Registration number: 05088411

Spirit Europe Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Spirit Europe Limited

Contents

Spirit Europe Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their Strategic Report for Spirit Europe Limited ('the Company') for the year ended 31 December 2018.

Principal activities
The Company acts as an investment holding company and continues to seek opportunities in oil and gas interests in the UK North Sea.

Review of the business
During the year the Company ceased all trading activity and now acts solely as an investment holding company and continues to seek opportunities in oil and gas interests in the UK North Sea.

During the year all remaining employees transferred to Spirit Energy Production UK Limited.

Financial position

The financial position of the Company is presented in the Balance Sheet on page 10. Total equity at 31 December 2018 was £220,989,000 (2017: £221,988,000).

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Group and are not managed separately. The principal risks and uncertainties of the Group are disclosed on pages 5 and 6 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report.

Exit from the European Union
The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short term. Many details of the implementation process continue to remain unclear. Extricating from the European Union treaties is a task of immense complexity, but the Company has prepared itself to manage the possible impacts on its business. 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 pages 3 and 4 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report and are available at the address detailed in note 17 of these financial statements.

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 4 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report.

It is expected that the Company will continue to act as an investment holding company and continue to seek opportunities in oil and gas interest in the UK North Sea.

Spirit Europe Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

Approved by the Board on 30 August 2019 and signed on its behalf by:

....

NJ Macleod
Company Secretary

Company registered in England, No. 05088411

Registered office:

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

Spirit Europe Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

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
PMR Tanner (resigned 31 May 2018)
FD Weir (resigned 31 May 2018)
R Martinsen (appointed 1 June 2018, resigned 31 December 2018)
NJ Macleod (appointed 9 October 2018)
NJ McCulloch (appointed 1 January 2019)

Results and dividends

The results of the Company are set out on page 9. The loss for the financial year ended 31 December 2018 is £999,000 (2017: £51,326,000).

No dividends were paid during the year (2017: £nil). The Directors do not recommend the payment of a final dividend (2017: £nil).

Future developments

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

Going concern

The financial statements have been prepared on a going concern basis as Spirit Energy Limited, an intermediate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Spirit Energy Limited intends to support the Company for at least one year after the financial statements have been authorised for issue.

Directors' insurance and indemnities

Spirit Energy Limited, the intermediate 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 S234 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.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Board Meeting.

Approved by the Board on 30 August 2019 and signed on its behalf by:

....

NJ Macleod
Company Secretary

Company registered in England, No. 05088411

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

Spirit Europe Limited

Statement of Directors' Responsibilities for the Year Ended 31 December 2018

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 Europe Limited

Independent Auditor's Report to the Members of Spirit Europe Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spirit Europe Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

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.

Independent Auditor's Report to the Members of Spirit Europe 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.

Independent Auditor's Report to the Members of Spirit Europe Limited (continued)

Use of our report

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

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

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

30 August 2019

Spirit Europe Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Operating costs	4	(1,393)	(3,362)
Exceptional items – impairment charges	6	-	(49,000)
Exceptional items – restructuring costs	6	-	(450)
Other income	7	-	2,071
Operating loss		(1,393)	(50,741)
Finance income	9	328	4,211
Finance cost	9	(160)	(4,804)
		168	(593)
Loss before taxation		(1,225)	(51,334)
Tax credit	11	226	8
Loss for the year		(999)	(51,326)

The Company has no recognised gains or losses other than the loss for the current year and prior year and therefore no separate statement of comprehensive income has been presented.

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

Spirit Europe Limited

Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Investments	12	228,025	228,025
Property, plant and equipment	13	57	88
Deferred tax asset	11	32	26
		228,114	228,139
Current assets			
Trade and other receivables	14	539	43,193
Cash and cash equivalents		66	647
		605	43,840
Total assets		228,719	271,979
Current liabilities			
Trade and other payables	15	(7,730)	(49,991)
		(7,730)	(49,991)
Net current liabilities		(7,125)	(6,151)
Total assets less current liabilities		220,989	221,988
Total liabilities		(7,730)	(49,991)
Net assets		220,989	221,988
Equity			
Share capital	16	13,220	13,220
Share premium	16	358,325	358,325
Retained losses	16	(155,550)	(154,551)
Other equity	16	4,994	4,994
Total equity		220,989	221,988

The financial statements on pages 9 to 23 were approved and authorised for issue by the Board of Directors on 30 August 2019 and signed on its behalf by:

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NJ Macleod
Director

Company number 05088411

Spirit Europe Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Other equity £ 000	Retained losses £ 000	Total equity £ 000
At 1 January 2018	13,220	358,325	4,994	(154,551)	221,988
Loss for the year	-	-	-	(999)	(999)
Total comprehensive loss	-	-	-	(999)	(999)
At 31 December 2018	13,220	358,325	4,994	(155,550)	220,989

	Share capital £ 000	Share premium £ 000	Other equity £ 000	Retained losses £ 000	Total equity £ 000
At 1 January 2017	13,220	358,325	4,994	(103,225)	273,314
Loss for the year	-	-	-	(51,326)	(51,326)
Total comprehensive loss	-	-	-	(51,326)	(51,326)
At 31 December 2017	13,220	358,325	4,994	(154,551)	221,988

The notes on pages 12 to 23 form an integral part of these financial statements.

1. General information

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

The principal place of business is:

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.

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

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

As the consolidated financial statements of Spirit Energy Limited (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company 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 IFRS 13 'Fair Value Measurement';
- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of capital management; and
- disclosures of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

2. Accounting policies (continued)

Measurement convention
The financial statements have been prepared on the historical cost basis except for investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101.

Going concern
The financial statements have been prepared using the going concern basis of accounting as Spirit Energy Limited, an intermediate parent company, has agreed to provide financial support until 21 October 2020.

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

Finance income
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.

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

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 costs'. 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.

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the 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 difference will not reverse in the foreseeable future.

2. Accounting policies (continued)

Taxation (continued)
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.

Property, plant and equipment ('PP&E')
PP&E is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' (UOP) is used), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation of PP&E
Depreciation is charged as follows:

Asset class	Depreciation method and rate
Fixtures and fittings (new)	20% per annum
Fixtures and fittings (used)	33% per annum

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.

Investments in subsidiaries
Investments in subsidiaries held as fixed assets are stated at cost less any provision for impairment. The carrying value of investments are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

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.

2. Accounting policies (continued)

Impairment

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ('CGU') is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

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

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

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.

a) Trade and other receivables

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

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial), less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

b) Trade and other payables

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

Trade payables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial). If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

c) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's Income Statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2. Accounting policies (continued)

Financial instruments (continued)

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.

Consolidated financial statements

The Company has taken advantage of the exemption in section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. Consequently, these financial statements present the financial position and financial performance of the Company as a single entity.

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.

There are no critical accounting judgements in Spirit Europe Limited.

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.

Investments in subsidiaries

The Company undertakes an annual review process of its investments in subsidiaries for indicators of impairment and tests for impairment where such an indicator arises. The carrying value of the investment in Spirit Energy Southern North Sea Limited is £228,025,000 (2017: £228,025,000) based on the underlying value of the subsidiary and its assets.

4. Analysis of costs by nature

	2018 Operating costs £ 000	2017 Operating costs £ 000
Year ended 31 December		
Depreciation, impairment and write-downs (note 13)	31	59
Employee costs (note 5)	681	2,229
Other operating costs	681	1,074
Total operating costs by nature	1,393	3,362

5. Employees' costs

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

	2018	2017
	£ 000	£ 000
Wages and salaries	579	1,776
Social security costs	39	236
Pension and other post-employment benefits	63	217
	681	2,229

The employee's costs relate to the period up to 31 May 2018 prior to the transfer of the remaining employees to Spirit Energy Production UK Limited.

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

	2018	2017
Directors	-	3
Administration	-	2
Technical	-	6
	-	11

During the year all remaining employees transferred to Spirit Energy Production UK Limited.

6. Exceptional items

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

	2018	2017
	£ 000	£000
Impairment of subsidiaries	-	49,000
Restructuring costs	-	450
	-	49,450

During the prior year, the Company recognised an impairment charge of £49,000,000 in its subsidiary Spirit Energy Southern North Sea Limited. During the prior year, the Company recognised restructuring costs of £450,000 in relation to the closure of the Sevenoaks office.

7. Other income

The following other income was recognised in arriving at operating loss for the prior year:

	2018	2017
	£ 000	£000
General and administrative recharges	-	2,071
	-	2,071

8. Directors' remuneration

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other Spirit Energy Limited subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

9. Net finance income/(cost)

Finance income

	2018 £ 000	2017 £ 000
Net foreign exchange gains on financing transactions	-	18
Interest income from amounts owed by Group undertakings	328	4,192
Interest income on bank and other short-term deposits	-	1
Total finance income	328	4,211

Finance cost

	2018 £ 000	2017 £ 000
Interest on amounts owed to Group undertakings	(145)	(250)
Interest on amounts owed to related parties	-	(4,542)
Net foreign exchange losses on financing transactions	(15)	(12)
Total finance cost	(160)	(4,804)
Net finance income/(cost)	168	(593)

10. Auditor's remuneration

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

	2018 £ 000	2017 £ 000
Audit fees	10	10

11. Income tax

Tax charged in the Income Statement

	2018 £ 000	2017 £ 000
Current tax		
UK corporation tax at 19% (2017: 19.25%)	(220)	-
UK corporation tax adjustment to prior years	-	-
Total current tax	(220)	-
Deferred tax		
Origination and reversal of temporary differences - UK	2	(8)
Adjustments in respect of prior years - UK	(8)	-
Total deferred tax	(6)	(8)
Tax credit	(226)	(8)

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

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

	2018 £ 000	2017 £000
Loss before tax	(1,225)	(51,334)
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2017: 19.25%)	(233)	(9,882)
Effects of:		
Net expenses non-deductible for tax purposes	15	9,436
Adjustments in respect of prior years	(8)	-
Deferred tax not recognised	-	438
Total tax	(226)	(8)

11. Income tax (continued)

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

	Accelerated tax depreciation (corporation tax) £ 000	Other provisions £ 000	Total £ 000
1 January 2017	17	1	18
Credited to the Income Statement	6	2	8
31 December 2017	23	3	26
(Charged)/credited to the Income Statement	(5)	11	6
31 December 2018	18	14	32

12. Investments in subsidiaries

	Shares in Group undertakings (subsidiaries) £ 000
Cost	
At 31 December 2017 and 2018	344,025
Provisions for impairment	
At 31 December 2017 and 2018	(116,000)
Net book values	
At 31 December 2017 and 2018	228,025

Details of the equity interests of the Company in its subsidiary undertakings are as follows as at 31 December 2018:

Name of subsidiary	Principal activity	Class of shares held	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held 2018	2017
Spirit Energy Southern North Sea Limited	Natural gas production	Ordinary	England	100%	100%

The registered addresses for Spirit Energy Southern North Sea Limited is follows:

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

13. Property, plant and equipment

	Fixtures and fittings £ 000
Cost	
At 1 January 2018 and 31 December 2018	1,166
Accumulated depreciation	
At 1 January 2018	(1,078)
Depreciation charge for the year (note 4)	(31)
At 31 December 2018	(1,109)
Net book value	
At 31 December 2018	57
At 31 December 2017	88

14. Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Amounts owed by fellow Group undertakings	243	43,131
Prepayments	72	62
Other debtors	224	-
	539	43,193

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

All amounts owed by Group undertakings are interest-free, unsecured and repayable on demand.

15. Trade and other payables

	2018 Current £ 000	2017 Current £ 000
Amounts owed to fellow Group undertakings	6,961	49,096
Trade payables	-	15
Social security and other taxes	-	221
Accruals	769	653
Other creditors	-	6
	7,730	49,991

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 £6,984,000 payable that bear interest at a quarterly rate ranged between 3.50% and 3.74% respectively. The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

16. Share capital

Allotted, called up, authorised and fully paid shares

	2018		2017	
	No. 000	**£ 000**	**No. 000**	**£ 000**
Ordinary shares of £0.03 each	440,672	13,220	440,672	13,220

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

Share premium

Consideration received for shares issued above their nominal value net of transaction costs.

Other equity

The other equity caption relates to the purchase of Spirit Energy Southern North Sea Limited's remaining 50% shares in 2007.

Retained losses

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

17. Immediate and ultimate parent undertaking

The Company's immediate parent undertaking is Bayerngas Norge AS, which has its registered office at Lilleakerveien 8, 0283, Oslo, Norway and is registered in Norway. Bayerngas Norge AS is owned by Spirit Energy Limited, a company incorporate 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.