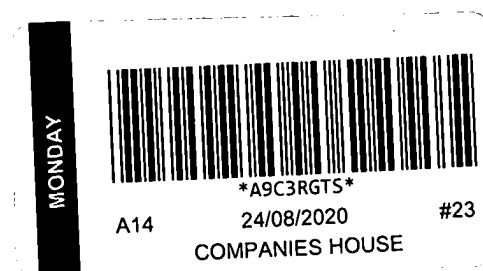


Registration number: 04594558

Spirit Energy North Sea Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2019



Spirit Energy North Sea Limited

Contents

Strategic Report	1 to 2
Directors' Report	3 to 4
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6 to 8
Income Statement	9
Statement of Comprehensive Income	10
Balance Sheet	11 to 12
Statement of Changes in Equity	13
Notes to the Financial Statements	14 to 37

Spirit Energy North Sea Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for Spirit Energy North Sea Limited ('the Company') for the year ended 31 December 2019.

Principal activities

The principal activities of the Company are the production of gas in the UK and Dutch North Sea through its interests in gas assets.

Review of the business

During the year ended 31 December 2019, production of gas was 61 billion cubic feet (2018: 58 billion cubic feet). The Company recognised an exceptional credit of £10,160,000 (2018: £19,700,000) on the revision of the decommissioning provisions of fully-impaired fields and an impairment charge of £128,032,000 (2018: write back of £112,548,000) within tangible assets on the Cygnus, Kew and Chiswick assets.

In response to the challenges presented by COVID-19, as disclosed in the going concern statement and in note 25, the wider group has undertaken a review of operations in order to mitigate the liquidity risk. This action has enabled the Company to trade in the normal course of business and management remain vigilant to developments in the gas and oil sector. As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £231,010,000. The impairment is predominantly due to the reduction in near-term prices and long-term price forecasts. This impairment is however, offset by a tax credit arising on the impairment charges of £92,404,000.

Financial position

The financial position of the Company is presented in the Balance Sheet on page 11. Total equity at 31 December 2019 was £183,005,000 (2018: £195,617,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties, including COVID-19, are integrated with those of Spirit Energy Limited and its subsidiaries ('the Group') of which the Company is a member and are not managed separately. The principal risks and uncertainties of the Group, which included those of the Company, are disclosed on page 14 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report and are available at the address detailed in note 24 of these financial statements.

Exit from the European Union

The UK left the EU on 31 January 2020. The UK has now entered into the transition period which means EU law will continue to apply to, and within, the UK until the end of December 2020 (unless extended), and existing arrangements largely continue to apply. Therefore, the immediate impact on the Company of the UK leaving the EU is limited in the short term. Extricating from the European Union treaties is a task of immense complexity, but the Company is keeping the possible impacts on the business stemming from this under review, and also from the possibility of a no-deal Brexit at the end of the transition period in the event that a trade agreement is not reached so that appropriate action can be taken. 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 performance of the Company is included in the consolidated results of Spirit Energy Limited (the 'Group'). The Directors of Spirit Energy Limited manage the Group on a divisional basis and use a number of KPIs to monitor progress against the Group's strategy. 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. A discussion of the Group KPIs is on page 12 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report and are available at the address detailed in note 24 of these financial statements.

Section 172(1) Statement

The Board and its individual Directors consider that they have acted in good faith in the manner that is most likely to promote the success of the Company for the benefit of its member as a whole and in doing so having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006.

A Director of a Company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decisions in the long-term;
- 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 environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and

Spirit Energy North Sea Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172(1) Statement (continued)

- The need to act fairly as between shareholders of the Company.

The following paragraphs summarise how the Directors fulfil their duties:

Long-term success

From the perspective of the Company, the Directors believe that they have acted in a way that would most likely promote the long-term success of Spirit Energy North Sea Limited. The Directors continually challenge the way the business works to ensure streamlined and efficient delivery to be a lean and agile business. The Directors focus on ensuring that the Company achieves industry-leading safety standards, deliver every possible barrel of production, and keep control of costs to generate superior returns and be resilient to fluctuations in commodity prices. The Company is funded via Spirit Energy Treasury Limited and the Company has the ability to deposit and access funds as required.

In addition, the Directors note the key role the Company plays in the wider Spirit Energy Group and to Spirit Energy Limited as parent Company and as such the principal risks and uncertainties of the Company are in line with those of the wider group. Further details are included in the Section 172(1) Statement on page 11 of the Annual report and financial statements of Spirit Energy Limited. The Directors of the Company are members of the Spirit Energy Limited Executive Committee.

Impact of operations

The Directors recognise the need to decarbonise energy systems and accept that in the foreseeable future oil and gas will play a significant part in that transition. The Directors' ambition is for the Company to be a top-quartile operator in terms of carbon intensity amongst peers. The Company aims to minimise primary production emissions through improved operational efficiency, reduced flaring and fugitive leak detection and repair programmes combined with reviewing the feasibility of low-carbon electricity to supply operations.

The Directors recognise the impact on communities as well and within Spirit Energy various community projects have taken place during 2019. In addition, Spirit Energy have also partnered with the Scottish Association for Mental Health for a second year.

Business relationships

Spirit Energy North Sea Limited aims to build enduring relationships with suppliers driven by the Spirit Energy Group's values of care, agility, courage, delivery and collaboration. The Company is measured by these values and work closely with suppliers in encouraging them to do the same. During the year the Company awarded major contracts in the Operations and Maintenance categories, which have helped the Company reduce complexity and build stronger, deeper relationships with the selected suppliers.

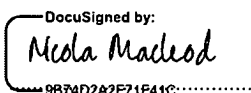
In addition, as licence operator, Spirit Energy North Sea Limited works closely with the Oil and Gas Authority and holds regular check-ins regarding business development and ongoing operations.

Future developments

From the perspective of the Company, the future developments are integrated within those of the Group and are not managed separately. The future developments of the Group are disclosed on page 13 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report.

It is expected that the Company will continue with its principal activities of the production of gas in the UK and Dutch North Sea through its interests in gas assets.

Approved by the Board on 7 August 2020 and signed on its behalf by:

DocuSigned by:

9B74D2A2F71F41C.....

NJ Macleod

Director

Company registered in England and Wales, No. 04594558

Registered office:

1st Floor

20 Kingston Road

Staines-Upon Thames

England

TW18 4LG

Spirit Energy North Sea Limited

Directors' Report for the Year Ended 31 December 2019

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

Directors of the Company

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

GM Harrison
AD Le Poidevin (resigned 31 May 2019)
NJ Macleod
NJ McCulloch (appointed 1 January 2019)
DG Jones (appointed 13 January 2020)

Results and dividends

The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2019 is £11,894,000 (2018: profit £118,796,000).

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

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 25 to the Financial Statements on page 37.

Future developments

Future developments are discussed in the Strategic Report on page 2.

Financial risk management

From the perspective of the Company, the financial risks are integrated within those of the Group and are not managed separately. The financial risk management of the Group are disclosed on pages 67 to 70 of the Group's Annual report and financial statements for the year ended 31 December 2019, which does not form part of this report.

Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, the immediate parent company, 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 Spirit Energy Limited intends to support the Company for at least one year after the financial statements have been authorised for issue until 27 September 2021.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 14 and specifically explains the increased challenges the Group faces with COVID-19 and the depression in commodity prices. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

Directors' insurance and indemnities

Spirit Energy Limited, the immediate parent undertaking of the Company, maintains directors' and officers' liability insurance in respect of its Directors and those Directors of its subsidiary companies. Qualifying third-party indemnity provisions, as defined in Section 234 of the Companies Act 2006, were in force for the benefit of the Directors of the Company during the year and up to and including the date of the Directors' report.

Spirit Energy North Sea Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Disclosure of information to auditor

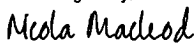
Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves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

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 7 August 2020 and signed on its behalf by:

DocuSigned by:

.....9B74D2R2F71F41C.....

NJ Macleod

Director

Company registered in England and Wales, No. 04594558

Registered office:

1st Floor
20 Kingston Road
Staines-Upon Thames
England
TW18 4LG

Spirit Energy North Sea Limited

Statement of Directors' Responsibilities for the Year Ended 31 December 2019

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 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.

Spirit Energy North Sea Limited

Independent Auditor's Report to the Member of Spirit Energy North Sea Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spirit Energy North Sea 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

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.

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.

Spirit Energy North Sea Limited

Independent Auditor's Report to the Member of Spirit Energy North Sea 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.

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.

Spirit Energy North Sea Limited

Independent Auditor's Report to the Member of Spirit Energy North Sea Limited (continued)

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.

DocuSigned by:

Graham Hollis

BB0BD0EFC8524AA
Graham Hollis ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

7 August 2020

Spirit Energy North Sea Limited**Income Statement for the Year Ended 31 December 2019**

	Note	2019 £ 000	2018 (restated) £ 000
Revenue	4	226,889	357,955
Gain/(loss) on remeasurement of derivatives	5	216,309	(71,587)
Cost of sales	7	(251,487)	(254,680)
Gross profit		191,711	31,688
Operating costs	7	(25,010)	(22,187)
Exceptional items - decommissioning provision revision	8	10,160	19,700
Exceptional items - impairment (charges)/write-back	8	(128,032)	112,548
Other income	6	-	16
Operating profit		48,829	141,765
Finance income	10	5,053	5,201
Finance cost	10	(26,328)	(17,247)
Net finance cost		(21,275)	(12,046)
Profit before taxation		27,554	129,719
Tax charge	12	(39,448)	(10,923)
(Loss)/profit for the year		(11,894)	118,796

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

The results in the above Income Statement relate to continuing operations.

Spirit Energy North Sea Limited**Statement of Comprehensive Income for the Year Ended 31 December 2019**

	2019 £ 000	2018 £ 000
(Loss)/profit for the year	<u>(11,894)</u>	<u>118,796</u>
Items that will be or have been reclassified to the Income Statement		
Net (loss)/gain on cash flow hedges	(630)	716
Exchange differences on translating foreign operations	<u>(88)</u>	<u>5,893</u>
Other comprehensive (loss)/income	<u>(718)</u>	<u>6,609</u>
Total comprehensive (loss)/income for the year	<u>(12,612)</u>	<u>125,405</u>

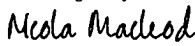
Spirit Energy North Sea Limited**Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Property, plant and equipment	13	647,133	837,454
Derivative financial instruments	23	25,628	4,923
Intangible assets	14	34,462	54,266
		<u>707,223</u>	<u>896,643</u>
Current assets			
Inventories	16	13,587	12,648
Trade and other receivables	15	72,709	82,679
Derivative financial instruments	23	79,525	6,654
Cash and cash equivalents		-	924
Current tax asset		3,721	3,485
		<u>169,542</u>	<u>106,390</u>
Total assets		876,765	1,003,033
Current liabilities			
Trade and other payables	17	(360,511)	(428,920)
Derivative financial instruments	23	(741)	(25,333)
Provisions for other liabilities and charges	18	(47,552)	(59,537)
Borrowings	19	(4,318)	-
		<u>(413,122)</u>	<u>(513,790)</u>
Net current liabilities		(243,580)	(407,400)
Total assets less current liabilities		463,643	489,243
Non-current liabilities			
Deferred tax liabilities	12	(108,288)	(68,461)
Derivative financial instruments	23	(139)	(6,075)
Provisions for other liabilities and charges	18	(163,504)	(219,090)
Borrowings	19	(8,707)	-
		<u>(280,638)</u>	<u>(293,626)</u>
Total liabilities		(693,760)	(807,416)
Net assets		183,005	195,617
Equity			
Share capital	20	-	-
Retained earnings	20	181,889	193,783
Other equity	20	1,116	1,834
Total equity		183,005	195,617

Spirit Energy North Sea Limited

Balance Sheet as at 31 December 2019 (continued)

The financial statements on pages 9 to 37 were approved and authorised for issue by the Board of Directors on 7 August 2020 and signed on its behalf by:

DocuSigned by:

.....9B74D2A2F71F41C.....

NJ Macleod
Director

Company number 04594558

Spirit Energy North Sea Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Cash flow hedge reserve/(deficit) £ 000	Foreign currency translation reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	-	543	1,291	193,783	195,617
Loss for the year	-	-	-	(11,894)	(11,894)
Other comprehensive loss	-	(630)	(88)	-	(718)
Total comprehensive loss	-	(630)	(88)	(11,894)	(12,612)
At 31 December 2019	-	(87)	1,203	181,889	183,005

	Share capital £ 000	Cash flow hedge (deficit)/reserve £ 000	Foreign currency translation (deficit)/reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	-	(173)	(4,602)	74,987	70,212
Profit for the year	-	-	-	118,796	118,796
Other comprehensive income	-	716	5,893	-	6,609
Total comprehensive income	-	716	5,893	118,796	125,405
At 31 December 2018	-	543	1,291	193,783	195,617

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1. General information

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

The address of its registered office and principal place of business is:

1st Floor
20 Kingston Road
Staines-upon-Thames
England
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 meets the definition of a qualifying entity under Financial Reporting Standard 100 issued by the Financial Reporting Council. The financial statements therefore 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.

The Company has adopted IFRS 16: 'Leases' from 1 January 2019. In accordance with the modified retrospective approach the opening balances have been adjusted to show a right-of-use assets ('ROU'), to represent the Company's rights to use the underlying assets, and a lease liability, to represent the Company's obligation to make lease payments.

In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17: 'Leases' or IFRIC 4: 'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or modified after that date, the definition of a lease in IFRS 16 has been applied. On application of IFRS 16, comparative information has not been restated.

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

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

On transition, the Company measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. For arrangements previously assessed as finance leases, the asset and liability balances at 31 December 2018 were carried forward as the opening IFRS 16 balances and subsequently measured in accordance with the new standard.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Basis of preparation (continued)

Application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January of £16,107,000 and £16,107,000, respectively. £nil of the lease liability is incremental to the IAS 17 position. Right-of-use assets are presented in Property, plant and equipment on the Balance Sheet. Lease liabilities are included in Current and Non-current Borrowings.

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

	£ 000
Operating lease obligations as at 31 December 2018	-
Minimum lease payments on finance lease liabilities at 31 December 2018	-
Recognition of lease arrangements within joint operations	16,107
Additional lease liabilities following initial application of IFRS 16 as at 1 January 2019	16,107

The lease liabilities were discounted at the incremental borrowing rate as at 1 January 2019. The weighted average discount rate was 2%.

Restatements

In March 2019, the International Financial Reporting Interpretations Committee ("IFRIC") issued an agenda decision on the Physical Settlement of Contracts to Buy or Sell a non-Financial item. It was concluded that for physical commodity trades within the scope of IFRS 9: 'Financial instruments', entities should not transfer previously recognised, unrealised market-to-market movements to different Income Statement line items upon realisation. As the Company previously recognised fair value movements on the re-measurement of certain energy contracts net within cost of sales up to the point of realisation (when the underlying contract would be recognised in revenue), presentation of the Company's revenue and re-measurement of energy contracts for the year ended 31 December 2018 has been amended to comply with the requirements of the IFRIC agenda decision. Comparative results have been represented with no impact on gross profit.

The impact of realised and unrealised positions, in accordance with IFRS 9, will be reflected in the 'Re-measurement of energy contracts' line in the Income Statement. The effect of this re-presentation for 2018 is an increase in revenue of £47,626,000 and an increased loss on re-measurement of energy contracts of £47,626,000.

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

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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

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

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

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

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

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

The Company recognises the lease payments associated with short-term leases (leases expiring within twelve months from commencement) and leases of low value assets (underlying asset value less than £5,000) on a straight-line basis over the lease term.

From 1 January 2019, 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:

- IFRIC 23 'Uncertainty over Income Tax Treatments'; and
- Amendments of IFRS 9 'Prepayment features with negative compensation'

As the Annual report and financial statements of Spirit Energy Limited (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company, as a qualifying entity, has taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of IFRS 7 'Financial Instruments: 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; and
- disclosures in respect of capital management.

Measurement convention

The financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value.

Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, the immediate parent company, 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 Spirit Energy Limited intends to support the Company for at least one year after the financial statements have been authorised for issue until 27 September 2021.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 14 and specifically explains the increased challenges the Group faces with COVID-19 and the depression in commodity prices. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

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.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. 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 associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when the customer obtains control of the goods. For oil and natural gas, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. 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

Finance income is recognised in the Income Statement in the period in which the income is earned.

Finance costs

Finance costs are recognised in the Income Statement in the period in which they are incurred.

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 balance sheet 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.

Foreign currencies

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 (the functional currency of the Trinidad branch is the US dollar and some of the Company's assets form a division, which is considered to have Euro functional currency).

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 balance sheet 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 cost'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

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.

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Company's foreign currency translation reserve included in other equity.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

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 (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. 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 tax jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 balance sheet 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.

IFRIC 23 'Uncertainty over Income Tax Treatments' is effective from 1 January 2019. The guidelines provided have been considered and as a result there is no material change to the tax provisions.

Exploration and evaluation ('E&E') assets and development and production assets

The Company uses the successful efforts method of accounting for E&E expenditure. E&E expenditure associated with an exploration well, including acquisition costs related to E&E activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to property, plant and equipment ('PP&E'). If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

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 proven and probable ('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. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Depreciation of PP&E

Depreciation is charged as follows:

Asset classes	Depreciation method and rate
Development and production assets	UOP, based on 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.

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

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Company has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Company's joint ventures and associates are accounted for at cost in accordance with IAS 27, less any provision for impairment as necessary.

The Company's interests in joint operations (oil and gas exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Company has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Company is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the oil and gas fields and/or wind farms that are governed by joint arrangements, the Company is usually deemed to be an agent when it is appointed as operator and not a principal (as the contracts entered into do not convey control to the parties). Accordingly, the Company recognises its equity share of assets, liabilities, revenue and expenses of these arrangements as outlined above except that it presents gross liabilities and gross receivables of the joint venture (including amounts due to or from non-operating partners) in accordance with netting requirements under IAS 32 'Financial instruments: presentation'.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Inventories

Commodity inventories (oil and gas) are valued at market value. Other inventories are valued on a weighted-average cost basis, at the lower of cost or estimated net realisable value after allowance for redundant and slow-moving items.

The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

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 balance sheet 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. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary. 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.

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.

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed for indications of impairment at each balance sheet date or earlier if events or changes in circumstances indicate an impairment may exist. If any such indication exists, then the asset's recoverable amount is estimated.

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 cashflows of financial assets.

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.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. In accordance with IFRS 9: '*Financial instruments*', the Group has applied the ECL model to the financial assets at the balance sheet date as opposed to only incurred credit losses, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. Either the lifetime expected credit loss or a twelve-month expected credit loss is provided for, depending on the Company's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet 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.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Financial instruments (continued)

(a) Trade and other receivables

Trade receivables are amounts due from customers for hydrocarbons sold in the ordinary course of business.

Trade receivables and related-party receivables are initially recognised at fair value, which for trade receivables 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 impairment provision calculated under the expected credit loss model. 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 and related-party payables are initially recognised at fair value, which for trade payables 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.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. Cash equivalents include cash on deposit with related parties, 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. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

(f) Derivative financial instruments

The Company routinely enters into sale contracts for the physical delivery of gas and oil. These contracts are entered into and continue to be held for the purpose of delivery of the physical commodity in accordance with the Company's expected sale requirements ('own use') and are not within the scope of IFRS 9.

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 2019 of the intermediate controlling party being Spirit Energy Limited, in the Strategic Report – Principal Risks and Uncertainties on page 14 and in note S2.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2. Accounting policies (continued)

Financial instruments (continued)

(f) Derivative financial instruments (continued)

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. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Certain derivative instruments do not qualify for hedge accounting. Such derivatives are measured at fair value in the Balance Sheet, and changes in the fair value that do not qualify for hedge accounting are recognised immediately in the Income Statement.

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, 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.

(g) Hedge accounting

For the purposes of hedge accounting, hedges are classified as cash flow hedges. A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Company's cash flow hedges consist of forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Income Statement. The gains and losses that are initially recognised in the cash flow reserve in the Statement of Comprehensive Income are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Company revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Income Statement.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

(g) Hedge accounting (continued)

The ineffective portion of gains and losses on cash flow hedging is recognised immediately in the Income Statement.

The Company's normal operating activities expose it to a variety of financial risks: market risk (including commodity price risk and currency risk), credit risk and liquidity risk. The Company maintains strict policies to manage its financial risks as approved by the Directors. This includes the use of financial derivative instruments to hedge certain of these exposures.

It is Company policy that all transactions involving derivatives must be directly related to the underlying business activities of the Company. The Company does not enter into or trade financial instruments, including derivatives for speculative purposes.

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 elected items as exceptional (see note 8). 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning costs (note 18)

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed annually or earlier if events or changes in circumstance indicate an impairment may exist and is based on reserves, price levels and technology at the balance sheet 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 2039 (2018: 2040).

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%.

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 financial statements of the group on page 79.

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.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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

Impairment of long-lived assets

The Company has several material long-lived assets that are assessed for impairment at each balance sheet date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or CGUs are recoverable. The key assets that are subjected to impairment tests are development and production assets the carrying value of which is £647,133,000 (2018: £837,454,000) as at 31 December 2019 (See note 13). The exploration and evaluation assets are also subjected to impairment tests the carrying value of which is £34,462,000 (2018: £54,266,000) as at 31 December 2019 (See note 14). As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £231,010,000. This impairment is however, offset by a tax credit arising on the impairment charges of £92,404,000. Please refer to note 25 for further detail.

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.

The valuation of exploration and production assets are particularly sensitive to the price assumptions made in the impairment calculations and the price assumptions for gas and oil have been varied by +/- 10%. A 10% increase in the price assumption results in a reversal of £69,000,000 of the impairment charge for Cygnus. A decrease of 10% causes an increase in impairment of £64,000,000 for this asset. Changes in the price generate different production profiles and, in some cases, the date that an asset ceases production.

4. Revenue

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

	2019 £ 000	2018 (restated) £ 000
Sale of gas and liquids from production	226,889	357,955

By geography:

	2019 £ 000	2018 (restated) £ 000
United Kingdom	175,965	281,179
The Netherlands	50,924	76,776
	226,889	357,955

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

5. Gain/(loss) on remeasurement of derivatives

	2019 £ 000	2018 (restated) £ 000
Remeasurement of foreign exchange derivatives	594	(71,339)
Remeasurement of energy derivatives	215,715	(248)
Gain/(loss) on the remeasurement of derivatives	216,309	(71,587)

The Company has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading business. Prior year results have been restated accordingly. See note 2 for further details.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6. Other income

The analysis of the Company's other income for the year is as follows:

	2019 £ 000	2018 £ 000
Income from the sale of inventory	-	16

7. Analysis of costs/(income) by nature

Year ended 31 December	2019			2018		
	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000
Transportation, distribution and metering costs	59,847	-	59,847	46,937	-	46,937
Inventories written down/(back) (note 16)	-	684	684	-	(1,348)	(1,348)
Depreciation (note 13)	157,074	3,713	160,787	135,835	8,799	144,634
Foreign exchange losses/(gains)	-	52	52	-	(680)	(680)
Other operating costs	34,566	20,561	55,127	71,908	15,416	87,324
Total operating costs by nature	251,487	25,010	276,497	254,680	22,187	276,867

The Company did not have any employees in the current or prior year.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

8. Exceptional items

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

	2019 £ 000	2018 £ 000
Decommissioning provision revision	10,160	19,700
Impairment (charges)/write-back	(128,032)	112,548
	<u>(117,872)</u>	<u>132,248</u>

During the year, the Company:

- recognised an exceptional credit of £10,160,000 on the revision of the decommissioning provisions of fully impaired fields;
- recognised impairment charges on the Cygnus field of £66,960,000, on the Chiswick field of £44,191,000 and on the Kew field of £16,326,000 because of a reassessment of the developments based on price.

The cashflows are based on a base gas price of 40 pence per therm, a 5-year price of 61 pence per therm, a 10-year price of 71p per therm, an inflation rate of 2% and exchange rate of £1 to €1.16. A reduction in the base gas price of 10% would result in a further impairment of £84,852,000.

During the prior year, the Company:

- recognised an exceptional credit of £19,700,000 on the revision of the decommissioning provisions of fully impaired fields;
- recognised impairment write-backs on the Cygnus field of £88,267,000, on the Kew field of £24,129,000 because of a reassessment of the developments and other minor impairment write-backs totalling £152,000.

9. Directors' remuneration

The Directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Directors' emoluments	592	116
Compensation for loss of office	-	5
	<u>592</u>	<u>121</u>

Remuneration of the highest paid Director:

	2019 £ 000	2018 £ 000
Director emoluments	<u>188</u>	<u>30</u>

During the current and prior year, the highest paid Director did not exercise share options and did not receive shares under a long-term incentive scheme.

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

	2019 No.	2018 No.
Accruing benefits under money purchase pension scheme	<u>-</u>	<u>6</u>

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10. Net finance cost

Finance income

	2019 £ 000	2018 £ 000
Interest on amounts due from Group undertakings	4,975	4,982
Interest income on bank and other short-term deposits	3	4
Net changes in fair value of foreign exchange contracts	-	215
Other interest income	75	-
Total finance income	5,053	5,201

Finance cost

	2019 £ 000	2018 £ 000
Interest on amounts owed to Group undertakings	(21,554)	(12,522)
Interest expense on obligations under finance leases	(953)	(184)
Net foreign exchange losses on financing transactions	(390)	(595)
Unwind of discount on provisions (note 18)	(3,298)	(3,946)
Net changes in fair value of foreign exchange contracts	(133)	-
Total finance cost	(26,328)	(17,247)
Net finance cost	(21,275)	(12,046)

11. Auditor's remuneration

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

	2019 £ 000	2018 £ 000
Audit fees	35	8

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12. Tax

Tax charged/(credited) in the Income Statement

	2019 £ 000	2018 £ 000
Current tax		
UK corporation tax at 40% (2018: 40%)	-	(1,505)
UK corporation tax adjustment to prior years	(379)	(5,092)
Total current tax	(379)	(6,597)
Deferred tax		
Origination and reversal of temporary differences - UK	39,806	11,412
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior years	21	6,108
Total deferred tax	39,827	17,520
Total tax charge	39,448	10,923

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The deferred tax assets and liabilities included in these financial statements are based on the rate of 19%.

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 for their reversal profiles.

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

	2019 £ 000	2018 £ 000
Profit before tax	27,554	129,719
Tax on profit at standard UK corporation tax rate of 40% (2018: 40%)	11,022	51,888
Effects of:		
Non ring fence losses not recognised	3,364	-
Rate difference – abandonment provision	(3,098)	-
Adjustments in respect of prior years	(358)	1,016
Increase from effect of different UK tax rates on some earnings	3,718	1,663
Non-qualifying depreciation, depletion and amortisation	3,276	608
Investment allowance derecognised/(recognised)	32,072	(32,073)
Ring fence expenditure supplement claimed	(10,550)	(12,179)
Non-deductible expenditure	2	-
Total tax charge	39,448	10,923

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12. 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	Other provisions	Total
	£ 000	£ 000	£ 000	£ 000
1 January 2018	(341,108)	156,492	133,675	(50,941)
(Charged)/credited to the Income Statement	(11,655)	(22,521)	16,656	(17,520)
31 December 2018	(352,763)	133,971	150,331	(68,461)
(Charged)/credited to the Income Statement	82,875	(17,925)	(104,777)	(39,827)
31 December 2019	(269,888)	116,046	45,554	(108,288)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. A deferred tax asset of £43,874,000 (2018: £8,677,000) in respect of investment allowances has not been recognised as at 31 December 2019 as management consider it is more likely than not that these allowances will not be recoverable from future taxable profits in the foreseeable future. A net deferred tax liability of £108,288,000 (2018: £68,461,000) has been recognised on the balance sheet because there is sufficient evidence that the tax attributes will be used against future taxable profits. A deferred tax asset of £3,364,000 (2018: £nil) in respect of non ring-fence losses has not been recognised as at 31 December 2019 as management consider it is more likely than not that taxable profits will not be available in the foreseeable future against which to relieve these losses.

13. Property, plant and equipment

	Development & production assets £ 000
Cost	
At 1 January 2019	1,266,640
IFRS 16 adjustment (note 2)	16,107
Adjusted opening balance	1,282,747
Additions	67,634
Revision to decommissioning assets (note 18)	(1,220)
Retranslation of foreign currency balances	(40,284)
At 31 December 2019	1,308,877
Accumulated depreciation and impairment	
At 1 January 2019	(429,186)
Depreciation charge for the year (note 7)	(160,787)
Impairment charge (note 8)	(103,890)
Retranslation of foreign currency balance	32,119
At 31 December 2019	(661,744)
Net book value	
At 31 December 2019	647,133
At 31 December 2018	837,454

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13. Property, plant and equipment

Impairment

During the current year, the Company recognised exceptional impairment of £43,373,000 on the Cygnus field, £44,191,000 on the Chiswick field and £16,326,000 on the Kew field because of a reassessment of the developments and changes in price estimates. Further details on the impairment charge are included in note 8. As at 30 June 2020 further impairments have been recorded and further details are included in note 25.

During the prior year, the Company recognised exceptional impairment write-back of £88,267,000 on the Cygnus field and £24,129,000 on the Kew field because of a reassessment of the developments and changes in price estimates. Other minor impairment write-backs of £152,000 were also recognised in the year.

The recoverable amounts of the assets are categorised in Level 3 (as explained in note 24) 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 9.0% (2018: 9.5%) to determine fair value less costs of disposal.

There were no other impairment indicators identified as at 31 December 2019 in relation to the remaining PP&E.

The right-of-use assets (as explained in note 2) included in the above carrying amounts are as follows:

	Development & production assets £ 000
Cost	
At 1 January 2019	16,107
At 31 December 2019	16,107
Accumulated depreciation and impairment	
At 1 January 2019	-
Depreciation charge for the year	(3,713)
At 31 December 2019	(3,713)
Net book value	
At 31 December 2019	12,394
At 31 December 2018	-

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14. Intangible assets

	Exploration and evaluation assets £ 000
Cost	
At 1 January 2019	63,064
Additions	3,783
Disposal	(8,798)
At 31 December 2019	58,049
Impairment	
At 1 January 2019	(8,798)
Impairment charge for the year (note 8)	(23,587)
Disposal	8,798
At 31 December 2019	(23,587)
Net book value	
At 31 December 2019	34,462
At 31 December 2018	54,266

The impairment charge relates to the Greater Cygnus area and were mainly driven by adverse price movements. The disposal relates to the Cygnus FB9 well which was a dry well in 2018.

15. Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	897	1,022
Amounts owed by fellow Group undertakings	30,320	40,243
Amounts owed by other related parties (note 22)	32,451	31,353
Prepayments	3,390	3,875
Other receivables	5,218	5,850
Accrued income	433	336
	<u>72,709</u>	<u>82,679</u>

The amounts owed by 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 interest-free, unsecured and repayable on demand.

The expected credit loss (ECL) on amounts due from Group undertakings has been calculated on the basis of a twelve-month ECL as there has been no significant increase in credit risk since the inception of the loans. The level of the ECL is considered to be immaterial as the undertakings have the financial support of Spirit Energy Limited, the immediate parent company.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16. Inventories

	2019 £ 000	2018 £ 000
Operational spares and consumables	13,587	12,648

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £nil (2018: £nil). The write-down of inventories to net realisable value amounted to £990,000 (2018: £nil). The reversal of write-downs amounted to £306,000 (2018: £1,348,000). The write-down and reversal are included in operating expenses and relate to drilling inventory in relation to various assets.

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

17. Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	6,660	11,206
Accrued expenses	19,567	22,186
Amounts owed to fellow Group undertakings	316,969	376,835
Amounts owed to other related parties (note 22)	8	2,407
Other payables	17,307	16,286
	<u>360,511</u>	<u>428,920</u>

The amounts owed to 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 to Group undertakings disclosed above is a £135,342,000 receivable and a £437,564,000 payable (2018: £131,446,000 receivable and a £335,375,000 payable) that bear interest at a monthly rate of 0.50% and rates ranged between 3.25% and 3.74% respectively (2018: 0.50% and rate ranged between 3.25% and 3.74%). The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

18. Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2019	278,627
Charged to the Income Statement	4,658
Unused provision reversed to the Income Statement	(15,902)
Revision to provision on existing assets (note 13)	(1,220)
Provisions used	(55,124)
Retranslation of foreign currency balances	(3,281)
Increase due to discount unwinding (note 10)	<u>3,298</u>
At 31 December 2019	<u>211,056</u>
Current liabilities	<u>47,552</u>
Non-current liabilities	<u>163,504</u>

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 at the reporting date of the expenditures required to settle the present obligation based 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 real rate of 1.2% (2018: 1.2%).

The timing of the decommissioning payments is dependent on the lives of a number of fields but are anticipated to occur between 2020 and 2039 (2018: 2019 and 2040). The increase is due to revisions on the expected useful life of the Cygnus assets and subsequent timing of decommissioning.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

19. Borrowings

	2019 £ 000	2018 £ 000
Non-Current bank overdrafts, loans and borrowings		
Lease liabilities	8,707	-
	2019 £ 000	2018 £ 000
Current bank overdrafts, loans and borrowings		
Lease liabilities	4,318	-

The maturity analysis for lease liabilities is as follows:

	2019 £ 000	2018 £ 000
Within 1 year	4,318	-
1 -2 years	3,752	-
2-3 years	2,201	-
3-4 years	1,120	-
4-5 years	1,096	-
After 5 years	538	-
	13,025	-

20. Capital and reserves

Share capital

Allotted, called up, authorised and fully paid shares

	2019		2018	
	No	£ 000	No	£ 000
1 ordinary share of £1 each	1	-	1	-

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

Reserves

Cash flow hedge reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IFRS 9. Amounts are transferred from the cash flow hedging reserve to the Income Statement or the Balance Sheet as and when the hedged item affects the Income Statement or the Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. This reserve is non-distributable.

Foreign currency translation reserve

The other equity caption is mainly made up of translation differences that arise as a result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the reporting date, which differs from the rate in effect at the last measurement date of the respective item and is non-distributable.

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.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21. Other commitment and contingencies

Contractual commitments for the acquisition of PP&E

Contractual commitments for the acquisition of PP&E were as follows:

	2019 £ 000	2018 £ 000
Contracted oil and gas exploration	-	12,534

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £5,802,000 (2018: £6,164,000), largely in relation to decommissioning and transportation services.

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 Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

2019	Sale of goods and services (i) £ 000	Purchase of goods and services (i) £ 000	Amounts owed from (note 15) (ii) £ 000	Amounts owed to (note 17) £ 000
Centrica plc	-	(613)	866	-
British Gas Trading Limited	213,356	(11,149)	19,632	-
British Gas Services Limited	-	-	-	(8)
Centrica Management Services Limited	-	-	23	-
Centrica Energy Limited	216,070	-	115,902	-
	429,426	(11,762)	136,423	(8)

(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) Amounts owed from related parties includes £103,972,000 classified as derivative financial instrument assets and £32,451,000 as amounts owed from related parties.

2018	Sale of goods and services (i) £ 000	Purchase of goods and services (i) £ 000	Other - cash flow hedge reserve (ii) £ 000	Amounts owed from (iii) £ 000	Amounts owed to (iv) £ 000
Centrica plc	-	-	212	-	(12)
GB Gas Holdings Limited	-	(24)	-	-	-
British Gas Trading Limited	343,529	(9,378)	-	31,330	-
British Gas Services Limited	-	-	-	-	(8)
Centrica Management Services Limited	-	-	-	23	-
Centrica Energy Limited	-	(70,915)	-	11,557	(33,795)
	343,529	(80,317)	212	42,910	(33,815)

(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.

(iii) Amounts owed from related parties includes £11,557,000 classified as derivative financial instrument assets.

(iv) Amounts owed to related parties include £31,408,000 classified as derivative financial instrument liabilities.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22. Related-party transactions (continued)

Joint arrangements

Material joint arrangements owned by the Company that are classified as joint operations and accounted for in accordance with IFRS 11 are detailed below. This list excludes interests in fields where there is no party with overall control since the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint operations - fields/assets

31 December 2019	Location	Percentage holding in ordinary shares and net assets
Cygnus	UK North Sea	61

23. Derivative financial instruments

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 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 'Fair value measurement' and are consistent with those used by Centrica plc, the Company's ultimate controlling party.

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.

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23. Derivative financial instruments

Financial instruments carried at fair value

	Fair value hierarchy			
	Fair value and carrying value	Level 1	Level 2	Level 3
	£ 000	£ 000	£ 000	£ 000
31 December 2019				
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	104,692	-	104,692	-
Foreign exchange derivatives	461	-	461	-
Total financial assets at fair value	105,153	-	105,153	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(721)	-	(721)	-
Foreign exchange derivatives	(159)	-	(159)	-
Total financial liabilities at fair value	(880)	-	(880)	-
Total financial instruments at fair value	104,273	-	104,273	-

Financial instruments carried at fair value

	Fair value hierarchy			
	Fair value and carrying value	Level 1	Level 2	Level 3
	£ 000	£ 000	£ 000	£ 000
31 December 2018				
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	10,843	-	10,843	-
Foreign exchange derivatives	734	-	734	-
Total financial assets at fair value	11,577	-	11,577	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(31,158)	-	(31,158)	-
Foreign exchange derivatives	(250)	-	(250)	-
Total financial liabilities at fair value	(31,408)	-	(31,408)	-
Total financial instruments at fair value	(19,831)	-	(19,831)	-

	2019		2018	
Total derivative financial instruments	Assets	Liabilities	Assets	Liabilities
Included within:	£ 000	£ 000	£ 000	£ 000
Derivative financial instruments - current	79,525	741	6,654	25,333
Derivative financial instruments - non-current	25,628	4,923	4,923	6,075
	105,153	5,664	11,577	31,408

Spirit Energy North Sea Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23. Derivative 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); and
- 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).

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 fair value and valuation process

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market.

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).

24. Immediate and ultimate parent undertaking

The immediate parent undertaking of the Company is Spirit Energy Limited, a company registered in England and Wales.

Spirit Energy Limited is the parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member. Spirit Energy Limited, which has its registered office at 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG, is registered in England and Wales. Copies of Spirit Energy Limited's financial statements can be obtained from the Register of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which Group accounts are prepared is Centrica plc. Centrica plc has its registered office at Millstream, Maidenhead Road, Windsor, England, SL4 5GD and is registered in England and Wales. Centrica plc's financial statements can be obtained at www.centrica.com.

25. Non-adjusting events after the balance sheet date

Subsequent to the year end, global oil prices have fallen by approximately 50%. This is partly due to the global outbreak of the COVID-19 virus and partly due to Saudi Arabia's decision to increase production. Although it is not possible to reliably estimate the length or severity of the developments, and hence their financial impact, should gas and oil prices remain, at or below, the current prevailing levels for an extended period of time, there could be a significant adverse impact on the Company's financial results for future periods.

In response to the impact of declining commodity prices, Spirit Energy Limited, the immediate parent company, has implemented a program to significantly reduce operating costs, capital expenditure and decommissioning spend in order to remain within the Financial Framework set out in the Shareholder Agreements.

As part of an impairment review completed at 30 June 2020 further impairments of the development and production assets have been recognised totalling £231,010,000. The impairment is predominantly due to the reduction in near-term prices and long-term price forecasts. This fall was exacerbated by the reduction in demand for commodities experienced as a result of the COVID-19 pandemic. This impairment is however, offset by a tax credit arising on the impairment charges of £92,404,000.