity-settled share based payment transactions	-	-	-	-
At 31 December 2015	<u>463</u>	<u>(7)</u>	<u>(288)</u>	<u>168</u>

	Share capital £ million	Other equity £ million	Retained earnings £ million	Total £ million
At 1 January 2014	463	3	339	805
Profit for the year	-	-	32	32
Other comprehensive loss	-	(1)	-	(1)
Total comprehensive income	<u>-</u>	<u>(1)</u>	<u>32</u>	<u>31</u>
Equity-settled share based payment transactions	-	-	-	-
At 31 December 2014	<u>463</u>	<u>2</u>	<u>371</u>	<u>836</u>

The notes on pages 14 to 48 form an integral part of these financial statements.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

1 General information

Centrica Storage 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

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly-owned subsidiary of Centrica plc. These Financial Statements present information about the Company as an individual undertaking and not about its group.

The Company Financial Statements have been 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 effected the reported financial position, financial performance and cash flows of the Company is provided in note 30.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Share based payments - IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2014;
- Investments in subsidiaries - on transition to FRS 101, investments in subsidiaries are measured at deemed cost, being the previous GAAP carrying value of the investment;
- Intangible assets - on transition to FRS 101, intangible assets are measured at deemed cost which, in relation to the Company's application software, is the previous GAAP carrying value of these assets.

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

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

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

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 million [£m] except where otherwise indicated) which is also the functional currency of the Company. Transactions conducted in foreign currencies are translated in accordance with the foreign currencies accounting policy set out below.

The financial statements are prepared on the historical cost basis except for derivative financial instruments and the Company share of assets of the Group's defined benefit schemes that's have been recorded at fair value and the liabilities of the Group's pension schemes that have been measured using the projected unit credit valuation method.

Going concern

The Company had net current assets and total net assets at the Statement of Financial Position date of £122 million and £168 million respectively (2014: £418 million and £836 million 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.

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. Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into for the efficient management of the gas storage facilities are presented net within revenue.

Revenue is shown net of sales/value added tax, returns, rebates and discounts.

Finance income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

Cost of sales

Cost of sales within storage businesses include the depreciation of assets used in storing gas, fuel gas purchase costs, asset support costs (including both injection and deliverability support) and direct labour costs.

Employee share schemes

The Centrica Plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 63-81 and in note S2 of the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the income statement together with a corresponding increase in equity over the vesting period, based on the Centrica Plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

From the point at which each phase of the York Gas Processing plan became operational, assets were leased to Centrica Resources Limited under an agreement which transfers substantially all the risks and rewards of ownership other than legal title. Income arising under this agreement is allocated according to financial years so as to give a constant rate of return on the net cash investment in the lease.

Property, plant and equipment are derecognised when substantially all the risks and rewards of ownership have passed from the Company. The corresponding lease receivable is treated in the statement of financial position as an asset. The asset is calculated as the remaining lease payments due to be received, less future interest.

The interest element of the rental income is credited to the profit and loss account over the period of the lease and represents a constant periodic rate of return of the balance of capital repayments outstanding.

Lease payments are apportioned between finance income and reduction of the finance lease asset so as to achieve a constant rate of interest on the remaining balance of the asset.

Payments under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

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.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include application software and emissions trading schemes certificates. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly-attributable labour and directly-attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. Such intangibles are not amortised.

EU Emissions Trading Schemes

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the statement of financial position date, with movements in the liability recognised in operating profit.

Amortisation of intangible assets

Amortisation is provided so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset classes	Amortisation method and rate
Application software	Straight line, up to 15 years

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.

Freehold land is not depreciated. Other PP&E are 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
Freehold and leasehold buildings	Straight line, up to 40 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.

Investments in subsidiaries

Fixed assets investments in subsidiaries' shares are held at cost in accordance with IAS 27, less any provision for impairment as necessary.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow moving items. Inventories of gas are valued on a weighted average basis, at the lower of cost and net realisable value.

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.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning the York 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.

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.

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22 to the Group financial statements. The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Payments to defined contribution retirement benefit schemes are recognised in the Company's income statement as they fall due.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

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%).

The assumed inflation rate is 1.9%. The business model is based on the strategy of 'Powering ahead to 2035' which includes storage operations followed by blow down (revenues related to blow down and abandonment are assumed to be in the Company's subsidiary Centrica Offshore UK Limited. Cash flows related to abandonment are assumed to be predominantly in the period 2035-2040).

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.

Share schemes

The Centrica plc group, to which Centrica Storage Limited belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 63-81 and in note S2 of the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the income statement together with a corresponding increase in equity over the vesting period, based on the Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

The impact on the Company of the share schemes is not material.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes pricing model
DMSS, SAS, SIP and OTIP	Market value on the date of grant

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

Dividend distribution

A final dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

Interest

Interest payable and receivable is recognised when accrued.

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 gas and condensate 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.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

2 Principal accounting policies (continued)

(e) Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any). After initial recognition, these financial instruments are measured at amortised cost using the Effective Interest Rate (EIR) method.

(f) Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas.

These purchase and sales contracts are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's statement of financial position at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement for the year.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2015 of the ultimate controlling party being Centrica Plc, in the Strategic Report - Principal Risks and Uncertainties on pages 38 to 42 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Company also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present. Movement on fair value derivatives on forward and futures energy contracts are shown net within cost of sales as the company has an overall need to procure gas.

Derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

3 Critical accounting judgements and key sources of estimation uncertainty

Decommissioning costs

The estimated cost of decommissioning at the end of the useful economic life of processing assets is reviewed periodically and is based on 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.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

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

Impairment of long lived non-financial assets

The Company has several material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable.

The recoverable amount of the Company's operational facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price differentials and shorter term price volatilities less any related capital and operating expenditure.

Future post tax cash flows are dependent on the assumptions outlined in note 2 and the forward view of summer-winter gas price spreads. This is put together from the forward market curve for the first two years, then a blended period followed by a fundamentals view from 3 years out. This includes a significant increase in summer-winter gas price spreads in the early 2020's.

Further details of the impairment booked during the year are provided in note 7.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

Centrica Storage Limited**Notes to the Financial Statements for the year ended 31 December 2015**

4 Revenue	2015	2014
	£ million	£ million
By activity:		
Storage	108	126
Optimisation	13	11
Processing	5	4
Other revenue	10	10
	<u>136</u>	<u>151</u>
By geography:		
UK	136	151
	<u>136</u>	<u>151</u>

Storage revenue comprises of proceeds from the sale of SBUs. The Company enters into gas sale and gas purchase contracts as part of its normal optimisation activity, to ensure the efficient operation of the storage facility and manage the Standard Storage Contract. Sales and purchases relating to this activity are presented net within revenue. Gas sales and purchases required to cover the cost of asset failures and asset capability restrictions are shown net in cost of goods sold to reflect the correct nature of the transactions.

Optimisation revenue arises from the purchase and sale of gas for technical and operational requirements.

Processing turnover relates to processing and transporting gas for third parties, including from the offshore York gas field owned by Centrica Resources Limited.

Other turnover comprises income from services provided to, and sale of condensate from, the offshore York gas field owned by Centrica Resources Limited.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

5 Analysis of costs by nature

	2015 £ million	2014 £ million
<i>Cost of sales: Year ended 31 December</i>		
Maintenance & direct costs	36	35
Depreciation & amortisation	32	35
Employee costs	20	19
Fuel Gas	10	13
Asset support costs	1	4
Mark to market of derivative contracts	9	(2)
Total cost of sales	108	104
<i>Other operating costs: Year ended 31 December</i>		
Employee costs	8	7
Other operating costs	8	8
Total other operating costs	16	15
<i>Total costs: Year ended 31 December</i>		
Maintenance & direct costs	36	35
Depreciation & amortisation	32	35
Employee costs	28	26
Fuel Gas	10	13
Asset support costs	1	4
Mark to market of derivative contracts	9	(2)
Other operating costs	8	8
Total costs	124	119

6 Employees' costs

The aggregate employee costs (including directors' remuneration) were as follows:

	2015 £ million	2014 £ million
Wages and salaries	22	23
Social security costs	3	1
Pension and other post-employment benefits	3	4
Other	3	1
	31	29
Capitalised employee costs	(3)	(3)
Employee costs included in operating profit	28	26

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

6 Employees' costs (continued)

In respect of the Directors' remuneration, refer to note 26 'related parties' transactions'.

The average number of persons employed by the company (including Directors) during the year, analysed by category was as follows:

	2015 No. of employees	2014 No. of employees
Offshore	87	87
Onshore	67	70
Support	139	145
	<u>293</u>	<u>302</u>

7 Exceptional items

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

	2015 £ million	2014 £ million
Impairment of property, plant and equipment	(421)	-
Impairment of intangible assets	(5)	-
	<u>(426)</u>	<u>-</u>

The impairment loss during 2015 of £426 million (2014: £nil) arose primarily as a result of forecast Summer-Q1 spreads declining during the year, increases in forecast expenditure on asset integrity and the cost of the 2016/17 outage.

The calculation is particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the Rough asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed to vary the gas spreads by +/- 10%. An increase in spreads of 10%, assuming all other assumptions remain constant, decreases the impairment charge to £357m.

Assuming all other things equal, a reduction of £6 million per annum in future expenditure would still result in the impairment disclosed, each additional £10 million saving per annum would reduce the impairment charge by £68 million.

8 Net finance income

	2015 £ million	2014 £ million
Finance income		
Interest income from amounts owed by group undertakings	7	10
Other finance income	-	2
	<u>7</u>	<u>12</u>
Finance interest		
Unwinding of discount or decommissioning provision	-	1
Other finance income	-	1
	<u>-</u>	<u>2</u>
Net finance income	<u>7</u>	<u>10</u>

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

9 Auditors' remuneration

Auditors' remuneration of £95,000 (2014: £80,000) relates to fees in respect of the audit of the financial statements provided to the Company.

The prior year figures for auditors' remuneration have been amended to reflect the allocation of fees in relation to the audit of the IFRS Group consolidation schedules, for the purpose of the Centrica plc group audit. The prior year auditors' remuneration figure has been restated to £80,000 (previously disclosed £65,000).

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

10 Income tax

	2015 £ million	2014 £ million
Tax charged/(credited) to the income statement		
Current tax		
UK corporation tax at 20.25% (2014: 21.49%)	5	10
UK corporation tax adjustments to prior periods	2	-
Total current income tax	<u>7</u>	<u>10</u>
Deferred taxation		
Arising from origination and reversal of temporary differences - UK	(86)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(2)	-
Arising from changes in tax rates and laws	3	-
Total deferred taxation	<u>(85)</u>	<u>-</u>
Total (credit)/expense in the income statement	<u>(78)</u>	<u>10</u>
Equity items		
Deferred tax current year charge/(credit)	(2)	-
Deferred tax prior year	1	-
	<u>(1)</u>	<u>-</u>

Factors affecting total tax charge for the current period

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

	2015 £ million	2014 £ million
(Loss)/profit for the period - continuing operations	<u>(407)</u>	<u>42</u>
Tax on loss at standard UK tax rate of 20.25% (2014: 21.49%)	(82)	9
Effects of:		
Transfer pricing adjustments	(4)	-
Changes to tax rates	3	-
Group relief	4	-
Share options	1	1
Total income tax expense	<u>(78)</u>	<u>10</u>

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

10 Income tax (continued)

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.

11 Deferred taxation (assets)/liabilities

	2015 £ million	2014 £ million
At 1 January	63	63
Adjustment in respect of prior years	(1)	-
Deferred tax charge to income statement for the period	(83)	-
Deferred tax credit in equity for the period	(2)	-
At 31 December	<u>(23)</u>	<u>63</u>

	2015 £ million	2014 £ million
Non-current assets	(19)	67
Temporary differences trading	(6)	(8)
Retirement benefit asset	1	3
Derivatives	1	1
	<u>(23)</u>	<u>63</u>

Offsetting:

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

Net deferred tax (assets)	(25)	(9)
Net deferred tax liabilities	2	72
	<u>(23)</u>	<u>63</u>

Deferred tax (assets)

Recoverable within 12 months	(3)	-
Recoverable after 12 months	(22)	(9)
	<u>(25)</u>	<u>(9)</u>

Deferred tax liabilities

Recoverable within 12 months	-	-
Recoverable after 12 months	2	72
	<u>2</u>	<u>72</u>

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

12 Property, plant and equipment

	Freehold Land and Buildings £ million	Gas Storage Plant and Facilities £ million	Total £ million
Cost			
At 1 January 2015	9	1,257	1,266
Additions	-	34	34
Disposals	-	(24)	(24)
At 31 December 2015	9	1,267	1,276
Accumulated Depreciation & Impairment			
At 1 January 2015	6	819	825
Depreciation charge for the year	-	30	30
Impairment losses	3	418	421
Disposals	-	(10)	(10)
At 31 December 2015	9	1,257	1,266
Net book value			
At 31 December 2015	-	10	10
At 31 December 2014	3	438	441
		2015	2014
		£ million	£ million
Assets in the course of construction (cost)		26	27

Assets in the course of construction are included within the following category: gas storage plant and facilities.

The Company has added additional assets to the finance lease to Centrica Resources Limited (a Centrica Group company) with a value of £nil million for the York Gas Processing facilities at Easington during the year (2014: £2 million). Assets with a cost of £16 million (NBV £14 million) relating to condensate production were sold to Centrica Offshore UK Limited during the year (2014: cost of £9 million with NBV of £9 million). These amounts are included within 'disposals' in the above table. Profit on disposal of these assets was £ nil (2014: £ nil).

Impairment

The impairment loss during 2015 of £421 million (2014: £nil) arose as a result of forecast Summer-Q1 spreads declining during the year, increases in estimates of future capital expenditure and forecast near term losses as a result of the outage announced on 14th July.

The calculation requires that all of the Rough CGU property, plant and equipment is impaired. The remaining £10 million of property, plant and equipment relates to York CGU, which is not impaired.

The calculation is particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the Rough asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed to vary the gas spreads by +/- 10%. An increase in spreads of 10%, assuming all other assumptions remain constant, decreases the impairment charge to £357 million.

Centrica Storage Limited**Notes to the Financial Statements for the year ended 31 December 2015****13 Intangible assets**

	Application software £ million
Cost or valuation	
At 1 January 2015	6
Additions	1
At 31 December 2015	<u>7</u>
Amortisation	
At 1 January 2015	-
Amortisation charge for the year	2
Impairments	5
At 31 December 2015	<u>7</u>
Net book value	
At 31 December 2015	-
At 31 December 2014	<u>6</u>

The impairment loss during 2015 of £5 million (2014: £nil) arose as a result of forecast Summer-Q1 spreads declining during the year, increases in estimates of future capital expenditure and forecast near term losses as a result of the outage announced on 14th July.

14 Investments*Investments classified as non-current*

	Shares in group undertakings (subsidiaries) £ million
Cost	
At 1 January 2014	5
Additions	-
Disposals	-
At 31 December 2014	<u>5</u>
At 1 January 2015	5
Additions	-
Disposals	-
At 31 December 2015	<u>5</u>
Net book value	
At 31 December 2015	<u>5</u>
At 31 December 2014	<u>5</u>

Investments relate to the following subsidiary undertakings:
Centrica Offshore UK Limited

Centrica Storage Limited owns 100 percent (2014: 100 percent) of the allotted ordinary share capital and voting rights of Centrica Offshore UK Limited, which comprises of 4.5 million shares of nominal value of £1. Centrica Offshore UK Limited is a trading company and is incorporated in England and Wales. Centrica Offshore UK Limited's registered office is: 1st Floor, 20 Kingston Road, Staines-upon-Thames, TW18 4LG, United Kingdom. The principal activity of Centrica Offshore UK Limited is the production of gas in the United Kingdom. Centrica Offshore UK Limited holds the production licence for the Rough field.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

15 Trade and other receivables

	2015		2014	
	Current £ million	Non-current £ million	Current £ million	Non-current £ million
Trade receivables	8	-	4	-
Provision for impairment of trade receivables	-	-	(1)	-
Net trade receivables	8	-	3	-
Amounts owed by group undertakings	193	-	427	-
Finance lease amounts owed by Group undertakings	14	26	23	40
Prepayments and accrued income	16	-	42	-
Corporation tax	-	-	2	-
Other receivables	1	-	-	-
	<u>232</u>	<u>26</u>	<u>497</u>	<u>40</u>

The amounts receivable from Group undertakings include £193 million (2014: £427 million). Balances bear interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 2.36 and 2.88% per annum during 2015 (2014: 1.94% and 3.19%).

The Company has entered into a finance lease arrangement with Centrica Resources Limited, a Centrica Group company, for the newly constructed gas processing plant at Easington for the York Gas field in 2012. Included in amounts owed by group undertakings is £14 million (2014: £23 million) in respect of finance lease payments due within one year. The remaining amounts due under this arrangement of £26 million (2014: £40 million) relate to finance lease payments due after more than one year.

The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.

Centrica Storage Limited**Notes to the Financial Statements for the year ended 31 December 2015****15 Trade and other receivables (continued)*****Finance lease receivables***

The minimum lease payment obligations that arise from these contracts stands as follows as at 31 December:

	Minimum lease payments £ million	Finance charges £ million	Present Value £ million
2015			
Within one year	15	1	14
In two to five years	22	2	20
In over five years	7	1	6
	<u>44</u>	<u>4</u>	<u>40</u>
	Minimum lease payments £ million	Finance charges £ million	Present Value £ million
2014			
Within one year	25	2	23
In two to five years	35	3	32
In over five years	9	1	8
	<u>69</u>	<u>6</u>	<u>63</u>

The present values of future finance lease payments are analysed as follows:

	2015 £ million	2014 £ million
Current assets	14	23
Non-current assets	<u>26</u>	<u>40</u>
	<u>40</u>	<u>63</u>

16 Inventories

	2015 £ million	2014 £ million
Raw materials and consumables	3	2
Gas in storage	<u>-</u>	<u>31</u>
	<u>3</u>	<u>33</u>

Raw materials and gas in storage included in cost of sales in the year amounted to £10m (2014: £13m).

There is no significant difference between the replacement cost of inventories and their carrying amounts.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

17 Trade and other payables

	2015		2014	
	Current £ million	Non-current £ million	Current £ million	Non-current £ million
Trade payables	12	-	8	-
Amounts owed to Group undertakings	66	-	57	-
Deferred income and accruals	21	-	42	-
	<u>99</u>	<u>-</u>	<u>107</u>	<u>-</u>

Amounts owed to Group undertakings are unsecured, repayable on demand and do not bear interest.

18 Provisions for other liabilities and charges

	Onerous purchase contracts £ million	Decommissioning £ million	Total £ million
At 1 January 2015	31	4	35
Increase in provision made during the year	1	-	1
Utilised in the period	(4)	-	(4)
At 31 December 2015	<u>28</u>	<u>4</u>	<u>32</u>
Non-current liabilities	21	4	25
Current liabilities	<u>7</u>	<u>-</u>	<u>7</u>

Onerous contract provisions

In 2013, in the light of the weak economics for storage projects and the UK Government's decision to rule out incentivisation for additional gas storage capacity to be built, the decision was taken not to proceed with the offshore Baird project and put the onshore development project at Caythorpe on indefinite hold. As a result, a provision was booked in respect of entry capacity to the Gas National Transmission System bought for these sites between 2014 and 2025 as the contracts were deemed onerous. £nil million (2014: £2 million) of this entry capacity was forward sold during the year, so has been released from the provision.

Decommissioning costs

The decommissioning provision is held as the Company has the obligation to decommission the York related assets at the onshore terminal. The Company's subsidiary, Centrica Offshore UK Limited, has the obligation to decommission the Rough facility after extracting the cushion gas. The majority of the decommissioning cost is expected between 2030-2035.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

19 Post-employment benefits

(a) Summary of main schemes

The Company's employees participate in the following defined benefit pension schemes: Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 of the Centrica plc 2015 Annual Report and Accounts.

Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the Group financial statements as the 'Registered Pension Schemes'.

(b) Accounting assumptions, risks and sensitivity analysis

Risks

The Registered Pension Scheme exposes the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields; if the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability-related investment objectives that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc), and only took on liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return-seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short term. The investment objectives are to achieve a target return above a return based on a portfolio of gilts, subject to a maximum volatility ceiling. If there have been advantageous asset movements relative to liabilities above a set threshold, then de-risking is undertaken, and as a consequence the return target and maximum volatility ceiling are reduced.

Interest rate

A decrease in the bond interest rate will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Price Index (RPI) and the Consumer Price Index (CPI). Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. During the year the Group offered a pension increase exchange (PIE) to future retirees within the Registered Pension Schemes. This PIE gives the option to receive a higher initial pension in return for giving up certain future increases linked to RPI. This has resulted in a past service credit of £38 million in the year of which £1m was allocated to the Company.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

19 Post-employment benefits (continued)

Salary

For final salary schemes, the pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011 changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk.

Foreign exchange

Certain of the assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk. The CCCIF has long-term hedging programmes in place to manage interest rate, inflation and foreign exchange risks. The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2015.

Total liabilities of the Registered Pension Schemes	2015
	%
Actives - final salary - capped	26
Actives - final salary - uncapped and crystallised benefits	5
Actives - career average	5
Deferred pensioners	29
Pensioners	35
	<u>100</u>

Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation	2015	2014
	%	%
Rate of increase in employee earnings:		
Subject to cap	1.7	1.7
Other	3.0	3.0
Rate of increase in pensions in payment	3.0	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	1.9	1.9
In line with RPI	3.0	3.0
Discount rate	3.9	3.9

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date has been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member

	2015		2014	
	Male Years	Female Years	Male Years	Female Years
Currently aged 65	23.4	25.1	22.7	25.1
Currently aged 45	25.1	27.0	24.4	27.0

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

19 Post-employment benefits (continued)

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions

	2015		2014	
	Increase/ decrease in assumptions	Indicative effect on scheme liabilities (%)	Increase/ decrease in assumptions	Indicative effect on scheme liabilities (%)
Rate of increase in employee earnings subject to cap	0.25%	+/-1	0.25%	+/-1
Rate of increase in pensions in payment and deferred pensions	0.25%	+/-4	0.25%	+/-5
Discount rate	0.25%	-/+6	0.25%	-/+6
Inflation assumption	0.25%	+/-4	0.25%	+/-5
Longevity assumption	1 year	+/-3	1 year	+/-3

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

(c) Reconciliation of scheme assets and liabilities

	2015		2014	
	Assets £ million	Liabilities £ million	Assets £ million	Liabilities £ million
As at 1 January	194	(179)	170	(156)
Items included in the Income Statement:				
Current service cost	-	(3)	-	(2)
Loss on curtailment	-	1	-	-
Past service credit	-	-	-	(1)
Interest (expense) / income	8	(7)	8	(7)
Other movements:				
Re-measurement (losses) / gains	(15)	5	17	(17)
Employer contributions	3	-	3	-
Benefits paid from schemes	(5)	5	(4)	4
As at 31 December	<u>185</u>	<u>(178)</u>	<u>194</u>	<u>(179)</u>
As at 31 December	2015 £ million		2014 £ million	
Presented in the statement of financial position as:				
Retirement benefit asset	<u>7</u>		<u>15</u>	
Net surplus recognised in the statement of financial position	<u>7</u>		<u>15</u>	

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

19 Post-employment benefits (continued)

(d) Analysis of the actuarial gains/(losses) recognised in reserves

	2015 £ million	2014 £ million
As at 31 December		
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	(15)	17
Experience losses arising on the schemes' liabilities	(5)	-
Changes in assumptions underlying the present value of the schemes' liabilities	10	(17)
Actuarial loss recognised in reserves before adjustment for taxation	(10)	-
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(2)	(2)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(12)	(2)

(e) Pension scheme contributions

Note 22 to the Centrica 2015 Annual Report and Accounts provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012 and 2013. Under IAS 19 Employee Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £2m of employer contributions during 2016 at an average rate of 27% of pensionable pay.

The Group is currently finalising the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group is committing additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, has increased from £331 million in 2012 to £1,203 million in 2015 primarily due to the lower discount rate used following falls in market yields. The funding will be provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, paying £77 million in 2016, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, will continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, has also been agreed in support of these arrangements.

(f) Pension scheme assets

(f) Pension scheme assets	2015		
	Quoted £ million	Unquoted £ million	Total £ million
Equities	1,867	219	2,086
Diversified asset funds	47	-	47
Corporate bonds	1,717	-	1,717
High-yield debt	167	780	947
Liability matching assets	874	556	1,430
Property	-	315	315
Cash pending investment	60	-	60
Asset backed contribution assets	-	243	243
(i)	4,732	2,113	6,845

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

19 Post-employment benefits (continued)

	Quoted £ million	2014 Unquoted £ million	Total £ million
Equities	1,931	211	2,142
Diversified asset funds	42	113	155
Corporate bonds	1,794	-	1,794
High-yield debt	182	275	457
Liability matching assets	1,052	415	1,467
Property	-	324	324
Cash pending investment	61	-	61
Asset backed contribution assets	-	312	312
(i)	<u>5,062</u>	<u>1,650</u>	<u>6,712</u>

	2015	2014
Company share of the above (£million)	185	194

(i) The numbers presented above are the total pension schemes assets for the UK pension scheme.

(g) Defined contributions schemes

The total cost charged to income of £1m (2014: £1m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

20 Share based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in five employee share schemes which gave rise to a charge of £2,677,660 (2014: £971,000) which is shown under the financial line item 'other operating costs'. The majority of this share-based payment charge arose from three schemes: Sharesave, On Track Incentive Plan (OTIP) and the Share Award Scheme (SAS).

Share Aware Scheme

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in two stages - half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period.

On Track Incentive Plan

Awards under the OTIP are available to senior executives, senior and middle management. The number of shares awarded is dependent on annual targets for individual targets and business unit financial performance. These shares vest subject to continued employment within Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards.

The fair value of services received in return for share options granted are measured by reference to the fair value of share awarded granted. For the schemes described above, the fair value of employee share awards is the market value of the shares at the award date.

Sharesave

Under Sharesave, the Group Board may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

The fair value of employee share options is measured using the Black-Scholes model.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

21 Capital and reserves

Share Capital

Allotted, called up and fully paid shares

	2015		2014	
	No.	£ million	No.	£ million
Ordinary shares of £1 each	463,256,732	463	463,256,732	463
	<u>463,256,732</u>	<u>463</u>	<u>463,256,732</u>	<u>463</u>

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.

Other reserves

The other reserves caption consists of the share-based payments reserve which reflects the obligation to deliver shares to employees under the existing share schemes in return for services provided to the Company, and the actuarial reserve.

22 Dividends paid and proposed

	2015 £ million	2014 £ million
<i>Declared and paid during the year</i>		
Dividends paid	330	-
Dividends not paid	-	-
	<u>330</u>	<u>-</u>

A dividend of 71p per share was paid in 2015 (2014: nil).

23 Operating leases

The Company is committed to operating leases totalling £11 million (2014: £12 million) at the statement of financial position date, due between 2016 and 2022.

	Land and Buildings 2015 £ million	Land and Buildings 2014 £ million
Operating leases which expire:		
within one year	1	1
within two to five years	7	6
in over five years	3	5
	<u>11</u>	<u>12</u>

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

24 Other commitments

As at 31 December 2015, the Company is obligated to the following commitments, based on minimum contractual quantities (per contractual terms entered into) and commodity purchase prices at the statement of financial position date.

	2015 £ million	2014 £ million
Commodity purchase contracts	24	31
Transportation capacity	21	22
	<u>45</u>	<u>53</u>

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

	2015 £ million	2014 £ million
Within one year	23	25
Between one and five years	1	6
	<u>24</u>	<u>31</u>

Contractual commitments for the acquisition of property, plant and equipment

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2015 £ million	2014 £ million
Capital expenditure	6	-
	<u>6</u>	<u>-</u>

25 Contingent assets and liabilities

The company has an unrecognised asset relating to recovery of amounts provided for in relation to onerous contracts at 31 December 2015. This was £6m (2014: £nil) and has not been recognised, since it is not virtually certain to be recovered.

The charging mechanism for National Grid Entry Capacity is under review. This could give rise to further onerous contract obligation, however the Directors consider the probability of this as remote due to the regulator's view that storage capacity is exempt from additional charges.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

26 Related party transactions

A receivable of £1m which was provided for in 2013 from Bacton Storage Company Limited was de-recognised in the year following strike off of the company. Bacton Storage Company Limited was a related party.

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2015 £000	2014 £000
Directors' emoluments	489	619
Amounts receivable under long-term incentives schemes	43	46
	<u>532</u>	<u>665</u>

The aggregate emoluments paid to directors in respect of their qualifying services were £488,840 (2014: £618,617). The aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £42,869 (2014: £45,528). There was one director (2014: two directors) to whom retirement benefits are accruing under a defined benefit pension schemes. There were two directors (2014: one director) to whom retirement benefits are accruing under money purchase pension schemes. There were three directors (2014: three directors) who received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme. There was one director (2014: one director) who exercised share options relating to the ultimate parent company.

The highest paid director received emoluments of £287,086 (2014: £381,103) and the company contributed £19,810 (2014: £17,683) to their pension scheme. The highest paid director is accruing retirement benefits under a money purchase pension scheme. In both the current and prior year the highest paid director received shares in respect of qualifying services under a long-term incentive scheme. In the both the current and prior year the highest paid director did not exercise share options relating to the ultimate parent company.

The prior year figures for aggregate emoluments paid to directors, Company contributions to pension schemes and remuneration of the highest paid director have been amended since the 2014 statutory accounts were finalised. This was due to a change in the method of allocation of emoluments to Group entities, as well as the inclusion of certain payments and allowances owed to directors.

The prior year emoluments have been restated to £618,617 (previously disclosed £490,629).

The prior year pension contributions figures have been restated to £45,528 (previously disclosed £46,000).

The prior year remuneration figure for the highest paid director has been restated to £381,103 (previously disclosed £269,000).

During the year the number of Directors who received post-employment benefits and share incentives was as follows:

	2015 Number	2014 Number
Received or were entitled to receive shares under long term incentive schemes	3	3
Exercised shares awards	1	1
Accruing benefits under defined benefit pension scheme	1	2
Accruing benefits under money purchase pension scheme	2	1

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

27 Financial instruments at fair value

The Company buy and sells NBP gas through forward and futures contracts. An analysis is performed to assess whether these arrangements are financial instruments or not ('own-use contracts').

The fair value information as disclosed below relates to supply contracts that are in scope of IAS 39 'Financial Instruments: recognition and measurement', as well as to foreign currency instruments entered into, to hedge the risks arising from the business of the Company.

Determination of fair values

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

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

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

Financial instruments carried at fair value

	Fair value and carrying value £ million	Level 1 £ million	Level 2 £ million
31 December 2015			
Derivative financial assets – held for trading			
Energy derivatives – for optimisation	2	-	2
Total financial assets at fair value	2	-	2
Derivative financial liabilities – held for trading			
Energy derivatives – for optimisation	(6)	-	(6)
Total financial liabilities at fair value	(6)	-	(6)
Total financial instruments at fair value	(4)	-	(4)
31 December 2014			
Derivative financial assets – held for trading			
Energy derivatives – for optimisation	7	-	7
Total financial assets at fair value	7	-	7
Derivative financial liabilities – held for trading			
Energy derivatives – for optimisation	(3)	(1)	(2)
Total financial liabilities at fair value	(3)	(1)	(2)
Total financial instruments at fair value	4	(1)	5

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

28 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 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.

29 Adjusting and non-adjusting events that occurred after the financial period

On 15 July 2016, the Company announced further potential uncertainties in a number of the wells at the Rough storage facility. Additional testing will be conducted with estimated completion in March to April 2017. In the meantime, because of the uncertainty, no gas can be injected or withdrawn from Rough. Following a feasibility study, the business anticipates returning a number of wells to service for Winter 2016/17 withdrawal season. The decrease in forward spreads, updated expenditure assumptions and the limitations caused by the well pressure restriction decreased the forecast future cash flows and as a result, property, plant and equipment has been impaired by £421 million and intangible assets impaired by £5 million.

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.

After a period of member consultation in 2016 the following amendments to the Registered Pension schemes were approved: an increase in member contributions; a change to the inflationary increases for future pension build up in retirement to the lower of CPI and 2.5%; and a pensionable salary cap for CPP and CPS only. These changes will largely offset the impact of the low yield environment. See note 19.

In September 2016, CSL has concluded that, having regard to its age, condition and design-life, it is no longer feasible to operate the 47/8A installation. It is therefore permanently withdrawing the installation from service. 47/8A has up to 6 wells available for withdrawal out of a total of up to 30 wells in the Rough field. Only 4 of the wells on the 47/8A installation have been in recent use (2 of the wells have been plugged for several years) and the remaining 4 wells have only been used for production. Permanently withdrawing 47/8A from service will have a minimal impact on Rough's capabilities and CSL has prepared for the possibility that it would never return to service.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

30 Transition to FRS 101 (continued)

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 and in the preparation of an opening FRS 101 statement of financial position at 1 January 2014 (the 'Company's date of transition').

In preparing its FRS 101 statement of financial position, the Company has adjusted amounts reported previously in its Financial Statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables as well as related footnotes.

Income statement for year ended 31 December 2014

	As originally reported £ million	Reclassification £ million	Deferred tax on share options £ million	Re-measurement £ million	As restated £ million
Revenue	151	-	-	-	151
Cost of sales	(106)	-	-	2	(104)
Gross profit	45	-	-	2	47
Operating costs	(15)	-	-	-	(15)
Operating profit	30	-	-	2	32
Finance income	12	-	-	-	12
Finance cost	(1)	(1)	-	-	(2)
Profit before income tax	41	(1)	-	2	42
Income tax expense	(8)	-	(1)	(1)	(10)
Profit for the financial year	33	(1)	(1)	1	32

Reconciliation of equity

Reclassification

Pension reclassification

The assessment of the return on plan assets differs under UK GAAP and IAS 19 (revised).

In UK GAAP an expected return of asset percentage (as determined by management having sought advice from an independent actuary) is applied to assets held at the beginning of the accounting period (adjusted for movement in the asset balance in the period). IAS 19 (revised) requires the use of a discount rate applied to a net defined benefit obligation (more practically be applying the same discount rate to the opening asset and liability balances again adjusted for movements in the period).

The result is divergence between the expected return on assets as calculated according to each method with an equal opposite effect recorded in actuarial gains/losses.

IAS 19 (revised) was adopted by Centrica group for the period ending 31 December 2013 and therefore the effect is limited to FY13 and subsequent periods; previously IAS 19 was consistent with the UK GAAP treatment [IAS 19 paragraphs 105-106].

Deferred tax on share options

Treatment of deferred tax on share options

Deferred tax on share options under FRS 101 requires a statement of financial position approach, giving rise to a timing difference which creates a deferred tax asset under IAS 12, which creates an additional £1m deferred tax charge in 2014.

Centrica Storage Limited

Notes to the Financial Statements for the year ended 31 December 2015

30 Transition to FRS 101 (continued)

Re-measurement

Recognition of derivative financial instruments

Under IFRS, derivative financial instruments are required to be recognised on the statement of financial position at fair value, with changes in fair value recognised in either the income statement or through reserves, depending on whether hedge accounting is applied and its effectiveness within an entity.

As this was not required under UK GAAP (unless fair value accounting rules were applied), such derivative financial instruments were generally not recognised, and as the Company had not adopted FRS 26, were not included in the 2014 Financial Statements.

Statement of Comprehensive Income for year ended 31 December 2014

	As originally reported	Reclassification	Deferred tax on share options	Re-measurement	As restated
	£ million	£ million		£ million	£ million
Profit for the year	33	(1)	(1)	1	32
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Net actuarial losses on defined benefit pension schemes	(1)	-	-	-	(1)
Total comprehensive income for the year	32	(1)	(1)	1	31

Centrica Storage Limited
Notes to the Financial Statements for the year ended 31 December 2015

30 Transition to FRS 101 (continued)

Statement of financial position at 31 December 2014

	As originally reported £ million	Reclassification £ million	Deferred tax £ million	Correction of rounding £ million	Re- measurement £ million	As restated £ million
Non-current assets						
Property, plant and equipment	447	(6)	-	-	-	441
Intangible assets	-	6	-	-	-	6
Investments in subsidiaries	4	-	-	1	-	5
Trade and other receivables	40	-	-	-	-	40
Retirement benefit asset	12	-	3	-	-	15
Current assets						
Trade and other receivables	497	-	-	-	-	497
Inventories	33	-	-	-	-	33
Derivative financial instruments	-	-	-	-	7	7
Total assets	1,033	-	3	1	7	1,044
Current liabilities						
Trade and other payables	(106)	-	-	(1)	-	(107)
Derivative financial instruments	-	-	-	-	(3)	(3)
Provisions for other liabilities and charges	(9)	-	-	-	-	(9)
Non-current liabilities						
Deferred tax liabilities	(60)	-	(2)	-	(1)	(63)
Provisions for other liabilities and charges	(26)	-	-	-	-	(26)
Total liabilities	(201)	-	(2)	(1)	(4)	(208)
Net assets	832	-	1	-	3	836
Shareholders' equity						
Share capital	463	-	-	-	-	463
Retained earnings	370	(3)	1	-	3	371
Other equity	(1)	3	-	-	-	2
Total equity	832	-	1	-	3	836

Reconciliation of equity

Reclassification

Intangible assets reclassification

Both UK GAAP and IFRS define an intangible asset as a non-financial fixed asset that does not have physical substance. UK GAAP also requires an intangible asset to be identifiable and controlled by an entity either through custody or legal rights.

In practice, additional intangible assets may require recognition under IFRS and computer software may require reclassification from tangible to intangible assets. Although the definitions are similar, IFRS states that software which is an integral part of the related hardware is treated as property, plant and equipment, otherwise it is recognised as an intangible asset.

The netbook value of software (£6m) is reclassified from tangible assets under UK GAAP to intangible assets under FRS 101.

Centrica Storage Limited**Notes to the Financial Statements for the year ended 31 December 2015****30 Transition to FRS 101 (continued)****Pension reclassification**

As explained on page 43, the assessment of the return on plan assets differs under UK GAAP and IAS 19 revised.

Although a December 2013 statement of financial position is not presented the brought forward actuarial losses/gains are disclosed within the pension disclosures; these reserves are affected upon transition as the entity has to present IAS19 as if it has always been applied. The effect is actuarial gains are lower, with a commensurate deferred tax position to consider. £3m has been reclassified from retained earnings to actuarial reserves in the statement of financial position for 31 December 2014.

Deferred tax**Deferred tax on pensions reclassification**

UK GAAP required pensions assets/liabilities on the face of the statement of financial position to be presented net of deferred tax. Under IFRS, the gross pension asset/liability is presented on the statement of financial position, so £3m has been reclassified into the deferred tax balance.

Treatment of deferred tax on share options

Deferred tax on share options under FRS 101 requires a statement of financial position approach, giving rise to a timing difference which creates a deferred tax asset under IAS 12, so 2014 deferred tax and retained earnings have been restated by £1m.

Correction of rounding**Investments in subsidiaries**

The correction of rounding arises due to investments in subsidiaries showing as £4 million when the investment is actually £4.5 million and therefore should round up to £5 million.

Remeasurement**Recognition of derivative financial instruments**

Under IFRS, derivative financial instruments are required to be recognised on the statement of financial position at fair value, with changes in fair value recognised in either the income statement or through reserves, depending on whether hedge accounting is applied and its effectiveness within an entity.

As this is not required under UK GAAP (unless fair value accounting rules are applied), such derivative financial instruments are generally not recognised. Accordingly net assets of £3m after tax have been brought onto the statement of financial position under FRS 101.

Statement of Changes in Equity for year ended 31 December 2014

	As originally reported	Reclassification	Deferred tax	Re- measurement	As restated
	£ million	£ million	£ million	£ million	£ million
Share capital	463	-	-	-	463
Retained earnings	370	(3)	1	3	371
Other equity	(1)	3	-	-	2
Shareholders' equity	832	-	1	3	836