Company Registration No. 05088411

Spirit Europe Limited

Annual Report and Financial Statements

For the year ended 31 December 2017

Spirit Europe Limited

Annual report and financial statements 2017

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Company information

Directors

G M Harrison
R Martinsen

Company Secretary

Centrica Secretaries Limited

Registered Office

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Registered number

05088411 (England and Wales)

Accountants

Sargeant Partnership
Chartered Accountants
5 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Bankers

National Westminster Bank Plc
67 High Street
Sevenoaks
Kent
TN13 1LA

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Spirit Europe Limited

Strategic report

The directors present their strategic report of Spirit Europe Limited (the "Company"), a private company limited by shares, for the year ended 31 December 2017.

Principal activity

Spirit Europe Limited whose name was changed on 11 December 2017 from Bayerngas UK Limited to Spirit Europe Ltd and subsequently to Spirit Europe Limited on 2 May 2018, is an entity domiciled in the United Kingdom. The principal activity of the Company in the year under review continued to be to act as a holding company for a group engaged in the exploration, development and production of oil and gas resources.

Review of business

The loss for the year of £51,326k (2016: loss of £24,550k) is a result of a write-down of the Company's investment in Spirit Energy Southern North Sea Limited (previous name until 11 December 2017: Bayerngas Europe Limited) (2017: £49,000k; 2016: £24,000k) which reflects the fair value of the subsidiary. The result before this write down is a loss of £2,326k. The underlying performance of the Company is in line with budgeted performance. The loss for the year 2017 will be transferred to reserves. During the year, the Company acted as a holding company and employed the staff necessary for its operating subsidiary, Spirit Energy Southern North Sea Limited, to undertake work on exploration, development and production assets in the UK North Sea. During 2017 the Company and its subsidiary were financed by revenues generated by the sale of natural gas and associated liquids.

The Company was party to a historic syndicated loan initially granted to the Company by two subsidiaries of its former ultimate parent company Stadtwerke München GmbH. All rights and obligations under that loan agreement were in December 2017 assigned and transferred from the previous lenders to Spirit Energy Treasury Limited, a subsidiary of the new intermediate parent Spirit Energy Limited, in a 3-step process by way of assumption of contract. Spirit Energy Limited was created in December 2017 following the combination of Centrica plc exploration & production business and Bayerngas Norge AS. Spirit Energy Limited is 69%-owned by Centrica plc, with the remaining 31% owned by Bayerngas Norge's former shareholders, led by Stadtwerke München and Bayerngas GmbH.

On 5 March 2018 the Company signed a £75 million revolving credit facility loan agreement ("RCF") with Spirit Energy Treasury Limited according to which the outstanding balance of the aforementioned loans shall be deemed to have been repaid with effect from 31 December 2017 in satisfaction of any obligations under the previously existing loan relationships between the parties and such balance (£49.1 million) shall be deemed to have been drawn under the new RCF which has a repayment date of 31 December 2020.

Future developments

Spirit Europe Limited is the UK parent company of a group which explores for, develops and produces oil and gas resources. This activity is expected to continue. The Company is planning to close its Sevenoaks office during 2018 and consolidate management of the Company with other Spirit Energy Limited businesses.

Principal risks and uncertainties

One of the risks facing the Company is its financial dependence on its wider group. The directors consider this financial support robust and have in addition requested and received a letter of support from its ultimate parent company Centrica plc confirming that (whilst it is a subsidiary undertaking) it will not to demand repayment of amounts owed by the Company for a period of not less than twelve months from the approval of these financial statements unless the Company is in a position to do so.

Additional uncertainties are primarily related to the ability of the Company's and its subsidiary's management to manage the inherent risk of exploration for and development and production of oil and gas in terms of technical, commercial, environmental and safety issues. The directors believe management has the appropriate level of experience and competence to recognise and mitigate these uncertainties and risks. The Company is also able to call on resources from its intermediate parent company, Spirit Energy Limited, which has additional management and technical, commercial, environmental and safety specialists. The Company regularly conducts peer reviews of its key milestones and decisions.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk. The Company has not entered into any derivative financial instruments.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in market prices, reserves estimates, foreign currency exchange rates, interest rates and of the technical viability of projects.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables and investments. Cash and liquid funds are held with banks with high credit ratings assigned by international credit-rating agencies. The Company is exposed to credit risk in the event of non-payment by customers. The Company trades with recognised and creditworthy counterparties. In addition, receivable balances are monitored on an ongoing basis.

Liquidity risk

As outlined above the Company is reliant on loans provided by the Spirit Energy Limited Group. Management believes that the Company has adequate resources to meet its business objectives.

Key performance indicators

Given the Company acts as a holding company, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Approved by the Board of Directors on 5th July 2018 and signed on behalf by:

....

By order of the board for an on behalf of Centrica Secrataries Limited

Company registerd in England and Wales, No. 05088411
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Spirit Europe Limited

Directors' responsibilities statement

The directors present their annual report with the audited financial statements of Spirit Europe Limited for the year ended 31 December 2017. Information regarding the Company's financial risk management objectives and policies, ongoing financial support and future developments has been provided in the Strategic report on pages 2 and 3.

Directors

The directors listed below have held office during the period from 1 January 2017 to 31 December 2017 (unless stated otherwise), and up to the date of signing the financial statements.

G M Harrison
R Martinsen – appointed 1 June 2018
P M R Tanner – appointed 8 December 2017 and resigned 31 May 2018
F D Weir – appointed 8 December 2017 and resigned 31 May 2018
A T Westeng – resigned 8 December 2017
Dr T Meerpohl – resigned 8 December 2017

Dividends

No dividends will be distributed for the year ended 31 December 2017 (2016: £nil).

Going concern

Based on existing loan agreements (see further details in note 1, Accounting Policies – Going Concern Basis), the significant financial investment from the shareholder to date and the letter of support outlined in the strategic report, the directors have a reasonable expectation that the Company will have sufficient financial and other resources to operate for the next 12 months and consequently have prepared the financial statements on the going concern basis.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 s418 of the Companies Act 2006.

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

Approved by the Board of Directors on 5th July 2018 and signed on behalf by:

....

By order of the board for an on behalf of Centrica Secrataries Limited

Company registerd in England and Wales, No. 05088411
Millstream
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SL4 5GD

Spirit Europe Limited

Directors' responsibilities statement

The directors are responsible for preparing the annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the directors must not approve the financial statements unless he is 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 year. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Spirit Europe Limited

Independent auditor's report
For the year ended 31 December 2017

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including 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 of Spirit Europe Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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 Europe Limited

Independent auditor's report
For the year ended 31 December 2017

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

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.

Spirit Europe Limited

Independent auditor's report
For the year ended 31 December 2017

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.

Anthony Matthews

Anthony Matthews FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

5th July 2018

Spirit Europe Limited

Profit and Loss account
For the year ended 31 December 2017

	Notes	2017 £	2016 £
Administrative expenses – before exceptional items	4	(3,362,325)	(3,329,689)
Administrative expenses – exceptional items	4	(49,450,000)	(24,000,000)
Administrative expenses	4	(52,812,325)	(27,329,689)
Other operating income	5	2,071,228	2,607,041
Operating loss		(50,741,097)	(24,722,648)
Investment income	6	4,210,546	12,806,821
		(46,530,551)	(11,915,827)
Interest payable and similar charges	7	(4,803,508)	(12,643,058)
Loss on ordinary activities before taxation		(51,334,059)	(24,558,885)
Tax credit on loss on ordinary activities	8	8,387	9,332
Loss for the financial year		(51,325,672)	(24,549,553)

Continuing operations

None of the Company's activities were acquired or discontinued during the current year or previous year.

Total recognised gains and losses

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

Spirit Europe Limited

Balance sheet
As at 31 December 2017

	Notes	2017 £	2016 £
Fixed assets			
Tangible assets	9	87,665	183,566
Investments in subsidiaries	10	228,025,090	277,025,090
Deferred tax assets	13	25,800	17,413
		228,138,555	277,226,069
Current assets			
Debtors – amounts falling due within one year	11	43,193,480	65,667,910
Cash at bank and in hand		647,077	1,101,642
		43,840,557	66,769,552
Total assets		271,979,112	343,995,621
Creditors: amounts falling due within one year	12	(49,991,574)	(70,682,411)
Net current liabilities		(6,151,017)	(3,912,859)
Total assets less current liabilities		221,987,538	273,313,210
Net assets		221,987,538	273,313,210
Capital and reserves			
Called up share capital	14	13,220,169	13,220,169
Share premium account	15	358,324,760	358,324,760
Other reserve		4,994,000	4,994,000
Profit and loss account	16	(154,551,391)	(103,225,719)
Total shareholders' equity		221,987,538	273,313,210

The financial statements of Spirit Europe Limited, registered number 05088411 were approved by the Board of Directors and authorised for issue on 5th July 2018.

Signed on behalf of the Board of Directors

G M Harrison
Director

Company number 05088411

5th July 2018

Spirit Europe Limited

Statement of changes in equity
For the year ended 31 December 2017

	Called up share capital (Note 14) £	Share Premium account (Note 15) £	Other reserve (Note 15) £	Profit and loss account (Note 16) £	Total £
Balance at 31 December 2016	13,220,169	358,324,760	4,994,000	(103,225,719)	273,313,210
Loss for the year	-	-	-	(51,325,672)	(51,325,672)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(51,325,672)	(51,325,672)
Issue of share capital	-	-	-	-	-
Balance at 31 December 2017	13,220,169	358,324,760	4,994,000	(154,551,391)	221,987,538

The notes form part of these financial statements.

Spirit Europe Limited
Notes to the financial statements
For the year ended 31 December 2017

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

Spirit Europe Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the business review on page 2.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council for the year ended 31 December 2017.

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements because it is included in the group financial statements of Centrica plc.

As permitted by FRS 101, the Company has, where applicable, taken advantage of the disclosure exemptions available under that standard in relation to capital management, business combinations, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Strategic Report.

The Company has signed a revolving credit facility loan agreement ("RCF") on 5 March 2018 with Spirit Energy Treasury Limited, a subsidiary of Spirit Energy Limited, with a facility amount of £75 million and a repayment date of 31 December 2020. As per that RCF, the outstanding balance of the loans owed by the Company to Spirit Energy Treasury Limited on the balance sheet date of these financial statements (£49,095,803; see note 12) shall be deemed to have been repaid with effect from 31 December 2017 in satisfaction of any obligations under the previously existing loan relationships between the parties and such amount shall be deemed to have been drawn under the new RCF.

As per the terms of the RCF, Spirit Energy Treasury Limited is entitled to demand repayment of all outstanding amounts under the RCF prior to the due date and it may also at any time withdraw the RCF and any drawing by the Company at its sole discretion. Therefore, the directors of the company have received confirmation in a letter of support from its ultimate parent company Centrica plc in which it has agreed (whilst the Company is a subsidiary of the group) not to demand repayment of amounts owed by the Company under the RFC for a period of not less than twelve months from the approval of these financial statements unless the Company is in a position to do so.

The directors believe, supported by the significant financial investment from Bayerngas Norge AS to date, that the business will have sufficient financial and other resources to operate for the next 12 months and consequently have prepared the financial statements on the going concern basis.

1. **Accounting policies (continued)**

Foreign currencies

The financial statements are presented in pounds Sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). Transactions in foreign currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss account in the year in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on transactions entered into to hedge certain foreign currency risks.

Intercompany cost recharges

The Company continued to provide during 2017 technical, management, commercial and business services to its subsidiary Spirit Energy Southern North Sea Limited and, occasionally, to its parent company Bayerngas Norge AS – as contractually defined in underlying manpower and assistance agreements. These services are charged out - separately for technical/commercial services, management services and business services - based on time spent for the provision of these services - as documented on timesheets. The related departmental charge-out day-rates include direct costs related to the services provided plus associated overhead costs and an appropriate mark-up. The annual day-rates are initially based on estimated figures and will be adjusted subsequently based on actual numbers.

In addition, the Company recharges its subsidiary Spirit Energy Southern North Sea Limited – at no mark-up - with an appropriate portion of its third-party disbursement for the provision of legal, tax, audit, accounting and similar services.

Furthermore, the Company provides office facilities, business oversight, support and assistance to its former affiliated company SWM UK Wind One Limited in return for a fixed market rate which is reviewed by the parties on a regular basis for necessary adjustments.

Tangible fixed assets

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life. For the periods reported in these Financial Statements, these depreciation rates were as follows:

Fixtures, fittings and furniture (new)	20% per annum on cost
Fixtures, fittings and furniture (used)	33% per annum on cost
Software and IT-equipment	33% per annum on cost

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting year.

1. Accounting policies (continued)

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and any intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows which are expected to apply in future periods, are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Current tax, including UK corporation 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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years; it further excludes items that are never taxable or deductible and it does consider group relief surrendered for nil consideration to the Company by its subsidiary Spirit Energy Southern North Sea Limited.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

1. Accounting policies (continued)

Investments in subsidiaries

Investments in subsidiaries held as fixed assets are stated at the lower of carrying amount (cost less any provisions for impairment) and fair value less costs to sell. In assessing the fair value of a subsidiary, the Company applies a fair value hierarchy which categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority (level 1) to unadjusted quoted prices in active markets, then on hierarchy-level 2 uses inputs other than quoted market prices included within level 1 that are observable, either directly or indirectly, and on the lowest priority level (level 3) refers to unobservable inputs. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgement).

Unobservable inputs (level 3) are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity with regards to the subsidiary's value at the measurement date. The Company develops unobservable inputs using the best information available in the circumstances, which might include the Company's own data, taking into account all information about market participant assumptions that is reasonably available. Such own data might be estimated future cash flows which are expected to apply in the subsidiary in future years, thereby taking into consideration the subsidiary's taxation situation (such as tax losses carried forward, Investment Allowances and RFES) and expected return on the subsidiary's assumed future exploration expenditure. An alternative approach of using own data might be to estimate which cash flows a potential buyer of a subsidiary in an implied company-sale (referring to the fair value of a subsidiary) would take into consideration. Those cash flows are then discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the subsidiary for which the estimates of future cash flows have not been adjusted. The Company runs such discounted cash flow evaluations with sensitivities to consider that, in an implied company-sale (referring to the fair value of a subsidiary), a buyer is likely to pay a subsidiary-premium compared to a stand-alone asset.

The directors believe that the value of such investments is not less than that shown at the balance sheet date.

Operating lease agreements

Rentals applicable to operating leases where the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Pension costs and other post-retirement benefits

The Company makes defined contributions to employees' personal pension plans. Contributions are charged to the profit and loss account in the year to which they relate. Those employees who have reached the Lifetime Allowance ("LTA"), as defined by HMRC, are entitled to an equivalent LTA-supplement to their basic salary.

Other operating income

Other operating income includes general and administrative ("G&A") cost recharges to affiliates which are recognised when the services are rendered.

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.

1. Accounting policies (continued)

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and debtors'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and debtors

Trade debtors, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and debtors'. Loans and debtors are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becomes probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

1. **Accounting policies (continued)**

Impairment of financial assets (continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS equity instruments, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive incomes and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is derivative that is not designated and effective as a hedging instrument.

1. Accounting policies (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the profit and loss account. Fair value is determined in the manner described above.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction cost.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1 above, 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

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

Investments in subsidiaries

As described in the accounting policies above, investments in subsidiaries held as fixed assets are stated at the lower of carrying amount and fair value less costs to sell. The process of determining whether there is an indicator for any impairment or the determination of the fair value of an investment in a subsidiary requires critical judgement. The key areas in which management have applied judgement in relation to the determination of the fair value of a subsidiary are as follows: the subsidiary's intention to proceed with a future work programme for a licence; the likelihood of licence renewal or extension; the success of a well result or geological or geophysical survey; the decision whether or not to develop an asset and, if so, which development concept to choose; assessment of commercial reserves and related future capital expenditure by utilising computer models based on reservoir information obtained from seismic, drilling and production operations; choosing an appropriate discount rate for the discounting of future cash flows; and the determination of which future commodity prices to apply to the subsidiary's commercial reserves.

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.

Fair value of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires the determination of their fair values and hence, at fair value hierarchy-level 3, estimations of the future discounted cash flows of the exploration, development and production assets held by the subsidiaries.

Thereby, the outcome of continuing exploration is inherently uncertain as it depends on a number of factors, including whether commercial reserves exist and estimates of future commodity prices, capital / operating expenditure and an appropriate discount rate. Also, estimating the value-in-use of a subsidiary's development and production assets requires estimates to be made of, in particular, future commodity prices, production and sales volumes, capital/operating expenditure and appropriate discount rate.

3. Staff costs

	2017 £	2016 £
Wages and salaries including bonus (after employees' salary sacrifices)	1,776,402	1,434,779
Social security costs	235,661	187,552
Pension costs (including employees' salary sacrifices)	217,358	252,842
Redundancy payments	-	253,898
	2,229,421	2,129,071

The average monthly number of employees (full-time equivalents) during the year was as follows:

	2017 No.	2016 No.
Directors	3	3
Administration	2	2
Technical	6	8
	11	13

On 31 December 2017, the Company had 11 employees.

3. Staff costs (continued)

	2017	2016
	£	£
Directors' remuneration (including LTA-supplement in lieu of pension contribution)	477,583	361,300

The Company contributes to the personal pension plans of its staff. Contributions are charged to the profit and loss account as payable. £25,269 of the December 2017 pension contributions were paid in early January 2018 (thereof £nil relating to a Director).

Information regarding the highest paid director for the year ended 31 December 2017 is as follows:

	2017	2016
	£	£
Emoluments (including accruals)	477,583	361,300

Two directors did not receive any emoluments regarding their services to the Company (2016: two), they were paid by other group companies.

4. Administrative expenses

The administrative expenses consist of – amongst others:

	2017	2016
	£	£
Administrative expenses – before exceptional items		
Fees payable to the Company's auditor for the audit of its and Spirit Energy Southern North Sea Limited's annual financial statements	45,301	47,797
Total audit fees	45,301	47,797
Tax services	14,896	20,133
Total non-audit fees	14,896	20,133
Accountancy	112,378	110,733
Legal	30,868	50,344
Depreciation – owned assets	96,508	164,861
IT costs	373,915	295,550
Travel costs	48,023	40,457
Exchange rate variance (operating activities – non-intercompany)	(2,186)	(762)
Exchange rate variance (operating activities – intercompany)	133	(467)
Administrative expenses – exceptional items		
Impairment of investment in subsidiary Spirit Energy Southern North Sea Limited (see note 10 "Investments in subsidiaries" for further details)	49,000,000	24,000,000
Restructuring costs regarding the planned closure of the Sevenoaks office in 2018 (expected termination payments & onerous lease)	450,000	-

5. Other operating income

The other operating income consists of:

	2017 £	2016 £
G&A cost recharges to Spirit Energy Southern North Sea Limited	1,887,742	2,484,974
G&A cost recharges to Bayerngas Norge AS	41,486	67
G&A cost recharges to former affiliate SWM UK Wind One Limited	142,000	122,000
	2,071,228	2,607,041

6. Investment income

	2017 £	2016 £
Interest received from banks	532	12,759
Interest received from Spirit Energy Southern North Sea Limited	4,192,422	12,749,692
Exchange rate gain from financing activities – non - intercompany	17,592	44,080
Exchange rate gain from financing activities – intercompany	-	290
	4,210,546	12,806,821

7. Interest payable and similar charges

	2017 £	2016 £
Interest payable to Bayerngas Norge AS	27,665	1,355,510
Interest payable to Spirit Energy Treasury Limited	221,852	-
Interest payable to subsidiaries of former ultimate parent company Stadtwerke München GmbH	4,541,582	5,005,427
Exchange rate loss from financing activities – non-intercompany	12,409	11,293
Exchange rate loss from financing activities – intercompany	-	6,270,828
	4,803,508	12,643,058

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8. Taxation

Tax on loss on ordinary activities

	2017 £	2016 £
Deferred tax		
Origination and reversal of temporary differences	(8,387)	(9,332)
Deferred tax	(8,387)	(9,332)
Total tax on loss on ordinary activities	(8,387)	(9,332)

The applicable tax rate for the 12 months to 31 December 2017 is 19.25% as a result of the tax rate reducing from 20% to 19% as of 1 April 2017. The rate of 19% has been used in the calculation of deferred tax. Finance Act 2016 announced that this rate will further reduce to 17% from 1 April 2020, with no material impact to the balance sheet expected.

Factors affecting the tax credit for the year:

The difference between the amount of total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2017 £	2016 £
Loss on ordinary activities before tax	(51,334,059)	(24,558,885)
Tax on loss on ordinary activities at the standard UK corporation tax rate of 19.25% (2016: 20%)	(9,881,806)	(4,911,777)
Effects of:		
Expenses not deductible/income not taxable	9,435,963	4,553,962
Losses carried back into previous tax year	-	347,993
Losses for which deferred tax not recognised	437,346	-
Rate differences	110	490
Total tax credit for the year	(8,387)	(9,332)

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9. Tangible fixed assets

	Fixtures, fittings, furniture & equipment £	Totals £
Cost		
At 1 January 2016	1,107,369	1,107,369
Additions	58,503	58,503
At 1 January 2017	1,165,872	1,165,872
Additions	607	607
At 31 December 2017	1,166,479	1,166,479
Depreciation		
At 1 January 2016	817,445	817,445
Charge for the year	164,861	164,861
At 1 January 2017	982,306	982,306
Charge for the year	96,508	96,508
At 31 December 2017	1,078,814	1,078,814
Net book value		
At 31 December 2017	87,665	87,665
At 31 December 2016	183,566	183,566

10. Investments in subsidiaries

Cost	Total £
At 1 January 2016	151,025,090
Additions (Debt to equity conversion)	193,000,000
At 1 January 2017	344,025,090
At 31 December 2017	344,025,090
Provisions for impairment	
At 1 January 2016	43,000,000
Impairment	24,000,000
At 1 January 2017	67,000,000
Impairment	49,000,000
At 31 December 2017	116,000,000
Book value	
At 31 December 2017	228,025,090
At 31 December 2016	277,025,090

The book value at 31 December 2017 of £228,025k and the impairment of £49,000k in respect of the Company's investments in Spirit Energy Southern North Sea Limited. The impairment charge reflects the subsidiary's fair value less costs to sell from the perspective of the Company's new intermediate parent Spirit Energy Limited. Details of provisions for how the Company evaluates investments in subsidiaries can be found in note 1 to these Financial Statements in the paragraph "Investments in subsidiaries".

The principal undertakings, where the Company - directly or via a subsidiary - held 20% or more of the equity share capital at 31 December 2017 are below:

Company/Subsidiary Undertakings	Country of registration or incorporation	Class of shares held	%	Nature of Business
Spirit Energy Southern North Sea Limited	England (Windsor)	Ordinary	100	Oil & Gas

11. Debtors: amounts falling due within one year

	31 December 2017 £	31 December 2016 £
Amount owed by Spirit Energy Southern North Sea Limited	43,090,288	65,543,475
Other debtors	-	150
Amounts owed by parent company	41,485	-
VAT	-	26,609
Prepayments	61,707	97,676
	43,193,480	65,667,910

Amounts owed by Spirit Energy Southern North Sea Limited (£43.1 million / 2016: £65.5 million) relates to an unsecured loan agreement that incurs interest of LIBOR plus margins of 638 base points. The loan is repayable on 1 October 2020 or at any time earlier upon request of the lender which is why they are subsumed as 'amounts falling due within one year'. Spirit Europe Limited has agreed not to demand repayment of the amount due to it until Spirit Energy Southern North Sea Limited is in a position to do so.

12. Creditors: amounts falling due within one year

	31 December 2017 £	31 December 2016 £
Amounts owed to affiliated company Spirit Energy Treasury Limited (from loans)	49,095,803	-
Amounts owed to subsidiaries of former ultimate parent company Stadtwerke München GmbH (from loans including interest liabilities)	-	70,338,324
Amounts owed to parent company (from operations)	-	56,501
Trade creditors	16,177	64,214
Social security and other taxes	221,151	52,455
VAT	1,902	-
Accruals	652,861	170,917
Other liabilities	3,680	-
	49,991,574	70,682,411

The Amounts owed to affiliated company Spirit Energy Treasury Limited (from loans) of £49.1 million relate to an unsecured loan agreement that bears interest at a rate of UK LIBOR plus a margin of +660 base points and has a due date of 31 December 2017. On 8 December 2017, the day of creation of 'Spirit Energy', all rights and obligations under that loan agreement were assigned and transferred from the previous lenders, two subsidiaries of former ultimate parent company Stadtwerke München GmbH, to Spirit Energy Treasury Limited in a 3-step process by way of assumption of contract. On 5 March 2018 the Company signed a £75 million revolving credit facility loan agreement ("RCF") with Spirit Energy Treasury Limited according to which the outstanding balance of the loans above shall be deemed to have been repaid with effect from 31 December 2017 in satisfaction of any obligations under the previously existing loan relationships between the parties and such amount (£49.1 million) shall be deemed to have been drawn under the new RCF which has a repayment date of 31 December 2020. See details in note 1 regarding "Going concern basis".

13. Deferred Taxation

	Deferred tax £
Deferred tax provision at 1 January 2016	(8,081)
Credited to profit and loss account	(9,332)
Deferred tax provision at 1 January 2017	(17,413)
Credited to profit and loss account	(8,387)
Deferred tax receivable at 31 December 2017	(25,800)

The following are the deferred tax (assets)/liabilities recognised by the company:

	31 December 2017 £	31 December 2016 £
Accelerated capital allowances	(22,950)	(14,130)
Other temporary differences	(2,850)	(3,283)
	(25,800)	(17,413)

14. Called up share capital

	31 December 2017 £	31 December 2016 £
Authorised, issued, allotted, called up, fully paid		
440,672,316 (31 December.2016: 440,672,316) ordinary shares of £0.03 each	13,220,169	13,220,169

15. Share premium account

	Total £
At 1 January 2016	195,779,613
Debt to equity conversion	102,405,147
Equity contributions made in cash	60,140,000
At 1 January 2017	358,324,760
At 31 December 2017	358,324,760

The Other Reserve (£4,994,000) relates to the purchase of Spirit Energy Southern North Sea Limited's remaining 50% shares in 2007.

16. Profit and loss account

	Total £
Balance at 1 January 2016	(78,676,166)
Loss for the year	(24,549,553)
Balance at 1 January 2017	(103,225,719)
Loss for the year	(51,325,672)
Balance at 31 December 2017	(154,551,391)

17. Controlling party

The immediate parent undertaking is Bayerngas Norge AS, a company incorporated in Norway. Bayerngas Norge AS is owned by Spirit Energy Limited, a company incorporated in the United Kingdom. The ultimate controlling party is Centrica plc, a company incorporated in the United Kingdom, which consolidates these financial statements. Centrica plc's financial statements can be obtained at www.centrica.com.

18. Capital Commitments

The Company is, beyond existing accruals for the initial rent-free period, committed to pay £86,000 per annum for the office rent on their premises in Sevenoaks until the end of the lease in October 2018; thereof the period from April 2018 has been accounted for within a restructuring cost accrual on 31 December 2017 covering the onerous portion of the lease after the Sevenoaks office closure.

19. Post balance sheet events

On 5 March 2018 the Company signed a £75 million revolving credit facility loan agreement ("RCF") with Spirit Energy Treasury Limited according to which the outstanding balance of the loans previously granted by Spirit Energy Treasury Limited shall be deemed to have been repaid with effect from 31 December 2017 in satisfaction of any obligations under the previously existing loan relationships between the parties and such amount shall be deemed to have been drawn under the new RCF which has a repayment date of 31 December 2020. See details in note 1 regarding "Going concern basis".

Oil and gas exploration and production activities - unaudited

Net gas, oil and natural gas liquids reserve quantities for the year ended 31 December 2017.

The reserve quantities relate to the UK. They have been determined by professional reservoir engineering and subsurface personnel utilising computer models based on reservoir information obtained from seismic, drilling and production operations.

Commercial reserves comprise 2P reserves of 2.97 billion cubic metres of natural gas relating to a 25% interest in the Clipper South Field, to a 13% interest in the Babbage Field, and to a 12.5 % interest in the Cygnus Discovery. The combined commercial gas production from those fields in 2016 was 0.51 billion cubic meters of natural gas.