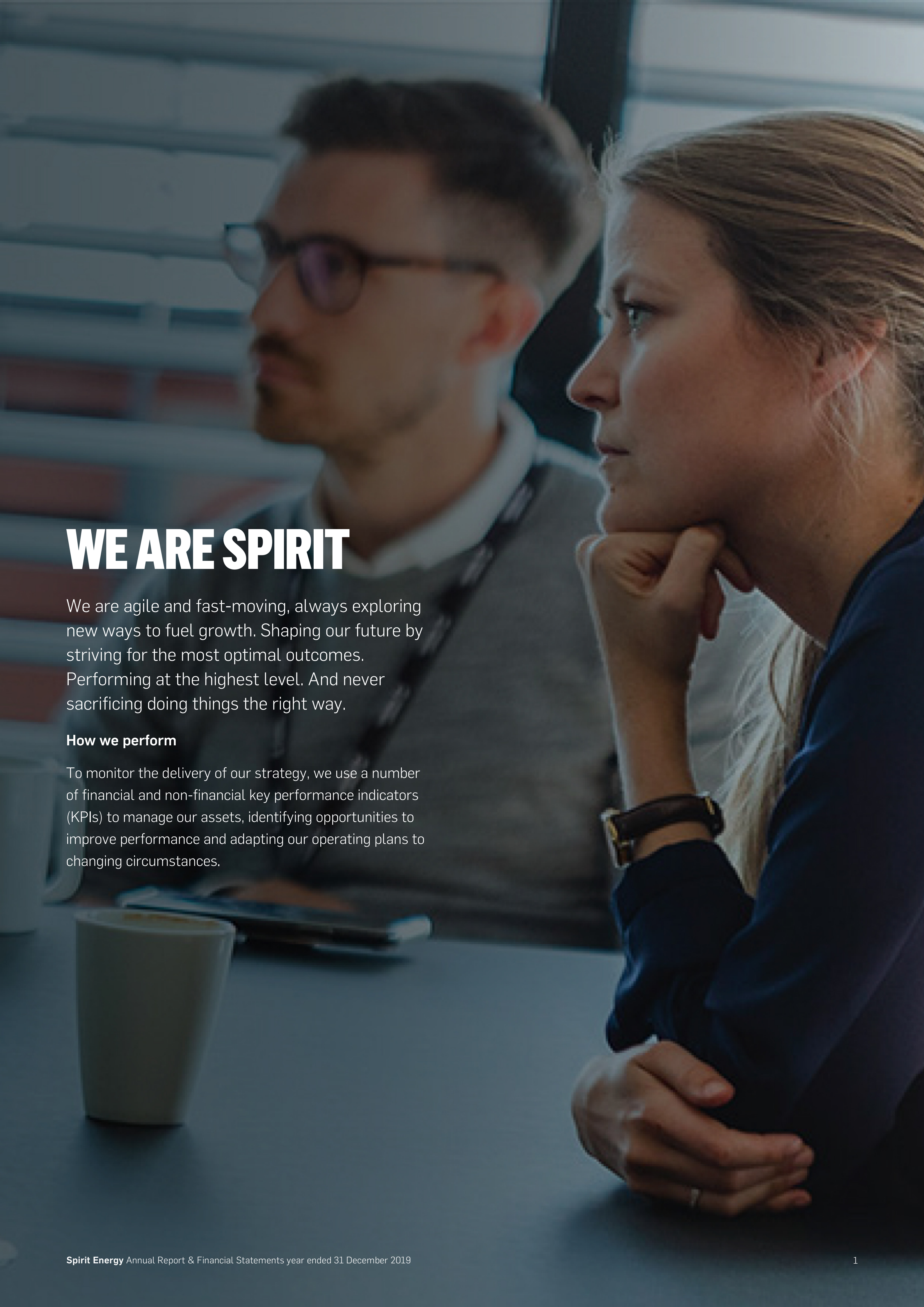
Annual Report & Financial Statements
Year ended 31 December 2019

PROUD OF OUR PERFORMANCE

SPIRIT ENERGY



WE ARE SPIRIT

We are agile and fast-moving, always exploring new ways to fuel growth. Shaping our future by striving for the most optimal outcomes. Performing at the highest level. And never sacrificing doing things the right way.

How we perform

To monitor the delivery of our strategy, we use a number of financial and non-financial key performance indicators (KPIs) to manage our assets, identifying opportunities to improve performance and adapting our operating plans to changing circumstances.

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GENERAL INFORMATION

Directors

V.M. Hanafin (Chairman)
Dr. T.C. Meerpohl (Deputy Chairman)
J.A. Bell (resigned 30 April 2020)
C.M. Cox
T. Holm
D.A. Isenegger
K.M. Robertson (resigned 31 December 2019)
G.C. McKenna (appointed 31 December 2019)
J.S. Bessell (appointed 1 May 2020)

Registered office

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

Auditor

Deloitte LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Company number

10854461

Company type

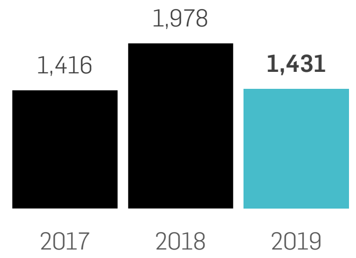
Spirit Energy Limited is a private limited company and registered in England and Wales.

FINANCIAL HIGHLIGHTS

Revenue £m

£1,431m(i)

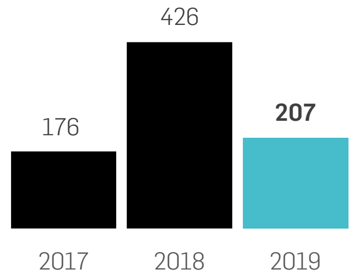
2019



Adjusted operating profit £m

£207m(ii)

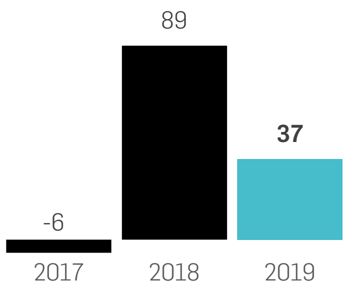
2019



Adjusted profit after tax £m

£37m(ii)

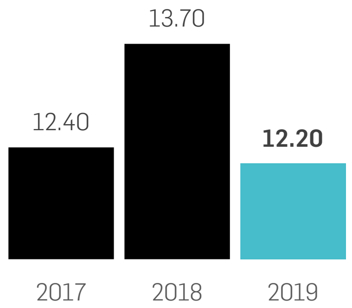
2019



Lifting cost per barrel £/boe

£12.20/boe(ii)

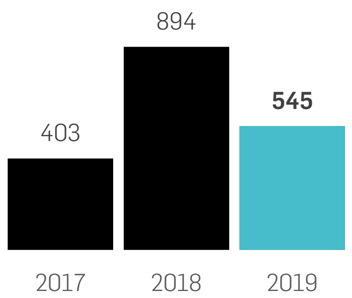
2019



Net cash from operating activities £m

£545m

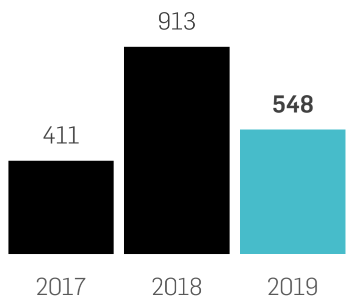
2019



Adjusted operating cash flow £m

£548m(ii)

2019



(i) Restated for presentation of energy derivatives. See note 1 to the Financial Statements

(ii) The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Please refer to page 88 for definitions and reconciliation of adjusted performance measures to the statutory results.

CHAIRMAN'S STATEMENT

On behalf of Spirit Energy's Board of Directors, I am pleased to report that despite the uncertainty of commodity prices in 2019, Spirit Energy had a strong year in which we delivered good results and returns for our Shareholders. I am proud of the achievements of the Spirit Energy team who pursued opportunities to optimise the corporate strategy to create long-term value. Through strong performance and cost discipline, revenues exceeded £1,400 million (2018: £1,978 million) and adjusted operating profit was £207 million[(i)] (2018: £426 million). Including exceptional charges of £516 million (2018: exceptional credit of £91 million) and unrealised re-measurement of energy contracts credit of £194 million (2018: £(5) million), the statutory operating loss was £115 million (2018: operating profit £512 million). Free cash flow was £117 million[(i)] (2018: £444 million) and £400 million (2018: £nil million) was paid in dividends to Shareholders in 2019.

Volatility in the global geopolitical backdrop persisted in 2019 and will carry on in 2020. The extraordinary impact COVID-19 has had on individuals, societies and economies across the world has brought us all into unfamiliar territory. COVID-19 will impact our operations and may require temporary shut-in if there is an outbreak for this to be dealt with safely. We have had one such instance at the Chestnut field, and following a full crew change, operations recommenced after a temporary suspension. Even before the pandemic reached the countries where we operate, oil prices had fallen victim to a battle for market share and surging production. Prices will likely remain low throughout the remainder of the year as supply outstrips demand – looking longer-term, the impact on our industry from the current level of volatility is unknown.

This unknown reinforces the need for Spirit Energy to remain agile and focused in the way we pursue our strategic goals – concentrating on getting the right balance between exploring new opportunities and extending the life in those areas we are already producing. It is the Board's responsibility to ensure the Executive team are making the right decisions to ensure the business is robust, while flexible enough through this period of unprecedented change in our industry and society.

In 2019 significant strides were made in strengthening Spirit Energy's foundation and important progress was achieved towards our production targets and sustainability.

A Strong Foundation

Since its inception in December 2017 the Spirit Energy team has been focused on creating an agile, independent full-cycle exploration and production company. The successful separation of functional services previously provided by Centrica brought us closer to realising that vision. It was an immense undertaking which was executed seamlessly and as a result Spirit Energy is now standing on its own feet with a clear sense of purpose. The rigour in systems and processes of our large company heritage has been retained but in a nimble, lower cost model supporting the creation of long-term value for our Shareholders.

Health and Safety Remains a Priority

Nothing exemplifies this more than the continued trend of improved performance in both personal and process safety that we saw in 2019. Recognising the importance of driving continuous improvement, the Board and Executive Management supported the launch of an Incident Free Workplace initiative. The core principle of Incident Free Workplace is that every incident is preventable. A key goal for 2020 is to ensure that we translate this into even further improvements.

A Relentless Focus on Performance

We saw improved performance this year despite difficult conditions. We benefited from the hard work of teams both on and offshore and from the decisive action taken in 2018 to improve our production efficiency. Particularly commendable was the relentless focus on performance by the Executive Management team at the same time as they were called on to support the marketing process for Shareholder equity in Spirit Energy. This ongoing performance focus is the best thing the Spirit Energy team can do to help position the company for the future.

(i) The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Please refer to page 88 for definitions and reconciliation of adjusted performance measures to the statutory results.

Sustainability and a Commitment to the Environment

The energy industry has to do two things: supply reliable and affordable energy; and provide solutions to climate change.

Sustainability for Spirit Energy is about us running our operations in a safe, responsible, efficient and profitable way. At its most basic level this means adopting responsible business practices that do no harm and comply with all applicable standards.

However, in playing our part in helping to solve climate change we need to go further in reducing the environmental footprint and CO_2 emissions of our operations. In 2019 Spirit Energy made good progress in substantially decarbonising our operated assets and minimising our primary production emissions through improved operational efficiency. There is more we can do and the recent formation of an energy transition working group will help guide our progress.

Our business is about creating economic value that also makes a positive contribution to society by providing institutions, businesses and individuals with the primary energy and products that support their quality of life. As the COVID-19 pandemic subsides, our economies will need a kickstart, and historically reliable and affordable energy sources are inextricably tied to economic growth. As such we are committed to exploring new ways to support growth and enhance hydrocarbon recovery with reduced emissions intensity. While it is too soon to tell how things will play out, it is not unreasonable to believe that natural gas may prove more resilient than other fuels and could have both a critical role in the transition to a low-carbon energy future and in supporting much needed economic growth.

While I am encouraged by Spirit Energy's success in 2019, I am even more encouraged by the determination and ambition that I have found across the Company. It is our employees that continue to deliver inspiring performance, even in conditions that force us to work from home or with minimum staffing levels on our assets. I would like to thank them on behalf of the Board, for their hard work and commitment over the past 12 months and in the unpredictable days ahead.

A CLEAR SENSE OF PURPOSE

Mark Hanafin
Chairman

IT'S WHAT'S BENEATH THE SURFACE THAT COUNTS

Chris Cox
Chief Executive Officer

The solid foundations we established during 2018 paved the way for progress in a number of key areas in 2019 including improved processes, greater efficiency and a relentless focus on performance. Notwithstanding the progress made, the low commodity price levels seen in 2019 contributed to exceptional charges of £516 million (2018: credit of £91 million), principally related to impairments on certain fields, and a statutory operating loss of £115 million (2018: profit of £512 million). Our adjusted operating profit was £207 million[(i)] (2018: £426 million) and our adjusted operating cash flow was £548 million[(i)] (2018: £913 million).

In an ever-changing environment – including volatile gas and oil prices and the extraordinary impact of the spread of the COVID-19 virus on businesses and on individuals – we are determined to ensure that we allocate our resources to the appropriate areas, consistent with our long-term strategy of adding value as a lean, agile and sustainable exploration and production company focusing on growth in North-West Europe.

Our vision is to become a leading full cycle exploration and production player, running assets to the highest standard and achieving great commercial deals. I am pleased to share with you the progress we made during our second year as an independent business.

(i) The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Please refer to page 88 for definitions and reconciliation of adjusted performance measures to the statutory results.

Safety

We believe that all accidents are preventable so I was proud of the action we took in 2019 on our enduring commitment to keep our colleagues, the people we work with and the environment safe. We undertook a refresh of our approach to health and safety and in launching our Incident Free Workplace initiative we saw improved overall health and safety performance. Our total recordable injury frequency rate of 0.18 per 200,000 hours worked and a process safety incident rate of 0.07 during 2019 was an improvement over 2018 rates of 0.20 and 0.11, respectively (please refer to the non-financial KPIs shown on page 12). These lower rates of frequency are a testament to the commitment of everyone at Spirit Energy and I know we will all continue working together to keep health and safety top of mind.

Production and costs

Having produced 45.8 million barrels of oil equivalent (mmboe) in 2019 (2018: 46.8mmboe), our performance fell within our target range of 45 to 55mmboe and was aided by strong performance at key fields like Cygnus and Morecambe. I am particularly proud of the hard work of our teams both offshore and onshore at Morecambe, where production efficiency has been transformed. Targeted investment in our Morecambe facilities saw the combined fields achieve production efficiency of 77% in 2019 versus 32% during 2018. Looking to 2020, in the face of extraordinary challenging headwinds we will continue to refine our capabilities in operating maturing assets and will work with our partners in Morecambe on a review of options to extend the life of one of the UK's most important gas hubs.

With commodity prices remaining volatile and falling towards the end of the year, key focus areas in 2019 were the factors within our control and maintaining a strong discipline around our costs.

On lifting costs, we worked very hard to deliver cost efficiencies in our Morecambe assets, and savings in intervention and maintenance costs in Trees and the Greater Markham Area (GMA) assets, respectively. Collectively these achievements helped deliver lifting cost per barrel of £12.20/boe, a significant reduction when compared to £13.70/boe in 2018 (please refer to the financial KPIs shown on page 12).

On one end of the asset lifecycle, our first operated development in Norway, Oda, reached first oil in March 2019, five months earlier than originally planned and under budget. The close collaboration with our supply chain partners in successfully delivering that project gives us confidence and a blueprint for how we approach the 12 operated and non-operated developments in our current portfolio.

At the other end of the asset lifecycle, we realised near 20% savings across our operated decommissioning portfolio, making savings of £46 million on our original budget estimates, predominantly in our work on the A Fields in the Southern North Sea and the DP3 and DP4 installations in Morecambe Bay.

Despite these measures, exceptional charges of £516 million (2018: exceptional credit of £91 million) were recognised in the year principally related to impairments due to decreases in price forecasts and portfolio rationalisations.

Exploration, discoveries and reserves maturation

2019 was also very significant for the Greater Warwick Area (GWA) where, with our partner Hurricane Energy, we completed a three-well campaign in the West of Shetland, fulfilling our phase one commitments under the farm-in agreement with our partner. The ongoing technical evaluation will be critical to building our forward plans.

In total during 2019, we participated in eight exploration and appraisal wells, seven of which encountered hydrocarbons.

Our reserves to production ratio improved to 6.2 times, primarily due to a 31mmboe revision to Statfjord from its life extension project, but also positive revisions of Kvitebjorn, Cygnus and South Morecambe.

High-performing teams

As we have grown, we have created a robust company and a culture where we want everyone in our team to feel valued and included. One of my current focuses is on improving diversity across our teams and as part of this commitment I personally support our employee-led Gender Balance group. Other members of the Executive Committee support our other employee-led groups such as Disability, Carers and Wellbeing, Ethnicity and Working Parents.

It is a priority for the whole of the Executive Committee that every person – regardless of race, gender, background or disability – can thrive at Spirit Energy. Our teams are routinely a source of ideas for running our operations more efficiently, maximising uptime and improving reliability – but in supporting our diversity and inclusion efforts I have been struck by the huge contribution that individuals can make in building a welcoming, supportive and high performing culture.

Our achievements in 2019 are a real testament to the dedication, hard work and expertise of our teams and I would like to thank them for everything that they have achieved.

The future

As we turn to 2020, there is no doubt that as individuals and as an industry we face an unprecedented challenge in the outbreak and spread of COVID-19. Our primary focus is on the health and safety of our people, while helping to secure the energy supplies needed in the countries where we operate at this critical time. We have made plans should there be an outbreak in our operations but cannot discount the possibility of a protracted suspension of production at any one of our fields. In April 2020, we had a temporary suspension of production on the vessel at the Chestnut field after a crewmember presented with flu like symptoms. Following a crew change and deep clean of the vessel, production was restarted after ten days.

COVID-19 has also contributed to the significant decline in commodity prices. We have reduced our outlook on free cash flow but expect to remain free cash flow neutral in 2020 through measures to reduce operating costs, capital expenditure and decommissioning spend.

We continue to build on the progress made in 2019, taking on operatorship at the exciting Ossian discovery in the Southern North Sea, as well as achieving first production from wells drilled at Chestnut and Chiswick. This year has also seen renewed investment in the Statfjord field in Norway – viewed as coming to the end of its life just six months ago, but thanks to our work alongside our partners now extended out to 2040 with up to 100 wells to be drilled in the field.

Currently, shareholder equity in Spirit Energy is undergoing a marketing process, while this process has currently been paused until financial and commodity markets have settled, I believe this will open up the potential for fresh investment in our business. As we have grown, we have created a robust company and a culture where we want everyone in our team to feel valued and included. I believe that is key to maintaining our high level of delivery through 2020 and beyond, and so creating one of North-West Europe's leading full-cycle exploration and production companies.

THE POWER TO BE DIFFERENT

Our vision is to become a leading full cycle exploration and production player, running assets to the highest standard and achieving great commercial deals.

The Directors present their consolidated strategic report for Spirit Energy Limited (the 'Company') and its subsidiaries (together, the 'Group' or 'Spirit Energy') for the year ended 31 December 2019.

Principal activities and strategy

Spirit Energy is a leading independent oil and gas operator in Europe, with 2019 production of 45.8 million (2018: 46.8 million) barrels oil equivalent ('mmboe'), and at the end of 2019, had proven and probable ('2P') reserves of 284mmboe (2018: 270mmboe). We have operated and non-operated interests across the UK, Norway, the Netherlands and Denmark, with 33 producing fields and 136 exploration licences.

Spirit Energy's strategy is to add value as a lean, agile and sustainable company with a focus on growth in North-West Europe.

Our strategy is to:

Create a winning Spirit platform

To challenge the way we work, always seeking streamlined and efficient delivery, to be a lean and agile business with distinctive core capabilities.

Deliver the potential

The need for constant and relentless performance, focus on everything we do to achieve industry-leading safety standards, deliver every possible barrel of production, and keep control of our costs to generate superior returns and be resilient to fluctuations in oil and gas prices.

Grow the reserves pipeline

To continuously replenish production with new resource acquisition and deliver the project pipeline.

Spirit Energy made good progress against the strategy in 2019. We made several significant new discoveries in particular in the Greater Warwick Area, grew our reserves base by net 14mmboe after accounting for production, delivered cost savings particularly in the mature Morecambe asset, extended the life of most of our mature assets most notably in Statfjord, demonstrated strong performance in our operated assets and delivered better than industry-average safety performance with a TRIF (total recordable incident frequency) rate of 0.18 compared to 0.30 industry average. However, production performance was below target for the year and lower than 2018 but this was still better than the P50 estimate for the year. Overall, in a year where gas prices were 29% lower than 2018 and where we continued to spend £470 million to grow the business, it was a tremendous achievement to deliver positive Free Cash Flow.

Section 172(1) Directors' Duty

As a result of being responsible for overseeing our Strategy described above, the Directors remain conscious of the impact their decisions can have on employees, communities and the environment.

Proactive engagement remains a central focus for the Board, which ensures the Directors have regard to the matters set out in S.172(1) (a) to (f) of the Companies Act. They receive regular stakeholder insights and feedback, which enables them to place stakeholder considerations at the very heart of the Board's decisions as follows:

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Key performance indicators (KPIs)

In order to monitor the delivery of our strategy, we have identified KPIs which are used across the business to manage the assets and identify opportunities to improve performance and adapt operating plans to changing circumstances. Performance against KPIs is tracked and reviewed at monthly meetings of the Executive Committee and is reported to the Board of Directors. The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Please refer to page 88 for definitions and reconciliation of adjusted performance measures to the statutory results. The following tables discuss the financial and non-financial KPIs for the current year with prior year comparatives.

Financial KPIs

KPI	Description	Relevance to Group strategy	**2019 Performance for year**	2018 Performance for year
Adjusted operating profit	Operating profit before exceptional items and unrealised re-measurements of energy contracts[i]	Reflects company profitability performance	£207m	£426m
Adjusted profit after tax	Profit for the year after tax before exceptional items and unrealised re-measurements of energy contracts and related taxation[i]	Reflects company profitability performance	£37m	£89m
Adjusted operating cash flow	Net cash flow from operating activities before payments relating to exceptional charges	Reflects cash flow available for capital expenditure	£548m	£913m
Free cash flow	Adjusted operating cash flow less purchases of PP&E and intangibles and proceeds from sales of PP&E and intangibles	Reflects cash flow available for Shareholder dividends and servicing finance	£117m	£444m
Lifting cost per barrel	All field operating costs and tariffs (net of costs incurred for running a third-party terminal at Barrow)	Reflects competitive cost structure and ability to generate cash flow in a low-price environment	£12.2/boe	£13.7/boe

(i) A description of exceptional items and re-measurements of energy contracts is provided in note 2 within the notes to the Financial Statements.

Non-financial KPIs

KPI	Description	Relevance to Group strategy	**2019 Performance for year**	2018 Performance for year
Total recordable incident frequency ('TRIF') rate	Total recordable incidents per 200,000 hours for operated assets	Reflects safety performance which is a core foundation of a sustainable company	0.18	0.20
Process safety incident rate ('PSIR')	Number of Tier 1 and Tier 2 process safety incidents per 200,000 hours for operated assets	Reflects safety performance which is a core foundation of a sustainable company	0.07	0.11
Production	Production of gas, oil and liquids	Core driver of revenue generation and long-term sustainability of production	45.8 mmboe	46.8 mmboe
Reserves/production	2P reserves/current year production	Reflects long-term sustainability of production	6.2	5.8

Operating review

Annual production was down 2% compared to 2018 to 45.8mmboe, but within the target range of 45mmboe to 55mmboe for 2019, with a slight increase in gas production volumes offset by lower liquids production. We saw improved operational performance from the operated Morecambe field which largely offset natural decline across the portfolio and lower availability at Statfjord. Our 2P reserves were 14mmboe higher at the end of 2019 than at the end of 2018, with 64mmboe of positive revisions more than offsetting the impact of production and the Valemon and Sindre divestments in the year. The Statfjord life extension resulted in 31mmboe of the revision, with positive revisions also recognised at Kvitebjorn, Cygnus and South Morecambe. Overall this represented a reserves/production ratio of 6.2 times (2018: 5.8 times).

Lifting costs decreased from £13.7/boe in 2018 to £12.2/boe in 2019, the decrease principally reflecting improvements in underlying costs and reflecting favourable foreign exchange. The main contributors were the delivery of Morecambe asset efficiency savings, lower Trees asset intervention, lower maintenance costs on GMA, and lower tariff costs driven by lower production.

We continued to achieve a substantial cost saving across our operated decommissioning portfolio. Focussed project execution delivered first oil on Oda ahead of schedule and under budget. In 2019, three wells were drilled in the Greater Warwick Area, in which Spirit Energy owns a 50% interest. The Lincoln Crestal well confirmed the presence of light oil and produced at potentially commercial rates. The Warwick area yielded mixed results. Warwick Deep proved unsuccessful with water production and minor oil encountered. Warwick West was a discovery and confirmed the presence of light oil which was produced to surface during well testing. Further technical analysis is required to understand reservoir quality in this area. A further eight exploration and appraisal wells were drilled in 2019, and the last of which (the Wintershall Dea operated Bergknapp prospect) was a discovery.

Future developments in business

Our objective remains to deliver production in the range of 45–55mmboe per annum and to reduce average unit lifting costs through production efficiency and cost efficiency programmes to below £12/boe.

We plan to continue to reinvest up to 80% of our operating cash flow on capital projects across our operated portfolio in Chestnut and Chiswick, and non-operated portfolio on Statfjord life extension, GWA, and the Nova development in Norway which is proceeding as planned, with production due to begin in the fourth quarter of 2021. The field has an estimated 77mmboe of 2P reserves and Spirit Energy owns 20%.

Furthermore, we expect to participate in up to four exploration wells in 2020 in our Norway operations.

The Group continues to execute decommissioning projects and in 2020 will be focussing primarily on Morecambe.

In February 2020, we signed a deal for the sale of the Danish assets Hejre and Solsort to Ineos, which we expect to complete later this year.

Financial review

Group revenue decreased by £547 million, or 28%, to £1,431 million (2018: £1,978 million) principally due to lower commodity prices and adverse foreign exchange movements.

Cost of sales were £1,192 million, 3% lower than 2018. The decrease in costs principally represents lower lifting costs.

Operating costs of £180 million were £22 million lower than £202 million in 2018 reflecting improvements in underlying general and administrative costs.

The statutory operating loss was £115 million in 2019 compared to profit of £512 million in 2018. Operating loss included exceptional costs of £516 million (2018: exceptional income of £91 million). This comprised net impairments of £548 million (post-tax £408 million) on certain fields, predominantly due to decreases in price forecasts and portfolio rationalisations, and a reversal in unused decommissioning provisions of £32 million (post-tax £20 million) relating to assets previously impaired through exceptional items. Loss after taxation for the year is £271 million (2018: profit £191 million).

Alternative performance measures

Adjusted operating profit was down £219 million or 51% to £207 million principally due to lower commodity price, lower production, and higher depreciation charges following 2018 asset write-backs, offset by favourable lifting costs and operating costs.

Adjusted profit after tax was down £52 million, or 58%, to £37 million (2018: £89 million). This reflects the overall decline in adjusted operating profit and higher net financing costs.

Adjusted operating cash flow was down 40% to £548 million, driven primarily by lower commodity prices, higher tax payments relating to 2018 tax liabilities, and adverse working capital movements. After capital expenditure of £470 million, the Group generated free cash flow of £117 million in 2019 compared to £444 million in 2018.

Principal risks and uncertainties

Spirit Energy is exposed to risks arising from compliance, environmental, strategic, operational and financial factors. Accordingly, our management system includes a risk, assurance and control framework to ensure that consistent methods and processes are applied across the business to manage risks and opportunities arising in delivering our strategy. The risks associated with Brexit and our mitigating actions are discussed within the exit from the European Union section.

Key risks include significant operational risks, particularly relating to the safe and reliable operation of the business, retention and succession of key people and effective and available information systems and security. Spirit Energy invests heavily in its resource capability and management systems including standards, policies, procedures and controls to minimise the severity of the impact and probability of such risks arising. We also maintain a comprehensive insurance programme against losses incurred in the operation of our assets and executing exploration drilling, capital developments and decommissioning projects.

Risks associated with Spirit Energy's ambitious strategic objectives such as the transformation of operational performance and achieving long-term sustainability are managed through a number of initiatives under the governance of the Executive Committee, supported by relevant project management discipline and specialist functional expertise.

Spirit Energy monitors and ensures compliance with regulatory requirements. The risks associated with compliance include market conduct, financial crime, data protection, competition and various reporting obligations such as the Modern Slavery Act.

We manage liquidity risks through an agreed financial framework to build sustainable long-term cash flow underpinning the Group's liquidity requirements and capital investments. Spirit Energy has significant cash and cash equivalents of £361 million, and a £250 million revolving unsecured credit facility provided by its Shareholders (refer to note 22b), which together are expected to cover its liquidity requirements for the foreseeable future. Investments and dividends will be managed to ensure that we maintain a working capital liquidity buffer. In the event of a potential liquidity shortfall, Spirit Energy can access external borrowings and request funding from Shareholders. In addition, exposures to commodity prices, foreign exchange rate movements and credit risk are managed through agreed hedging and treasury policies.

The recent global outbreak of COVID-19 together with the significant drop in commodity prices has presented greater challenges to the business particularly in relation to operational risks and liquidity risks noted above. On the former, Spirit Energy has measures in place to respond to the operational impact of COVID-19. More recently on 4 April 2020 a crewmember was evacuated from the floating production, storage and offloading vessel at the Chestnut field after presenting with flu like symptoms. Operations were temporarily suspended on the unit and following a deep clean of the vessel, and a crew change, production was restarted on 13 April 2020. With respect to the latter, Spirit Energy continues to operate within its Financial Framework which aims to adapt to the lower price environment through measures to reduce operating costs, capital expenditure and decommissioning spend. The impact of the current prices on the impairments booked in 2019 is set out in note 7(c).

Spirit Energy is also exposed to high inherent risks such as IT security, data protection and fraud which are mitigated through a framework of relevant controls. The energy transition section within this report describes the principal environmental risks Spirit Energy faces in the current climate.

Energy Transition

How to provide the energy needed for a growing and more prosperous global population that does not damage our environment beyond repair is one of the greatest challenges of our time. Our energy systems need to become cleaner to support long-term prosperity because the world runs on energy, opportunities are fostered by energy and lives are supported by energy.

Decarbonising the energy systems that support families and economies across our planet is a highly complex issue. For the foreseeable future, natural gas and oil will continue to be a vital part of global and domestic energy demand. Spirit Energy is proud to be part of an industry that accounts for a significant share of the energy mix.

We are equally proud that our expert workforce, supply chains, research activity, technology development and deployment and dynamic system of infrastructure has a fundamental role in the transition to a net-zero carbon future.

Our ambition is to be a top-quartile operator in terms of carbon intensity amongst our peers. Our immediate focus is on building solid baseline measurements and prioritising the most cost-effective interventions with an aim to make further progress in decarbonising our operated assets; minimising our primary production emissions through improved operational efficiency, reduced flaring and fugitive leak detection and repair programmes; reviewing the feasibility of low-carbon electricity to supply our operations, and determining appropriate emission reduction targets and setting related management incentives.

Employee engagement and culture

In 2019, we conducted a number of employee engagement and health and wellbeing surveys, and the feedback from our teams has been reviewed to make Spirit Energy an even better place to work.

Some of the comments focused on leadership capability and, more specifically, inconsistency of experience from one manager to another. This is only natural, as people are unique, and a lot of benefit is seen in the diversity that exists across the organisation. However, that can also lead to different approaches, behaviours and expectations, and so the Spirit Leadership Expectations were introduced to guide behaviours that are expected from all managers across Spirit Energy. Members of the Executive Committee have completed their leadership assessments and development conversations, and these are being rolled out across Spirit Energy at all levels.

The "Free Spirits" employee network of engagement champions was successfully launched during the year to find and implement changes, big and small, to improve and embed the culture of Spirit Energy. Leaning on the strength and numbers of our diversity and inclusion organisation, The Network, the Free Spirits have been instrumental in supporting strategic initiatives across the organisation.

Spirit Energy published its first gender pay gap report in Q2 2019. In support of gender balance, Spirit Energy also signed the AXIS Network pledge; was active in promoting STEM careers for women; and sponsored POWERful Women, with Executive Committee members taking on Ambassador roles.

A new Learning and Development programme is being launched in 2020. Employees will be able to find out about learning opportunities, online training, external courses and further education.

Business relationships

Spirit Energy aims to build enduring relationships with suppliers driven by our core values of care, agility, courage, delivery and collaboration. We measure ourselves by these values and work closely with our suppliers in encouraging them to do the same, seeing them as an extension of our teams. During our annual supplier conference, we had over 120 suppliers in attendance and for the first-time recognised suppliers with the Spirit Energy Supply Chain Awards for operating in line with our values.

In 2019 we awarded major contracts in the Operations & Maintenance categories, which have helped us reduce complexity and build stronger, deeper relationships with the selected suppliers. In preparation for our operational separation from our Shareholder Centrica plc, we set up our own indirect contracts. For those categories, this meant setting up a new Spirit Energy Supply Chain; building new relationships and accessing new suppliers.

In addition, as licence operator, Spirit Energy works closely with the Oil and Gas Authority ("OGA") and holds regular check-ins regarding business development and ongoing operations.

Exit from the European Union

The UK left the EU on 31 January 2020. The UK has now entered into the transition period which means EU law will continue to apply to, and within, the UK until the end of December 2020 (unless extended), and existing arrangements largely continue to apply. Therefore, the immediate impact on the Company of the UK leaving the EU is limited in the short term. Extricating from the European Union treaties is a task of immense complexity, but the Company is keeping the possible impacts on the business stemming from this under review, and also from the possibility of a no-deal Brexit at the end of the transition period in the event that a trade agreement is not reached so that appropriate action can be taken. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Approval

This report was approved by the Board of Directors on 27 May 2020 and signed on its behalf by:

Chris Cox
Director and Chief Executive Officer

The Directors submit their report on the affairs of the Group, together with the Consolidated Financial Statements and auditor's report for the year ended 31 December 2019.

Results and dividends

The Group's results and performance summary for the year are set out in the Group strategic report on pages 10 to 16. The Board has not recommended a payment of final dividend for the year ended 31 December 2019.

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 26 to the Consolidated Financial Statements on page 58.

Future developments

A description of future developments can be found in the Group strategic report on page 13. A description of the Group's exposure and management of risks is provided in the Group strategic report on page 14.

Going concern

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis. The Group has considered its funding position and financial projections, including stress test sensitivities, and the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Directors' considerations for the going concern assessment is summarised in note 22(b) on page 55.

Financial instruments

Full details of the Group's financial instruments can be found in notes 17, S2 and S3 to the Consolidated Financial Statements on pages 50, 67 and 71.

Directors

The Directors who served throughout the year and to the date of this report, except as noted, were as follows:

V.M. Hanafin (Chairman)
Dr. T.C. Meerpohl (Deputy Chairman)
J.A. Bell (resigned 30 April 2020)
J.S. Bessell (appointed 1 May 2020)
C.M. Cox
T. Holm
D.A. Isenegger
K.M. Robertson (resigned 31 December 2019)
G.C. McKenna (appointed 31 December 2019)

Directors' indemnities and insurance

In accordance with the Company's articles of association, the Company has granted an indemnity, to the extent permitted by law, to Directors and members of the Group's Executive Committee. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2019 and remain in force. The Company maintains Directors' and officers' liability insurance in respect of its Directors and members of the Group's Executive Committee and those Directors of its subsidiary companies.

Employment policies

Employee involvement

Spirit Energy remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through town halls, personal briefings, regular meetings, email and broadcasts by Executive Committee members during the year.

In addition to employee involvement and communication related to business updates and performance, the Group actively encourages employee engagement in various initiatives across the organisation.

Equal opportunities

Spirit Energy is committed to an active equal opportunities policy from recruitment and selection, through training, development, performance reviews and promotion, until retirement. The Group's policy is to promote equality of opportunity, diversity, respect and inclusion in the workplace and to eliminate unfair or unlawful discrimination.

Employment policies and practices reflect a culture where decisions are made solely on the basis of individual capability and potential in relation to the needs of the business. Protected characteristics covered by legislation are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including ethnic origins, nationality and colour), religion or belief, sex and sexual orientation. In addition, the Group ensures it does not treat anyone less favourably because of factors such as working part-time and or on a fixed-term contract.

Employees with disabilities

The Group's policy is committed to the fair treatment of people with disabilities in relation to job applications and they should have full and fair consideration for all vacancies. During the year, the Group continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria and endeavoured to retain employees in the workforce if they became disabled during employment. In addition, the Group offers opportunities to disabled employees for training, career development and promotion. In the event of an existing employee becoming disabled during their employment, the Group's policy is to provide continuing employment wherever practicable and to provide suitable training where required.

Human rights

The Group recognises its responsibility to respect human rights across its business, supply chain and communities and is committed to uphold and protect the human rights of individuals working in the communities and societies in which the Group operates. The Group supports and embeds the standards set out in the Universal Declaration of Human Rights; the Group will support and respect the protection of internationally proclaimed human rights and make sure that it is not complicit in human rights abuses. The Group also recognises the opportunity it must contribute positively to global efforts to ensure human rights are understood and observed.

Governance framework

Spirit Energy's relationship with its Shareholders ((GB Gas Holdings Limited (GBGH), SWM Bayerische E&P Beteilingungsgesellschaft MBH (SWM) and SWM Gasbeteiligungs GMBH (BE/PB)) is governed by the Articles of Association and the Shareholder Agreements. Together these documents stipulate the mutual obligations between Spirit Energy and its Shareholders. The Shareholder Agreements also lay out the agreed strategy, objective and purpose of the Company, as well as defining the Financial Framework, which governs how investment and distribution of profits are balanced to achieve the Company's objective of sustainable long-term cash flow. The Company aims to reinvest approximately 80% of its free cash flow back into the Company as inorganic or organic capital expenditure. Subject to maintaining a working capital buffer, all remaining free cash flow is intended to be distributed to the Shareholders, first by way of an annual dividend to the preference Shareholders with any amount remaining distributed by way of an annual dividend to the ordinary Shareholders.

Principal risks to free cash flow include; commodity prices and foreign exchange rates, production outages, the working capital cycle, emergency costs or investments and capital project delays or overruns. The Company undertakes hedging activity to protect against commodity and foreign exchange volatility. In the instance that the Company is reasonably expected to suffer an adverse cashflow position, it shall seek to: manage and reduce its capital expenditure; consider divestment of assets; request a waiver or deferral of dividend payment to Preference Shareholders; and/or seek third party debt. Spirit Energy monitors its adherence to the Financial Framework through appropriate metrics such as cash flow generation, dividend pay-out rate and debt capacity. Investment decisions are made with reference to appropriate criteria, and in all cases seek to create value for the Company.

The Shareholder Agreements also stipulate the Board composition, governance and decision approval requirements. Our Board of Directors is composed of seven non-independent directors: four non-executive directors (including the Chairman) appointed by GBGH; two non-executive directors (including the deputy-chairman) appointed by BE/PB; and our executive director, the CEO of the Company. Quorum is met when at least one representative director from each Shareholder is present and decisions are approved on a simple majority basis, with each director allocated one vote. The Board has established an Audit Committee and a Remuneration Committee to act on an advisory basis. The Board is responsible for: implementing the Company's objective and purpose; determining and implementing the Company's strategy; management and operational oversight of the Company; and taking decisions in respect of certain matters. This includes the approval of the annual budget, which allocates capital to a scope of work that the Company anticipates undertaking in the forthcoming calendar year.

There exist some matters and decisions, as specified by the Shareholder Agreements, which are reserved for approval by the Shareholders. These include (but are not exclusive to): activities that are misaligned with the Company's stated objective and purpose, entry and amendment of related party agreements, raising of debt or entry into obligations with third parties; mergers and material acquisitions; and the remuneration and performance targets set for executive senior management.

The Board has conferred levels of authority for decision making to the CEO of Spirit Energy. The CEO is assisted by the Executive Committee, a team of eight executive senior managers (including the CFO and General Counsel), who convene on a regular basis to consult on material business matters and make informed approval decisions.

As per the Shareholder Agreements and subject to confidentiality provisions therein, Spirit Energy provides regular and routine performance reporting to its Shareholders, as well as providing ad hoc information when it is reasonably requested.

Political donations

The Group operates on a politically-neutral basis. No political donations were made, or political expenditure incurred by the Group for political purposes during the current or prior year.

Financial risk management

Details of the Group's financial risk management can be found in note S2 to the Consolidated Financial Statements on pages 67 to 70.

Related-party transactions

Full details of the Group's related-party transactions can be found in note S5 to the Consolidated Financial Statements on pages 74 to 75.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 23. The Company has two classes of ordinary shares; each share carries a full voting, dividend, and capital distribution right. The preference shares have attached to them voting, dividend, and capital distribution rights. The deferred share does not have any right to a dividend, vote or distribution of profits of the Company on winding up. During the year, the Company reduced its share premium account by £1,500 million and transferred the resulting distributable reserves to retained losses.

Disclosure of information to the Company's auditor

Each of the Directors who held office at the date of approval of this Directors' report confirms that so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and that he has taken all the steps that he ought to have taken as a Director to make himself 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.

Reappointment of auditor

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as the Company's auditor in the absence of an Annual General Meeting.

Approval

This report was approved by the Board of Directors on 27 May 2020 and signed on its behalf by:

Chris Cox
Director and Chief Executive Officer

DIRECTORS' RESPONSIBILITY STATEMENT

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 year.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company 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 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.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 27 May 2020 and signed on its behalf by:

By order of the Board

Chris Cox
Director and Chief Executive Officer

FINANCIAL REPORT

Financial report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRIT ENERGY LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Spirit Energy Limited (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive (loss)/ income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to S7 to the consolidated financial statements and notes A to I to the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as applied in accordance with the provisions of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 Group and the parent 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 Group's or the parent 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.

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 Group's and the parent 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 Group or the parent 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 Group and of the parent company and their 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's 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.

Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, UK
27 May 2020

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2019 £m	2018 (restated)[i] £m
Revenue	5	1,431	1,978
Cost of sales	6a	(1,192)	(1,226)
Re-measurement of energy contracts	6b	342	(129)
Gross profit		**581**	**623**
Operating costs	6a	(180)	(202)
Exceptional items	7a	(516)	91
Operating (loss)/profit		**(115)**	**512**
Financing costs	8	(46)	(42)
Investment income	8	5	15
(Loss)/profit before taxation		**(156)**	**485**
Taxation on (loss)/profit	9	(115)	(294)
(Loss)/profit for the year		**(271)**	**191**

(i) The Group has amended the presentation of energy derivative contracts following an IFRIC agenda decision in March 2019 and a review of its trading businesses. Prior year results have been restated accordingly. See note 1 for further details.

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

The notes on pages 31 to 78 form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

Year ended 31 December	Note	2019 £m	2018 £m
(Loss)/profit for the year		**(271)**	**191**
Other comprehensive (loss)/income for the year:			
Items that will be or have been reclassified to the Consolidated Income Statement:			
Exchange (loss)/gain on translation of foreign operations	S4	(49)	2
Net (loss)/gain on cash flow hedges	S4	(1)	1
Taxation on cash flow hedges	S4	1	–
Other comprehensive (loss)/income for the year, net of taxation		**(49)**	**3**
Total comprehensive (loss)/income for the year		**(320)**	**194**

The notes on pages 31 to 78 form part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

As at 31 December	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	13	480	497
Other intangible assets	13	200	189
Property, plant and equipment	12	2,428	3,343
Derivative financial instruments	17	22	13
Deferred tax assets	14	402	593
Trade and other receivables	15	84	113
		3,616	**4,748**
Current assets			
Inventories	16	87	87
Trade and other receivables	15	380	397
Derivative financial instruments	17	160	26
Current tax assets		70	97
Assets held for sale	11	12	–
Cash and cash equivalents	22	361	639
		1,070	**1,246**
Total assets		**4,686**	**5,994**

As at 31 December	Note	2019 £m	2018 £m
Current liabilities			
Trade and other payables	18	(378)	(429)
Current tax liabilities		(197)	(251)
Lease liabilities	22	(23)	(11)
Derivative financial instruments	17	(9)	(50)
Provisions for other liabilities and charges	19	(132)	(167)
Liabilities associated with assets held for sale	11	(6)	–
		(745)	**(908)**
Non-current liabilities			
Deferred tax liabilities	14	(131)	(277)
Provisions for other liabilities and charges	19	(1,787)	(2,096)
Lease liabilities	22	(63)	–
Derivative financial instruments	17	(1)	(12)
Trade and other payables	18	(87)	(105)
		(2,069)	**(2,490)**
Total liabilities		**(2,814)**	**(3,398)**
Net assets		**1,872**	**2,596**
Equity			
Share capital	23	19	19
Share premium	24	1,094	2,594
Retained losses		(866)	(1,700)
Other equity	S4	1,625	1,683
Shareholders' equity		**1,872**	**2,596**

The Consolidated Financial Statements on pages 25 to 78, of which the notes on pages 31 to 78 form part, were approved and authorised by the Board of Directors on 27 May 2020 and were signed below on its behalf by:

Chris Cox
Director and Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium £m	Retained losses £m	Other equity £m	Total £m
1 January 2018		**19**	**3,594**	**(2,891)**	**1,615**	**2,337**
Profit for the year		–	–	191	–	191
Other comprehensive income for the year	S4	–	–	–	3	3
Total comprehensive profit for the year		**–**	**–**	**191**	**3**	**194**
Acquisition of business	S4	–	–	–	65	65
Reduction in share premium and transfer to retained losses	24	–	(1,000)	1,000	–	–
31 December 2018		**19**	**2,594**	**(1,700)**	**1,683**	**2,596**
Loss for the year		–	–	(271)	–	(271)
Other comprehensive loss for the year	S4	–	–	–	(49)	(49)
Total comprehensive loss for the year		**–**	**–**	**(271)**	**(49)**	**(320)**
Reduction in share premium and transfer to retained losses	24	–	(1,500)	1,500	–	–
Dividends paid to equity holders	10	–	–	(400)	–	(400)
Employee share schemes	S4	–	–	5	(9)	(4)
31 December 2019		**19**	**1,094**	**(866)**	**1,625**	**1,872**

The notes on pages 31 to 78 form part of these Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Note	2019 £m	2018 £m
Operating (loss)/profit		**(115)**	**512**
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments of fixed assets	12a, 13a	1,210	530
Profit on disposals		(6)	(3)
Decrease in provisions		(164)	(164)
Unrealised (gain)/loss arising from re-measurement of energy contracts	7b	(194)	5
Operating cash before movements in working capital		**731**	**880**
Increase in inventories		(3)	(14)
(Increase)/decrease in trade and other receivables		(11)	37
(Decrease)/increase in trade and other payables		(60)	57
Cash generated by operations		**657**	**960**
Taxes paid		(110)	(47)
Payments relating to exceptional charges		(3)	(19)
Operating interest received		1	–
Net cash from operating activities		**545**	**894**
Purchase of businesses, net of cash acquired		–	31
Proceeds from the sale of assets		33	1
Purchase of property, plant and equipment and intangible assets		(470)	(470)
Sale of property, plant and equipment and intangible assets		6	–
Investing interest received		3	2
Movements in deferred consideration		48	(9)
Net cash used in investing activities		**(380)**	**(445)**
Financing interest and fees paid		(13)	(9)
Equity dividends paid	10	(400)	–
Repayment of related-party borrowings	22e	–	(106)
Capital element of finance leases	22e	(29)	(6)
Issue of share capital	23	–	16
Realised net foreign exchange loss on cash settlement of derivative contracts		–	(2)
Net cash used in financing activities		**(442)**	**(107)**
Net (decrease)/increase in cash and cash equivalents		**(277)**	**342**
Cash and cash equivalents at 1 January		639	293
Effect of foreign exchange rate changes		(1)	4
Cash and cash equivalents at 31 December	22e	**361**	**639**
Included in the following lines of the Consolidated Balance Sheet:			
Cash and cash equivalents		338	590
Restricted cash within cash and cash equivalents		23	49

The notes on pages 31 to 78 form part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Spirit Energy is one of Europe's largest independent oil and gas exploration and production companies. Spirit Energy Limited ('the Company') was incorporated on 6 July 2017. It is domiciled and incorporated in the UK and registered in England and Wales with registration number 10854461. During the year the registered office address changed from Millstream Maidenhead Road, Windsor, Berkshire, SL4 5GD to 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG. The principal place of business remained 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG throughout the year. The Company, together with its subsidiaries as detailed in note S7, comprises 'the Group'.

1. BASIS OF PREPARATION, SUMMARY OF NEW ACCOUNTING POLICIES AND REPORTING CHANGES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below in the notes to the Consolidated Financial Statements, which focus on areas that are key to understanding the business, and in the Supplementary Information (notes S1 to S7). Unless otherwise stated, these policies have been consistently applied throughout the years presented.

(a) Basis of preparation

This document incorporates the Consolidated Financial Statements of the Group for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU International Accounting Standards (IAS) Regulation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, subject to the limitations outlined below.

The Consolidated Financial Statements constitute statutory accounts for the year ended 31 December 2019 and contain all disclosures required by the Companies Act.

The Consolidated Financial Statements have been prepared on the historical cost basis except for derivative financial instruments and commodity inventories which have been measured at fair value.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Consolidated Financial Statements are described in notes 2 and 3.

The Consolidated Financial Statements have been prepared on a going concern basis. The Group operates under a financial framework to build sustainable long-term cash flow underpinning its liquidity requirements and capital investments. The Group has significant cash and cash equivalents and a £250 million revolving unsecured credit facility provided by its Shareholders, which together are expected to cover its liquidity requirements. Investments and dividends will be managed to ensure that the Group maintains a working capital liquidity buffer. In the event of a potential liquidity shortfall, the Group can access external borrowings and request funding from Shareholders. The Board's consideration of going concern is described in note 22(b).

Basis of consolidation

The Group's Consolidated Financial Statements are presented in pounds sterling. For the purposes of presenting the Consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency entities are translated into sterling at exchange rates prevailing at the balance sheet date. The results of these entities are translated into pounds sterling at the average rates of exchange for the relevant period.

(b) Standards, amendments and interpretations effective or adopted in 2019

At the date of authorisation of these financial statements, the following standards and interpretation relevant to the Group's operations were adopted during the year:

- IFRS 16: 'Leases'

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

The following standards and amendments to IFRSs became effective for the period beginning on 1 January 2019 and did not have a material impact on the Consolidated Financial Statements:

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

IFRS 16: Leases

Initial recognition

The Group has adopted IFRS 16: 'Leases' from 1 January 2019. The application of the standard resulted in a significant change in the accounting of lease arrangements where the Group is a lessee as the standard requires on balance sheet recognition of all lease liabilities and the corresponding recognition of a right-of-use (ROU) asset.

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

On transition, the Group measured lease liabilities previously accounted for as operating leases at the present value of the remaining lease payments. The associated ROU asset was measured at an amount equal to the lease liabilities and adjusted by the amount of any prepaid or accrued lease payments. Leases that were previously accounted for as finance leases were carried forward as the opening IFRS 16 balances and then subsequently measured in accordance with the new standard.

The adjustments for the initial recognition of IFRS 16 resulted in lease liabilities and ROU assets totalling £61 million on 1 January 2019. A reconciliation of the operating lease commitment at 31 December 2018 to the opening IFRS 16 lease liability is shown in note 4. £50 million of the lease liability is incremental to the IAS 17 position.

ROU assets are presented in property, plant and equipment (PP&E) on the Consolidated Balance Sheet. Lease liabilities are included in current and non-current lease liabilities.

Practical expedients and exemptions

The Group has applied the following practical expedients upon initial application, on a lease-by-lease basis:

- IFRS 16: C10(a) Use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- IFRS 16: C10(b) Reliance on its assessment of whether leases are onerous by applying IAS 37 'Provisions, contingent liabilities and contingent assets' immediately before the date of initial application as an alternative in performing and impairment review;
- IFRS 16: C10(c) Exemption to leases for which the lease term ends within 12 months of the date of initial application; and
- IFRS 16: C10(d) Exclusion of initial direct costs from the measurement of ROU assets at the date of initial application.

Following the initial application the Group has elected to apply the short-term (leases expiring within twelve months and commencement) and low-value (underlying asset value is less than £5,000) exemptions. In such circumstances, the lease payments are recognised as an expense on a straight-line basis over the lease term. Payments for leases used directly for the exploration and production of oil and gas are recognised as capital expenditure.

Extensions and terminations

If an extension or termination option is 'reasonably certain' to be exercised, the termination period or extended period will be included or excluded from the lease term when calculating the lease liability.

The Group will reassess the 'reasonably certain' criteria upon the occurrence of significant event. An event is considered significant if it affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

Joint arrangements

The Group holds interests in a number of joint arrangements. The Group has applied judgement in identifying the customer in lease arrangements used by a joint arrangement. If the leased asset is dedicated to a specific joint arrangement and its usage is directed by the joint arrangement, the joint arrangement is deemed the customer. In circumstances where the Group has signed the lease agreement on behalf of the joint arrangement and has primary responsibility for the payments to the lessor, the Group will recognise 100% of the lease liability and ROU asset on its Balance Sheet. In circumstances where the partner is obliged to reimburse the Group for its share of the lease payments, a sub-lease receivable will be recognised with a corresponding adjustment made to the ROU asset.

If the leased asset is not dedicated to a specific joint arrangement or its usage is not directed by the joint arrangement, the signatory of the lease agreement is deemed to be customer. If this is the Group, the lease liability and ROU asset are recognised in full. If it is the partner, no lease liability or ROU asset is recognised.

The comparative information continues to be reported in accordance with IAS 17 and IFRIC 4. The accounting policies applicable for this period are included in the Consolidated Financial Statements for the year ended 31 December 2018.

Right-of-use (ROU) assets

The Group recognises a ROU asset and lease liability at the date of commencement. The ROU asset is initially measured at cost. The cost is made up of the initial lease liability adjusted for any lease payments made at commencement or prepaid, estimated costs to dismantle and remove the underlying asset and estimated costs to restore the underlying asset or site on which it is located. In addition, any lease incentives received are deducted from the cost.

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

Lease Liabilities

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

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

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

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

The Group recognises the lease payments associated with short-term and low-value leases on a straight-line basis over the lease term.

IFRIC 23: Uncertainties over income tax treatments

IFRIC 23 provides clarification on the requirements for measuring and recognising uncertain income tax items. It must be applied when determining taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. The amendment did not have a material influence on the Consolidated Financial Statements.

1. BASIS OF PREPARATION, SUMMARY OF NEW ACCOUNTING POLICIES AND REPORTING CHANGES

CONTINUED

(c) Standards and amendments that are issued but not yet applied by the Group

Not endorsed by the EU

The Group has not applied the following standards or amendments relevant to the Group's operations in the Consolidated Financial Statements as they are not yet effective, and they have not yet been endorsed by the EU:

- Amendment to IFRS 3: 'Business combinations', effective from 1 January 2020.

The amendments to IFRS 3 clarifying the definition of a business apply to acquisitions on or after 1 January 2020. As these types of transactions can vary in size and are non-recurring in nature, the Group cannot quantify the effect that these amendments could potentially have in the future.

Management does not currently expect the future application of the other amendments to have a material impact on the amounts reported and disclosed in the Consolidated Financial Statements.

(d) Restatements

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

The impact of realised and unrealised positions, in accordance with IFRS 9, will be reflected in the 'Re-measurement of energy contracts' line in the Income Statement. The effect of this re-presentation for 2018 is an increase in revenue and re-measurement of energy contracts of £124 million.

2. SPECIFIC ACCOUNTING MEASURES

Exceptional items and re-measurements of energy contracts

To be able to provide readers with clear information regarding the business performance of the Group, the effects of re-measurements of energy contracts and exceptional items are reported separately in the Consolidated Income Statement.

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production. These trades are designed to reduce the risk of holding such assets and are subject to strict risk limits and controls. Primarily, because some of these trades include terms that permit net settlement (they are prohibited from being designated as 'own use'), the rules within IFRS 9: 'Financial instruments' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to the Group's exploration and production assets which are typically not fair valued. Therefore, these re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The Group's result for the year presents both realised and unrealised fair value movements on all derivative energy contracts within the 're-measurement of energy contracts' line item.

Exceptional items are those items that are of a non-recurring nature and, in the judgement of management, need to be disclosed separately by virtue of their nature, size or incidence. Again, these exceptional items are reported separately in the Consolidated Income Statement in order to better reflect the underlying business performance of the Group. Items that may be considered exceptional in nature include disposal of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgements in applying the Group's accounting policies

Such key judgements include the following:

- the presentation of selected items as exceptional (see notes 2 and 7); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as re-measurements of energy contracts (see notes 2, 7 and 17).

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Consolidated Financial Statements:

Spirit Energy Limited preference shares

As part of the acquisition of Spirit Energy Limited, preference shares have been issued to GBGH and SWM Gasbeteiligungs GmbH. Management have reviewed the redemption and conversion rights of the shares and have concluded that in each case the redemption is at the discretion of the issuer, Spirit Energy Limited. Whilst the agreements provide incentives for GBGH to redeem these shares through the waiver of its dividend under certain circumstances, and the agreements indicate an intention to redeem, management have concluded that Spirit Energy Limited retains the discretion to avoid redemption and therefore the preference shares do not represent an obligation.

Similarly, the conversion rights are at the discretion of Spirit Energy Limited and do not create an obligation. The preference shares pay a fixed coupon or dividend of 5.5% plus a floating element subject to a cap of 1.5%, and again despite the agreement stating a dividend policy and the intention to pay dividends, these remain at the discretion of the Directors of Spirit Energy Limited. Accordingly, the preference shares are deemed to represent equity rather than a financial liability.

(b) Key sources of estimation uncertainty

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of oil and gas fields is reviewed annually and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the production life of the respective field but are currently anticipated to be incurred until 2049 (2018: 2040).

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2019 was 1.2% (2018: 1.2%). A 1% variation in this discount rate would change the decommissioning liabilities by approximately £197 million before taxation.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates and the process for estimating reserve quantities and reserve recognition are described on page 87.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S3.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 7. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are exploration, development and production gas and oil assets and goodwill, as detailed below.

Exploration, evaluation, development and production gas and oil assets

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

Further details of the assumptions used in determining the recoverable amounts, the impairments and the impairment reversals booked during the year and the sensitivity to the assumptions are provided in note 7.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates.

Further detail on impairments tests and the assumptions used in determining the recoverable amounts is provided in notes 7 and 13.

Uncertain tax provisions

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved. Resolution of these differences typically takes many years. The uncertain tax provisions represent multiple layers of estimation for different time periods and different jurisdictions.

The principal element contributing to these differences is transfer pricing challenges in jurisdictions outside the UK. While the Group applies the arm's length principle to all intra-group transactions, taking Organisation for Economic Co-operation and Development (OECD) guidance into account, taxing authorities may take different views. The outcome of resolving any disputes is not predictable; the provisions represent management's assessment of the most likely outcome of each issue. The assessment is reviewed and updated on a regular basis.

A material portion of the uncertain tax provision arising before completion of the transaction to combine Centrica plc's existing exploration and production business with that of Bayerngas Norge AS on 8 December 2017 may be recoverable from Shareholders, to the extent it was not funded at completion. The amount recognised on the Consolidated Balance Sheet as at 31 December 2019 in respect of the uncertain tax provision was £128 million (2018: £141 million).

Brexit

The Group has considered the potential impact of Brexit as noted in the strategic report on page 16. Economists have suggested that a failure to agree a satisfactory trade deal could lead to lower base interest rates and higher inflation, following a likely weakening of sterling against other currencies. The sensitivity of a change in forward energy prices and the impact this would have on impairment of the Group's assets is disclosed in note 7. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial but could have a greater impact on future trade receivable recoverability.

4. ADJUSTED OPENING BALANCES

(a) Adjusted opening balances

The adjustments to the opening balances are a result of the first-time adoption of IFRS 16: 'Leases'. In accordance with the modified retrospective approach, the prior-period amounts were not adjusted.

	Note	2018 31 December £m	Adjustment as a result of IFRS 16 £m	**2019 1 January £m**
Property, plant and equipment	12	3,343	61	3,404
Lease liabilities	22e	(11)	(61)	(72)

(b) Reconciliation

	£m
Operating lease obligations as at 31 December 2018	**71**
Minimum lease payments on finance lease liabilities at 31 December 2018	11
Relief option under IFRS 16 for short-term leases	(30)
Recognition of lease arrangements within joint operations	22
Other	2
Gross lease liabilities at 1 January 2019	**76**
Incremental discounting	(4)
Lease liabilities at 1 January 2019	**72**
Present value of finance lease liabilities at 31 December 2018	(11)
Lease liabilities following initial application of IFRS 16 as at 1 January 2019	**61**

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

5. REVENUE

The principal activities from which the Group derives its revenues are the production and processing of gas and oil. An analysis of the Group's revenue is set out in the table below.

Year ended 31 December	2019 £m	2018 (restated)(i) £m
IFRS 15 revenue		
Sale of goods:		
Gas	567	783
Oil and liquids	629	762
Pipeline tariff revenue	74	64
Other revenue	30	21
Total IFRS 15 revenue	**1,300**	**1,630**
Non-IFRS 15 revenue		
Sale of goods:		
Gas	131	348
Total non-IFRS 15 revenue	**131**	**348**
Total revenue	**1,431**	**1,978**

An analysis of revenue by geographical territory, based on the location of the customer, is set out the in the table below.

Year ended 31 December	2019 £m	2018 (restated)(i) £m
UK	861	1,266
Norway	323	425
Switzerland	169	188
USA	58	31
Netherlands	15	23
Rest of the world	5	45
Total revenue	**1,431**	**1,978**

(i) The Group has amended the presentation of energy derivative contracts within revenue following an IFRIC agenda decision in March 2019. Prior year results have been restated accordingly. See note 1 for further details.

6. COST OF OPERATIONS

(a) Analysis of costs by nature

Year ended 31 December	Note	2019 Cost of sales £m	2019 Operating costs £m	2019 Total costs £m	2018 (restated)[iii] Costs of sales £m	2018 (restated)[iii] Operating costs £m	2018 (restated)[iii] Total costs £m
Transportation and distribution costs		(181)	–	(181)	(186)	–	(186)
Commodity costs		(32)	–	(32)	(28)	–	(28)
Depreciation, amortisation, impairments and write-downs of fixed assets		(584)	(77)	(661)	(530)	(60)	(590)
Employee costs[i]		(24)	(73)	(97)	(20)	(76)	(96)
Other direct costs[ii]		(371)	(30)	(401)	(462)	(66)	(528)
Total costs before exceptional items and re-measurement of energy contracts		**(1,192)**	**(180)**	**(1,372)**	**(1,226)**	**(202)**	**(1,428)**
Exceptional items	7a	–	(516)	(516)	–	91	91
Total costs before re-measurement of energy contracts within Group operating (loss)/profit		**(1,192)**	**(696)**	**(1,888)**	**(1,226)**	**(111)**	**(1,337)**

(i) Only includes costs incurred by employing legal entities within the Group. Costs for staff employed by legal entities outside the Group are recharged and recognised within 'Other direct costs'.
(ii) Included within cost of sales are operated and non-operated production costs, maintenance charges, recharged labour costs, tariffs and royalty expenses. Included within operating costs are insurance premiums, non-capital exploration costs, recharged labour costs and office and administrative costs. Operating costs also includes inventory impairment as detailed in note 16.
(iii) The Group has amended the presentation of energy derivative contracts within cost of sales following an IFRIC agenda decision in March 2019. Prior year results have been restated accordingly. See note 1 for further details.

(b) Re-measurement of energy contracts

Year ended 31 December	Note	2019 £m	2018 (restated)[i] £m
Unrealised re-measurement of energy contracts	7b	194	(5)
Realised re-measurement of energy contracts		148	(124)
Re-measurement of energy contracts		**342**	**(129)**

(i) The Group has amended the presentation of energy derivative contracts within cost of sales following an IFRIC agenda decision in March 2019. Prior year results have been restated accordingly. See note 1 for further details.

(c) Employee costs

Year ended 31 December	Note	2019 £m	2018 £m
Wages and salaries		(83)	(87)
Social security costs		(10)	(10)
Pension and other post-employment benefits costs	20	(9)	(8)
		(102)	**(105)**
Capitalised employee costs		5	9
Employee costs expensed		**(97)**	**(96)**

Details of the remuneration of key management personnel are given in note S5.

(d) Average number of employees during the year

Year ended 31 December	2019 Number	2018 Number
UK	507	507
Norway	139	112
Netherlands	56	55
Total	**702**	**674**

7. EXCEPTIONAL ITEMS AND UNREALISED RE-MEASUREMENTS OF ENERGY CONTRACTS

(a) Exceptional items

Year ended 31 December	Note	2019 £m	2018 £m
(Impairment of exploration and production assets)/net reversal of impairment(i)		(548)	60
Net reversal of unused decommissioning provisions(ii)		32	35
Business change and restructuring costs(iii)		–	(4)
Exceptional items included within Group operating (loss)/profit		**(516)**	**91**
Taxation on exceptional items(iv)	9	91	14
Net exceptional items after taxation		**(425)**	**105**

(i) (Impairment of exploration and production assets)/net reversal of impairments relate to the net changes in value of certain UK, Dutch and Norwegian gas and oil fields. The pre-tax impairment of £(548) million (2018: reversal £60 million), post-tax impairment of £408 million (2018: £58 million), is predominantly due to changes in long-term price forecasts and increased reserves.
(ii) The reversal of decommissioning provisions pre-tax £32 million (2018: £35 million), post-tax £20 million (2018: £24 million) relates to assets previously impaired through exceptional items.
(iii) Business change and restructuring costs include restructuring costs of £nil million (2018: £4 million, post-tax £1 million). The costs incurred relate principally to redundancy costs, transformational spend and consultancy costs incurred in implementing a new organisational model to reposition Spirit Energy as a European business.
(iv) In 2019 Spirit Energy derecognised £(50) million of deferred tax assets in relation to tax losses, of which £32 million was recognised as an exceptional credit in 2018, mainly due to falling commodity prices and long term forecast profitability.

(b) Unrealised re-measurement of energy contracts

Year ended 31 December	Note	2019 £m	2018 £m
Unrealised re-measurement recognised in relation to energy contracts:			
Net gains/(losses) arising on market price movements and new contracts		184	(27)
Net gains arising on delivery of contracts		10	22
Net unrealised gain/(loss) from re-measurement of energy contracts included within Group operating profit/(loss)(i)	2, 6b	**194**	**(5)**
Taxation on unrealised re-measurements	9	(77)	2
Net re-measurements after taxation		**117**	**(3)**

(i) Unrealised re-measurement amounts relate to unsettled fair value through profit and loss (FVTPL) mark-to-market commodity and foreign exchange contracts.

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill; PP&E; and intangible assets (with the exception of exploration assets – see note S1) annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Consolidated Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Oil and gas hubs are the smallest discrete set of assets that individually generate cash flows, largely independent of other assets. If the recoverable amount is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount. When recognising an impairment charge on oil and gas assets, impairment losses are allocated first to reduce fair value and subsequently to reduce carrying value.

7. EXCEPTIONAL ITEMS AND UNREALISED RE-MEASUREMENTS OF ENERGY CONTRACTS

CONTINUED

For goodwill, because CGUs compete for capital for future investments across the Group, goodwill for impairment purposes is considered at an enterprise level as a single CGU. A FVLCD calculation has been used to determine recoverable amounts to support goodwill. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets.

FVLCD discount rate and cash-flow assumptions

A net impairment of £516 million (2018: reversal of £95 million) has been recorded within exceptional items for the Group's exploration and production assets, including £32 million (2018: £35 million) of reductions to decommissioning provisions. For those assets subject to net impairment, the associated recoverable amounts (net of decommissioning costs) are £371 million (2018: £823 million). FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first five years are based on business plans submitted to the Spirit Energy Board and thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.0% (2018: 9.5%) to determine the FVLCD. The discount rate reflects the current market assessments of the time value of money and is based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Inflation rates used in the five-year business plan were based on a blend of a number of publicly-available inflation forecasts for the UK. Inflation rates used were 2% (2018: 2%).

The valuation of exploration and production assets and goodwill are particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/–10%. Changes in price generate different production profiles and, in some cases, the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For exploration and production assets, an increase in gas and oil prices of 10% would reverse £91 million (2018: £82 million) of previous post-tax impairment charges of the underlying exploration and production assets. A reduction of 10% would give rise to further post-tax impairments of the underlying exploration and production assets of £89 million (2018: £74 million) but no post-tax impairment of goodwill (2018: £nil million). Since 31 December 2019, short-term oil and gas commodity prices have significantly decreased from estimates used, partly due to the global outbreak of COVID-19 virus and partly due to Saudi Arabia's decision to increase production. The impact of these lower prices would give rise to an additional post-tax asset impairment across the whole portfolio of exploration and production assets of £298 million, but no impairment of goodwill.

Fair value hierarchy

The fair value of exceptional items and re-measurements of energy contracts measured and held at fair value has been determined using level 2 of the fair value hierarchy (see note S3 for further details).

The carrying value of oil and gas assets, measured at amortised cost, are considered to be approximately equal to their fair value. Significant inputs in determining the CGU fair value are oil and gas reserves and production profiles, forward commodity prices and foreign exchange curves, future capital expenditure, decommissioning and direct cost estimates. Cash flows are discounted using a post-tax nominal rate of 9.0%.

Re-measurements of energy contracts are energy derivative contracts, which are valued at the balance sheet date using quoted future market prices.

8. NET FINANCE COSTS

Year ended 31 December	2019 Financing costs £m	2019 Investment income £m	2019 Total £m	2018 Financing costs £m	2018 Investment income £m	2018 Total £m
Interest income	–	5	5	–	6	6
Interest cost and financing fees	(14)	–	(14)	(10)	–	(10)
Interest cost on leases	(2)	–	(2)	(1)	–	(1)
	(16)	**5**	**(11)**	**(11)**	**6**	**(5)**
Net (losses)/gains on revaluation	(2)	–	(2)	–	9	9
Other operating interest	–	–	–	(1)	–	(1)
Notional interest arising from discounting	(28)	–	(28)	(30)	–	(30)
Net finance costs	**(46)**	**5**	**(41)**	**(42)**	**15**	**(27)**

9. TAXATION

(a) Analysis of tax charge

Year ended 31 December	2019 Business performance £m	2019 Exceptional items and unrealised re-measurements of energy contracts £m	2019 Results for the year £m	2018 Business performance £m	2018 Exceptional items and unrealised re-measurements of energy contracts £m	2018 Results for the year £m
Current tax						
UK corporation tax	(4)	–	(4)	(3)	–	(3)
UK petroleum revenue tax	17	–	17	50	–	50
Non-UK tax	(123)	–	(123)	(240)	3	(237)
Adjustments in respect of prior years – UK	14	–	14	(1)	–	(1)
Adjustments in respect of prior years – non-UK	1	–	1	3	–	3
Total current tax	**(95)**	**–**	**(95)**	**(191)**	**3**	**(188)**
Deferred tax						
Origination and reversal of temporary differences – UK	10	(60)	(50)	7	(22)	(15)
UK petroleum revenue tax	(5)	23	18	(1)	(14)	(15)
Origination and reversal of temporary differences – non-UK	(22)	51	29	(119)	49	(70)
Adjustments in respect of prior years – UK	(18)	–	(18)	(7)	–	(7)
Adjustments in respect of prior years – non-UK	1	–	1	1	–	1
Total deferred tax	**(34)**	**14**	**(20)**	**(119)**	**13**	**(106)**
Total taxation on profit/(loss)	**(129)**	**14**	**(115)**	**(310)**	**16**	**(294)**

Tax on items taken directly to equity is disclosed in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity. The Group earns the majority of its profits in Norway. UK exploration and production activities are taxed at a corporation tax rate of 30% (2018: 30%) plus a supplementary charge of 10% (2018: 10%) to give an overall rate of tax on upstream activities of 40% (2018: 40%). Petroleum revenue tax (PRT) is now set at nil% (2018: nil%) but may still give rise to refunds from the carry-back of excess reliefs (for example, from decommissioning) against historical profits taxed at 50%. Norwegian exploration and production profits are taxed at the standard rate of 22% (2018: 23%) plus a special tax of 56% (2018: 55%) resulting in an aggregate tax rate of 78% (2018: 78%).

Within current tax liabilities are amounts totalling £20 million (2018: £20 million) that are to be settled with the ultimate parent group companies. These have been disclosed within S5 and are receivable in less than a year.

The Group's non-upstream UK profits are taxed at the standard rate of 19% (2018: 19%).

(b) Factors affecting the tax charge

The difference between the total tax shown above and the amount calculated by applying the upstream rate of UK corporation tax to the (loss)/profit before taxation is as follows:

Year ended 31 December	2019 Business performance £m	2019 Exceptional items and unrealised re-measurements of energy contracts £m	2019 Results for the year £m	2018 Business performance £m	2018 Exceptional items and unrealised re-measurements of energy contracts £m	2018 Results for the year £m
Group (loss)/profit before tax	**166**	**(322)**	**(156)**	**399**	**86**	**485**
Tax on (loss)/profit at UK corporation tax rate of 40% (2018: 40%)	(66)	129	63	(160)	(34)	(194)
Effects of:						
Depreciation/impairment on non-qualifying assets (including write-backs)	(19)	(10)	(29)	(36)	(3)	(39)
Movement in tax rates	–	(3)	(3)	8	–	8
Non-taxable disposals	(6)	–	(6)	1	–	1
Other non-allowable/non-taxable items	(3)	–	(3)	(11)	–	(11)
Upstream investment incentives	37	–	37	47	32	79
UK petroleum revenue tax rates	7	14	21	24	(8)	16
Non-UK tax rates	(65)	87	22	(169)	29	(140)
Goodwill and investment impairments	–	(157)	(157)	–	–	–
Movement in uncertain tax provisions	(7)	–	(7)	(6)	–	(6)
Movement in unrecognised deferred tax assets	(5)	(46)	(51)	(5)	–	(5)
Adjustments in respect of prior years	(2)	–	(2)	(3)	–	(3)
Taxation on (loss)/profit for the year	**(129)**	**14**	**(115)**	**(310)**	**16**	**(294)**
Less: Movement in deferred tax	34	(14)	20	119	(13)	106
Total current tax	**(95)**	**–**	**(95)**	**(191)**	**3**	**(188)**

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved. Further details in respect of uncertain tax positions are set out in note 3.

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes.

2019 UK operations are subject to a higher effective tax rate than the current UK upstream tax rate. Income earned in territories outside the UK, notably in Norway, is generally subject to higher effective rates of tax than the current UK upstream rate. The Group's effective tax rate of (73)% (2018: 61%) is expected to remain above the UK upstream rate.

The guidelines provided by IFRIC 23 have been considered in determining uncertain tax positions. There has been no material change to the tax provisions as a result of adoption in the current year.

10. DIVIDENDS

Year ended 31 December	2019 £m	Pence per share	Date of payment	2018 £m	Pence per share	Date of payment
Prior year final dividend						
Ordinary shares	353	36.96	25 March 2019	–	–	–
Preference shares	47	4.92	25 March 2019	–	–	–
Interim dividend	–	–	–	–	–	–
	400			**–**		

The Board has not recommended a payment of final dividend for the year ended 31 December 2019.

11. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

No material acquisitions have been made by the Group in the year.

(b) Disposals

Disposal of interests in Valemon and Sindre

On 13 September 2019, the Group signed a sale and purchase agreement for the divestment of their respective interests in Valemon and Sindre to Equinor for a consideration of £33 million.

The economic date for the sale was 1 January 2019 and it was completed on 29 November 2019. An impairment charge of £49 million was recognised as an exceptional item in the income statement prior to the disposal, refer to note 7. The carrying value of the assets was equal to the proceeds upon completion.

Disposal of interests in Nøkken

The Group divested their non-operating interest in the discovery licence Nøkken (located in the Kvitebjørn field) to Equinor. Profit on disposal was £4 million, and the sale completed on 29 May 2019.

None of the disposals are considered to be material enough to be shown as discontinued operations on the face of the Consolidated Income Statement as they do not represent a separate major line of business or material geographic area of operations.

(c) Assets and liabilities held for sale

On 31 October 2019, the Group signed a sale and purchase agreement for the divestment of their operating interest in UKCS Seaward Licence Number P.456, Block 48/2a, which includes an interest in the Babbage field, to Verus Petroleum (SNS) Limited for a consideration of £6 million, adjusted for final working capital.

The economic date for the sale is 1 July 2019, and the transaction is expected to complete in the second quarter of 2020 with a profit on disposal of under £1 million. The assets and liabilities have been classified as held for sale on the Consolidated Balance Sheet.

	Babbage £m
Non-current assets	
Assets of disposal groups classified as held for sale	12
Non-current liabilities	
Liabilities of disposal groups classified as held for sale	(6)
Net assets of disposal groups classified as held for sale	**6**

12. PROPERTY, PLANT AND EQUIPMENT

(a) Carrying amounts

	Note	Land and buildings £m	Plant and equipment £m	Gas and oil production £m	2019 Total £m	Land and buildings £m	Plant and equipment £m	Gas and oil production £m	2018 Total £m
Cost									
1 January		7	10	14,170	14,187	7	10	14,133	14,150
IFRS 16 adjustment	4a	28	–	33	61	–	–	–	–
Adjusted opening balance		**35**	**10**	**14,203**	**14,248**	**7**	**10**	**14,133**	**14,150**
Lease modifications and re-measurements		–	–	37	37	–	–	–	–
Additions		–	1	280	281	–	1	333	334
Acquisitions		–	–	–	–	–	–	3	3
Transfer from other intangible assets		–	–	5	5	–	–	36	36
Transfer to disposal groups held for sale[(i)]	11c	–	–	(17)	(17)	–	–	–	–
Disposals		–	(1)	(381)	(382)	–	(1)	(410)	(411)
Decommissioning liability revisions and additions	19	–	–	(129)	(129)	–	–	50	50
Exchange adjustments		(1)	–	(277)	(278)	–	–	25	25
31 December		**34**	**10**	**13,721**	**13,765**	**7**	**10**	**14,170**	**14,187**
Accumulated depreciation and impairment									
1 January		(3)	(9)	(10,832)	(10,844)	(3)	(8)	(10,802)	(10,813)
Charge for the year		(5)	–	(599)	(604)	–	(1)	(530)	(531)
Reversal of impairment charge		–	–	–	–	–	–	105	105
Transfer to disposal groups held for sale[(i)]	11c	–	–	5	5	–	–	–	–
Impairment charge		–	–	(426)	(426)	–	–	–	–
Disposals		–	–	355	355	–	–	410	410
Exchange adjustments		–	–	177	177	–	–	(15)	(15)
31 December		**(8)**	**(9)**	**(11,320)**	**(11,337)**	**(3)**	**(9)**	**(10,832)**	**(10,844)**
Net book value at 31 December		**26**	**1**	**2,401**	**2,428**	**4**	**1**	**3,338**	**3,343**

(i) Gas and oil production assets, with a net book value of £12 million, were transferred to held for sale and will be disposed of within the following year (see 11c for further details).

(b) Assets in the course of construction included in the above carrying amounts

As at 31 December	2019 £m	2018 £m
Gas and oil production	143	585

(c) Right-of-use assets included in above carrying amounts

	Land and Buildings £m	Gas and oil Production £m	2019 Total £m	2018 Gas and oil production £m
Additions	27	70	97	17
Depreciation charge for the year	(4)	(13)	(17)	(6)
Net book value at 31 December	**23**	**57**	**80**	**11**

13. OTHER INTANGIBLE ASSETS AND GOODWILL

(a) Carrying amounts

	2019 Goodwill £m	2019 Exploration and evaluation expenditure £m	2019 Other intangibles £m	2019 Total £m	2018 Goodwill £m	2018 Exploration and evaluation expenditure £m	2018 Other intangibles £m	2018 Total £m
Cost								
1 January	1,007	185	11	1,203	997	207	11	1,215
Additions	–	214	–	214	–	114	–	114
Acquisitions	–	–	–	–	9	–	–	9
Write-downs[(i)]	–	(178)	–	(178)	–	(100)	–	(100)
Transfers to property, plant and equipment	–	(5)	–	(5)	–	(36)		(36)
Disposals	–	(14)	–	(14)	–	–	–	–
Exchange adjustments	(17)	(4)	–	(21)	1	–	–	1
31 December	**990**	**198**	**11**	**1,199**	**1,007**	**185**	**11**	**1,203**
Accumulated amortisation								
1 January	(510)	–	(7)	(517)	(510)	–	(3)	(513)
Amortisation	–	–	(2)	(2)	–	–	(4)	(4)
31 December	**(510)**	**–**	**(9)**	**(519)**	**(510)**	**–**	**(7)**	**(517)**
Net book value as at 31 December	**480**	**198**	**2**	**680**	**497**	**185**	**4**	**686**

(i) Within operating costs, write-downs of £56 million (2018: £55 million) were recognised in respect of drilling expenditure and write-downs of £122 million (2018: £45 million) were recognised within exceptional items.

(b) Impairment reviews – summary of results

During the year, no goodwill impairment was recognised (2018: £nil million) (see note 7 for further details). The Group's business is treated as a single CGU for goodwill impairment testing purposes. Details of the impairment test methodologies and assumptions used are provided in note 7.

14. DEFERRED TAX LIABILITIES AND ASSETS

	Note	Accelerated tax depreciation (corporation tax) £m	Net decommis-sioning £m	Losses carried forward £m	Other timing differences £m	Marked-to-market positions £m	Net deferred petroleum revenue tax £m	Retirement benefit obligation £m	Total £m
As at 1 January 2018		(861)	805	345	(14)	9	136	(1)	419
(Charge)/credit to income	9	(126)	11	(24)	39	2	(9)	1	(106)
Exchange and other adjustments		–	–	–	3	–	–	–	3
As at 31 December 2018		**(987)**	**816**	**321**	**28**	**11**	**127**	**–**	**316**
(Charge)/credit to income	9	129	(5)	(76)	1	(80)	11	–	(20)
Disposal of business		(32)	–	–	–	–	–	–	(32)
Exchange and other adjustments		23	(12)	–	(4)	–	–	–	7
As at 31 December 2019		**(867)**	**799**	**245**	**25**	**(69)**	**138**	**–**	**271**

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

As at 31 December	**2019 Assets £m**	**2019 Liabilities £m**	2018 Assets £m	2018 Liabilities £m
Gross deferred tax balances	1,467	(1,196)	1,706	(1,390)
Offsetting deferred tax balances	(1,065)	1,065	(1,113)	1,113
Net deferred tax balances (after offsetting for financial reporting purposes)	**402**	**(131)**	**593**	**(277)**

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward and PRT. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to oil and gas production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date, the Group had certain unrecognised deductible temporary differences of £3,228 million (2018: £2,662 million), of which £2,230 million (2018: £1,881 million) are carried forward tax losses and allowances available for utilisation against future taxable profits. None of these losses and allowances will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the lack certainty over future profit streams.

15. TRADE AND OTHER RECEIVABLES

As at 31 December	2019 Current £m	2019 Non-current £m	2018 Current £m	2018 Non-current £m
Financial assets:				
Trade receivables	15	–	13	–
Other accrued income	45	–	36	–
Related-party receivables	186	69	233	101
Other receivables (including loans)	79	4	69	–
	325	**73**	**351**	**101**
Less: provision for credit losses	(1)	–	(1)	–
	324	**73**	**350**	**101**
Non-financial assets: prepayments and other receivables	56	11	47	12
	380	**84**	**397**	**113**

Receivables are generally considered to be credit impaired when the payment is past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt.

Current financial assets within trade and other receivables net of provision for credit losses:

As at 31 December	2019 £m	2018 £m
Balances that are not past due	324	343
Balances that are past due but not considered to be individually impaired	–	6
Balances with customers that are considered to be individually impaired	–	1
	324	**350**

The provision for credit losses for trade and other receivables is based on the expected credit loss (ECL) model that calculates the expected loss applicable to the receivable balance over its lifetime, in line with the IFRS 9 impairment model requirements using a simplified model. The ECL provision in the current year was £1 million (2018: £ 1 million).

16. INVENTORIES

As at 31 December	2019 £m	2018 £m
Oil in storage and transportation	18	10
Other raw materials and consumables	69	77
	87	**87**

The Group consumed £3 million (2018: £7 million) of inventories during the year. Write-downs amounting to £5 million (2018: £7 million) were charged to the Consolidated Income Statement in the year. No previous write-downs have been reversed in the year (2018: £4 million).

17. DERIVATIVE FINANCIAL INSTRUMENTS

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. The fair value of the Group's derivatives in hedge accounting relationships as at 31 December 2019 was not material (2018: £nil million).

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

As at 31 December	**2019 Assets £m**	**2019 Liabilities £m**	2018 Assets £m	2018 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives – for procurement/optimisation	172	(7)	37	(55)
Foreign exchange derivatives	9	(3)	1	(7)
Derivative financial instruments in hedge accounting relationships:				
Foreign exchange derivatives	1	–	1	–
Total derivative financial instruments	**182**	**(10)**	**39**	**(62)**
Included within:				
Derivative financial instruments – current	160	(9)	26	(50)
Derivative financial instruments – non-current	22	(1)	13	(12)

The contracts included within energy derivatives are £168 million (2018: £(40) million) of gas and £(3) million (2018: £22 million) of oil financial swaps used to hedge the price the Group sells its gas and oil production.

Net gains/(losses) on derivative financial instruments due to re-measurement:

As at 31 December	**2019 Income statement £m**	**2019 Equity £m**	2018 Income statement £m	2018 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading under IFRS 9	10	–	(4)	–
Derivative financial instruments in hedge accounting relationships	–	(1)	–	1
	10	**(1)**	**(4)**	**1**

18. TRADE AND OTHER PAYABLES

Trade and other payables include accruals and amounts owed to suppliers. Related-party payables relate to amounts due to the Group's Shareholders and their subsidiaries. Further details can be found in note S5.

As at 31 December	2019 Current £m	2019 Non-current £m	2018 Current £m	2018 Non-current £m
Financial liabilities:				
Trade payables	(42)	–	(46)	–
Capital payables	(61)	(86)	(26)	(105)
Other payables	(139)	(1)	(149)	–
Related-party payables	(51)	–	(79)	–
Accruals	(68)	–	(117)	–
	(361)	**(87)**	**(417)**	**(105)**
Non-financial liabilities:				
Other payables and accruals	(13)	–	(10)	–
Deferred income	(4)	–	(2)	–
	(378)	**(87)**	**(429)**	**(105)**

Financial liabilities within current trade and other payables have the following maturity:

As at 31 December	2019 £m	2018 £m
Less than 90 days	(347)	(384)
90 to 182 days	(13)	(15)
183 to 365 days	(1)	(18)
	(361)	**(417)**

19. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Current provisions	1 January 2019 £m	Reversed in the year £m	Utilised £m	Transfers(i) £m	31 December 2019 £m
Decommissioning costs(ii)	(164)	–	129	(97)	(132)
Other	(3)	3	–	–	–
	(167)	**3**	**129**	**(97)**	**(132)**

Non-current provisions	1 January 2019 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers(i) £m	Held for sale(11c) £m	Disposals £m	Foreign Exchange £m	31 December 2019 £m
Decommissioning costs(ii)	(2,093)	(11)	(28)	44	129	97	6	38	42	(1,776)
Other(iii)	(3)	–	–	–	(8)	–	–	–	–	(11)
	(2,096)	**(11)**	**(28)**	**44**	**121**	**97**	**6**	**38**	**42**	**(1,787)**

(i) Reallocation of provisions from non-current to current.

(ii) Provision has been made for the estimated net present cost of decommissioning gas and oil production facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timings of decommissioning payments are dependent on the production life of the respective field but are currently anticipated to be incurred until 2049. During the year, of the £44 million (2018: £44 million) credit to operating profit/(loss) for provisions which were unused and reversed, £32 million (2018: £35 million) has been included as an exceptional item (see note 7(a)). Refer to note S1 for a summary of the Group's decommissioning accounting policy and the discount rates used.

(iii) The increase in other provisions is due to tariff provisions.

20. POST-RETIREMENT BENEFITS

Defined contribution pension scheme contributions

The cost charged to income of £9 million (2018: £8 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.

21. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at 31 December	2019 £m	2018 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Nova oil and gas field	33	143
Development of West of Shetland Lincoln and Warwick oil field	165	138
Development of Norwegian Oda oil and gas assets	2	38
Development of Cygnus gas field	–	16
Development of Norwegian Maria oil and gas field	4	–
Other capital expenditure	43	38
Commitments in relation to the acquisition of intangible assets:		
Exploration activity	10	24
Other intangible assets	–	–
Other commitments:		
Transportation capacity	114	117
Other contracts	11	25

The carrying amount of the ROU assets, additions and depreciation charges as result of the application of IFRS 16 are disclosed in note 12. The total cash outflow in the year for lease arrangements was £30 million and the maturity analysis of cash flows associated with the Group's lease liability at the reporting date is shown in note 22.

Lease amounts which have not been included in the lease liabilities and charged to the Consolidated Income statement are presented below:

As at 31 December	2019 £m	2018 £m
Short-term leases	15	–

The Group's expense related to short-term lease commitments predominantly related to drilling rigs leased during the current year (2018: £nil million).

(b) Guarantees and indemnities

The Group has provided a number of securities in relation to its exploration and production activities, covering liabilities in respect of obligations relating to decommissioning, historic asset acquisitions/disposals, licences and operational agreements and office leases. The securities take the form of guarantees provided by the Group and a number of Centrica group entities. The Group pays a charge set on an arms-length basis (similar to fees charged by the financial institutions) for the guarantees issued by the Centrica group entities. Spirit Energy has given a counter indemnity for any guarantees issued by entities in the Centrica group.

Most of these securities relate to decommissioning liabilities and in this respect, the securities cover field developments owned or partly owned by the Group. These securities are provided to fellow partners and previous owners of these fields, who may be liable for the Group's share of the decommissioning costs in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2019, £651 million (2018: £615 million) of letters of credit and on-demand payment bonds have been issued in respect of decommissioning obligations included in the Consolidated Balance Sheet. The majority of these guarantees have been issued from bank facilities held by Centrica plc with the remainder issued by Centrica Production Limited, a fellow subsidiary of the Centrica group.

In addition, there are a number of capped and uncapped parent company guarantees provided by Centrica plc relating to decommissioning security agreements.

As additional assets are developed or acquired, additional securities may need to be provided.

Centrica plc has provided a parent company guarantee to the Norwegian Ministry of Oil and Energy covering the economic liabilities that Spirit Energy Norway AS has undertaken as a licensee on the Norwegian continental shelf in so far as they relate to the exploration and exploitation of subsea natural resources, including storage and transportation by means other than ship. This also guarantees any liability which may be imposed under Norwegian law for pollution, damage and/or personal injury to the Norwegian state, Norwegian municipality, Norwegian public institutions and other third parties. The liability is uncapped.

Centrica plc has provided a parent company guarantee to the Danish Oil Pipe A/S that follows from the Danish Pipeline Act that the shippers in the facilities of Danish Oil Pipe A/S are obliged to provide security under transportation agreements entered into. The liability is uncapped.

Centrica plc has provided a parent company guarantee to Gassco guaranteeing payment obligations in connection with the booking of capacity in the Gassled system (infrastructure on the Norwegian Continental Shelf). The liability is capped at NOK 900 million.

Spirit Energy Limited has provided security in favour of the Oil and Gas Authority (OGA), guaranteeing that its licence-holding subsidiaries will each meet their respective licence obligations. This includes providing a guarantee for any sums that may become due from such licensees to OGA. The liability is uncapped.

Spirit Energy Limited acts as guarantor to the Group's obligations under the revolving unsecured credit facility agreement described in note 22(b).

Bayerngas Norge AS has provided a parent company guarantee to Ineos Oil & Gas Denmark, securing the obligations of Spirit Energy Danmark ApS under the joint operating agreement in connection with its petroleum activities on the Danish shelf.

22. SOURCES OF FINANCE

(a) Capital management

The Group seeks to maintain an efficient capital structure with a combination of cash and cash equivalents, borrowings and equity.

Capital is managed in order to provide returns for Shareholders and to safeguard the Group's ability to continue as a going concern. Spirit Energy is not subject to any externally-imposed capital requirements. To maintain or adjust the capital structure, the Group may put in place new debt facilities or adjust the dividend payment to Shareholders.

(b) Liquidity risk and going concern

The Consolidated Financial Statements have been prepared on a going concern basis as the Group is well funded, with flexibility within its financial framework to be sustainable and maintain liquidity in the long term, as described in the basis of preparation.

The Group has treasury and hedging policies and prepares an annual plan and periodic cash flow forecasts. This enables the Group to monitor and manage liquidity risk. The Group's capital structure means that it is capable of being self-financing through operating cash flows in a range of commodity price environments. The Group aims to maintain a cash working capital buffer of at least £50 million.

The Group had cash and cash equivalents of £361 million (2018: £639 million) at 31 December 2019. This includes restricted cash and cash equivalents of £23 million (2018: £49 million). In addition, the Group has an undrawn revolving unsecured credit facility agreement of £250 million. The £250 million revolving unsecured credit facility agreement is provided by Centrica plc, the ultimate parent company of the Group's Shareholder GBGH, and Stadtwerke München GmbH, the ultimate parent company of SWM and BE/PB. This facility, which unless earlier terminated, will be available through to September 2021.

In addition, the Group may request, but is not guaranteed to receive, an amount to cover any emergency or shortfall from its Shareholders.

The principal risks & uncertainties in the strategic report on page 14 explains the increased challenges the Group faces with COVID-19 and the depression in commodity prices. More specifically, the Group is committed to remaining free cash flow positive across 2020 and 2021 and the Board meets regularly to review plans to mitigate against the continued commodity price decline. The Group has identified significant reductions in costs through opportunities to defer or suspend projects, and savings in current projects with minimal impact to production in 2020 and 2021. Furthermore, the Board has not recommended a payment of final dividend for the year ended 31 December 2019. These measures are expected to offset the impact of the current price environment and contribute a positive free cash flow across 2020 and 2021.

The Board has considered the principal risks to these cash flow projections in a sensitivity analysis, the most significant of which is a further sustained decline in commodity prices resulting in an average gas price of 15p/th for the remainder of 2020 and 20p/th in 2021, and an average oil price of $20/bbl for the remainder of 2020 and $25/bbl in 2021. This sensitivity analysis also includes production outage scenarios. The Board considers these risks are mitigated by the significant cash and cash equivalents balance noted above whilst the Group does not rule out further cost reductions, and the Group has access to a £250 million revolving unsecured credit facility provided by its Shareholders. Consequently, the Board is satisfied that the Group can continue as a going concern.

(c) Lease liabilities

As at 31 December	2019 Current £m	2019 Non-current £m	2018 Current £m
Lease liabilities	(23)	(63)	–
Related-party obligation under finance lease[(i)]	–	–	(11)
	(23)	**(63)**	**(11)**

(i) Refer to note S5 for the main terms and conditions.

(d) Maturity analysis for non-current borrowings

As at 31 December	2019 £m	2018 £m
1–2 years	(23)	–
2–5 years	(36)	–
>5 years	(4)	–
	(63)	**–**

(e) Net debt summary

	Related-party finance lease £m	Other leases and financing costs accrual £m	Net related-party borrowings £m	Gross debt £m	Cash, overdrafts and cash equivalents(i) (ii) £m	Net debt £m
1 January 2018	**(17)**	**–**	**(106)**	**(123)**	**293**	**170**
Cash outflow from repayment of borrowings	–	–	106	106	(106)	–
Cash outflow from payment of capital element of finance leases	6	–	–	6	(6)	–
Financing interest and fees paid	1	–	–	1	(3)	(2)
Increase in interest payable	(1)	–	–	(1)	–	(1)
Remaining cash inflow	–	–	–	–	457	457
Exchange adjustments	–	–	–	–	4	4
31 December 2018	**(11)**	**–**	**–**	**(11)**	**639**	**628**
IFRS 16 adjustment	–	(61)	–	(61)	–	(61)
Adjusted opening balance	**(11)**	**(61)**	**–**	**(72)**	**639**	**567**
New lease commitments	–	(44)	–	(44)	–	(44)
Cash outflow from payment of capital element of leases	11	18	–	29	(29)	–
Financing interest and fees paid	–	1	–	1	(13)	(12)
Increase in interest payable	–	(2)	–	(2)	–	(2)
Remaining cash outflow	–	–	–	–	(235)	(235)
Exchange adjustments	–	2	–	2	(1)	1
31 December 2019	**–**	**(86)**	**–**	**(86)**	**361**	**275**

(i) Cash and cash equivalents include restricted cash relating to joint operations of £22 million (2018: £43 million) and withholdings of employee payroll tax of £1 million (2018: £1 million). In 2018, there was also restricted cash of £5 million relating to operational and office rental agreements.
(ii) Cash and cash equivalents include £312 million (2018: £532 million) which is due from a related-party and classified as a cash equivalent. Refer to note S5 for the terms and conditions.

23. SHARE CAPITAL

Allotted and fully paid share capital of the Company:

As at 31 December	2019 £m	2018 £m
296,056,457 A class ordinary shares of 1 pence each (2018: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2018: 658,964,372)	6	6
1 deferred share of £1 (2018: 1)	–	–
955,020,829 preference shares of 1 pence each (2018: 955,020,829)	10	10
	19	**19**

The A and B class ordinary shares have attached to them full voting, dividend (including the right to special dividends in the case of B class ordinary shares) and capital distribution (including winding up) rights. They do not confer any rights of redemption.

Special dividends are required to be declared in certain circumstances, subject to the availability of sufficient distributable reserves. The special dividends are therefore not discretionary and as such, are accounted for as a financial liability when the event triggering the special dividend occurs.

The deferred share does not have any right to a dividend or distribution of profits of the Company on winding up. The holder is entitled to repayment of the amount paid up after repayment of the capital paid up on the A ordinary and B ordinary shares. The deferred share does not attach any rights to receive notice of, attend, speak or vote at a general meeting or on any written resolution of the Company.

The preference shares have attached to them voting (only in respect of variation or abrogation of the rights attaching to them), dividend (in priority to ordinary Shareholders, save for special dividends) and capital distribution (including on winding up and in such case in priority to ordinary Shareholders) rights. The shares are redeemable (in whole or in part) at the Company's option and on redemption, entitle the holder to a specified payment.

The Shareholders' agreement governs further rights to redeem the preference shares and also circumstances when conversion of preference shares can occur, but these are all at the discretion of the Company.

The preference share dividends are non-cumulative and are fixed at 5.5% per annum with a floating element of up to 1.5% per annum based on the Company's post-tax profits. The overall dividend is only payable at the discretion of the Directors of the Company and subject to having sufficient distributable reserves.

As detailed in note 3, the preference shares are deemed to be equity instruments.

24. SHARE PREMIUM

In December 2019, by special resolution of the Board of Directors and pursuant to Companies Act sections 641and 642, the Company reduced its share premium account by £1,500 million (2018: £1,000 million) and transferred the resulting distributable reserves to retained earnings.

25. PARENT AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking and controlling party is GB Gas Holdings Limited, a company registered in England and Wales, which holds a 69% voting interest in the Company. The registered office address is Millstream Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The Company's ultimate parent company and ultimate controlling party is Centrica plc, who through a 100% wholly-owned subsidiary, owns 100% of the ordinary shares in GB Gas Holdings Limited. Centrica plc is a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.

26. EVENTS AFTER THE BALANCE SHEET DATE

In February 2020, we signed a deal for the sale of the Danish assets Hejre and Solsort to Ineos, which we expect to complete later this year.

On 14 May 2020, the sale of the operating interest in UKCS Seaward Licence Number P.456, Block 48/2a, which includes an interest in the Babbage field, to Verus Petroleum (SNS) Limited was completed.

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

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

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income statement presentation

The Consolidated Income Statement separately identifies the effects of re-measurement of certain financial instruments, and items that are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described in note 2.

Basis of consolidation

See note 1 for further details.

Revenue

The Group recognises revenue reflecting the transfer of goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The majority of revenue is classified as IFRS 15 whilst non-IFRS 15 revenue principally relates to commodity hedging and derivatives and selected intercompany gas sales.

Revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply contracts with the revenue recognition profile reflecting the supply of gas to the customer. In respect of oil sales, each barrel of oil is considered to be a separate performance obligation satisfied at a point in time – on delivery. The rights and obligations identifiable within a contract where the Group holds sellers' nomination rights are considered to be enforceable from inception of the contract. The transaction price for the contract will include variable consideration based on forecast production and market prices. The point at which the performance obligation is satisfied, and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms, usually on shipment or delivery to a specified location.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. These deferred or accrued amounts are then recognised once the recognition criteria are met.

Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when the customer obtains control of the goods. For oil and natural gas, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Tariff revenue from the use of the Group's platform and pipeline facilities is recognised at a point in time, when products are physically transferred into a vessel, pipe or other delivery mechanism as the customer gains control of the use of the pipeline facilities when the goods (oil and gas) are transferred into the vessel, pipe or other delivery mechanism.

Cost of sales

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

Investment income

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

Borrowing costs

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

Foreign currencies

The Consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the parent company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Consolidated Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange movements are included in the Consolidated Income Statement for the period.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the dates of the initial transaction.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The results of these entities are translated into pounds sterling at the average rates of exchange for the relevant period. The relevant exchange rates are shown below:

As at 31 December Exchange rate per pound sterling (£)	Closing rate 2019	Closing rate 2018	Average rate 2019	Average rate 2018
Euro	1.18	1.11	1.14	1.13
US dollar	1.33	1.28	1.28	1.33
Norwegian krone	11.65	11.04	11.25	10.87
Danish krone	8.83	8.32	8.52	8.42

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve included in other equity. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Consolidated Income Statement on disposal.

Unit arrangements

Where the Group has entered into unit arrangements with partner licences, the share of ownership is reviewed on a regular basis in accordance with the unit agreement based on updated estimates of reserves contributed by each partner in the unit. In the event a review results in a decreased share in the unit, where excess volumes received in the past are redelivered by the partner with the reduced ownership share according to an agreed schedule, these volumes are accounted for at the time of redelivery and not accrued for in advance. Similarly, where the review results in an increased share, the volumes are accounted for at the time of receipt.

Business combinations and goodwill

Businesses within the Group that have been acquired as part of historic business combinations have been included in the Consolidated Financial Statements on the same basis that they are included within the Centrica plc group financial statements. The acquisitions of these entities are accounted for using the acquisition method (at the point the Group or, as explained above, the Centrica plc group, gains control over a business as defined by IFRS 3: 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at FVLCD.

Goodwill arising on a business combination represents the excess of the consideration transferred and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Consolidated Income Statement.

On disposal of one of the Group's undertakings, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include application software, emissions trading schemes and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software cost includes directly attributable labour, contractors' charges and materials. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition.

Capitalisation occurs when activities to prepare the asset for use are in progress and expenditure for the asset is incurred. Capitalisation subsequently ceases when substantially all the activities necessary to prepare the asset for use are complete. Amortisation then commences at the point of commercial deployment.

Following initial recognition, intangible assets are carried at cost less any accumulation amortisation and impairment losses. The useful life of intangible assets can be assessed as finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic life. Assessments for impairment take place annually or when there is an impairment indicator. The amortisation period and method of intangible assets are also reviewed annually. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised. Instead they are tested for impairments annually and when there is an impairment indicator. This may be either individually or at a CGU level. The indefinite life assessment is reviewed annually. Any change from indefinite life to finite life is be applied on a prospective basis.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use.

The useful life for other intangibles is up to 15 years.

EU Emissions Trading Scheme

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Consolidated Income Statement. The intangible asset is surrendered, and the liability is extinguished, at the end of the compliance period to reflect the consumption of economic benefits.

Exploration, evaluation, development and production assets

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

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

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

Interests in joint arrangements

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

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

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

Property, plant and equipment (PP&E)

PP&E is included in the Consolidated 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.

Freehold land is not depreciated. Other PP&E, with the exception of exploration and production assets (see exploration, evaluation, development and production assets section), 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. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	5 to 20 years
Equipment	3 to 10 years

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

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and, if necessary, changes are accounted for prospectively.

Held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale when the Directors are committed to the sale, the sale is highly probable to be completed within a year of its classification and the asset, or disposal group, is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified as held for sale at the lower of their carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Impairment assumptions

Details of the approach taken to impairment are included in note 7(c).

Overlift and underlift

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

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

Leases

Under IFRS 16, an arrangement is, or contains, a lease where the contract conveys the right to use an asset for a period of time in exchange for consideration. Lessees must recognise ROU assets to represent its rights to use the underlying assets and lease liabilities to represent its obligation to make lease payments. However, exemptions are available for low-value or short-term leases to be recognised as an expense.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Consolidated Income Statement within financing costs.

If a lease is terminated before its expected lease term (e.g. the lessee exercises a break clause that was previously not assessed to be reasonably certain to be exercised or the lessee defaults so that the lessor repossesses the underlying asset), the Group will derecognise the carrying amount of the net investment in the lease and recognise the underlying asset. The underlying asset is initially measured at the carrying amount of the net investment in the lease immediately before its derecognition.

If a lease modification occurs, the Group will determine whether the modification should be accounted for as a separate contract or as a change in the accounting for the existing lease.

If the modification grants the lessee the right to use additional property, plant and equipment not contemplated in the original contract and is priced in a manner consistent with the stand-alone price of the additional right-of-use, the modified lease will be accounted for as a separate contract.

If the modification results in the lease being classified as an operating lease, the modification is accounted as if it were a termination of the existing lease and the creation of a new lease that commences on the effective date of the modification. The Group will derecognise the net investment in the lease receivable and recognise the underlying asset at the carrying value of the net investment in the lease receivable that existed immediately prior to the date of modification.

Inventories

Commodity inventories (oil and gas) are valued at market value. Other inventories are valued on a weighted-average-cost basis, at the lower of cost or estimated net realisable value after allowance for redundant and slow-moving items. The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, based on price levels and current technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Consolidated Income Statement within interest expense.

The discount rates used in calculating the decommissioning provisions are:

Years ended 31 December 2019 and 2018

	UK	Netherlands	Norway	Denmark
Real	1.20%	1.20%	1.20%	1.20%
Inflation	2.50%	2.50%	2.50%	2.50%
Nominal	3.73%	3.73%	3.73%	3.73%

Pensions and other post-employment benefits

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Consolidated Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligation under a contract exceed the economic benefits expected to be received under it.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice. Each item is considered separately and on a basis that provides the better prediction of the outcome.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet 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 Group'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 jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, 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.

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Consolidated Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

Trade receivables

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest rate method less an allowance for any uncollectible amounts. 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.

Trade payables

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Other instruments are classified as equity where they are judged to meet the definition of equity if, for example, the issuer has the ability to avoid repayment and any coupon is discretionary.

Cash and cash equivalents

Cash includes cash in hand and current balances with banks and similar institutions. Cash equivalents include cash on deposit with related parties, which is readily convertible to known amounts of cash and which is subject to insignificant risk of changes in value and has an original maturity of three months or less.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, discount or premium.

Related-party receivables and payables

Related-party receivables and payables are recognised initially at fair value plus any transaction costs that are directly attributable to the acquisition or issue of the receivable or payable. Subsequently they are measured at amortised cost using the effective interest method and, for receivables, less an allowance for any uncollectable amounts.

Derivative financial instruments

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

The Group uses a range of derivatives to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Certain derivative instruments do not qualify for hedge accounting. Such derivatives are measured at fair value in the Consolidated Balance Sheet, and changes in the fair value that do not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts, the fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Consolidated Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Consolidated Income Statement.

Hedge accounting

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

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

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

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

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

Impairment of financial assets

In accordance with IFRS 9, the Group has applied the expected credit loss model to financial assets measured at amortised cost. For trade receivables, contract assets and finance lease receivables, the simplified approach is taken, and the lifetime expected credit loss provided for.

For all other in-scope financial assets at the balance sheet date either the lifetime expected credit loss or a twelve-month expected credit loss is provided for, depending on the Group's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition. As the Group's financial assets are predominantly short term (less than twelve months), the impairment loss recognised is not materially different using either approach.

S2. FINANCIAL RISK MANAGEMENT

(a) Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices and foreign exchange rates). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates and commodity prices. It is the Group's policy and practice to use derivative financial instruments to manage these exposures.

Commodity price risk management

The Group is exposed to commodity price risk on its future revenues from crude oil and natural gas. A change in these prices may alter the gross margin of the Group. Accordingly, it may enter into commodity futures and forward contracts to manage fluctuations in prices of anticipated revenues.

Currency risk management

The Group is exposed to currency risk on the following:

(i) foreign currency denominated forecast transactions and firm commitments (transactional currency risk); and
(ii) its net investments in foreign operations and foreign currency monetary assets and liabilities (translational currency risk).

(i) Transactional currency risk

The Group is exposed to transactional currency risk on revenues and costs denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Norwegian kroner in Norway and euros in the Netherlands. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. The Group manages this risk by hedging certain material transactional exposures using derivatives to fix the functional currency value of non-functional currency cash flows.

(ii) Translational currency risk

The Group is exposed to the effect of exchange rate fluctuations on the pound sterling value of foreign operations and of foreign currency monetary assets and liabilities, of which the primary exposure arises from NOK, EUR and DKK. The Group selectively manages this risk by replicating foreign debt using derivatives that pay cash flows in the currency of the respective exposure.

In circumstances where a branch of a reporting entity has a different functional currency to that of the entity and it is materially autonomous to the entity, exchange differences on consolidation with the entity can be taken to other comprehensive income rather than the income statement. This is consistent with the rules under Financial Reporting Standard IAS21 'The effects of changes in foreign exchange rates'.

Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices and foreign exchange rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2019, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2019 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates.

(i) Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on a sensitivity analysis are as follows:

Energy prices	2019 Base price(i)	2019 Reasonably possible change in variable %(ii)	2018 Base price(i)	2018 Reasonably possible change in variable %(ii)
UK gas (pence/therm)	40	+/–15	56	+/–13
UK oil (US$/bbl)	60	+/–9	55	+/–19

Incremental (loss)/profit	2019 Impact on profit(ii) £m	2018 Impact on profit(ii) £m
UK energy prices (combined) – (decrease)/increase	(42)/42	(86)/86

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

(ii) Transactional currency risk

The majority of the Group's transactional currency exposure derives from US dollar revenues. To cover these exposures an amount of $737 million (2018: $853 million) was sold or matured with spot and forward contracts during the year. A 10% increase on the average exchange rate for the year of GBP to USD on the USD value of those contracts would have resulted in a reduction to revenue of £52 million (2018: £58 million) and a 10% decrease in the value of GBP to USD von the USD value would have resulted in an increase to revenue of £64 million (2018: £71 million).

(b) Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group is exposed to credit risk on derivative financial instruments, cash and deposits with banks and Centrica group companies, as well as credit exposures to customers in its trading and energy sales activities.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2019		2018	
	Derivative financial instruments with positive fair values £m	**Cash and cash equivalents £m**	Derivative financial instruments with positive fair values £m	Cash and cash equivalents £m
AA– to A–(i)	–	49	–	40
BBB+ to BBB–(ii)	10	312	2	599
Un-rated Centrica Group companies	172	–	37	–
	182	**361**	**39**	**639**

(i) Includes restricted cash.
(ii) BBB+ to BBB– and the unrated counterparty financial assets comprise amounts due from related parties.

Credit risk is managed by periodically assessing the financial reliability of financial counterparties.

Non-treasury credit risk

The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. The creditworthiness of counterparties are assessed in line with policy.

(c) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. To mitigate this risk, the Group holds adequate cash and cash equivalents and has access to a revolving unsecured credit facility. See note 22(b) for more information.

Maturity profiles

Maturities of derivative financial instruments, provisions, borrowings and finance leases are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

2019 Due for payment	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy derivatives in a loss position that will be settled on a net basis	(6)	(1)	–	–	–	–
Foreign exchange derivatives in a loss position that will be settled on a net basis	(3)	–	–	–	–	–
Financial liabilities within provisions	–	–	–	–	–	–
Lease liabilities	(23)	(23)	(20)	(11)	(5)	(4)

2018 Due for payment	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy derivatives in a loss position that will be settled on a net basis	(45)	(10)	–	–	–	–
Foreign exchange derivatives in a loss position that will be settled on a net basis	(5)	(2)	–	–	–	–
Financial liabilities within provisions	(3)	–	–	–	–	(2)
Finance lease:						
Minimum lease payments	(11)	–	–	–	–	–
Capital elements of leases	(11)	–	–	–	–	–

S3. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

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

Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;

Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and

Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally-developed methodologies that result in management's best estimate of fair value.

31 December	Level 1 £m	Level 2 £m	Level 3 £m	2019 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2018 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	172	–	172	–	37	–	37
Foreign exchange derivatives	–	10	–	10	–	2	–	2
Total financial assets at fair value	**–**	**182**	**–**	**182**	**–**	**39**	**–**	**39**
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	–	(7)	–	(7)	–	(55)	–	(55)
Foreign exchange derivatives	–	(3)	–	(3)	–	(7)	–	(7)
Total financial liabilities at fair value	**–**	**(10)**	**–**	**(10)**	**–**	**(62)**	**–**	**(62)**

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2019 was 1% (2018: 1%) per annum.

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of the contractual terms. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices.

Active period of markets	Gas	Oil
UK (years)	3	3

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Consolidated Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S1 for further detail). There are no amounts that have yet to be recognised in the Consolidated Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition.

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, overdrafts, trade and other payables, leases, borrowings and provisions are estimated to approximate their carrying values.

S4. OTHER EQUITY

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Share-based payment reserve £m	Merger reserve £m	Total £m
As at 1 January 2018	–	(79)	18	1,676	1,615
Other comprehensive income for the year:					
Exchange adjustments	–	2	–	–	2
Net gains on cash flow hedges	1	–	–	–	1
Acquisition of businesses	–	–	–	65	65
As at 31 December 2018	**1**	**(77)**	**18**	**1,741**	**1,683**
Other comprehensive loss for the year:					
Exchange adjustments	–	(49)	–	–	(49)
Net losses on cash flow hedges	(1)	–	–	–	(1)
Taxation on cash flow hedges	1	–	–	–	1
Other comprehensive loss for the year, net of taxation	**–**	**(49)**	**–**	**–**	**(49)**
Share-based payment transactions	–	–	(9)	–	(9)
As at 31 December 2019	**1**	**(126)**	**9**	**1,741**	**1,625**

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Consolidated Income Statement or Consolidated Balance Sheet as and when the hedged item affects the Consolidated Income Statement or Consolidated Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. Notes 17 and S1 provide further detail on cash flow hedging.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange adjustments on the translation of the Group's foreign operations.

Share-based payment reserve

During the year ended 31 December 2019, the Group did not operate employee share schemes. Centrica plc, the Group's ultimate parent undertaking, operates a number of employee share schemes and in 2017, prior to Centrica plc's contribution of its exploration and production business to the Group, Centrica plc made awards under these schemes to certain employees of the Group. The share-based payment reserve reflects the Group's obligation to deliver Centrica plc shares to employees in return for services provided.

Merger reserve

On 8 December 2017, the Group completed the transaction to combine Centrica plc's existing exploration and production business with that of Bayerngas Norge AS. The merger reserve represents the difference between the fair value and carrying value of assets.

S5. RELATED-PARTY TRANSACTIONS

During the year, the Group entered into the following arm's length transactions with related parties (who are not members of the Group, but which were related parties since they are fellow subsidiaries of the Shareholders of the Group), and had the following associated balances:

	Sale of goods and services(i) £m	Purchase of goods and services(i) £m	Other – net interest £m	Amounts owed from(iii) £m	2019 Amounts owed to(iv) £m
Centrica plc	5	–	(1)	343	(6)
GB Gas Holdings Limited	–	(8)	(8)	179	(5)
British Gas Trading Limited	681	(34)	1	49	(44)
Centrica Energy Limited	338	–	–	194	(6)
Centrica Storage Limited	–	(8)	–	–	–
SWM Bayerische E&P Beteiligungsgesellschaft mbH	–	–	–	4	–
	1,024	**(50)**	**(8)**	**769**	**(61)**

	Sale of goods and services(i) £m	Purchase of goods and services(i) £m	Other – net interest £m	Other – cash flow hedge reserve(ii) £m	Loan repayments £m	Amounts owed from(iii) £m	2018 Amounts owed to(iv) £m
Centrica plc	–	(6)	4	1	(106)	562	(38)
GB Gas Holdings Limited	–	(48)	(7)	–	–	227	(17)
British Gas Trading Limited	1,013	(26)	(3)	–	–	91	(44)
Centrica Energy Limited	–	(118)	–	–	–	19	(39)
Centrica Services Limited	–	–	–	–	–	–	(2)
Centrica Storage Limited	–	(13)	–	–	–	–	(13)
SWM Bayerische E&P Beteiligungsgesellschaft mbH	–	–	–	–	–	6	–
	1,013	**(211)**	**(6)**	**1**	**(106)**	**905**	**(153)**

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.
(ii) Representing gains/(losses) on derivatives that are hedge accounted.
(iii) Amounts owed from related parties includes £312 million (2018: £532 million) classified as cash equivalents; £182 million (2018: £39 million) classified as derivative financial assets; and £20 million (2018: £20 million) deducted from current tax liabilities, largely for Group Relief to be provided by fellow subsidiary undertakings of the Group's ultimate parent company.
(iv) Amounts owed to related parties includes £10 million (2018: £62 million) classified as derivative financial liabilities and £nil million (2018: £11 million) classified as finance lease liabilities.

S5. RELATED-PARTY TRANSACTIONS

CONTINUED

All amounts owed from/(owed to) related parties are unsecured. No provision against amounts receivable from related parties was recognised during the year through the Consolidated Income Statement. The balance of the provision at 31 December 2019 was £nil million (2018: £nil million).

Interest rate	Maturity date	£m
Floating (cash equivalent)(i)	On demand	252
Fixed 0.84% to 0.94% (cash equivalent)	16-23 January 2020	60
Non-interest bearing(ii)	31 March 2023	156
Non-interest bearing	On demand	230
Non-interest bearing(iii)	Legal trigger	10
		708

(i) The daily average of the published rates achieved by the main AAA rated market funds of HSBC Bank plc, J.P. Morgan Asset Management and Blackrock.
(ii) Repayable quarterly through to 31 March 2023, and subject to annual revision of instalments. Quarterly instalments are fixed within each financial year but vary for each calendar year over the term of repayment. The balance represents the discounted amount at 1.2% from a fair value of £159 million projected net spend of identified assets as set out in the contribution agreement for the transaction on 8 December 2017 which combined the exploration and production businesses of Centrica plc and Bayerngas Norge A/S.
(iii) The contribution agreement contains a mechanism whereby GBGH has the right to require that the Group transfer all or part of its interests in the Bowland licences to GBGH. In such circumstances, the Group is able to recover costs incurred after 1 January 2017 in connection with the Bowland licences from GBGH. Should GBGH not exercise such right or should GBGH require the sale of the Bowland licences to a third party, the contribution agreement contains a mechanism through which the Group also has the ability to recover costs incurred after 1 January 2017 in connection with the Bowland licences, save in limited circumstances. £3 million represents the value of the Group assets that would not be recovered under this mechanism.

Key management personnel comprise members of the Board and Executive Committee. One Executive Committee member resigned and was replaced during the year. A total of 12 individuals remained at 31 December 2019 (2018: 12).

Compensation paid to key management personnel is as follows:

Year ended 31 December	2019 £000	2018 £000
Short-term employee benefits	3,614	2,923
	3,614	**2,923**

Compensation for one executive Director and six members of the Executive Committee was borne by the Group. Compensation for two Directors was borne by Statwerke Munchen Group. Compensation for four Directors has been borne by Centrica plc.

Remuneration of the highest paid Director is as follows:

Year ended 31 December	2019 £000	2018 £000
Short-term employee benefits	901	937
	901	**937**

The highest paid Director was not in a money purchase pension scheme and did not exercise share options or receive shares in the year (2018: £nil million).

S6. AUDITOR'S REMUNERATION

Year ended 31 December	2019 £000	2018 £000
Audit fee payable for the Company's individual and Consolidated Financial Statements	543	563
Audit of the Company's subsidiaries	525	515
Total fees related to the audit of the parent and subsidiary entities	**1,068**	**1,078**
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	85	10
Other assurance services	25	25
	1,178	**1,113**

S7. RELATED UNDERTAKINGS

(a) Subsidiary undertakings

Below is a list of Spirit Energy Limited's subsidiary undertakings at 31 December 2019. Spirit Energy Limited holds directly or indirectly 100% of the ordinary shares of each subsidiary undertaking. Subsidiary undertakings which are held directly by Spirit Energy Limited are designated by *.

Name of undertaking and registered address	Principal activity	Country or territory of incorporation
Bayerngas Norge AS* Veritasveien 29, 4007 Stavanger, Norway	Holding company	Norway
Bowland Resources (No.2) Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Bowland Resources Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Elswick Energy Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
NSGP (Ensign) Limited IFC 5 St Helier, Jersey, JE1 1ST	Gas and/or oil exploration and production	Jersey
Spirit Energy Danmark ApS Horten Advokatpartnerselskab, Philip Heymans Alle 7, 2900 Hellerup, Denmark	Gas and/or oil exploration and production	Denmark
Spirit Energy Hedging Holding Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Dormant company	UK
Spirit Energy Hedging Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Dormant company	UK
Spirit Energy Nederland BV* Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Gas and/or oil exploration and production	Netherlands
Spirit Energy Norge AS* Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy Norway AS Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy North Sea Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy North Sea Oil Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Energy Petroleum Danmark AS Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway

Name of undertaking and registered address	Principal activity	Country or territory of incorporation
Spirit Energy Production UK Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Resources Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Southern North Sea Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Treasury Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Finance company	UK
Spirit Energy WOS Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Europe Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Holding company	UK
Spirit Infrastructure BV Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Construction, ownership and exploitation of infrastructure	Netherlands
Spirit North Sea Gas Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Norway Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Investment holding company	UK
Spirit Production (Services) Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Business services	UK
Spirit Resources (Armada) Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK

(b) Joint arrangements

Material joint arrangements owned by the Group that are classified as joint operations and accounted or in accordance with IFRS 11 (see note S1) are detailed below. This list excludes interests in fields where there is no party with overall control since the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint operations – fields/assets

As at 31 December 2019	Nature of relationship	Location	Percentage holding in ordinary shares and net assets
Cygnus	Non-operated	UK North Sea	61.25

COMPANY BALANCE SHEET

As at 31 December	Note	2019 £m	2018 £m
Non-current assets			
Investments	C	2,669	2,691
Trade and other receivables	D	69	101
		2,738	**2,792**
Current assets			
Trade and other receivables	D	119	137
Cash and cash equivalents		–	469
		119	**606**
Total assets		**2,857**	**3,398**
Current liabilities			
Bank overdrafts, loans and other borrowings		(747)	–
Trade and other payables	E	(3)	(3)
		(750)	**(3)**
Net assets		**2,107**	**3,395**
Equity			
Share capital	F	19	19
Share premium	G	1,094	2,594
Retained earnings		952	740
Other equity	H	42	42
Shareholders' equity		**2,107**	**3,395**

The Company reported a loss for the financial year ended 31 December 2019 of £888 million (2018: £260 million).

The Financial Statements on pages 79 to 86, of which the notes on pages 81 to 86 form part, were approved and authorised by the Board of Directors on 27 May 2020 and were signed below on its behalf by:

Chris Cox
Director and Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m
06 July 2017		**–**	**–**	**–**	**–**	**–**
Loss and total comprehensive loss for the period		–	–	(260)	–	(260)
Issue of share capital	F,G	19	3,594	–	–	3,613
Reduction in share premium and transfer to retained earnings	G	–	(1,000)	1,000	–	–
Acquisition of business	H	–	–	–	42	42
31 December 2018		**19**	**2,594**	**740**	**42**	**3,395**
Loss and total comprehensive loss for the year		–	–	(888)	–	(888)
Reduction in share premium and transfer to retained earnings	G	–	(1,500)	1,500	–	–
Dividends paid to equity holders		–	–	(400)	–	(400)
31 December 2019		**19**	**1,094**	**952**	**42**	**2,107**

As permitted by section 408(3) of the Companies Act 2006, no income statement or statement of comprehensive income is presented.

The Board has not recommended a payment of final dividend for the year ended 31 December 2019.

The notes on pages 81 to 86 form part of these Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

(a) General information and principal accounting policies of the Company

General information

Spirit Energy Limited ('the Company'), is the parent company of the Spirit Energy Group. The Company was incorporated on 6 July 2017. It is a private company limited by shares, domiciled and incorporated in the UK and registered in England and Wales with registration number 10854461. Its principal place of business and registered address is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG.

The Company Financial Statements are presented in pounds sterling with all values rounded to the nearest million pounds. Pounds sterling is the functional currency of the Company.

Basis of preparation

The Company Financial Statements are prepared and presented for the year ended 31 December 2019. Comparative information is presented for the long period of account between incorporation on 6 July 2017 and 31 December 2018.

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

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of IAS 7: 'Statement of cash flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- the prior year reconciliation in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related-party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

Measurement convention

The Company Financial Statements have been prepared on the historical cost basis. The carrying costs are approximately equal to their fair value.

Going concern

The Company Financial Statements have been prepared on a going concern basis, as described in the Directors' report and note 1 of the Consolidated Financial Statements.

Critical accounting judgements

The critical accounting judgements are set out in note 3 of the Consolidated Financial Statements. The key accounting judgement of the Company is the carrying value of its investments in subsidiary undertakings and receivables from these undertakings. During the year, the Company reviewed the carrying value of its investments through its impairment review process as described below and recorded an impairment provision of £889 million (2018: £238 million) as described in note C below.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are set out in note 3 of the Consolidated Financial Statements. The areas applicable to the Company are the impairment of investments and Brexit.

Principal accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to the current year and prior period presented in these Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the Income Statement.

Investments

Fixed asset investments in subsidiaries' shares are held at cost in accordance with IAS 27: 'Separate financial statements', less any provision for impairment as necessary for any subsequent investments.

Impairment

The carrying values of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Receivables from related parties are compared to their recoverable amount, which is also assessed using the same estimated discounted future cash flow for each undertaking as described above.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

(b) Employees and Directors

Key management personnel are considered to be the Directors and the Secretary of the Company. The Company had no employees during the year (2018: none). None of the key management personnel received any remuneration for their services as key management personnel of the Company and are not employed by the Company (2018: none).

(c) Investment in subsidiaries

	2019 £m	2018 £m
Cost		
As at 01 January 2019/06 July 2017	2,929	–
Additions	867	2,929
At 31 December	**3,796**	**2,929**

	2019 £m	2018 £m
Accumulated impairment		
At 01 January 2019/06 July 2017	(238)	–
Impairment provision	(889)	(238)
At 31 December	**(1,127)**	**(238)**

	2019 £m	2018 £m
Net book value		
At 01 January 2019/06 July 2017	2,691	–
At 31 December	**2,669**	**2,691**

On 29 September and 31 October 2017, GB Gas Holdings Limited (GBGH), a fellow subsidiary of Centrica plc, contributed the entire share capital of the following entities to the Company in exchange for Class A ordinary shares with a value of £633 million and Class B ordinary shares with a value of £1,482 million: Spirit Energy North Sea Limited, Spirit Energy North Sea Oil Limited, Spirit Energy Production UK Limited, Spirit Energy Resources Limited, Spirit Energy Treasury Limited, Spirit North Sea Gas Limited, Spirit Production (Services) Limited, Spirit Energy Nederland B.V., Spirit Resources (Armada) Limited, Spirit Energy Norge AS and Spirit Norway Limited then trading as Spirit Energy NUF.

Immediately following the above contribution, SWM Bayerische E&P Beteiligungsgesellschaft mbH contributed the entire share capital of Bayerngas Norge AS, together with certain other receivables, to the Company in exchange for a promissory note valued at £796 million, of which £541 million was attributable to the value of Bayerngas Norge AS.

On 11 December 2017, the Company subscribed for a further 2.7 billion ordinary shares in Spirit Norway Limited for cash consideration of £242 million.

On 12 December 2017, the Company subscribed for further shares in Bayerngas Norge AS for cash consideration of £31 million, bringing its total investment in Bayerngas Norge AS to £572 million.

In the period, the Company made cash investments of £132 million in North Sea Gas Limited, £6 million in Spirit Energy Nederland BV, £655 million in Spirit Energy Resources Limited and £74 million in Spirit Production Services Limited.

Impairment provision

In December, the Company made an impairment provision against its following subsidiary investments:

- Spirit Energy Production UK Limited £15 million (2018: £29 million);
- Spirit North Sea Gas Limited £391 million (2018: £8 million);
- Spirit Energy Nederland B.V. £nil million (2018: £2 million);
- Spirit Resources (Armada) Limited £7 million (2018: £3 million);
- Spirit Norway Limited £nil million (2018: £111 million);
- Bayerngas Norge AS £411 million (2018: £85 million); and
- Spirit Production (Services) Limited £65 million (2018: £nil million).

The impairments were recognised to align the carrying value of the investment to its estimated recoverable amount. The principal drivers for investment impairments were the asset impairments driven primarily by revised commodity prices, a recapitalisation programme undertaken in the year, incremental trading losses and adverse foreign exchange movements.

(d) Trade and other receivables

As at 31 December	Note	2019 Current £m	2019 Non-current £m	2018 Current £m	2018 Non-current £m
Financial assets:					
Related-party receivables	I	114	69	132	101
Other receivables		5	–	5	–
		119	**69**	**137**	**101**

(e) Trade and other payables

As at 31 December	2019 £m	2018 £m
Amounts owed to parent undertaking	(3)	(3)

(f) Share capital

Allotted and fully paid share capital of the Company:

As at 31 December	2019 £m	2018 £m
296,056,457 A class ordinary shares of 1 pence each (2018: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2018: 658,964,372)	6	6
1 deferred share of £1 (2018: 1)	–	–
955,020,829 preference shares of 1 pence each (2018: 955,020,829)	10	10
	19	**19**

The A and B class ordinary shares have attached to them full voting, dividend (including the right to special dividends in the case of B class ordinary shares) and capital distribution (including winding up) rights. They do not confer any rights of redemption.

Special dividends are required to be declared in certain circumstances, subject to the availability of sufficient distributable reserves. The special dividends are therefore not discretionary and as such, are accounted for as a financial liability when the event triggering the special dividend occurs.

The deferred share does not have any right to a dividend or distribution of profits of the Company on winding up. The holder is entitled to repayment of the amount paid up after repayment of the capital paid up on the A ordinary and B ordinary shares. The deferred share does not attach any rights to receive notice of, attend, speak or vote at a general meeting or on any written resolution of the Company.

The preference shares have attached to them voting (only in respect of variation or abrogation of the rights attaching to them), dividend (in priority to ordinary Shareholders, save for special dividends) and capital distribution (including on winding up and in such case in priority to ordinary Shareholders) rights. The shares are redeemable (in whole or in part) at the Company's option and on redemption, entitle the holder to a specified payment.

The Shareholder Agreements govern further rights to redeem the preference shares and also circumstances when conversion of preference shares can occur, but these are all at the discretion of the Company.

The preference share dividends are non-cumulative and are fixed at 5.5% per annum with a floating element of up to 1.5% per annum based on the Company's post-tax profits. The overall dividend is only payable at the discretion of the Directors of the Company and subject to having sufficient distributable reserves. The preference shares are deemed to be equity instruments.

(g) Share premium

In December 2019, by special resolution of the Board of Directors and pursuant to Companies Act sections 641and 642, the Company reduced its share premium account by £1,500 million (2018: £1,000 million) and transferred the resulting distributable reserves to retained earnings.

(h) Other equity

During the period ended 31 December 2018, a redetermination was made in respect of the provisional fair values of certain assets and liabilities which had been acquired from Bayerngas Norge AS. The finalised acquisition discussions with Centrica and Bayerngas Norge AS resulted in an increase in the amounts due from Centrica of £25 million and amounts payable to Bayerngas Norge AS of £2 million. The balance sheet also included a provision for uncertain tax provisions from the acquired Bayerngas Group business; the Company has been able to claim indemnities under the tax deed of £4 million in respect of this uncertain tax provision which is due from Bayerngas Norge AS. Additionally, the Company has been indemnified by Centrica and Bayerngas Norge AS in respect of legal claims which have been settled during the period ended 31 December 2018 in the value of £15 million. The cumulative impact of the redetermination was recognised in other equity in the prior period; no further adjustments have been recognised in other equity during 31 December 2019.

(i) Related-party transactions

During the year, the Company entered into the arm's length transactions set out below with related parties who are fellow subsidiaries of the ultimate parent undertaking and had the following associated balances:

As at 31 December	2019 Amounts owed from £m	2019 Amounts owed to £m	2018 Amounts owed from £m	2018 Amounts owed to £m
GB Gas Holdings Limited	179	(3)	227	(3)
SWM Bayerische E&P Beteiligungsgesellschaft mbH	4	–	6	–
Spirit Energy Treasury Limited[(i)]	–	(747)	469	–
	183	**(750)**	**702**	**(3)**

(i) Disclosed as bank overdrafts, loans and other borrowings/cash and cash equivalents.

All amounts owed from related parties are non-interest bearing and are not past due and no provisions for credit losses have been taken. Terms relating to amounts receivable from GB Gas Holdings Limited of £156 million and £10 million are described in note S5 to the Consolidated Financial Statements, in footnotes (ii) and (iii), respectively. The remaining amounts owed from related parties of £17 million and amounts owed to related parties are payable on demand. During the year, all amounts owed to related parties were non-interest bearing, however, an interest rate of LIBOR plus 3% will be applied to amounts owing to Spirit Energy Treasury Limited for periods after 2019.

During the year, the Company recognised in its Income Statement an expense of £5 million (2018: £30 million) for a reduction in deferred consideration and income of £6 million (2018: £7 million) for transactions with GB Gas Holdings Limited.

GAS AND LIQUIDS RESERVES (UNAUDITED)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full-year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Spirit Energy operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by Gaffney, Cline & Associates for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe.

The principal fields in Europe are Kvitebjørn, Statfjord, Nova, Ivar Aasen, Chiswick, Cygnus and Morecambe. The reserves estimates are reported according to the guidelines set by the Petroleum Resources Management System, which is sponsored by the following organisations:

- Society of Petroleum Engineers;
- American Association of Petroleum Geologists;
- World Petroleum Council;
- Society of Petroleum Evaluation Engineers; and
- Society of Exploration Geophysicists.

Estimated net 2P reserves of gas	**Billion cubic feet**
1 January 2019	1,011
Revisions of previous estimates(i)	185
Disposals of reserves in place(ii)	(20)
Production(iii)	(186)
31 December 2019	**990**

Estimated net 2P reserves of liquids(v)	**Million barrels**
1 January 2019	101
Revisions of previous estimates(i)	34
Disposals of reserves in place(ii)	(1)
Production(iii)	(14)
31 December 2019	**120**

Estimated net 2P reserves	**Million barrels of oil equivalent**
31 December 2019(iv)	**284**

(i) Revision of previous estimates include those associated with Statfjord, Kvitebjørn, Trym, Chiswick, Cygnus, York and South Morecambe areas.
(ii) Reflects the disposal of non-operated interests in the Valemon area.
(iii) Represents total sales volumes of gas and oil produced from the Group's reserves.
(iv) Includes the total of estimated gas and liquids reserves at 31 December 2019 in million barrels of oil equivalent.
(v) Liquid reserves include oil, condensate and natural gas liquids.

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES (UNAUDITED)

These consolidated Financial Statements include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not, however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Consolidated Income Statement (I/S), Consolidated Cash Flow Statement (C/F)) or the notes to the Financial Statements.

(a) Adjusted operating profit

Year ended 31 December	Note	2019 £m	2018 £m
Adjusted operating profit		207	426
Exceptional items	I/S	(516)	91
Unrealised re-measurement of energy contracts	6(b)	194	(5)
Operating (loss)/profit	I/S	**(115)**	**512**

(b) Adjusted profit after tax

Year ended 31 December	Note	2019 £m	2018 £m
Adjusted profit after tax		37	89
Exceptional items	I/S	(516)	91
Unrealised re-measurement of energy contracts	6(b)	194	(5)
Tax on exceptional items and unrealised re-measurements of energy contracts	9(a)	14	16
(Loss)/profit for the year	I/S	**(271)**	**191**

(c) Adjusted operating cash flow

Year ended 31 December	Note	2019 £m	2018 £m
Adjusted operating cash flow		548	913
Payments relating to exceptional charges	C/F	(3)	(19)
Net cash from operating activities	C/F	**545**	**894**

(d) Free cash flow

Year ended 31 December	Note	2019 £m	2018 £m
Adjusted operating cash flow		548	913
Proceeds from the sale of assets	C/F	33	1
Purchase of property, plant and equipment and intangible assets	C/F	(470)	(470)
Sale of property, plant and equipment and intangible assets	C/F	6	–
Free cash flow		**117**	**444**

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