Registration number: 03115179

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Annual Report and Financial Statements

for the Year Ended 31 December 2017

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Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Contents

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Strategic Report for the Year Ended 31 December 2017

The Directors present their Strategic Report for Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited) (the 'Company') for the year ended 31 December 2017.

Principal activities
The principal activities of the Company are the production of gas from the Rhyl and North & South Morecambe gas fields.

Review of the business
The Company's major activity is the production of gas and associated condensate from its main production fields (Rhyl, North and South Morecambe) in Morecambe Bay. These fields represent proven and probable reserves of approximately 223 billion cubic feet of gas at 31 December 2017 (2016: 273 billion cubic feet). Production of gas amounted to 15 billion cubic feet (2016: 26 billion cubic feet) in the year with total condensate sales equivalent to 49,000 barrels of oil equivalent (2016: 110,000 barrels of oil equivalent).

On 24 February 2017, a precautionary shutdown was taken in Barrow and Offshore, as part of a larger term strategic programme to invest in safety, integrity and efficiency. Production resumed on 16 October 2017.

During the year, the Company recognised exceptional impairment charges of £117,269,000 on the South Morecambe field and £153,546,000 on the Rhyl field, driven by a reduction in 2P Reserves and increases in future operating and abandonment costs.

The Company incurred costs of £924,000 during the year in relation to a restructuring of the business.

Cost of sales during the year has remained high as a result of platform maintenance and other associated costs during the Morecambe Bay shutdown.

On 15 November 2017, the Company changed its name from Hydrocarbon Resources Limited to Spirit Energy Production UK Limited.

Financial position
The financial position of the Company is presented in the Statement of Financial Position on page 11. Total equity at 31 December 2017 was £924,330,000 (2016: £1,786,329,000).

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, are disclosed on pages 52 to 62 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

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 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')
The Directors of Centrica plc manage the Group on a divisional basis. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of the Company. 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 30 to 31 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Future developments
The Group continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company. There are no plans to change the nature of activities in the foreseeable future. The Company is in a good position to take advantage of any opportunities which may arise in the future.

Approved by the Board on 26 September 2018 and signed on its behalf by:

J.ELLIOT

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

Company registered in England and Wales, No. 03115179

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

Directors of the Company
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:

AR Bevington (resigned 13 February 2017)

RA Lumsden (resigned 14 July 2017)

KM Robertson (resigned 8 December 2017)

CM Cox (resigned 8 December 2017)

S Meland (resigned 8 December 2017)

PMR Tanner (resigned 31 May 2018)

TMK Lishman (appointed 13 February 2017)

GM Harrison (appointed 8 December 2017)

AD Le Poidevin (appointed 14 July 2017)

The following director was appointed after the year end:

N Macleod (appointed 11 September 2018)

Results and dividends
The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2017 is £42,891,000 (2016: £9,324,000). On 29 September 2017, the Company paid an interim dividend of £833,000,000 to its immediate parent undertaking GB Gas Holdings Limited (2016: £nil). The Directors do not recommend the payment of a final dividend (2016: £nil).

On 29 September 2017, the entire share capital of the Company was acquired by Spirit Energy Limited as part of the joint venture transaction completed by the ultimate parent undertaking. On the same date, a special resolution was passed to cancel and extinguish the full amount of share premium account.

Employees
During 2017, the Company employed an average of 263 people (2016: 283), all employed in the United Kingdom.

Employees are regularly updated on performance against the Company's strategy. There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views. The Group, to which Spirit Energy Production UK Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including Executive Directors.

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents. To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees.

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way.

Future developments
Future developments are discussed in the Strategic Report on page 1.

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.

Directors' and officers' liabilities

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 Director is proved to have acted fraudulently.

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Directors' Report for the Year Ended 31 December 2017 (continued)

Statement of Directors' Responsibilities for the Year Ended 31 December 2017

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 they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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 auditors
Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditor for the financial year commencing January 2017. Consequently, PricewaterhouseCoopers LLP ('PwC') ceased to hold office as auditor of the Company in 2017. Pursuant to Section 519 of the Companies Act 2006, PwC has confirmed that there are no circumstances in connection with their ceasing to hold office that need to be brought to the attention of the members or creditors of the Company.

Following the resignation of PwC as auditors of the Company and, pursuant to Section 487 of the Companies Act 2006, Deloitte LLP were appointed as auditors of the Company.

Approved by the Board on 26 September 2018 and signed on its behalf by:

J. Elliot

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

Company registered in England and Wales, No. 03115179

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Independent Auditors' Report to the Members of Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Spirit Energy Production UK Limited which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (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 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 auditors' 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.

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.

Independent Auditors' Report to the Members of Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited) (continued)

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.

Auditors' 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 auditors' 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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 auditors' 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.

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.

Independent Auditors' Report to the Members of Spirit Energy Production UK Limited (formerly Hydrocarbon Resources 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 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 of the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

Date: 26/9/18

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue	4	55,957	108,699
Gain on remeasurement of derivatives		606	-
Cost of sales	5	(170,652)	(167,228)
Gross loss		(114,089)	(58,529)
Operating costs	5	(25,753)	(22,010)
Exceptional items - restructuring costs	7	(924)	(3,352)
Exceptional items - impairment charges	7	(270,815)	(1,535)
Exceptional items - decommissioning provision revision	7	-	(6,390)
Operating loss		(411,581)	(91,816)
Finance income	8	43,802	70,772
Finance cost	8	(43,000)	(52,786)
		802	17,986
Loss before income taxation		(410,779)	(73,830)
Income tax credit	10	367,888	64,506
Loss for the year from continuing operations		(42,891)	(9,324)

The notes on pages 14 to 37 form an integral part of these financial statements.

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Statement of Comprehensive Income for the Year Ended 31 December 2017

	2017 £ 000	2016 £ 000
Loss for the year	(42,891)	(9,324)
Other comprehensive income/(loss)		
Items that will not be recycled to the Income Statement		
Net actuarial gains/(losses) on defined benefit pension schemes	12,238	(21,910)
Remeasurements of post employment benefit obligations	(4,894)	-
Other comprehensive income/(loss) net of taxation	7,344	(21,910)
Total comprehensive loss for the year	(35,547)	(31,234)

The notes on pages 14 to 37 form an integral part of these financial statements.

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Non-current assets			
Property, plant and equipment	11	343,491	494,291
Deferred tax assets	10	285,446	21,499
Other financial assets		275	490
		629,212	516,280
Current assets			
Trade and other receivables	12	823,959	2,082,521
Inventories	13	12,248	16,122
Income tax asset	10	67,462	-
Derivative financial instruments	23	875	-
Cash and cash equivalents		1,657	36
		906,201	2,098,679
Total assets		1,535,413	2,614,959
Current liabilities			
Trade and other payables	14	(50,713)	(336,123)
Derivative financial instruments	23	-	(125)
Current tax liabilities			(3,914)
Provisions for other liabilities and charges	15	(34,373)	(15,381)
Borrowings	16	(15)	(150)
		(85,101)	(355,693)
Non-current liabilities			
Derivative financial instruments	23	(250)	-
Provisions for other liabilities and charges	15	(525,584)	(462,525)
Retirement benefit obligations	17	-	(10,384)
Borrowings	16	(148)	(28)
		(525,982)	(472,937)
Total liabilities		(611,083)	(828,630)
Net assets		924,330	1,786,329
Equity			
Share capital	18	800,000	800,000
Share premium	18	-	447,162
Retained earnings	18	116,790	583,796
Other equity	18	7,540	(44,629)
Total equity		924,330	1,786,329

The notes on pages 14 to 37 form an integral part of these financial statements.

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Statement of Financial Position as at 31 December 2017 (continued)

The financial statements on pages 9 to 37 were approved and authorised for issue by the Board of Directors on 26 September 2018 and signed on its behalf by:

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AD Le Poidevin, Director

Company number 03115179

Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited)

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Share premium £ 000	Actuarial gains and losses reserve £ 000	Other equity £ 000	Share option reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	800,000	447,162	(50,515)	-	5,886	583,796	1,786,329
Loss for the year	-	-	-	-	-	(42,891)	(42,891)
Other comprehensive income	-	-	12,238	(4,894)	-	-	7,344
Total comprehensive loss	-	-	12,238	(4,894)	-	(42,891)	(35,547)
Dividends	-	-	-	-	-	(833,000)	(833,000)
Share capital reduction	-	(447,162)	-	-	-	447,162	-
Equity-settled share based payment transactions	-	-	-	-	6,548	-	6,548
Transfer of cumulative actuarial losses due to settlement of scheme	-	-	38,277	-	-	(38,277)	
	-	(447,162)	38,277	-	6,548	(424,115)	(826,452)
At 31 December 2017	800,000	-	-	(4,894)	12,434	116,790	924,330

	Share capital £ 000	Share premium £ 000	Actuarial gains and losses reserve £ 000	Share option reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	800,000	447,162	(28,605)	6,257	593,120	1,817,934
Loss for the year	-	-	-	-	(9,324)	(9,324)
Other comprehensive loss	-	-	(21,910)	-	-	(21,910)
Total comprehensive loss	-	-	(21,910)	-	(9,324)	(31,234)
Equity-settled share based payment transactions	-	-	-	(371)	-	(371)
At 31 December 2016	800,000	447,162	(50,515)	5,886	583,796	1,786,329

The notes on pages 14 to 37 form an integral part of these financial statements.

1 General information

Spirit Energy Production 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 principal place of business is:
Staines, UK
1st Floor
20 Kingston Road
Staines-upon-Thames
TW18 4LG

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2 Accounting policies

Basis of preparation

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

From 1 January 2017, 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:

- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

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;
- 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.

Measurement convention

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

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

2 Accounting policies (continued)

Going concern
The financial statements have been prepared using the going concern basis of accounting.

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

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Company has an interest with other producers is recognised based on the Company's working interest and the terms of the relevant production sharing arrangements (the entitlement method).

Where differences arise between production sold and the Company's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

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

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

Cost of sales
Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

Overlift and underlift
Off-take arrangements for oil and gas produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the reporting date within trade and other payables, or trade and other receivables, respectively and measured at market value, with movements in the period recognised within cost of sales.

Employee share schemes
The Centrica plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report, on pages 78 to 89 and in note S2 to the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non market-based vesting conditions.

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

2 Accounting policies (continued)

Leases

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

Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within borrowings, with the amount payable within 12 months included in borrowings within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

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.

Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

Changes in the fair value of foreign currency denominated monetary securities classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

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 is relates to items recognised in equity. In this case, the tax is recognised in equity.

2 Accounting policies (continued)

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.

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the reporting date.

Development and production assets

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method ('UOP'), based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues.

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 other 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 cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' is used), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation of PP&E

Depreciation is charged as follows:

Asset classes	**Depreciation method and rate**
Development and production assets	UOP, based on 2P reserves

Assets held under finance leases are depreciated over their expected useful lives on the same basis as for owned assets, or where shorter, the lease term.

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.

Inventories

Inventories, excluding inventories of gas and oil, are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items. Cost is determined using the weighted average method. Inventories of gas and oil are valued on an average weighted basis, at the lower of cost and net realisable value.

2 Accounting policies (continued)

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 finance cost.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil 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 finance cost.

Pensions and other post-employment benefits

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

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

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

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

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

2 Accounting policies (continued)

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 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 effective interest method (although, in practice, the discounting 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. 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) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

e) Loans and other borrowings
All interest-bearing and interest free loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, these financial instruments are measured at amortised cost using the effective interest 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.

2 Accounting policies (continued)

f) Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use' contract), and are not within the scope of IAS 39.

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

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2017 of the ultimate controlling party being Centrica plc, in the Strategic Report – Principal Risks and Uncertainties on pages 52 to 62 and in note S3.

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

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

The Company enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

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.

a) Critical judgements in applying the Company's accounting policies
Such key judgements include the presentation of selected items as exceptional (see note 7). No other key judgements have been made by the Directors in applying the Company's accounting policies.

b) Key sources of estimation uncertainty

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

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on reserves, price levels and technology at the reporting date. Provision is made for the estimated cost of decommissioning at the reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2038 (2017: 2032).

Gas and liquids reserves
The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual Report and Accounts of the ultimate controlling party being Centrica plc on page 201.

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.

Determination of fair values - energy derivatives
Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate.

Impairment of long lived assets
The Company has several material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are E&P gas and oil assets.

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

Upstream gas and oil assets

The recoverable amount of the Company's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs which requires professional judgement and assumptions to be used.

Pensions and other post-employment benefits

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

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2017 £ 000	2016 £ 000
Sale of gas and liquids from production	55,957	108,699

All revenue was generated in the United Kingdom.

5 Analysis of costs by nature

	2017			2016		
	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000
Year ended 31 December						
Inventories written down	-	5,334	5,334	185	-	185
Depreciation, impairment and write-downs	19,064	-	19,064	42,781	-	42,781
Employee costs (note 6)	19,439	11,264	30,703	26,987	-	26,987
Foreign exchange gains	-	(67)	(67)	-	(57)	(57)
Other operating costs	132,149	9,222	141,371	97,275	22,067	119,342
Total operating costs by nature	170,652	25,753	196,405	167,228	22,010	189,238

6 Employees' costs

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

	2017 £ 000	2016 £ 000
Wages and salaries	15,572	20,258
Social security costs	3,480	2,284
Pension and other post-employment benefits	3,391	516
Share-based payment expenses	8,260	408
	30,703	23,466

In respect of the Directors' remuneration, refer to note 22 'Related party transactions'.

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

	2017 No. of employees	2016 No. of employees
Gas and oil production	216	232
Administration, finance and other support functions	47	51
	263	283

7 Exceptional items

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

	2017 £ 000	2016 £ 000
Restructuring costs	(924)	(3,352)
Impairment charges (note 11)	(270,815)	(1,535)
Decommissioning provision revision (note 15)	-	(6,390)
	(271,739)	(11,277)

During the year, the Company recognised:
- costs of £924,000 in relation to restructuring of the business;
- impairment charges on tangible assets of £117,269,000 on the South Morecambe field and £153,546,000 on the Rhyl field. Further details in relation to the impairment are included in note 11.

During the prior year, the Company recognised:
- costs of £3,352,000 in relation to restructuring of the business;
- impairment charges on tangible assets of £1,535,000 on the Doyle field;
- an exceptional charge of £6,390,000 on the revision of the decommissioning provision of fully impaired fields.

8 Net finance income

Finance income

	2017 £ 000	2016 £ 000
Interest income from amounts owed by Group undertakings	43,802	57,910
Net foreign exchange gains on financing transactions	-	12,648
Net gain on post-employment benefits	-	214
Total finance income	43,802	70,772

Finance costs

	2017 £ 000	2016 £ 000
Interest on amounts owed to Group undertakings	(36,730)	(43,832)
Interest on bank overdrafts and borrowings	(472)	(134)
Net foreign exchange losses on financing transactions	(112)	-
Unwind of discount on provisions (note 15)	(5,253)	(8,820)
Net cost of post-employment benefits	(433)	-
Total finance cost	(43,000)	(52,786)
Net finance income	802	17,986

9 Auditors' remuneration

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

	2017 £ 000	2016 £ 000
Audit fees	25	63

Auditors' remuneration relates to fees for the audit of the financial statements of the Company. The prior year audit fee includes both the fee for the statutory audit of the financial statements and an allocation of the audit fee for the Group's consolidated financial statements.

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

Tax credited in the Income Statement

	2017 £ 000	2016 £ 000
Current tax		
UK corporation tax at 19.25% (2016: 20.00%)	(9,075)	(5,416)
Additional charges applicable to upstream profits at 19.25% (2016: 20.00%)	(11,042)	(10,890)
UK Corporation tax adjustments in respect of prior years	(23,631)	(26,715)
UK petroleum revenue tax	(55,299)	(7,721)
Total current tax	(99,047)	(50,742)

10 Income tax (continued)

	2017 £ 000	2016 £ 000
Deferred tax		
Origination and reversal of timing differences - UK	(71,637)	(42,560)
UK petroleum revenue tax	4,402	45,309
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior years	5,643	(16,513)
Deferred petroleum revenue tax (PRT) relief	(207,249)	-
Total deferred tax	(268,841)	(13,764)
Tax on loss	(367,888)	(64,506)

The main rate of corporation tax for the year to 31 December 2017 was 19.25% (2016: 20.00%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2016: 30%) plus a supplementary charge of 10% (2016: 10%) to give an overall rate of 40% (2016: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax ('PRT') at 0% (2016: 0%), giving an overall effective rate of 40% (2016: 40%). Upstream deferred tax assets and liabilities included in these financial statements are based on the 40% overall effective tax rate having regard for their reversal profiles.

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax to the profit before tax are reconciled below:

	2017 £ 000	2016 £ 000
Loss before tax	(410,779)	(73,830)
Tax on loss at standard UK corporation tax rate of 19.25% (2016: 20.00%)	(79,075)	(14,766)
Effects of:		
Net expenses non-deductible for tax purposes	179	91
Additional tax charges applicable to upstream activities	(11,042)	(10,890)
UK petroleum revenue tax rates	(55,299)	(7,721)
Changes in tax rates	-	(10,168)
Adjustments in respect of prior years	(17,988)	(43,228)
Decrease from effect of different UK tax rates on some earnings	(75,341)	(7,202)
Impact of petroleum revenue tax	103,257	(15,862)
Additional relief on abandonment expenditure	(25,963)	-
Ring fenced expenditure supplement	(3,687)	-
Share scheme deduction	(82)	(69)
Deferred petroleum revenue tax	(202,847)	45,309
Total tax	(367,888)	(64,506)

10 Income tax (continued)

The movements in respect of the deferred income tax assets and liabilities that occurred during the financial year are as follows:

	Accelerated tax depreciation (corporation tax)	Other timing differences including losses carried forward	Retirement benefit obligation and other provisions	Total
	£ 000	£ 000	£ 000	£ 000
1 January 2016	(173,284)	25,874	146,930	(480)
(Charged)/credited to the Income Statement	41,674	(9,153)	(18,757)	13,764
Charged to other comprehensive income	-	-	8,215	8,215
31 December 2016	(131,610)	16,721	136,388	21,499
Credited to the Income Statement	97,127	151,855	19,859	268,841
Charged to other comprehensive income	-	-	(4,894)	(4,894)
31 December 2017	(34,483)	168,576	151,353	285,446

11 Property, plant and equipment

	Development & production assets £ 000
Cost	
At 1 January 2017	3,633,182
Additions	32,781
Revision to decommissioning assets (note 15)	106,298
Write down	(15,159)
At 31 December 2017	3,757,102
Accumulated depreciation and impairment	
At 1 January 2017	(3,138,891)
Depreciation charge for the year	(19,064)
Impairment losses (note 7)	(270,815)
Write down	15,159
At 31 December 2017	(3,413,611)
Carrying amount	
At 31 December 2017	343,491
At 31 December 2016	494,291

Impairment
During the year, the Company recognised impairment charges of £117,269,000 on the South Morecambe field and £153,546,000 on the Rhyl field, reducing the carrying value of the assets to their recoverable amounts driven by a reduction in 2P reserves and increases in future operating and abandonment costs.

The recoverable amounts of the assets are categorised in Level 3 of the fair value hierarchy and have been calculated on a fair value less costs of disposal basis.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8.5% (2016: 9%) to determine fair value less costs of disposal.

There were no other impairment indicators identified as at 31 December 2017 in relation to the remaining property, plant and equipment assets. Similarly, there were no 'triggering events' justifying a reversal of impairment losses previously recognised.

Assets held under finance leases
The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	2017 £ 000	2016 £ 000
Cost-capitalised finance lease	414,632	414,632
Accumulated depreciation	(399,096)	(398,047)
Net book value	15,536	16,585

12 Trade and other receivables

	2017 Current £ 000	2016 Current £ 000
Trade receivables	3,316	4,078
Amounts owed by Group undertakings	816,558	2,075,125
Accrued income	2,144	2,846
Other receivables	1,941	472
	823,959	2,082,521

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £778,654,000 (2016: £1,971,000,000) that bears interest at a quarterly rate of 0.50% (2016: LIBOR plus 20 basis points). During the year an interest payable at quarterly rates ranging between 2.97% and 4.75% was charged on the amounts owed to group undertakings that were settled before the year end. The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

13 Inventories

	2017 £ 000	2016 £ 000
Operational spares and consumables	12,248	16,122

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £4,246,000 (2016: £nil). The write-down of inventories to net realisable value amounted to £5,334,000 (2016: £185,000). The reversal of write-downs amounted to £nil (2016: £nil). The write-down and reversal are included in operating costs.

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

14 Trade and other payables

	2017 Current £ 000	2016 Current £ 000
Trade payables	12,426	6,534
Accrued expenses	70	2,961
Amounts owed to Group undertakings	1,837	309,804
Social security and other taxes	23	718
Other payables	36,357	16,106
	50,713	336,123

The amounts owed to Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. The amounts owed by Group undertakings are unsecured and repayable on demand.

15 Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2017	477,906
Unused provision reversed to the Income Statement	(4,153)
Revision to provision on existing assets (note 11)	106,298
Provisions used	(25,347)
Increase due to discount unwinding (note 8)	5,253
At 31 December 2017	559,957
Non-current liabilities	525,584
Current liabilities	34,373

Decommissioning

The Company has recognised provisions for its obligations to decommission its oil and gas fields at the end of their operating lives. The provisions recognised represent the best estimate of the expenditures required to settle the present obligation at the current reporting date on existing technology and current legislation requirements. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term pre-tax rate of 1.2% (2016: 1.2%).

The timing of decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2018 and 2038 (2016: 2017 and 2032).

Other provisions

A provision of £1,266,000 in relation to the pension liability was created and released during the year.

16 Borrowings

	2017 £ 000	2016 £ 000
Non-current borrowings		
Finance lease liabilities	148	28

	2017 £ 000	2016 £ 000
Current borrowings		
Finance lease liabilities	15	150

16 Borrowings (continued)

Finance lease liabilities

The Company entered into lease arrangements in respect of its South Morecambe gas field production assets. The lease term is 6 years.

Finance lease liabilities are secured as the rights to the leased asset revert to the lessor in the event of default.

The undiscounted minimum lease payments at the end of the reporting period are as follows:

	2017 £ 000	2016 £ 000
Not later than 1 year	15	150
Later than 1 year and not later than 5 years	180	30
	195	180
Less: future finance charge on finance lease liabilities	(32)	(2)
Present value of finance lease liabilities	163	178

The present value of the finance lease liabilities is as follows:

	2017 £ 000	2016 £ 000
Not later than 1 year	15	150
Later than 1 year and not later than 5 years	148	28
Present value of finance lease liabilities	163	178

17 Post-retirement benefits

(a) Summary of main schemes

Until 8 December 2017 the Company's employees participated in the following defined benefit pension schemes: Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS). Its employees also participated in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 of the Centrica plc 2017 Annual Report and Accounts.

Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS form the majority of the Company's defined benefit obligation and are referred to below and in the Centrica plc 2017 Annual Report and Accounts as the 'Registered Pension Schemes'.

On 8 December 2017 Centrica plc combined its Exploration & Production business with that of Bayerngas Norge. As a result the Registered Pension Schemes closed for future accrual and employees within the Company became deferred members. The defined pension liability was assumed by Centrica plc under a flexible apportionment arrangement and the Company ceased to retain any ongoing obligation with regard to the Registered Pension Schemes.

(b) Accounting assumptions, risks and sensitivity analysis

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

17 Post-retirement benefits (continued)

(c) Reconciliation of scheme assets and liabilities

The amounts recognised in the Statement of Financial Position are as follows:

	2017 Assets £ 000	2017 Liabilities £ 000	2017 Total £ 000	2016 Assets £ 000	2016 Liabilities £ 000	2016 Total £ 000
1 January	255,385	(265,769)	(10,384)	235,805	(225,725)	10,080
Items included in the Income Statement:						
Current service cost	-	(1,659)	(1,659)	-	(2,601)	(2,601)
Past service credit	-	-	-	-	3,156	3,156
Loss on curtailment	-	-	-	-	(459)	(459)
Interest (expense)/income	6,704	(7,137)	(433)	8,976	(8,762)	214
Other movements:						
Re-measurement gains/(losses)	(253,976)	266,212	12,236	8,172	(38,298)	(30,126)
Employer contributions	1,506	-	1,506	9,352	-	9,352
Plan participants' contributions	12	(12)	-	16	(16)	-
Benefits paid from schemes	(9,631)	9,631	-	(6,936)	6,936	-
Transfers from provisions for other liabilities and charges	-	(1,266)	(1,266)	-	-	-
31 December	-	-	-	255,385	(265,769)	(10,384)

Presented in the Statement of Financial Position as:

	2017 £ 000	2016 £ 000
31 December		
Defined benefit pension liabilities	-	(10,384)
	-	(10,384)

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

	2017 £ 000	2016 £ 000
Year ended 31 December		
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	(253,976)	8,172
Experience (loss)/gain arising on the scheme liabilities	(1,383)	3,775
Changes in assumptions underlying the present value of the schemes' liabilities	267,595	(42,073)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(68,477)	(38,351)
Transfer of cumulative actuarial gains/losses to retained earnings due to settlement of scheme	56,241	-
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	-	(68,477)

(e) Pension scheme contributions

As explained in note (a), the Company no longer has any defined benefit obligation and accordingly no defined benefit pension scheme contributions will be made in 2018.

17. Post-retirement benefits (continued)

(f) Pension scheme assets

The major categories of scheme assets are as follows:

	2017 Quoted £ 000	2017 Unquoted £ 000	2017 Total £ 000	2016 Quoted £ 000	2016 Unquoted £ 000	2016 Total £ 000
31 December						
Equities	2,089,000	303,000	2,392,000	1,970,000	307,000	2,277,000
Property	-	369,000	369,000	-	319,000	319,000
Diversified asset funds	-	-	-	50,000	-	50,000
Asset-backed contribution assets	-	864,000	864,000	-	406,000	406,000
Cash pending investment	3,000	-	3,000	276,000	-	276,000
Liability matching assets	1,663,000	952,000	2,615,000	1,241,000	844,000	2,085,000
High yield debt	280,000	1,450,000	1,730,000	309,000	1,296,000	1,605,000
Corporate bonds	1,276,000	-	1,276,000	1,274,000	-	1,274,000
Group pension scheme assets (i)	5,311,000	3,938,000	9,249,000	5,120,000	3,172,000	8,292,000
Company share of the above (£ 000)	-	-	-	255	-	255

(i) Total pension scheme assets for the UK pension schemes.

(g) Defined contributions schemes

The total cost charged to the Income Statement of £1,300,000 (2016: £3,900,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

18 Capital and reserves

Share capital

Allotted, called up and fully paid shares

	2017 No. 000	2017 £ 000	2016 No. 000	2016 £ 000
Ordinary shares of £1 each	800,000	800,000	800,000	800,000

Reserves

Share premium

Consideration received for shares issued above their nominal value net of transaction costs. On 29 September 2017, a special resolution was passed to cancel and extinguish the full amount of share premium account.

Actuarial gains and losses reserve

The cumulative actuarial gains and losses on the defined benefit pension scheme. This is shown within other equity in the balance sheet.

Share option reserve

Share option reserve reflects the obligation to deliver shares to employees under the existing share schemes in return for services provided to the Company. This is shown with other equity in the balance sheet.

Retained earnings

The balance classified as retained earnings includes the profits and losses realised by the Company in previous periods that were not distributed to the shareholders of the Company at the reporting date.

19 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in seven employee share schemes which gave rise to a charge of £8,260,000 (2016: £408,000) which is shown under the financial line item 'operating costs'. The major schemes are described below.

Sharesave

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

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

On Track Incentive Plan

Awards under the OTIP are available to senior executives, senior and middle management. Shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on pages 160 to 161 of the Centrica plc 2017 Annual Report and Accounts.

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

20 Operating leases

Leases as lessee

At 31 December 2017, the Company had total future minimum lease payments under non-cancellable operating leases in relation to the Morecambe Bay assets with the following maturities:

	2017 £ 000	2016 £ 000
Within one year	3,980	4,201
In two to five years	1,233	3,059
In over five years	777	918
	5,990	8,178

21 Other commitments and contingencies

The Company and the ultimate parent company have agreed to provide security to a subsidiary undertaking of Royal Dutch Shell plc, BG International Limited, following the change of name of BG Exploration and Production Limited who, as original licence holder for the Morecambe gas fields, will have exposure to abandonment costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Company and its ultimate parent company. The security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked. At 31 December 2017, the security provided was £200,126,000.

22 Related party transactions

During the year, the Company entered into the following arm's length transactions with related parties (who are not members of the Spirit Energy Limited Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

	Sale of goods and services (i)	Purchase of goods and services (i)	Other - net interest	Other - cash flow hedge reserve (ii)	Amounts owed from	Amounts owed to
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Centrica plc	-	-	-	(104)	1,164	-
GB Gas Holdings Limited	-	-	(177)	-	2,186	-
British Gas Trading Limited	38,202	(106)	-	-	6,198	-
British Gas Services Limited	-	-	-	-	1,187	-
Centrica Energy Limited	-	-	-	606	606	-
Centrica Services Limited	-	-	-	-	-	(189)
	38,202	(106)	(177)	502	11,341	(189)

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.
(ii) Representing gains/(losses) on derivatives that are hedge accounted.

Directors' remuneration
The Directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Directors' emoluments	652	539
Compensation for loss of office	4	5
Contributions into pension schemes	52	44
	708	588

Remuneration of the highest paid Director:

	2017	2016
	£ 000	£ 000
Directors' emoluments	204	133
Contributions into pension schemes	14	44
	218	177

During the year, the highest paid Director did not exercise share options and received shares under a long term incentive scheme. In prior year the highest paid Director did exercise share options relating to the ultimate parent company.

22 Related party transactions (continued)

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

	2017 No.	2016 No.
Received or were entitled to receive shares under long-term incentive schemes	7	8
Exercised share awards	-	1
Accruing benefits under defined benefit pension scheme	2	2
Accruing benefits under money purchase pension scheme	6	7

23 Financial instruments at fair value

The Company buys and sells commodities through a mixture of contracts with operators of gas fields. These arrangements also include short-term forward market purchases of gas at fixed and floating prices. An analysis is performed to assess whether these arrangements are financial instruments or not ('own-use contracts').

The fair value information as disclosed below relates to supply contracts that are in scope of IAS 39 *'Financial Instruments: recognition and measurement'*, as well as to foreign currencies and interest rate derivatives entered into, to hedge the risks arising from the business of the Company. These trades are usually placed with Group counterparties that trade with third parties on its behalf ('back-to-back type arrangements').

Determination of fair values

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

Fair value hierarchy

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

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

23 Financial instruments at fair value (continued)

Financial instruments carried at fair value		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2017	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets – in hedge accounting relationships				
Energy derivatives	841	-	841	-
Foreign exchange derivatives	34	-	34	-
Total financial assets at fair value	875	-	875	-
Derivative financial liabilities – in hedge accounting relationships				
Energy derivatives	(235)	-	(235)	-
Foreign exchange derivatives	(15)	-	(15)	-
Total financial liabilities at fair value	(250)	-	(250)	-
Total financial instruments at fair value	625	-	625	-

Financial instruments carried at fair value		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2016	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial liabilities – in hedge accounting relationships				
Foreign exchange derivatives	(125)	-	(125)	-
Total financial liabilities at fair value	(125)	-	(125)	-
Total financial instruments at fair value	(125)	-	(125)	-

24 Immediate and ultimate parent undertaking

The immediate parent undertaking is Spirit Energy 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 financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from its registered office; Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.