Registered number: 04248952

Centrica Offshore UK Limited

Annual Report and Financial Statements

for the year ended 31 December 2019

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

Directors
G C McKenna
M R Scargill
T R Thomsen

Secretary
Centrica Secretaries Limited

Independent auditor
Deloitte LLP
Union Plaza
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Aberdeen
United Kingdom
AB10 1SL

Registered office
Woodland House
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United Kingdom
HU13 0FA

Registered number
04248952

Centrica Offshore UK Limited
Strategic Report for the year ended 31 December 2019

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

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 profit for the financial year of £8,973,000 (2018: loss of £63,154,000), after exceptional charges of £61,233,000 (2018: £98,285,000).

During the year the Company continued to produce indigenous gas and associated liquids from the Rough reservoir under the revised production licence granted by the Oil and Gas Authority (OGA) in January 2018. The gas is produced using the company's facilities which are operated by its parent company CSL. During 2019 the Company produced 40 bcf of gas (2018: 67 bcf).

In June 2019, the Company determined that to maximise the value of the remaining gas reserves Rough would transition to a seasonal production field. The Company 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).

Gross revenue for 2019 declined to £193,014,000, down 47% compared to 2018 (£365,350,000), reflecting the reduced sales gas production of 39 bcf in 2019 (2018: 67 bcf) as the seasonal asset production strategy was implemented and combined with the rundown production profile. Cost of sales decreased in the year to £72,164,000 (2018: £274,773,000) due to mark to market hedge gains on unsettled price hedges in 2019 of £55,222,000 (2018: loss £20,779,000) along with a £121,995,000 reduction in 2019 depreciation driven by the 2018 impairment of non-current assets (£98,285,000) and reduced gas volume in 2019.

During 2017, the Company entered into a cost share agreement with its immediate parent CSL. Costs of £93,816,000 (2018: £96,258,000) were recharged in the year split £81,857,000 cost of sales (2018: £86,466,000) and £11,959,000 operating costs (2018: £9,792,000) in line with the cost share agreement.

In 2019 £61,233,000 (2018: £98,285,000) of exceptional charges were recognised in relation to impairment driven by a decline in forward National Balancing Point (NBP) gas prices and the rundown production profile. The impairment was split between property, plant and equipment of £60,964,000 (2018: £97,593,000) and intangible assets of £269,000 (2018: £692,000).

Financial position

The financial position of the Company is presented in the Statement of Financial Position on page 13. Total deficit at 31 December 2019 was £61,810,000 (2018 : £70,783,000).

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 contracts is performed within the Centrica Group which also oversee the Group commodity credit & price risk.

Counterparty credit risk
The counterparty credit risk facing the Company relates to energy trading activities. The purchase of forward gas contracts is performed within the Centrica Group which 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 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.

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'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 our relationship with regulators. 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.

Section 172 (1) statement (continued)
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.

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. 39 bcf of gas was sold in 2019 (2018: 67 bcf) at an average achieved price of 47 pence per therm (p/th) (2018: 53p/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 2019, 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. In the medium term the Company will make losses during the decommissioning 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 been significantly impacted by the reduction in commodity prices, partially driven by reduction in demand as a result of the COVID-19 pandemic.

The full impact of the pandemic on the Company is uncertain, but the Directors are confident that the measures taken, including the transition to seasonal production, will ensure the key priorities of the Company are protected and will 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 6.

Centrica Offshore UK Limited
Strategic Report for the year ended 31 December 2019 (continued)

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. 04248952.

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

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

The Directors present their report and the audited financial statements of Centrica Offshore UK Limited (the 'Company') 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	
D Oliver	(Resigned 31 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 12.

The Company reported a profit for the financial year of £8,973,000 (2018: loss of £63,154,000) including exceptional impairment charges of £61,233,000 (2018: £98,285,000) primarily as a result of declining forward NBP gas prices.

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 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 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.

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 62 bcf at 31 December 2019 (2018: 102 bcf).

The Company extracted 40 bcf of gas during 2019 (2018: 67 bcf).

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.

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. 04248952.

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

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

Report on the audit of the financial statements

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 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 financial position;
- the statement of changes in equity; and
- the related notes 1 to 20.

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.

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.

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 Offshore UK Limited
Income Statement
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Revenue	4	193,014	365,350
Cost of sales	5	(72,164)	(274,773)
Gross profit		120,850	90,577
Operating costs	5	(11,958)	(11,086)
		108,892	79,491
Exceptional items - Impairment of non-current assets	6	(61,233)	(98,285)
Operating profit/(loss)		47,659	(18,794)
Finance costs	8	(4,035)	(4,125)
Profit/(loss) before tax		43,624	(22,919)
Tax charge	10	(34,651)	(40,235)
Profit/(loss) for the year		8,973	(63,154)

The above results were derived from continuing operations.

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

The notes on pages 15 to 31 form an integral part of these financial statements.

Centrica Offshore UK Limited
Statement of Financial Position
as at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	11	-	-
Property, plant and equipment	12	-	87,003
Deferred tax asset	15	64,358	83,326
		64,358	**170,329**
Current assets			
Trade and other receivables	13	217,949	150,518
Derivative financial instruments	18	34,443	-
		252,392	**150,518**
Total assets		**316,750**	**320,847**
Current liabilities			
Trade and other payables	14	(58,766)	(14,498)
Derivative financial instruments	18	-	(20,779)
Current tax liabilities		(20,305)	(48,923)
Provisions for liabilities	16	(17,982)	(25,284)
		(97,053)	**(109,484)**
Net current assets		**155,339**	**41,034**
Total assets less current liabilities		**219,697**	**211,363**
Non-current liabilities			
Provisions for liabilities	16	(281,507)	(282,146)
		(281,507)	**(282,146)**
Total liabilities		**(378,560)**	**(391,630)**
Net liabilities		**(61,810)**	**(70,783)**
Equity			
Share capital	17	4,500	4,500
Retained losses	17	(66,310)	(75,283)
Total shareholder deficit		**(61,810)**	**(70,783)**

These financial statements on pages 12 to 31 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
22 September 2020

The Company's Registered number is 04248952.

The notes on pages 15 to 31 form an integral part of the financial statements.

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

	Share capital £000	Retained losses £000	Total £000
At 1 January 2019	4,500	(75,283)	(70,783)
Profit for the year	-	8,973	8,973
At 31 December 2019	4,500	(66,310)	(61,810)

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

The notes on pages 15 to 31 form an integral part of these financial statements.

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 to 5.

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

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.

Measurement Convention

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

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

Changes in accounting policy

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

• IFRS 16: 'Leases'

The impact of adoption of this standard and the key changes to the accounting policy are disclosed below.

Changes resulting from adoption of IFRS 16

The Company adopted IFRS 16: 'Leases' from 1 January 2019. The first-time adoption did not have any impact on the financial statements as the Company has no leases which fall under the scope of IFRS 16.

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; 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.

Going concern
The Company had net current assets at the Statement of Financial Position date of £155,339,000 (2018: £41,034,000).

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.

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.

Finance income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2 Principal accounting policies (continued)

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 and asset write-downs/impairments.

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
Property, plant and equipment	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.

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.

2 Principal accounting policies (continued)

Intangible assets

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 9.0% (2018: 9.5%).

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

2 Principal accounting policies (continued)

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 machinary, cushion gas and abandonment assets.

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.

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. The real discount rate was 1.2%.

Taxation

Current tax, including UK corporation tax and UK petroleum revenue 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.

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.

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.

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 Rate (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.

(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.

2 Principal accounting policies (continued)

Financial assets and liabilities (continued)

(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 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 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 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.

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.

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.

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

Decommissioning costs (Note 16)

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.

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 is unchanged at 1.2% (2018: 1.2%). 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 208.

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 (Notes 6, 11 & 12)

The Company has several long-lived assets that are assessed for impairment at each reporting date in accordance with the Company's accounting policy. The Company makes judgments and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are Property, plant and equipment along with intangible assets.

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. The average gas price used in the impairment calculation was 43 pence per therm (p/th) for the period from 2020 to 2023. The valuation of long lived assets are particularly sensitive to the price assumptions made in the impairment calculations. A 10% increase in the price assumption results in a reversal of £5,986,000 of the impairment charge.

4 Revenue

	2019	2018
	£000	£000
By activity:		
Sale of cushion gas	188,418	361,894
Sale of condensate	4,596	3,456
	193,014	365,350
By geography:		
UK	193,014	365,350
	193,014	365,350

5 Analysis of costs by nature

	2019 £000	2018 £000
Cost of sales: Year ended 31 December		
Depreciation & amortisation (notes 11 & 12)	45,634	167,629
Mark to market movement	(55,222)	20,779
Other direct costs	81,752	86,365
Total cost of sales	72,164	274,773
Other operating costs: Year ended 31 December		
Auditor's remuneration for audit services	-	15
Operating costs	11,938	9,777
Loss on disposal of fixed assets	20	-
Decommissioning provision revision (in respect of 47/8A)	-	1,294
Total other operating costs	11,958	11,086
Total costs: Year ended 31 December		
Depreciation & amortisation (notes 11 & 12)	45,634	167,629
Mark to market movement	(55,222)	20,779
Other costs	93,710	97,451
Total costs	84,122	285,859

With effect 20 June 2017, the Company entered into a cost share agreement with its immediate parent Centrica Storage Limited (CSL). Costs of £93,816,000 were recharged in the year (2018: £96,258,000) split £81,857,000 cost of sales (2018: £86,466,000) and £11,959,000 operating costs (2018: £9,792,000) in line with the cost share arrangement.

During the year assets with a cost of £2,163,000 and a net book value of £342,000, were disposed of to third parties (2018: £nil). The net proceeds for this disposal were £322,000 and the loss on disposal of these assets was £20,000 (2018: £nil).

6 Exceptional items

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

	2019 £000	2018 £000
Impairment of intangible assets (note 11)	269	692
Impairment of tangible assets (note 12)	60,964	97,593
	61,233	98,285

The impairment loss of £61,233,000 (2018: £98,285,000) arose primarily as a result of declining forward NBP gas prices and the rundown profile (2018: declining forward NBP gas prices). For further details, see note 3.

7 Employee costs

The Company had no employees (2018: nil) and no staff costs (2018: 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

	2019	2018
	£000	£000
Decommissioning provision notional interest (note 16)	4,035	4,125
	4,035	4,125

9 Auditor's remuneration

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

	2019	2018
	£000	£000
Audit fees	15	15
	15	15

Auditor's remuneration relates to fees for the audit of the financial statements of the Company, and the fees were paid by another Company within the Group.

10 Taxation

	2019	2018
	£000	£000
Tax (credited)/charged to the income statement		
Current taxation		
Current tax on profit/(loss) for the year	15,683	65,496
Adjustments in respect of prior periods	-	24,506
Total current tax	15,683	90,002
Deferred taxation		
Current year	9,309	(49,767)
Adjustments in respect of prior periods	9,659	-
Total deferred tax	18,968	(49,767)
Tax charge per income statement	34,651	40,235

10 Taxation (continued)

Factors affecting tax charge for year

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

	2019 £000	2018 £000
Profit/(loss) for the year from continuing activities	43,624	(22,919)
Tax on profit/(loss) at standard UK rate of 19% (2018: 19%)	8,289	(4,355)
Effects of:		
Adjustments in respect of prior periods	9,659	24,506
Expenses not deductible	1,743	1,400
Transfer pricing adjustments	1,292	499
Upstream investment incentives	(1,978)	(11,976)
Effects of group relief/other reliefs	(1,292)	(499)
Additional charges applicable to upstream profits	17,501	25,104
Reassessment of deferred tax recognised	(563)	5,556
Tax charge for the year	34,651	40,235
Tax charge reported in the income statement	34,651	40,235

Factors that may affect future tax charges
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.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2018:30%) plus a supplementary charge of 10% (2018:10%) to give an overall rate of 40% (2018: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2018: 0%), giving an overall effective rate of 40% (2018: 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.

11 Intangible fixed assets

	Application Software £000
Cost	
At 1 January 2019	1,157
Additions	529
At 31 December 2019	1,686
Amortisation	
At 1 January 2019	1,157
Charge for the year (note 5)	260
Impairment loss (note 6)	269
At 31 December 2019	1,686
Net book value	
At 31 December 2019	-
At 31 December 2018	-

The impairment loss of £269,000 (2018: £692,000) arose primarily as a result of declining forward NBP gas prices. For further details, see note 3.

12 Property, plant and equipment

	Plant & Machinery £000	Abandonment Asset £000	Cushion Gas £000	Total £000
Cost				
At 1 January 2019	219,991	235,060	33,101	488,152
Additions	19,677	-	-	19,677
Disposals	(2,163)	-	-	(2,163)
At 31 December 2019	237,505	235,060	33,101	505,666
Depreciation				
At 1 January 2019	173,693	203,530	23,926	401,149
Charge for the year (note 5)	31,878	9,928	3,568	45,374
Impairment loss (note 6)	33,755	21,602	5,607	60,964
On disposals	(1,821)	-	-	(1,821)
At 31 December 2019	237,505	235,060	33,101	505,666
Net book value				
At 31 December 2019	-	-	-	-
At 31 December 2018	46,298	31,530	9,175	87,003

	2019 £000	2018 £000
Assets in the course of construction (cost)	20,199	10,517

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

12 Property, plant and equipment (continued)

During the year assets with a cost of £2,163,000 and a net book value of £342,000, were disposed of to third parties (2018: £nil). The net proceeds for this disposal were £322,000 and the loss on disposal of these assets was £20,000 (2018: £nil).

The impairment loss of £60,964,000 (2018: £97,593,000) arose primarily as a result of declining forward NBP gas prices. For further details, see note 3.

13 Trade and other receivables

	2019	2018
	£000	£000
Amounts owed by Group undertakings	216,763	149,479
Prepayments and accrued income	1,186	1,039
	217,949	150,518

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

	2019	2018
	£000	£000
Amounts owed to Group undertakings	58,766	14,466
Other payables	-	32
	58,766	14,498

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

	2019	2018
	£000	£000
At 1 January	83,326	33,559
Adjustment in respect of prior periods	(9,659)	-
Deferred tax (charge)/credit to income statement for the year	(9,309)	49,767
At 31 December	64,358	83,326

	2019	2018
	£000	£000
Non current assets	16,070	6,728
Temporary differences trading	48,288	76,598
	64,358	83,326

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:

	2019 **£000**	2018 £000
Net deferred tax assets	64,358	83,326
	64,358	83,326
Deferred tax assets		
Recoverable after 12 months	64,358	83,326
	64,358	83,326

16 Provisions for liabilities

	Decommissioning **2019** **£000**
At 1 January 2019	307,430
Charged to the income statement:	
- Increase due to discount unwinding (note 8)	4,035
Capitalised:	
- Utilised during the period	(11,976)
At 31 December 2019	299,489
Non-current liabilities	281,507
Current liabilities	17,982

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.

17 Capital and reserves

Share capital

Allotted, called up and fully paid shares:

	2019 No.	2019 £000	2018 No.	2018 £000
Ordinary shares of £1 each	4,500,000	4,500	4,500,000	4,500
	4,500,000	4,500	4,500,000	4,500

Reserves

Retained 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.

18 Fair value of financial instruments

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').

Fair value hierarchy
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.

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.

18 Fair value of financial instruments (continued)

Financial instruments carried at fair value

31 December 2019	**Fair value and carrying value** £000	**Level 1** £000	**Level 2** £000
Derivative financial assets – held for trading under IFRS 9			
Energy derivatives – for optimisation	34,443	-	34,443
Total financial assets at fair value through profit and loss	34,443	-	34,443
Derivative financial liabilities – held for trading under IFRS 9			
Energy derivatives – for optimisation	-	-	-
Total financial assets at fair value through profit and loss	-	-	-
Total financial instruments at fair value through profit and loss	34,443	-	34,443

31 December 2018	Fair value and carrying value £000	Level 1 £000	Level 2 £000
Derivative financial assets – held for trading under IFRS 9			
Energy derivatives – for optimisation	-	-	-
Total financial assets at fair value through profit and loss	-	-	-
Derivative financial liabilities – held for trading under IFRS 9			
Energy derivatives – for optimisation	(20,779)	-	(20,779)
Total financial assets at fair value through profit and loss	(20,779)	-	(20,779)
Total financial instruments at fair value through profit and loss	(20,779)	-	(20,779)

18 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).

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.

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

20 Non-adjusting events that occurred after the financial year

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.