Registered number: 03294124

Centrica Storage Limited

Annual Report and Financial Statements

for the year ended 31 December 2019

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

Directors
G C McKenna
J R Ford
M R Scargill
T R Thomsen

Secretary
Centrica Secretaries Limited

Auditor
Deloitte LLP
Union Plaza
1 Union Wynd
Aberdeen
United Kingdom
AB10 1SL

Registered office
Woodland House
Woodland Park
Hessle
United Kingdom
HU13 0FA

Registered number
03294124

Centrica Storage Limited
Strategic Report for the year ended 31 December 2019

The Directors present their Strategic Report for Centrica Storage Limited (the 'Company') for the year ended 31 December 2019.

Principal activities
The Company operates the Rough production facility, which is a partially depleted gas field in the United Kingdom, on behalf of its subsidiary Centrica Offshore UK Limited.

Review of the business
The profit for the financial year ended 31 December 2019 is £41 million (2018 : £25 million), after £nil exceptional charges (2018: exceptional charge of £5 million).

Safety continues to be the highest priority, with continued focus on improving the safety culture initiative started in 2015. The Directors believe this has led to better incident reporting. During the year one lost time injury (LTI) was recorded (2018: one). Safety performance will continue to be a key priority for 2020. Safety observations for the year were broadly similar year on year at 13,259 in 2019 (2018: 13,799) despite a reduction in the average number of employees year on year indicating a continued increasing awareness of safety.

During the year the Company continued to operate the Rough facilities as a production facility on behalf of its wholly-owned subsidiary Centrica Offshore UK Limited (COUK). The facilities were used to process 40 bcf of gas from the Rough field and 2 bcf from the York field (2018: 67 bcf and 2 bcf respectively).

In June 2019, COUK determined that to maximise the value of the remaining gas reserves Rough would transition to a seasonal production profile. COUK intends to produce gas from Rough during the gas year Winter (October to March) and then have an outage during the gas Summer (April to September). The revised production strategy combined with the rundown profile for production reduced the total Rough gas production to 40 bcf (2018: 67 bcf).

In October 2019, the York Transport, Processing, Operating Services Agreement (TPOSA) with Spirit Energy Resources Limited was terminated. Effective of the termination date no further York gas will be processed by the Easington Terminal. The York processing equipment has now being integrated into the remaining Easington Terminal facilities to provide one larger capacity processing facility in preparation for receiving gas from the Tolmount field.

In August 2018, the Company was awarded a contract by the Tolmount joint venture and infrastructure partners to process gas from the Tolmount field in the Southern North Sea. Under the Tolmount agreement work is underway and on track to modify the Easington Terminal to process gas from the Tolmount field.

Gross revenue declined to £291 million, down 37% compared to 2018 (£464m) reflecting the reduced sales gas production of 39bcf in 2019 (2018: 67 bcf) as the seasonal asset production strategy was implemented. Cost of sales decreased to £280 million (2018: £446 million), driven by purchases of the reduced gas volumes produced by its subsidiary COUK.

During 2017, the Company entered into a cost share agreement with its subsidiary COUK. Costs of £82 million (2018: £84 million) were recharged to COUK generating a revenue of £94 million (2018: £96 million). Costs of £11 million (2018: £9 million) have been reclassified from operating costs to cost of sales to reflect the cost share arrangements.

In 2019 £nil exceptional charges were recognised (2018: £5m recognised for impairment of investment in Centrica Offshore UK Limited).

Financial position
The financial position of the Company is presented in the Statement of Financial Position on page 16. Total equity at 31 December 2019 was £223 million (2018: £197 million).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, is provided on pages 34-43 of the Centrica plc Annual Report and Accounts 2019 which do not form part of this report. The additional key business risks and uncertainties affecting the Company have been highlighted below.

Commodity price risk
The key commodity price risk facing the Company is movement in gas and condensate prices. The purchase of forward gas purchases is performed within the Centrica Group which also oversee the Group commodity credit and price risk.

Counterparty credit risk
The counterparty credit risk facing the Company relates to energy trading activities. The purchase of forward gas purchases is performed within the Centrica Group which also oversee the Group commodity credit and price risk.

Safety and operational risk
The Company is exposed to operational, health and safety and environmental risks through operation of the Rough 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 and/or reduce the impact of potential accidents or incidents on people and the business.

Regulatory and compliance risk
The Company is required to operate within the regulatory guidelines set by UK and European bodies including the Gas Act 1995. These place constraints on the Company's activities. Failure to comply with the regulations set by these bodies carries significant reputational, financial and legal consequences. The regulatory and compliance team for the Centrica Storage Holdings Limited group of companies monitors regulatory risk and updates Directors on a regular basis.

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 in order to successfully deliver the strategy.

Asset ageing risk
The Rough asset was built in the early 1980's with a 25-year design life which has been significantly exceeded. This was possible due to the continual investment made in the asset by the business. As it continues to age the need to monitor and maintain the plant to ensure safe operations increases. The inherent risk of high pressure gas in old facilities in an offshore location, creates limitations to the work the Company is able to carry out. Following the removal of the storage licence in January 2018 and the transition of the field to being a production facility, the pressure in the field continues to reduce.

Exit from the European Union

The UK's exit from the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. It is unclear whether a trade deal will be agreed with the European Union during 2020 or the transition period will end without terms being agreed. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Section 172 (1) statement

Section 172(1) of the Companies Act 2006 provides that a Director of a Company must act in a way that he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its member as a whole, and in doing so have regard (amongst other matters) to various other stakeholder interests - below are the six key factors:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees, when relevant;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between member of the Company.

In discharging our Section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of the Company's customers. The Directors remain conscious that their decisions could have an impact on other stakeholders where relevant. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we aim to make sure that our decisions are consistent and appropriate in all the circumstances.

We delegate authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The Directors consider the Company's activities and make decisions. For example, each year we make an assessment of the strength of the Company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends. In 2019 we did not recommend the payment of a final dividend. In making our decision we considered a range of factors including the long-term viability of the Company; its expected cash flow and financing requirements; the ongoing need for strategic investment in our business and the expectations of our shareholder as the supplier of long-term equity capital to the Company.

Stakeholder engagement

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard to the matters set out in S.172(1) (a) to (f) of the Companies Act. Further information on stakeholder engagement can be found on pages 16-17 of the Group's Annual Report and Accounts 2019. Engaging with stakeholders delivers better outcomes for society, and for our business. Its fundamental to our long-term success.

Employee engagement

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, 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 Group's Board acknowledges that employee engagement is critical to our success. During 2019, the Group began the work to embed the role of Employee Champion as an integral part of Centrica's governance framework. Using the output from employee discussions in 2018, the Group formalised the Employee Champion role in written terms of reference to ensure that its purpose was clear, it was well supported by Centrica, and there were mechanisms in place for reporting and feedback. Further information on employee engagement can be found on page 67 of the Group's Annual Report and Accounts 2019. Centrica's Employee Champion seeks to create an environment where each employee can reach their full potential and be at their best, and we can retain and develop the best talent to continue to deliver for our stakeholders.

Key performance indicators (KPIs)

The Directors of the Company consider the most significant KPIs as an operator of production facilities for other third parties include gross margin %, lost time injuries and volume of gas processed:

For the year ended 31 December	**2019**	2018	Movement %
Financial KPIs			
Gross margin %	4%	4%	0%
Non-Financial KPIs			
Lost time injuries ("LTI")*	0.18	0.17	6%
Gas processed (bcf)	42	69	-39%

*Number of LTI in the year per 200,000 hours worked

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 18-19 of the Group's Annual Report and Accounts 2019, which does not form part of this report.

Future developments

The key priorities for 2020 continue to be the active management of Health, Safety, Environmental, Operational and Regulatory risks.

The Company continues to focus on winning additional third-party gas processing opportunities to utilise excess capacity at the Easington terminal and extend the life of the facilities.

Impact of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) outbreak and coronavirus disease (COVID-19) pandemic

On 11 March 2020, the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. Following United Kingdom government measures in response to the pandemic the Centrica plc group ("Group") became subject to a significant change in business environment, as well as implementing a number of significant operational changes in order to be able to continue to serve and support our customers. The Company has made all reasonable and practical changes to its operating environment to reduce the risks of the COVID-19 pandemic to its employees, in line with United Kingdom guidance as a minimum.

The full impact of the pandemic on the Company is uncertain, but the Directors are confident that the measures taken to ensure the key priorities of the Company are protected and put the Company in a strong position to be able to manage the resultant economic challenges.

The events described above arose after the Company's balance sheet date, and therefore there is no impact on the results or financial position of the Company as at 31 December 2019. The Company is supported by the Group, which has stated that it intends to support the Company for a period of at least 12 months from the date the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that there are a range of future potential financial impacts upon the Group as a result of the pandemic but, following assurances from the ultimate parent company underpinned by its detailed assessment, have satisfied themselves that the Group will be able to support the Company if required under all reasonably foreseeable circumstances. For more information refer to the Going Concern section of the Directors' Report on page 9.

Approved by the Board on 22 September 2020 and signed on its behalf by:

Helen Ashmore

Helen Ashmore
By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary
22 September 2020

Company registered in England and Wales, No. 03294124.

Registered Office:
Woodland House
Woodland Park
Hessle
HU13 0FA
United Kingdom

Centrica Storage Limited
Directors' Report for the year ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

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

G C McKenna	
I G Dawson	(Resigned 6 March 2019)
J R Ford	(Appointed 24 July 2020)
D Oliver	(Resigned 31 July 2020)
C M O'Shea	(Appointed 6 March 2019, Resigned 24 July 2020)
M R Scargill	(Appointed 1 August 2020)
T R Thomsen	

Results and dividends
The results of the Company are set out on page 14.

The profit for the financial year ended 31 December 2019 is £41 million (2018: £25 million), after an exceptional charge of £nil (2018: exceptional charge of £5 million).

No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2018: £nil).

Financial risk management
The Directors have established objectives and policies for managing financial risks, to enable the Company to achieve long-term shareholder value growth within a prudent risk management framework. These objectives and policies are regularly reviewed. The purchase of forward gas purchases is performed within the Group which also oversee the Group commodity credit & price risk.

Employees
The Company had an average of 240 employees for the year ended 31 December 2019 (2018: 284), all of whom were based in the UK.

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.

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. The insurance does not provide cover in the event that the Directors are proved to have acted fraudulently.

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

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

In preparing these financial statements, the Directors are required to:

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

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

Disclosure of information to auditor
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 auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Strategic report
The Directors have chosen in accordance with section 414C (11) 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.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances. The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises.

The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2nd April 2020. The trading statement announced that the final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. In July 2020 it was decided that management bonus payments would be cancelled. The Group going concern assessment included various sensitivities including the impacts of lower commodity pricing and a credit rating downgrade as well as mitigating actions such as reduction in capital expenditure and dividend reductions. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (negative) credit rating on 28 July and S&P confirmed a BBB (negative) credit rating on 30 July.

Non-adjusting events after the financial period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. The Company has no critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.

Auditor

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

Approved by the Board on 22 September 2020 and signed on its behalf by:

Helen Ashmore

Helen Ashmore
By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary
22 September 2020

Company registered in England and Wales, No. 03294124.

Registered Office:
Woodland House
Woodland Park
Hessle
Yorkshire
HU13 0FA
United Kingdom

Centrica Storage Limited
Independent Auditor's Report to the member of Centrica Storage Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Centrica Storage Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsiblities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP

Graham Hollis ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Union Plaza
1 Union Wynd
Aberdeen
United Kingdom
AB10 1SL

22 September 2020

Centrica Storage Limited
Income Statement
for the year ended 31 December 2019

	Notes	**2019** **£ million**	2018 £ million
Revenue	4	291	464
Cost of sales	5	(280)	(446)
Gross profit		11	18
Operating income/(costs)	5	7	(5)
Other income		10	7
		28	20
Exceptional items- impairment of investments	7	-	(5)
Operating profit		28	15
Finance income	8	19	11
Profit before tax		47	26
Tax charge	10	(6)	(1)
Profit for the year		41	25

The above results were derived from continuing operations.

The notes on pages 18 to 47 form an integral part of these financial statements.

Centrica Storage Limited
Statement of Comprehensive Income
for the year ended 31 December 2019

	Notes	2019 £ million	2018 £ million
Profit for the year		41	25
Other comprehensive income			
Items that will not be reclassified to the Income Statement			
Net actuarial (loss)/gains on defined benefit pension schemes	18	(18)	18
Taxation on net actuarial (loss)/gains on defined benefit pension	10	3	(3)
Total comprehensive income for the year		26	40

The notes on pages 18 to 47 form an integral part of these financial statements.

Centrica Storage Limited
Statement of Financial Position
as at 31 December 2019

	Notes	2019	2018
		£ million	£ million
Non-current assets			
Property, plant and equipment	12	9	3
Deferred tax assets	11	1	1
Retirement benefit asset	18	17	22
		27	**26**
Current assets			
Trade and other receivables	14	465	375
Inventories	15	4	5
Derivative financial instruments	24	35	21
		504	**401**
Total assets		**531**	**427**
Current liabilities			
Trade and other payables	16	(249)	(184)
Derivative financial instruments	24	(35)	(21)
Current tax liabilities		-	(3)
Provision for other liabilities and charges	17	(2)	(4)
		(286)	**(212)**
Net current assets		**218**	**189**
Total assets less current liabilities		**245**	**215**
Non-current liabilities			
Trade and other payables	16	(6)	-
Provision for other liabilities and charges	17	(16)	(18)
		(22)	(18)
Total liabilities		**(308)**	**(230)**
Net assets		**223**	**197**
Equity			
Share capital	20	463	463
Retained losses	20	(212)	(253)
Other losses	20	(28)	(13)
Total equity		**223**	**197**

The financial statements on pages 14 to 47 were approved and authorised for issue by the Board of Directors on 22 September 2020 and were signed on its behalf by:

G C McKenna
Director
Approved by the board on 22 September 2020

The Company's registered number is 03294124.

The notes on pages 18 to 47 form an integral part of these financial statements.

Centrica Storage Limited
Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £ million	Other losses £ million	Retained losses £ million	Total £ million
At 1 January 2019	463	(13)	(253)	197
Profit for the year	-	-	41	41
Other comprehensive losses	-	(15)	-	(15)
Total comprehensive (loss)/income	-	(15)	41	26
At 31 December 2019	463	(28)	(212)	223

	Share capital £ million	Other losses £ million	Retained losses £ million	Total £ million
At 1 January 2018	463	(28)	(278)	157
Profit for the year	-	-	25	25
Other comprehensive income	-	15	-	15
Total comprehensive income	-	15	25	40
At 31 December 2018	463	(13)	(253)	197

The notes on pages 18 to 47 form an integral part of these financial statements.

1 General information

Centrica Storage Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales.

The registered office and principal place of business is Woodland House, Woodland Park, Hessle, United Kingdom, HU13 0FA.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 6.

These financial statements were authorised for issue by the Board on 22 September 2020.

2 Principal accounting policies

Basis of preparation

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.

Exemption from preparing group accounts

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling company, Centrica plc.

Changes in accounting policy

From 1 January 2019, the following standards and amendments are effective in the Company's Financial Statements:

- IFRS 16: 'Leases';
- Amendments to IAS 19: 'Plan amendment, curtailment or settlement'.

Amendments to IAS 19 resulted in the re-measurement of pension scheme assets and liabilities subsequent to the plan amendments during the year, as reflected and detailed further in note 22 of the Centrica Plc Group Annual Report and Accounts.

Changes resulting from adoption of IFRS 16

IFRS 16: 'Leases'

The Company adopted IFRS 16: 'Leases' from 1 January 2019. Adoption represents a significant change in accounting for lease arrangements in which the Company is a lessee as the standard mandates the on-balance sheet recognition of all lease liabilities and a corresponding right-of-use asset. In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17: 'Leases' or IFRIC 4:'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or changed after that date the definition of a lease in IFRS 16 has been applied. On application of IFRS 16 comparative information has not been restated.

2 Principal accounting policies (continued)

IFRS 16: 'Leases' (continued)

The Company utilised the recognition exemptions for both short-term leases applicable to machinery, property and production assets that have a lease term of 12 months or less and for leases of low value assets (underlying asset value less than £5,000), including IT equipment. The lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term.

The Company has also applied wherever applicable the following transition allowances:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment of whether leases are onerous in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Asset's immediately before the date of initial application as an alternative to performing an impairment review;
- election not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition, the Company measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January 2019 of £9 million and £9 million, respectively. £9 million of the lease liability is incremental to the IAS 17 position. Right-of-use assets are presented in Property, plant and equipment on the Balance Sheet. Lease liabilities are included in Current and Non-current Borrowings.

A reconciliation of the operating lease commitment at 31 December 2018 to the opening IFRS 16 lease liability is shown below, along with a summary of the key judgements applied by the Company in determining these opening positions:

	£ million
Operating lease commitment at 31 December 2018	17
Leases falling outside of IFRS 16 (small value and short term leases)	(3)
Leases reclassified to other group entities on transition to IFRS 16	(4)
Effect of discounting	(1)
IFRS 16 lease liability at 1 January 2019	9

The weighted average incremental borrowing rate used by the Company for IFRS 16 is 1.3%.

Upon transition to IFRS16, the Company has reassessed which entity the leases relate to based on the underlying legal contracts. The lease payments in relation to the reclassified leases are paid through the group recharges and the other group entity has recognised the appropriate IFRS16 assets and liabilities.

2 Principal accounting policies (continued)

Significant Changes in the Company's Accounting Policy applicable from 1 January 2019

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounting using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, lease-term extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use of asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the comparative periods leases were 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 were classified as operating leases.

2 Principal accounting policies (continued)

Definition of a lease (continued)

As a Lessor

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 Income Statement 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.

York gas processing plant finance lease

From the point at which each phase of the York gas processing plant 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.

During 2017, Centrica Resources Limited was included in a transaction creating a joint venture (JV) with Bayerngas Norge AS (see note 23 for further details). The assets previously leased by Centrica Resources Limited are now leased by Spirit Energy Resources Limited (under the same contractual terms).

During 2019, the York field ceased production and in line with the terms of the lease, all remaining finance lease payments were received by the Company. The equipment remained under the legal title of the Company throughout the lease period, and assets integrated within the Terminal facilities will be used by the Company for processing of non-York field gas.

2 Principal accounting policies (continued)

Summary of disclosure exemptions

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

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment and intangible assets;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of capital management;
- investments in subsidiaries; and
- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value.

Measurement convention

The financial statements are prepared on the historical cost basis except for investments in subsidiaries that have been recognised at deemed cost; derivative financial instruments and the Company's share of assets of the Group's defined benefit schemes that 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.

These financial statements are presented in pounds sterling, (with all values rounded to the nearest million [pounds £ million] 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.

Going concern

The Company had net current assets at the Statement of Financial Position date of £218 million (2018: £189 million).

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances. The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises.

2 Principal accounting policies (continued)

Going concern (continued)

The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2nd April 2020. The trading statement announced that the final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. In July 2020 it was decided that management bonus payments would be cancelled. The Group going concern assessment included various sensitivities including the impacts of lower commodity pricing and a credit rating downgrade as well as mitigating actions such as reduction in capital expenditure and dividend reductions. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (negative) credit rating on 28 July and S&P confirmed a BBB (negative) credit rating on 30 July.

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.

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

Following the transition to a processing business, revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply and purchase contracts associated with the gas produced.

The revenue and costs associated with this gas are presented gross within the income statement, as the Company takes the risks and responsibilities associated with the production of the gas, when it processes the gas on behalf of its subsidiary COUK.

The transaction price for the gas is determined in line with the relevant contracts.

The point at which the performance obligation is satisfied and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms, usually on shipment or delivery to a specified location.

In respect of condensate sales, each barrel of condensate is considered a separate performance obligation satisfied at a point in time, on delivery.

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.

Other income

Includes consideration received for non-core activities. This includes income for the building of gas production assets on behalf of other parties and the fees associated with construction of assets to support the Tolmount contract which is recognised on a percentage completion methodology.

2 Principal accounting policies (continued)

Cost of sales

Cost of sales within production businesses include the depreciation of assets used in producing gas, maintenance and asset integrity work, cost of gas purchased, asset support costs during the year and direct labour costs.

Employee share schemes

The Centrica plc group, to which the Company belongs, has a number of employee share schemes 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. Details of the different schemes, including how fair value is measured for each scheme, that the Company participates in are provided in note 19.

When the options are exercised the Company is recharged the option's original fair value as of the grant date from Centrica plc. This recharge is treated as a deduction from equity.

Exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges, significant asset disposals and asset write-downs/impairments.

Foreign currencies

Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the Company at the exchange rate ruling at the date of the transaction.

Taxation

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

Deferred tax is recognised in respect of all temporary differences identified at the 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.

2 Principal accounting policies (continued)

Taxation (continued)

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

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 reporting 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.

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.

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 is depreciated at rates sufficient to write off the cost, less estimated residual values, of individual assets over either a unit of production basis using expected production profiles or on a straight line basis using their estimated useful lives.

Depreciation of PP&E

Depreciation is charged at rates sufficient to write off the cost, less any estimated residual value, of individual assets on either a unit of production basis using expected production profiles or on a straight line basis using estimated useful lives, as follows:

Asset classes	**Depreciation method and rate**
Policy pre 17 January 2018	
Plant and machinery	Straight line, up to 40 years
Policy post 17 January 2018	
Plant and machinery	Unit of production
Policy post 1 January 2019	
Plant and machinery - Non-IFRS16 assets	Unit of production
Plant and machinery - IFRS16 assets	Straight line, over life of contract

The unit of production methodology depreciates the remaining asset net book value including any expected future capital expenditure to access the recoverable proven and probable (2P) reserves, over the total remaining recoverable 2P reserves.

2 Principal accounting policies (continued)

Depreciation of PP&E (continued)

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.

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 (CGU) is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. 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.

The Company provides for impairments of financial assets when there is objective evidence of impairment as a result of events that impact the estimated future cash flows of the financial assets.

Recoverable amount calculations use cash flow projections based on the Group's internal Board-approved five-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 9.0% (2018: 9.5%).

The assumed inflation rate is 2% (2018: 2%). The business model includes gas processing revenues from the production of remaining Rough gas reserves for the company's subsidiary Centrica Offshore UK Limited and third parties.

Investments in subsidiaries

Fixed asset investments in subsidiaries are held at deemed cost on transition to FRS 101 and in accordance with IAS 27 'Separate Financial Statements', less any provision for impairment as necessary.

Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant items.

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.

2 Principal accounting policies (continued)

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 terminals useful life, based on price levels and technology at the Statement of Financial Position date.

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 using the projected unit credit actuarial valuation method.

Actuarial gains and losses are recognised 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 notes 3(b) and 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 into 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.

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.

2 Principal accounting policies (continued)

Financial assets and liabilities (continued)

(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 the 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 the 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.

(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 EIR method except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

2 Principal accounting policies (continued)

Financial assets and liabilities (continued)

(f) Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use' contract), and are not within the scope of IFRS 9 'Financial Instruments'.

Certain purchase and sales contracts for the physical delivery of gas are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 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 2019 of the ultimate controlling party being Centrica plc, in the Strategic Report - Principal Risks and Uncertainties on pages 34-43 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.

Derivatives are classified as current and non-current assets or liabilities. 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 estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

3 Critical accounting estimates and judgements (continued)

Critical judgements in applying the Company's accounting policies

There are no critical judgements in applying the Company's accounting policies.

Key sources of estimation uncertainty

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

Decommissioning costs (note 17)

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. The estimated cost is the best estimate of the independent valuer. Provision is made for the estimated cost of decommissioning at the Statement of Financial Position date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities. Decommissioning costs are expected to be incurred over a five-year period.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2019 at 1.2% (2018: 1.2%).

Impairment of long-lived non-financial assets (note 12)

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 from the processing of gas on behalf of Centrica Offshore UK Limited, Spirit Energy Resources Limited's York field and other third parties.

The recoverable amount of the Company's investments is calculated by assessing the likelihood that sufficient dividends will be received by the Company in relation to that investment.

Future post tax cash flows are dependent on the assumptions outlined in note 2.

Pensions and other post-employment benefits (note 18)

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.

4 Revenue

	2019 £ million	2018 £ million
By activity:		
Gas sales	188	351
Cost share	94	96
Other processing	8	14
Other revenue	1	3
	291	464
By geographical market:		
UK	291	464

With effect from 20 June 2017 the Company entered into a cost share agreement with its subsidiary Centrica Offshore UK Limited (COUK). Costs of £82 million (2018: £84 million) were recharged to COUK plus a margin generating a revenue of £94 million (2018: £96 million) in the year.

Gas sales revenue comprised the proceeds from the sale of gas processed by the Company on behalf of its subsidiary COUK.

Cost share revenue relates to processing and transporting gas for the Rough gas field owned by COUK.

Other processing revenue relates to processing and transporting gas for the York gas field owned by Spirit Energy Resources Limited.

Other revenue comprises income from the sale of condensate from the Rough and York (owned by Spirit Energy Resources Limited) gas fields and services provided to other third parties.

5 Analysis of costs by nature

Cost of sales: Year ended 31 December	**2019 £ million**	2018 £ million
Maintenance & direct costs	51	49
Depreciation (note 12)	3	2
Employee costs	21	24
Entry capacity costs	7	11
Gas purchases	188	351
Cost share transfer	10	9
Total cost of sales	280	446

Other operating (income)/costs: Year ended 31 December	**2019 £ million**	2018 £ million
Employee costs	4	4
Other operating costs	4	5
Restructuring	(5)	5
Cost share transfer	(10)	(9)
Total other operating (income)/costs	(7)	5

5 Analysis of costs by nature (continued)

Total costs: Year ended 31 December	**2019 £ million**	2018 £ million
Maintenance & direct costs	51	49
Depreciation (note 12)	3	2
Employee costs (note 6)	25	28
Entry capacity costs	7	11
Gas purchases	188	351
Other operating costs	4	5
Restructuring	(5)	5
Total costs	273	451

With effect from 20 June 2017 the Company entered into a cost share agreement with its subsidiary Centrica Offshore UK Limited (COUK). Cost of £82 million (2018: £84 million) were recharged to COUK plus a margin generating a revenue of £94 million (2018: £96 million) in the year. Costs of £11 million (2018: £9 million) have been reclassified from operating costs to cost of sales to reflect the cost share arrangement.

6 Employees' costs

	2019 £ million	2018 £ million
Wages and salaries	21	23
Social security costs	2	2
Pension and other post-employment benefits	4	4
	27	29
Capitalised employee costs	(1)	(1)
Employee costs offsetting contract revenue	(1)	-
Employee costs included in operating profit	25	28

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

	2019 No. of employees	2018 No. of employees
Offshore	95	114
Onshore	67	70
Support	78	100
	240	284

Directors' Remuneration

The Directors were remunerated as employees of the Centrica plc Group and did not receive any remuneration, from any source, specifically for their services as Directors of the Company during the current or preceding financial year.

7 Exceptional items

The following exceptional items were recognised in arriving at operating profit for the year:

	2019 £ million	2018 £ million
Impairment of investments	-	5
	-	5

In the prior year, following a review of the Company's investments, an impairment of £5 million was recognised in relation to the investment in Centrica Offshore UK Limited. This was driven by the decline in forward National Balancing Point (NBP) gas prices, reducing the recoverable value of the investment to £nil.

8 Net finance income

	2019 £ million	2018 £ million
Finance income		
Interest income from amounts owed by Group undertakings	18	11
Interest income from pension assets	1	-
	19	11

9 Auditor's remuneration

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

	2019 £' 000	2018 £' 000
Audit fees	20	20
	20	20

Auditor's remuneration relates to fees for the audit of the financial statements of the Company.

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

10 Taxation

Tax charged/(credited) to the Income Statement	**2019 £ million**	2018 £ million
Current taxation:		
Current tax on profit for the year	3	1
Total current tax	3	1
Deferred tax:		
Current year	3	-
Total deferred tax	3	-
Tax per income statement	6	1
Equity items		
Deferred tax current year (credit)/charge	(3)	3
	(3)	3

Factors affecting total tax charge for the current year

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2019 £ million	2018 £ million
Profit before tax	47	26
Tax on profit at standard UK corporation tax rate of 19% (2018: 19%)	9	5
Effects of:		
Adjustments in respect of prior periods	-	(1)
Expenses not deductible	-	1
Uncertain tax position	(3)	(4)
Transfer pricing adjustments	(2)	(1)
Effects of group relief and other reliefs	2	1
Total tax charge	6	1

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The corporation tax rate was to reduce to 17% with effect from 1 April 2020. However, Finance Act 2020 increased the corporation tax rate back to 19%. The deferred tax balances reflect the 19% enacted rate.

11 Deferred taxation assets/(liabilities)

	2019 £ million	2018 £ million
At 1 January	1	3
Adjustment in respect of prior periods	-	1
Deferred tax charge to income statement for the year	(3)	-
Deferred tax charge in equity for the year	3	(3)
At 31 December	1	1

11 Deferred taxation assets/(liabilities) (continued)

	2019 £ million	2018 £ million
Temporary differences trading	3	4
Retirement benefit asset	(2)	(3)
	1	1

Offsetting:

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

	2019 £ million	2018 £ million
Net deferred tax assets	3	4
Net deferred tax (liabilities)	(2)	(3)
	1	1
Deferred tax assets		
Recoverable after 12 months	3	4
	3	4
Deferred tax liabilities		
Recoverable after 12 months	(2)	(3)
	(2)	(3)

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The corporation tax rate was to reduce to 17% with effect from 1 April 2020. However, Finance Act 2020 increased the corporation tax rate back to 19%. The deferred tax balances reflect the 19% enacted rate.

12 Property, plant and equipment

	Plant and machinery £ million	Total £ million
Cost		
At 1 January 2019	100	100
Right-of-use assets recognised on adoption of IFRS 16 (note 2)	9	9
Disposals	(10)	(10)
At 31 December 2019	99	99
Accumulated depreciation & impairment		
At 1 January 2019	97	97
Charge for the year (note 5)	3	3
On disposals	(10)	(10)
At 31 December 2019	90	90
Net book value		
At 31 December 2019	9	9
At 31 December 2018	3	3

12 Property, plant and equipment (continued)

The Company adopted IFRS 16 on 1st January 2019, with an addition of £9 million in relation to assets recorded at this point. For further details on the adoption of IFRS 16 please see note 2.

The plant and machinery asset includes the abandonment asset for York processing equipment at cost £3 million (2018: £3 million), with £nil NBV (2018: £nil).

13 Investments

Investments classified as non-current

	Shares in group undertakings (subsidiaries) £ million
Cost	
At 1 January 2019	5
At 31 December 2019	5
Provisions	
At 1 January 2019	(5)
At 31 December 2019	(5)

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

The Company owns 100 percent (2018: 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 each. Centrica Offshore UK Limited is a trading company and is incorporated in England and Wales. Centrica Offshore UK Limited's registered office is: Woodland House, Woodland Park, Hessle, United Kingdom, HU13 0FA. 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.

14 Trade and other receivables

	2019 £ million	2018 £ million
Trade receivables	4	2
Amounts owed by Group undertakings	457	360
Amounts owed by related	-	2
Finance lease receivables owed by related parties	-	11
Prepayments and accrued income	4	-
	465	375

14 *Trade and other receivables (continued)*

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Excluding any finance lease amounts, included within the net amounts owed by Group undertakings disclosed above is £443 million (2018: £286 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.02% and 4.90% per annum during 2019 (2018: 3.72% and 4.13%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

The net amounts owed by Group undertakings exclude any derivative arrangements between Group companies.

The Company entered into a finance lease arrangement with Spirit Energy Resources Limited, a related party (note 23), for the gas processing plant at Easington for the York gas field in 2012. During the year, the York field ceased production leading to the remaining lease payments becoming due for payment. The final payment was received during 2019 and no further payments in relation to the lease now remain.

Finance lease receivables

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

2019	**Minimum lease payments £ million**	**Finance charges £ million**	**Present value £ million**
Within one year	-	-	-
In two to five years	-	-	-
In over five years	-	-	-
	-	-	-

2018	Minimum lease payments £ million	Finance charges £ million	Present value £ million
Within one year	12	1	11
In two to five years	-	-	-
In over five years	-	-	-
	12	1	11

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

	2019 £ million	2018 £ million
Current assets	-	11
Non-current assets	-	-
	-	11

15 Inventories

	2019 £ million	2018 £ million
Raw materials and consumables	4	5

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

During the year, write-downs of inventories amounted to £2 million (2018: £nil). The Company had a stock provision against part of the inventory written off, but an additional charge of £1 million has been included within cost of sales for further provisions required against the existing inventory.

16 Trade and other payables

	2019		2018	
	Current £ million	Non-current £ million	Current £ million	Non-current £ million
Obligations under lease liabilities	2	5	-	-
Trade payables	7	-	10	-
Amounts owed to Group undertakings	219	-	153	-
Other taxes and social security costs	1	1	1	-
Deferred income and accruals	20	-	20	-
	249	6	184	-

The amounts owed to Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Amounts owed to Group undertakings are unsecured, repayable on demand and do not bear interest.

Leases included in Creditors

	2019 £ million	2018 £ million
Current proportion of long term lease liabilities	2	-
Long term lease liabilities	5	-

In line with the requirements for IFRS 16, prior year comparatives do not require restatement. See note 2 for further details.

16 Trade and other payables (continued)

Lease liabilities maturity analysis

	2019	2018
	£ million	£ million
Less than one year	2	5
2 years	2	1
3 years	2	1
4 years	1	1
5 years	1	-
6 years	-	-
7 years	-	-
8 years	-	-
9 years	-	-
10 years	-	-
Between 10 to 15 years	1	-
More than 15 years	-	-
Total lease liabilities (undiscounted)	9	8

The above "Lease liabilities maturity analysis" table includes operating leases falling outside the scope of IFRS 16. Those outside the of IFRS 16 do not form part of the trade payables balance.

Total cash outflows related to leases

Total cash outflows related to leases are presented in the table below:

	2019	2018
	£ million	£ million
Payment		
Right of use assets	8	5
Interest	1	-
Short term leases	-	3
Total cash outflow	9	8

The above "Total cash outflows related to leases" table includes operating leases falling outside the scope of IFRS 16. Those outside the of IFRS 16 do not form part of the trade payables balance.

17 Provisions for other liabilities and charges

	Onerous purchase contracts £ million	Decommissioning £ million	Total £ million
At 1 January 2019	16	6	22
Utilised in the year	(4)	-	(4)
At 31 December 2019	12	6	18
Non-current liabilities	10	6	16
Current liabilities	2	-	2

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. None of this entry capacity was forward sold during the year (2018: nil).

Decommissioning
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 payment dates of expected decommissioning costs are uncertain and depend on the life of the facilities. The majority of York decommissioning costs are expected to be incurred between 2033 and 2035.

Discount rate
During the year the Company has maintained its estimate of the risk free rate for corporate bonds at 1.2% (2018: 1.2%).

18 Pension and 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 Group Annual Report and Accounts.

Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS form the majority of the Group's defined benefit obligation and are referred to below and in the Centrica plc 2019 Annual Report and Accounts as the 'Registered Pension Schemes'.

18 Pension and post-employment benefits (continued)

(a) Summary of main schemes (continued)
For further information of critical accounting judgements and key sources of estimation uncertainty in relation to pensions please refer to notes 3 and 22 in the Group financial statements.

(b) Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the Group financial statements.

(c) Reconciliation of scheme assets and liabilities

The amounts recognised in the statement of financial position are as follows:

	2019		2018	
	Assets £ million	**Liabilities £ million**	Assets £ million	Liabilities £ million
As at 1 January	228	(206)	286	(277)
Items included in the Income Statement:				
Current service cost	-	(1)	-	(2)
Past service credit	-	5	-	(1)
Interest income/(expense)	7	(6)	7	(7)
Other movements:				
Re-measurement (losses) / gains	(3)	(15)	(59)	77
Employer contributions	8	-	2	-
Benefits paid	(7)	7	(8)	8
Transfers from provisions to liabilities	-	-	-	(4)
As at 31 December	233	(216)	228	(206)

As at 31 December	**2019 £ million**	2018 £ million
Presented in the Statement of Financial Position as:		
Defined benefit pension assets	17	22
Defined benefit pension liabilities	-	-
Net surplus recognised in the Statement of Financial Position	17	22

18 Pension and post-employment benefits (continued)

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

	2019 £ million	2018 £ million
Actuarial loss (actual return less expected return on pension scheme assets)	(3)	(59)
Experience gain arising on the schemes' liabilities	5	-
Changes in assumptions underlying the present value of the schemes' liabilities	(20)	77
Actuarial (loss)/gain recognised in reserves before adjustment for taxation	(18)	18
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(16)	(34)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(34)	(16)

(e) Pension scheme contributions

Note 22 to the Group financial statements provides details of the triennial review based on the position at 31 March 2018 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements. Under IAS 19: 'Retirement benefits' (revised 2011), the Company's contribution and trustee interest in the Scottish limited partnerships are recognised as scheme assets.

The Company estimates that it will pay £1 million of ordinary employer contributions during 2019 at an average rate of 17% of pensionable pay together with contributions via the salary sacrifice arrangement.

(f) Defined contribution pension scheme contributions

The total cost charged to the Income Statement of £2 million (2018: £2 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

18 Pension and post-employment benefits (continued)

(g) Pension scheme assets

The major categories of scheme assets are as follows:

		2019	
	Quoted	**Unquoted**	**Total**
As at 31 December	**£ million**	**£ million**	**£ million**
Equities	188	346	534
Corporate bonds	2,646	-	2,646
High-yield debt	1,015	1,288	2,303
Liability matching assets	1,430	1,075	2,505
Property	-	316	316
Cash pending investment	695	-	695
Asset backed contribution assets	-	738	738
Group pension scheme assets [i]	5,974	3,763	9,737

		2018	
	Quoted	Unquoted	Total
As at 31 December	£ million	£ million	£ million
Equities	1,991	351	2,342
Corporate bonds	1,118	-	1,118
High-yield debt	595	1,360	1,955
Liability matching assets	1,581	994	2,575
Property	-	395	395
Cash pending investment	102	-	102
Asset backed contribution assets	-	802	802
Group pension scheme assets [i]	5,387	3,902	9,289

	2019	2018
Company share of the above (£ million)	233	228

[i] The numbers presented above are the total pension schemes assets for the UK pension scheme.

19 Share based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in six employee share schemes which gave rise to a charge of £446,000 (2018: £504,000). The fair value of employee share options is the market value of the shares at the award date. The major schemes are described below.

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.

19 Share based payments (continued)

On Track Incentive Plan

Awards under the On Track Incentive Plan 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 the 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 awards granted are measured by reference to the fair value of share awards granted.

20 Capital and reserves

Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	**£ million**	No.	£ million
Ordinary shares of £1 each	463,256,732	463	463,256,732	463

Reserves

Retained losses
The balance classified as retained losses 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 losses
The other losses 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. Neither the actuarial reserve nor the share-based payments reserve are distributable.

No dividends were paid in 2019 (2018: no dividend paid).

21 Other commitments

As at 31 December 2019, the Company is obligated to the following commitments, based on minimum contractual quantities (per contractual terms entered into) at the Statement of Financial Position date.

	2019	2018
	£ million	£ million
Transportation capacity	12	15
	12	15

22 Contingent assets and liabilities

The Company has an unrecognised asset at 31 December 2019 of £4 million (2018: £5 million) relating to recovery of amounts from a third party in relation to onerous entry capacity contracts provided for (note 17) and has not been recognised, since it is not virtually certain to be recovered.

23 Related party transactions

During the year, the Company entered into arm's length transactions with the following related parties:

Spirit Energy Resources Limited (previously Centrica Resources Limited)

On 11 December 2017, Centrica entered into a joint venture for its Exploration and Production Business with Bayerngas Norge AS. Please see www.centrica.com for further details. Following the setup of the joint venture, transactions with Spirit Energy Resources Limited ceased to be within Group undertakings and became related party transactions.

These transactions and associated balances are as follows:

	2019 Joint ventures *£ million*	2018 Joint ventures £ million
Processing income	8	14
Amounts owed by related parties	-	13

No provision for bad or doubtful debts owed by related parties was required (2018: £nil).

24 Fair value of financial instruments

The Company buys and sells national balancing point 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 of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopts Group internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

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.

Fair value hierarchy
Financial assets and financial liabilities measured and held at fair value are classified into one of three categories known as hierarchy levels, 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.

24 Fair value of financial instruments (continued)

Financial instruments carried at fair value

31 December 2019	Fair value and carrying value £ million	Level 1 £ million	Level 2 £ million
Derivative financial assets – held for trading under IFRS 9			
Energy derivatives – for trading	35	-	35
Total financial assets at fair value through profit and loss	35	-	35
Derivative financial liabilities – held for trading under IFRS 9			
Energy derivatives – for trading	(35)	-	(35)
Total financial liabilities at fair value through profit and loss	(35)	-	(35)
Total financial instruments at fair value through profit and loss	-	-	-

31 December 2018	Fair value and carrying value £ million	Level 1 £ million	Level 2 £ million
Derivative financial assets – held for trading under IFRS 9			
Energy derivatives – for trading	21	-	21
Total financial assets at fair value through profit and loss	21	-	21
Derivative financial liabilities – held for trading under IFRS 9			
Energy derivatives – for trading	(21)	-	(21)
Total financial liabilities at fair value through profit or loss	(21)	-	(21)
Total financial instruments at fair value through profit and loss	-	-	-

24 Fair value of financial instruments (continued)

Methods and assumptions

There were no material transfers during the financial year between level 1 and 2. There were no Level 1 trades during the year and at the end of the year.

Transfers between fair value hierarchy levels are based on the values of the relevant assets and liabilities at the beginning of the reporting period.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:

- quoted prices in active markets for the same instrument (i.e. without modification or repackaging) (Level 1);
- quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
- valuation techniques for which any significant input is not based on observable market data (Level 3).

Assessing the significance of a particular input requires judgement. For the purposes of the fair value hierarchy, the Directors have determined Level 2 as the appropriate hierarchy level for all valuations generated from the Company's trading system given that all financial assets and financial liabilities measured and held at fair value mature within the active period.

Valuation techniques used to derive Level 2 and valuation process

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2019 was 1% per annum (2018: 1% per annum).

25 Parent and ultimate parent undertaking

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

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

The address of Centrica plc is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.

26 Non-adjusting post balance sheet events

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. The Company has no critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.