

Registered number: 04248952

Centrica Offshore UK Limited
Annual Report and Financial Statements
for the year ended 31 December 2018



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

Directors

G C McKenna

D Oliver

T R Thomsen

Secretary

Centrica Secretaries Limited

Independent 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

04248952

Centrica Offshore UK Limited

Strategic Report for the year ended 31 December 2018

The Directors present the Strategic Report for Centrica Offshore UK Limited (the 'Company') for the year ended 31 December 2018.

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

Principal activities

The Company continues to lease the seabed and own the production licence for the Rough reservoir, which was historically used as a storage facility by the immediate parent company, Centrica Storage Limited (CSL). The Company has the right to extract the remaining indigenous gas and condensate, subject to regulatory consents. The Company also has the obligation to decommission the Rough facility after extracting the indigenous gas.

Review of business

The Company reported a loss for the financial year of £63,154,000 (2017: profit of £3,244,000), after exceptional items of £98,285,000 (2017: £699,000).

During 2017, the Company's immediate parent company CSL announced that following the completion of its extensive well testing programme, it could not safely return the Rough asset and associated facilities to storage operations. A commercial review was undertaken to assess either a major investment in a refurbishment or a redevelopment of the Rough facility. Upon completion of the assessment, neither option was deemed to be commercially viable by the Directors. It was also announced that as a result of the findings of this review, CSL would make all relevant applications to permanently end Rough's status as a storage facility, and for the Company to produce all recoverable cushion gas from the field.

In September 2017, the Oil and Gas Authority (OGA) granted consent for the Company to produce 30.7 billion cubic feet (bcf) of cushion gas and associated liquids, to reduce the pressure on the Rough wells as an interim safety measure. Production under this consent started in October 2017 and continued into January 2018.

During December 2017, CSL and the Company made a formal application to the OGA to terminate CSL's storage licence and produce the remaining recoverable indigenous gas and associated liquids in the Rough field. On 15 January 2018, the OGA granted consent with effect 17 January 2018 and operations as a production facility began.

Gross revenue for 2018 improved to £365,350,000, up 175% compared to 2017, reflecting the higher gas production sales volume in the year of 67 bcf (2017: 24 bcf). Cost of sales increased in the year to £274,773,000 (2017: £79,617,000) due to the impact of a full year of the cost share agreement entered into during 2017, £20,779,000 (2017: £nil) of unsettled mark to market price hedges along with depreciation on both the gas produced and the assets acquired during December 2017 from CSL (for a consideration of £148,000,000).

During 2017, the Company entered into a cost share agreement with its immediate parent CSL. Costs of £96,258,000 (2017: £55,442,000) were recharged in the year split £86,466,000 cost of sales (2017: £46,180,000) and £9,792,000 operating costs (2017: £9,262,000) in line with the cost share agreement.

The decline in forward National Balancing Point (NBP) gas prices has reduced the Company's forecasted future cashflows and as a result property, plant and equipment has been impaired by £97,593,000 (2017: £nil) and intangible assets impaired by £692,000 (2017: £nil).

Financial position

The financial position of the Company is presented in the Statement of Financial Position on page 12. Total deficit at 31 December 2018 was £70,783,000 (31 December 2017: £7,629,000).

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

Centrica Offshore UK Limited

Strategic Report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties

The management of the business in the execution of the Company's strategy are subject to a number of risks. Further discussion of these risks and uncertainties in the context of the Centrica Group (the 'Group') as a whole is provided on pages 41-50 of the Centrica plc Annual Report and Accounts 2018 which do not form part of this report. The additional key business risks and uncertainties affecting the Company have been highlighted below:

Commodity price risk

The key commodity price risk facing the Company is movement in gas and condensate prices. The Financial Risk Management Committee (FRMC) monitored the extent of the Company's commodity price exposure until it was disbanded at the end of March 2018. The purchase of forward gas purchases is now performed within the Centrica Group who also oversee the Group commodity credit & price risk.

Counterparty credit risk

The counterparty credit risk facing the Company relates to energy trading activities. All contracted and potential exposures were reported to the Financial Risk Management Committee (FRMC) until it was disbanded at the end of March 2018. The purchase of forward gas purchases is now performed within the Group who also oversee the Group commodity credit and price risk.

Regulatory risk

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

Asset integrity risk

The Company is expected to be profit making in the short term through the extraction and sale of the indigenous gas and associated liquids in the Rough field. The Company is therefore dependant on the Rough assets' integrity in order to extract future gas. However the Company believes this is not a major risk as CSL remains committed to maintaining the Rough assets to operate safely, in order to facilitate gas production.

Exit from the European Union

The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short term. Many details of the implementation process continue to remain unclear. Extricating the UK 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.

Key performance indicators (KPIs)

Given the nature of the business, the Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of development, performance or position of the business, other than volume of gas sold and the average achieved price. 67 bcf of gas was sold in 2018 (2017: 24 bcf) at an average achieved price of 53 pence per therm (p/th) (2017: 50p/th).

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 2018, which does not form part of this report.

Future developments

The Directors anticipate that the Company will make profits in the short term through the production of the remaining Rough gas reserves following the OGA granting permission to produce remaining reserves from the Rough asset. In the medium term the Company will make losses during the decommissioning of the facilities.

Centrica Offshore UK Limited

Strategic Report for the year ended 31 December 2018 (continued)

Approved by the Board on 16 September 2019 and signed on its behalf by:



Ailsa Harding

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

Company Secretary

16 September 2019

Company registered in England and Wales, No. 04248952.

Registered Office:

Woodland House

Woodland Park

Hessle

United Kingdom

HU13 0FA

Centrica Offshore UK Limited

Directors' Report for the year ended 31 December 2018

The Directors present their report and the audited financial statements of Centrica Offshore UK Limited (the 'Company') for the year ended 31 December 2018.

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	
D Oliver	(Appointed 18.12.2018)
T R Thomsen	(Appointed 18.12.2018)

Results and dividends

The results of the Company are set out on page 11.

The Company reported a loss for the financial year of £63,154,000 (2017: profit of £3,244,000). Included in the loss for the year is an exceptional impairment of £98,285,000 primarily as a result of declining forward NBP gas prices (2017: £699,000).

No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2017: 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 Centrica Storage Holdings Limited Group had a Financial Risk Management Committee which met on a regular basis until it was disbanded at the end of March 2018. The purchase of forward gas purchases is now performed within the Centrica Group who also oversee the Group commodity credit and price risk.

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.

Gas reserves (unaudited)

The Company has estimated proven and probable (2P) gas reserves. Estimates are made by management based on the results of reserve studies performed by independent third party consultants. The principal field is the Rough field, with estimated net proven and probable reserves of 102 bcf at 31 December 2018 (2017: 141 bcf).

During 2018, the Company had its 2P gas reserves re-assessed and verified by an independent third party, ERCE. This identified a further 28bcf of reserves based on the latest reservoir performance data and impact of low pressure compression driven by the award of the Tolmount contract to CSL.

The Company extracted 67 bcf of gas during 2018 (2017: 25 bcf).

Related party transactions

All related party transactions have been disclosed in the financial statements.

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.

Centrica Offshore UK Limited

Directors' Report for the year ended 31 December 2018 (continued)

Statement of Directors' Responsibilities

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

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

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

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

Disclosure of information to auditors

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.

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.

Auditor

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

Centrica Offshore UK Limited

Directors' Report for the year ended 31 December 2018 (continued)

Approved by the Board on 16 September 2019 and signed on its behalf by:



Ailsa Harding

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

Company Secretary

16 September 2019

Company registered in England and Wales, No. 04248952.

Registered Office:

Woodland House

Woodland Park

Hessle

United Kingdom

HU13 0FA

Centrica Offshore UK Limited

Independent Auditor's Report to the Member of Centrica Offshore UK Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements of Centrica Offshore UK Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss 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 Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 19.

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 (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

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

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

We have nothing to report in respect of these matters.

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.

Centrica Offshore UK Limited

Independent Auditor's Report to the Member of Centrica Offshore UK Limited (continued)

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.

Responsibilities of Directors

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

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

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.

Centrica Offshore UK Limited

Independent Auditor's Report to the Member of Centrica Offshore UK Limited (continued)

Matters on which we are required to report by exception

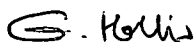
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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



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

19 September 2019

Centrica Offshore UK Limited
Income Statement
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	4	365,350	132,629
Cost of sales	5	(274,773)	(79,617)
Gross profit		<u>90,577</u>	<u>53,012</u>
Operating costs	5	(11,086)	(10,029)
Operating profit before exceptional items		<u>79,491</u>	<u>42,983</u>
Exceptional items:			
Impairment of non-current assets	6	(98,285)	(699)
Operating (loss)/profit after exceptional items		<u>(18,794)</u>	<u>42,284</u>
Finance costs	8	(4,125)	(4,177)
(Loss)/profit before income tax		<u>(22,919)</u>	<u>38,107</u>
Income tax charge	10	(40,235)	(34,863)
(Loss)/profit for the year from continuing operations		<u>(63,154)</u>	<u>3,244</u>

The notes on pages 14 to 28 form an integral part of these financial statements.

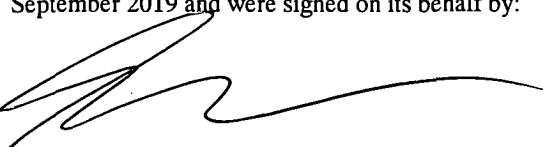
A Statement of Comprehensive Income is not presented as there is no other comprehensive income other than the result for each financial year.

Centrica Offshore UK Limited
Statement of Financial Position
as at 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	11	-	990
Property, plant and equipment	12	87,003	330,748
Deferred tax asset	15	83,326	33,559
		<u>170,329</u>	<u>365,297</u>
Current assets			
Trade and other receivables	13	150,518	871
		<u>150,518</u>	<u>871</u>
Total assets		<u>320,847</u>	<u>366,168</u>
Current liabilities			
Trade and other payables	14	(14,498)	(45,069)
Derivative financial instruments	18	(20,779)	-
Current tax liabilities		(48,923)	(4,159)
Provisions for liabilities	16	(25,284)	(26,061)
		<u>(109,484)</u>	<u>(75,289)</u>
Net current assets/(liabilities)		41,034	(74,418)
Total assets less current liabilities		211,363	290,879
Non-current liabilities			
Provisions for liabilities	16	(282,146)	(298,508)
		<u>(282,146)</u>	<u>(298,508)</u>
Total liabilities		<u>(391,630)</u>	<u>(373,797)</u>
Net liabilities		<u>(70,783)</u>	<u>(7,629)</u>
Equity			
Share capital	17	4,500	4,500
Accumulated losses		(75,283)	(12,129)
Total shareholder deficit		<u>(70,783)</u>	<u>(7,629)</u>

The notes on pages 14 to 28 form an integral part of the financial statements.

These financial statements on pages 11 to 28 were approved and authorised for issue by the Board of Directors on 16 September 2019 and were signed on its behalf by:



G McKenna

Director

16 September 2019

The Company's Registered number is 04248952.

Centrica Offshore UK Limited
Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital £000	Accumulated losses £000	Total £000
At 1 January 2018	4,500	(12,129)	(7,629)
Loss for the year	-	(63,154)	(63,154)
Total comprehensive loss	<u>-</u>	<u>(63,154)</u>	<u>(63,154)</u>
At 31 December 2018	<u>4,500</u>	<u>(75,283)</u>	<u>(70,783)</u>

	Share capital £000	Accumulated losses £000	Total £000
At 1 January 2017	4,500	(15,373)	(10,873)
Profit for the year	-	3,244	3,244
Total comprehensive income	<u>-</u>	<u>3,244</u>	<u>3,244</u>
At 31 December 2017	<u>4,500</u>	<u>(12,129)</u>	<u>(7,629)</u>

The notes on pages 14 to 28 form an integral part of these financial statements.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018

1 General information

Centrica Offshore UK 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 page 2.

These financial statements were authorised for issue by the Board on 16 September 2019.

2 Principal accounting policies

Basis of preparation

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

From 1 January 2018, the following amendments are effective in the Company's financial statements. Their first time adoption did not have a material impact on the financial statements:

- IFRS 9: 'Financial Instruments'
- IFRS 15: 'Revenue from contracts with customers'.

In these financial statements, the Company 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; and
- disclosures in respect of capital management.

As the consolidated financial statements of the Centrica plc group (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value.

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

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Measurement convention

The financial statements have been prepared on the historical cost basis except for derivative financial instruments.

Going concern

The Company had net current assets and total net liabilities at the Statement of Financial Position date of £41,034,000 and £70,783,000 respectively (2017: net current liabilities of £74,418,000 and total net liabilities of £7,629,000 respectively). The financial statements have been prepared on the 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.

Summary of significant accounting policies and key accounting estimates

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

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

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

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

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

Depreciation of PP&E assets

Depreciation is charged so as to write off the cost of the assets, as follows:

Asset classes	Depreciation method and rate
Plant	Unit of production
Equipment and vehicles	Unit of production
Gas storage facilities	Unit of production
Cushion gas	Unit of production
Abandonment assets (excluding terminal abandonment asset)	Unit of production
Terminal abandonment asset	Straight line, over 17 years

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

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.

2 Principal accounting policies (continued)

Intangible assets

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

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

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

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

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

Amortisation of intangible assets

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

Asset classes	Amortisation method and rate
Application software	Unit of production

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").

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 9.5% (2017: 7.5%).

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Impairment of non-financial assets (continued)

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

Revenue recognition

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

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

Cost of sales

Cost of sales includes depreciation of assets used for gas production including plant and machinery, cushion gas and abandonment assets.

Decommissioning costs

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

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

In the prior year the inflationary unwind of the discount on the decommissioning provision of £6,273,000 was capitalised to the decommissioning asset. The real discount rate was 1.2%. No inflationary unwind was recorded during the year.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the 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 reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are offset against deferred tax assets when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

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

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

Provisions

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

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. When cash is dispersed in respect of amounts provided for the related provision is released.

Financial assets and liabilities

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

(a) Trade and other receivables

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

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the Effective Interest (EIR) method (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.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2 Principal accounting policies (continued)

Financial assets and liabilities (continued)

(b) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually 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. No gain or loss is recognised in the Company's Income Statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(d) Interest-bearing loans and other borrowings

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

(e) Derivative financial instruments

The company routinely enters into sale transactions for physical delivery of gas. These sales contracts are with the scope of IAS39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's Statement of Financial Position at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

The company uses derivatives to hedge exposures to financial risks such as 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 2018 of the ultimate controlling party being Centrica plc, in the Strategic Report - Principal Risks and Uncertainties on pages 41-50 and in note S3.

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

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of production facility assets is reviewed periodically and is based on reserves, price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost of decommissioning at the Statement of Financial Position date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities. The majority of decommissioning costs are expected to be incurred by 2036.

Decommissioning costs are discounted at 1.2% (2017: 1.2%). In the prior year inflation was assumed at 1.9%. No inflation has been assumed during the current year. The decommissioning asset related to 47/8A was written off during 2016 as a result of the permanent cessation of operations on 47/8A and has subsequently entered its decommissioning phase.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing assets as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual Report and Accounts of the ultimate controlling party being Centrica plc on page 220.

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

Impairment of long-lived non-financial assets

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

The recoverable amount of the Company's operational facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of forward NBP gas prices, gas production profiles, capital expenditure, operating expenditure and decommissioning costs.

Future post tax cash flows are dependent on the assumptions outlined in note 2 and the forward NBP gas prices. The forward NBP gas prices are calculated via the forward market curve for the first two years, then a blended period, followed by a fundamentals view from three years onwards.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

4 Revenue	2018	2017
	£000	£000
By activity:		
Sale of cushion gas	361,894	130,781
Sale of condensate	3,456	1,848
	<u>365,350</u>	<u>132,629</u>
By geography:		
UK	365,350	132,629
	<u>365,350</u>	<u>132,629</u>
5 Analysis of costs by nature	2018	2017
	£000	£000
<i>Cost of sales: Year ended 31 December</i>		
Depreciation	167,629	33,293
Mark to market movement	20,779	-
Other direct costs	86,365	46,324
Total cost of sales	<u>274,773</u>	<u>79,617</u>
<i>Other operating costs: Year ended 31 December</i>		
Auditor's remuneration for audit services	15	15
Operating costs	9,777	9,262
Decommissioning provision revision (in respect of 47/8A)	1,294	752
Total other operating costs	<u>11,086</u>	<u>10,029</u>
<i>Total costs: Year ended 31 December</i>		
Depreciation	167,629	33,293
Mark to market movement	20,779	-
Other costs	97,451	56,353
Total costs	<u>285,859</u>	<u>89,646</u>

With effect 20 June 2017, the Company entered into a cost share agreement with its immediate parent Centrica Storage Limited (CSL). Costs of £96,258,000 were recharged in the year (2017: £55,442,000) split £86,466,000 cost of sales (2017: £46,180,000) and £9,792,000 operating costs (2017: £9,262,000) in line with the cost share arrangement.

6 Exceptional items

The following exceptional items were recognised in arriving at operating profit for each reporting period:

	2018	2017
	£000	£000
Impairment of intangible assets	692	-
Impairment of tangible assets	97,593	699
	<u>98,285</u>	<u>699</u>

The impairment loss during 2018 of £98,285,000 arose primarily as a result of declining forward NBP gas prices.

As a result of the decision to permanently suspend operations at 47/8A, the Company wrote off the 47/8A Plant and Machinery and related Abandonment Asset as an exceptional charge during 2016 and revised this during 2017.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

7 Employee costs

The Company had no employees (2017: nil) and no staff costs (2017: nil).

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.

8 Finance cost	2018 £000	2017 £000
Unwind of discount on decommissioning provisions (note 16)	4,125	4,177
	<u>4,125</u>	<u>4,177</u>

9 Auditor's remuneration

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

	2018 £000	2017 £000
Audit of the financial statements	15	15
	<u>15</u>	<u>15</u>

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 financial statements of its ultimate parent, Centrica plc.

10 Income tax	2018 £000	2017 £000
Tax charged/(credited) to the income statement		
Current tax		
Current tax on (losses)/profits for the year	65,496	4,159
Adjustments in respect of prior periods	24,506	(15)
Total current income tax	<u>90,002</u>	<u>4,144</u>
Deferred taxation		
Current year	(49,767)	5,220
Adjustments in respect of prior periods	-	25
Effect of changes in tax rates	-	25,474
Total deferred tax	<u>(49,767)</u>	<u>30,719</u>
Tax charge per income statement	<u>40,235</u>	<u>34,863</u>

Centrica Offshore UK Limited**Notes to the Financial Statements for the year ended 31 December 2018 (continued)****10 Income tax (continued)****Factors affecting tax charge for year**

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

	2018	2017
	£000	£000
(Loss)/profit for the year from continuing activities	<u>(22,919)</u>	<u>38,107</u>
Tax on (loss)/profit at standard UK rate of 19% (2017: 19.25%).	(4,355)	7,334
Effects of:		
Adjustments in respect of prior periods	24,506	10
Expenses not deductible	1,400	553
Transfer pricing adjustments	499	46
Upstream investment incentives	(11,976)	-
Effects of group relief/other reliefs	(499)	(45)
Additional charges applicable to upstream profits	25,104	1,491
Reassessment of deferred tax recognised	5,556	25,474
Tax charge for the year	<u>40,235</u>	<u>34,863</u>
Income tax charge reported in the income statement	<u>40,235</u>	<u>34,863</u>

Factors that may affect future tax charges

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2017: 30%) plus a supplementary charge of 10% (2017: 10%) to give an overall rate of 40% (2017: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2017: 0%), giving an overall effective rate of 40% (2017: 40%). Upstream deferred tax assets and liabilities included in these financial statements are based on the 40% overall effective tax rate having regard to their reversal profiles.

Centrica Offshore UK Limited
Notes to the Financial Statements for the year ended 31 December 2018 (continued)
11 Intangible fixed assets

	Application Software £000
Cost	
At 1 January 2018	1,006
Additions	151
At 31 December 2018	<u>1,157</u>
Amortisation	
At 1 January 2018	16
Charge for the year	449
Impairment loss (note 6)	692
At 31 December 2018	<u>1,157</u>
Net book value	
At 31 December 2018	<u>-</u>
At 31 December 2017	<u>990</u>

The intangible fixed assets above include £nil of assets under construction (2017: £22,000).

The impairment loss during 2018 of £692,000 arose primarily as a result of declining forward NBP gas prices.

12 Property, plant and equipment

	Plant & Machinery £000	Abandonment Asset £000	Cushion Gas £000	Total £000
Cost				
At 1 January 2018	193,275	240,748	33,101	467,124
Additions	26,716	-	-	26,716
Provision revision	-	(5,688)	-	(5,688)
At 31 December 2018	<u>219,991</u>	<u>235,060</u>	<u>33,101</u>	<u>488,152</u>
Depreciation				
At 1 January 2018	14,887	104,932	16,557	136,376
Charge for the year	100,749	59,062	7,369	167,180
Impairment loss (note 6)	58,057	39,536	-	97,593
At 31 December 2018	<u>173,693</u>	<u>203,530</u>	<u>23,926</u>	<u>401,149</u>
Net book value				
At 31 December 2018	<u>46,298</u>	<u>31,530</u>	<u>9,175</u>	<u>87,003</u>
At 31 December 2017	<u>178,388</u>	<u>135,816</u>	<u>16,544</u>	<u>330,748</u>
			2018	2017
			£000	£000
Assets in the course of construction (cost)			<u>10,517</u>	<u>32,038</u>

Assets in the course of construction are included within Plant & Machinery category.

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

12 Property, plant and equipment (continued)

No assets were disposed of in 2018 (2017: £nil). The Abandonment Asset provision revision increase includes £nil (2017: £1,748,000) relating to unwinding the discount to reflect the reduced estimated withdrawal period for cushion gas and £5,688,000 (2017: £25,933,000) from revisions to decommissioning timing. The real discount rate remains at 1.2% (2017: 1.2%).

The impairment loss during 2018 of £97,593,000 arose primarily as a result of declining forward NBP gas prices.

13 Trade and other receivables	2018	2017
	£000	£000
Amounts owed by Group undertakings	149,479	-
Prepayments and accrued income	1,039	871
	<u>150,518</u>	<u>871</u>

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Amounts owed by Group undertakings are unsecured, repayable on demand and non-interest bearing.

14 Trade and other payables	2018	2017
	£000	£000
Amounts owed to Group undertakings	14,466	45,037
Other payables	32	32
	<u>14,498</u>	<u>45,069</u>

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 non-interest bearing.

15 Deferred taxation	2018	2017
	£000	£000
At 1 January	33,559	64,278
Adjustment in respect of prior periods	-	(25)
Deferred tax credit/(charge) to income statement for the year	49,767	(30,694)
At 31 December	<u>83,326</u>	<u>33,559</u>
	2018	2017
	£000	£000
Non current assets	6,728	(22,097)
Temporary differences trading	76,597	55,656
	<u>83,326</u>	<u>33,559</u>

Centrica Offshore UK Limited
Notes to the Financial Statements for the year ended 31 December 2018 (continued)
15 Deferred taxation (continued)
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:

	2018 £000	2017 £000
Net deferred tax assets	83,326	55,656
Net deferred tax liabilities	-	(22,097)
	<u>83,326</u>	<u>33,559</u>
Deferred tax assets		
Recoverable after 12 months	83,326	55,656
	<u>83,326</u>	<u>55,656</u>
Deferred tax liabilities		
Payable after 12 months	-	22,097
	<u>-</u>	<u>22,097</u>
	2018 £000	2017 £000
Unrecognised deferred tax		
Fixed assets	(5,556)	-
Investment allowance	-	7,893
	<u>(5,556)</u>	<u>7,893</u>

The deferred tax assets are unrecognised due to the uncertainty in relation to future profits.

16 Provisions for liabilities

	Decommissioning 2018 £000
At 1 January 2018	324,569
Charged to the income statement:	
- Increase due to discount unwinding (note 8)	4,125
- Increase due to 47/8A provision revision	1,294
Capitalised:	
- Provision revision	(5,688)
- Utilised during the period	(16,870)
At 31 December 2018	<u>307,430</u>
Non-current liabilities	282,146
Current liabilities	<u>25,284</u>

Decommissioning costs

The estimated cost of decommissioning at the end of the life of the production facilities is based on engineering estimates and, in the case of the Rough facility, reports from independent experts. Provision is made for the net present value of the estimated cost of decommissioning at the Statement of Financial Position date. The payment dates for decommissioning costs are uncertain, but the majority of decommissioning costs are expected to be incurred by 2036.

Centrica Offshore UK Limited**Notes to the Financial Statements for the year ended 31 December 2018 (continued)****17 Capital and reserves****Share capital****Allotted, called up and fully paid shares:**

	2018		2017	
	No.	£000	No.	£000
Ordinary shares of £1 each	4,500,000	4,500	4,500,000	4,500
	<u>4,500,000</u>	<u>4,500</u>	<u>4,500,000</u>	<u>4,500</u>

Reserves*Accumulated losses*

The balance classified as accumulated 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.

18 Financial instruments at fair value

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

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

Determination of fair values

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

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

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

Centrica Offshore UK Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

18 Financial instruments at fair value (continued)

Financial instruments carried at fair value

31 December 2018	Fair value and carrying value £000	Level 1 £000	Level 2 £000
Derivative financial assets – held for trading			
Energy derivatives – for optimisation	-	-	-
Total financial assets at fair value	-	-	-
Derivative financial liabilities – held for trading			
Energy derivatives – for optimisation	(20,779)	-	(20,779)
Total financial liabilities at fair value	(20,779)	-	(20,779)
Total financial instruments at fair value	(20,779)	-	(20,779)
31 December 2017	Fair value and carrying value £000	Level 1 £000	Level 2 £000
Derivative financial assets – held for trading			
Energy derivatives – for optimisation	1,179	-	1,179
Total financial assets at fair value	1,179	-	1,179
Derivative financial liabilities – held for trading			
Energy derivatives – for optimisation	-	-	-
Total financial liabilities at fair value	-	-	-
Total financial instruments at fair value	1,179	-	1,179

The balance of £1,179,000 was offset in the prior year within Trade and Other Payables - Amounts owed to Group undertakings for the Statement of Financial Position, and Revenue - Sale of cushion gas for the Income Statement.

19 Parent and ultimate parent undertaking

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

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