Annual Report & Financial Statements
Year ended 31 December 2020

UP FOR THE CHALLENGE

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 best outcomes. Performing at the highest level. And 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 (resigned 31 May 2020)
G.C. McKenna
J.S. Bessell (appointed 1 May 2020)
D.J. House (appointed 1 June 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

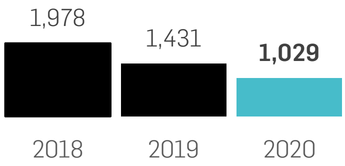
Spirit Energy Limited is a private limited company and registered in England and Wales.

FINANCIAL HIGHLIGHTS

Revenue £m

£1,029m

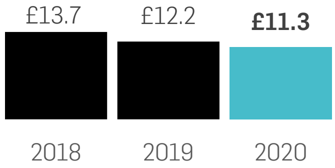
2020



Lifting cost per barrel £/boe

£11.3/boe

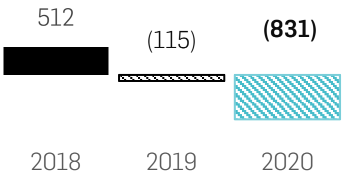
2020



Operating (loss)/profit £m

£(831)m

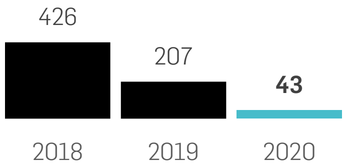
2020



Adjusted operating profit £m

£43m(i)

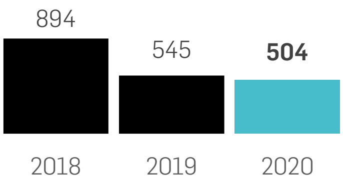
2020



Net cash from operating activities £m

£504m

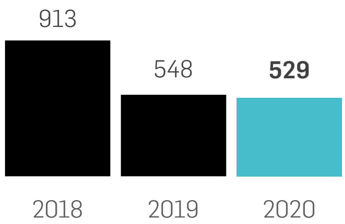
2020



Adjusted operating cash flow £m

£529m(i)

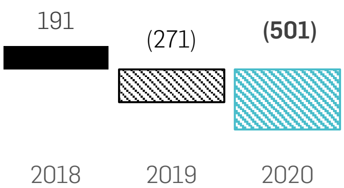
2020



(Loss)/profit after tax £m

£(501)m

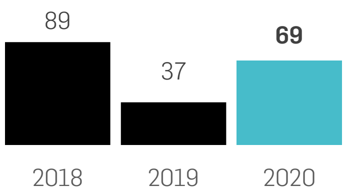
2020



Adjusted profit after tax £m

£69m(i)

2020



(i) The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. 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 94 for definitions and reconciliation of adjusted performance measures to the statutory results.

Against the backdrop of the most challenging year the world has faced in a generation, I am pleased to report on Spirit Energy's performance in 2020.

On behalf of Spirit Energy's Board of Directors, I can report that Spirit Energy was still able to make progress against its strategic targets, although our financial performance was severely impacted by the most exceptional of circumstances in the industry, Europe and globally.

The COVID-19 pandemic has affected societies and economies in a way no one could have imagined. It has redefined how we live, how we work and how we do business together, and on our offshore platforms, our operational sites and for those who ordinarily work from our offices it has meant fundamental changes. It has tested our ability to maintain our focus on high performance, but it has also underscored the importance of our industry in delivering secure energy supplies when the world needs them most. It is of huge credit to all of our teams that, at a time when our offshore assets were identified as critical infrastructure playing a vital role in keeping the lights on during a time of international crisis, our production efficiency remained high and we kept delivering for the countries in which we operate.

DETERMINED AND DRIVEN

Mark Hanafin
Chairman

Alongside the challenges posed by the COVID-19 pandemic, the industry was also confronted with both low gas prices and low and volatile oil prices in 2020. These depressed prices supressed revenues which were £1,029 million (2019: £1,431 million) and despite strong cost discipline and the deferral of some non-critical spend, adjusted operating profit was £43 million (2019: £207 million). The pandemic and low gas prices further impacted financial performance resulting in exceptional charges of £620 million (2019: £516 million) and certain re-measurements of energy contracts charge of £254 million (2019: gain of £194 million). Exceptional charges included £125 million impairment of the 50% interest in the Greater Warwick Area West of Shetland. While we have progressed the project since our farm-in to the licences in 2018, significant uncertainty around future investment remains. Our focus is on working with our partner on progressing the options we have to further appraise the Lincoln and Warwick discoveries.

Gross loss was £30 million (2019: £581 million profit) while the statutory operating loss increased to £831 million (2019: £115 million). Yet despite the headwinds of 2020 Spirit Energy remained free cash flow positive at £159 million (2019: £117 million). Due to the uncertain economic conditions, no dividend was paid to shareholders in 2020 (2019: £400 million).

Our majority shareholder, Centrica plc, has reiterated its intention to divest its 69% interest in Spirit Energy. Spirit Energy continues to focus on what we can control, delivering value today through portfolio optimisation. Our commitment to exploration remains strong, with an approach that prioritises near-field opportunities which offer us medium-term developments to boost our production profile as mature assets decline.

The last 12 months have served as a reminder that secure sources of energy are critical, and while we will need gas and oil as part of our energy mix for many years to come, it is no longer enough for the industry to only supply reliable and affordable energy. Our expertise and knowledge must also turn to providing solutions to climate change – and while we have already made progress in this area, we must and will go further in our industry and in our business. As a sector, the new North Sea Transition Deal in the UK helps pave the way for our journey to Net Zero, and within Spirit Energy we are aligned with the targets in the countries where we operate and are targeting Net Zero by 2050. We have several projects now underway to either reduce our existing emissions or transform our assets so they continue to add value after their lives producing and processing hydrocarbons come to an end. I believe it is an exciting part of our future, and one I am looking forward to seeing progress in 2021.

While I am encouraged by Spirit Energy's resilience in 2020, I take most pride in the determination and drive shown by our teams during tough times for them professionally and personally. In the most challenging circumstances we have seen in our working lives, our teams continue to deliver inspiring, safe performance, and I would like to thank them on behalf of the board for their hard work and commitment over the past 12 months.

LOOKING FORWARD WITH CONFIDENCE

Chris Cox
Chief Executive Officer

At the end of Spirit Energy's third year, I reflect on the incredible challenges we have faced and overcome in the last 12 months.

If any year shows how the teams and individuals at Spirit Energy live our Values, it is 2020. The Agility of our onshore teams in moving from predominantly working in our offices to wholly working from home within a week; the Courage of our offshore and site-based teams to take decisions both professionally and personally, which meant we kept energy flowing into people's homes when they needed it most; and Collaboration across all of our people at a time when we have not seen each other apart from virtually for months.

Care and Delivery are the Values that stand out most for me, however. Previously, Care has perhaps been most closely associated with looking after our own and others' physical health and maintaining our assets, and our focus on creating an Incident Free Workplace (IFW) was as strong as ever in 2020. I was particularly encouraged by our personal and process safety performance, both of which beat industry averages[ii]. Total recordable injury frequency in 2020 was 0.21 (2019: 0.18), while our process safety incident rate (PSIR) was 0.00 (2019: 0.07).

This year has also shown up another element of Care and our IFW journey – the importance of our mental wellbeing and the mental health of those around us. In this area especially, I truly believe there is no other oil and gas operator like us. We have a keen focus on Diversity and Inclusion (D&I) and the employee-led Network which advocates for inclusion across our business, deserves particular credit, with sub-groups like the Carers and the Working Parents' Groups helping our teams to adapt to home schooling or caring for vulnerable family members. I am proud to see it become ever more important in how we include and support everyone at Spirit Energy, and embedded in our culture that every person – regardless of race, gender, background or disability – can thrive at Spirit Energy.

(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 94 for definitions and reconciliation of adjusted performance measures to the statutory results.
(ii) International Association of Oil & Gas Producers (IOGP) average

CHIEF EXECUTIVE OFFICER'S STATEMENT

CONTINUED

We have had to make difficult decisions this year, restructuring our organisation and deferring projects we were eager to progress in 2020. This led to an extraordinary effort right across the business in reducing our costs, and implementing lasting savings in both operating expenditure and in general and administrative costs. Ideas on how we could reduce our costs safely and effectively came from all corners of Spirit Energy and is testament to our teams' determination to find better ways of working. As a result, lifting costs were £11.3/boe (2019: £12.20/boe).

Reduced manning offshore meant non safety critical work was re-prioritised as attention turned to keeping our teams safe while keeping energy supplies flowing. As a result, during the pandemic, we have continued to deliver operationally and produced 44.9 million barrels of oil equivalent (mmboe) in 2020 (2019: 45.8mmboe). We successfully brought two new wells online early in 2020 – the Chiswick C6 and Chestnut P4 wells – extending the life of key assets in our operated portfolio. Alongside our partners we also breathed new life into non-operated assets like Statfjord, where up to 100 new wells will be drilled to extend production out to 2040.

In our efforts to add fresh reserves we drilled four exploration wells over the year, one of which, Bergknapp, was among the largest finds on the Norwegian Continental Shelf in 2020. Unfortunately, our exploration programme also included sub-economic well campaigns at Sandia, Sørvesten and Sprocket. We have also taken the decision to impair our investment in the Greater Warwick Area, due to the uncertainty of the development. We will continue to work with our partner on progressing the options we have to further appraise the Lincoln and Warwick discoveries. With production from the year partially offset by 9mmboe of positive revisions in 2P reserves in Norway, our reserves/production ratio is now 5.5 times (2019: 6.2 times). At the other end of the life cycle, work also continued on our programme to decommission the DP3 and DP4 installations in Morecambe Bay, which will conclude this year with the removal of both platform's topsides.

With the deferral of projects in 2020, 2021 is a significant and busy year for Spirit Energy and we continue to be active right across the life cycle. The York life extension and Grove North East projects are already underway, with gas from both due to come online this year; we are working with our partners to develop economic concepts for both the Fogelberg and the Halten East area, and we will be participating in the exciting Edinburgh and Fotla exploration wells. Throughout our operations, a focus on how we reduce our emissions is also increasingly to the fore – the world needs energy, and we need to ensure we deliver that energy with the lowest carbon footprint possible as we work towards delivering on our vision of becoming Net Zero by 2050. This year we set out our commitments on how we would tackle our emissions in the coming years, and as well as reducing emissions from our existing asset base we will intensify our work exploring how our assets could be repurposed to generate net zero-carbon energy or even negative emissions through projects like carbon capture, utilisation and storage.

Centrica, our major shareholder, has also reiterated its intention to sell its 69% interest in Spirit Energy as part of its strategy. While this was paused at the onset of the COVID-19 pandemic, I believe this opens up the potential for fresh investment in our business as we execute our strategy in the years to come, working across the life cycle to build a winning platform, deliver against the potential and grow our reserves pipeline.

Our Values have guided us through a turbulent period for Spirit Energy, for our industry and for the world, and I have been incredibly proud of how our teams have responded in times of crisis. While these challenges do not end with the turn of the year and the headwinds of the pandemic and volatile commodity prices will continue into 2021, I believe the groundwork we have already laid in forming Spirit Energy, and our determination to succeed in the face of these challenges in 2020, give us a solid foundation to look forward with confidence.

STATFJORD LIFE EXTENSION

It was a major milestone in January 2020 when Spirit Energy and its partners announced the plan to extend production from the Statfjord field towards 2040.

At the time, Spirit Energy had been involved at Statfjord for more than 10 years and had been working to identify new opportunities – an extensive mapping of the subsurface had been ongoing for several years. The work revealed that the remaining potential of the Statfjord area was considerable, which led the partnership to agree on a new and ambitious business plan for the area: to drill up to 100 new wells to 2030.

This meant that plans to decommission Statfjord A in 2022 were shelved – the platform will continue to produce until 2027, while the lives of Statfjord B and C have been extended towards 2040.

Chris Cox, CEO, said: "It is a fantastic achievement by our team and the partnership that we have decided to drill a significant number of new wells, maximising output and securing a high activity level for many years at one of the true giants of the North Sea."

The new plan requires considerable investment and upgrading of the three platforms, as well as a dedicated late-life team at operator Equinor to develop new ways of working for safe, efficient operations with low-carbon emissions.

Chris said: "We hold a 34% share in Statfjord and it's a cornerstone asset in our portfolio. We have now landed a project that will create jobs and great value for many years to come."

Climate focus

During the next five years, CO_2 emissions per produced barrel from the field are expected to be reduced as a result of operational measures for increased energy efficiency which maintain a constant level of energy consumption in a period with increasing activity levels.

Towards 2030, the Statfjord partnership is expected to realise energy efficiency measures and consolidate infrastructure to reduce absolute climate emissions from the Statfjord field.

Photo: Equinor – Harald Pettersen

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 2020.

Principal activities and strategy

Spirit Energy is a leading independent oil and gas operator in Europe, with 2020 production of 44.9mmboe (2019: 45.8mmboe), and at the end of 2020, had proven and probable ('2P') reserves of 246mmboe (2019: 284mmboe). The Group has operated and non-operated interests across the UK, Norway, and the Netherlands, with 35 producing fields and 128 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.

Our commitment to exploration remains strong, focusing on more mature areas and near-field exploration to bring developments on stream in the medium-term with planned investment in new wells at around £110 million per year.

Spirit Energy made steady progress against its strategy in 2020 despite COVID-19 and the continued reduction in commodity prices. We extended the life on the York field by three years, with a view to first gas in the second quarter of 2021 and began production drilling on Nova, with an expectation of first oil in 2022. Although there was a slight increase in the TRIF (total recordable incident frequency) rate from 0.18 to 0.21, the PSIR (process safety incident rate) reduced from 0.07 to 0.00 highlighting our commitment to an incident-free workplace. Production of 44.9mmboe was 2% lower than 2019 (2019: 45.8mmboe). However, cost savings and efficiencies resulted in lifting cost improvement to £11.3/boe (2019: £12.2/boe).

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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	Strategic Report – Future developments in business	13
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How the Board engages with stakeholders and how the Directors have regard to the need to foster the Company's business relationships with all of its stakeholders, and the effect of that regard	Strategic Report – Business relationship	20
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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 94 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	**2020 Performance for year**	2019 Performance for year
Adjusted operating profit	Operating profit before exceptional items and certain re-measurements of energy contracts[i]	Reflects company profitability performance	£43m	£207m
Adjusted profit after tax	Profit for the year after tax before exceptional items and certain re-measurements of energy contracts and related taxation[i]	Reflects company profitability performance	£69m	£37m
Adjusted operating cash flow	Net cash flow from operating activities before payments relating to exceptional charges	Reflects cash flow available for capital expenditure	£529m	£548m
Free cash flow	Adjusted operating cash flow less purchases of PP&E and intangibles and proceeds from sales of PP&E, intangibles and business	Reflects cash flow available for Shareholder dividends and servicing finance	£159m	£117m
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	£11.3/boe	£12.2/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	**2020 Performance for year**	2019 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	0.21	0.18
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	0.00	0.07
Production	Production of gas, oil and liquids	Core driver of revenue generation and long-term sustainability of production	44.9 mmboe	45.8 mmboe
Reserves/production	2P reserves/current year production	Reflects long-term sustainability of production	5.5	6.2

Operating review

Annual production was down 2% to 44.9mmboe compared to 2019, with natural field decline and lower Morecambe up-time only partially offset by the impact of new production wells at Chiswick and Chestnut, good production from the Cygnus field, and a first full year of production from the Oda field. Our 2P reserves were 38mmboe lower at the end of 2020 than at the end of 2019, with production being partially offset by 9mmboe of positive revisions in Norway during the year. Overall this represented a reserves/production ratio of 5.5 times (2019: 6.2 times).

Lifting costs decreased from £12.2/boe in 2019 to £11.3/boe in 2020, 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 York asset interventions, lower maintenance costs on Statfjord, and lower tariff costs driven by lower production. Lifting costs also benefitted from deferral of activity from 2020 to 2021 due to COVID-19.

We continued to achieve a substantial cost saving across our operated decommissioning portfolio. Despite a reduction in capital investment due to COVID-19, most of the capital was directed to Norway activities for the Statfjord late life extension project, advancing the Nova development, and infill drilling on Maria and Kvitebjorn to improve production performance. In the UK, infill drilling campaigns in Chiswick and Chestnut operated assets were completed. In 2020, four wells were drilled in Norway, of which one (Bergknapp) was a discovery.

In line with the Group's strategy of managing the portfolio, the Danish assets were identified as no longer core to the business and the Group signed a sale and purchase agreement with INEOS for the divestment of its 100% share ownership in its Danish companies.

Future developments in business

Our objective is to maintain stable production and an average unit lifting cost through production efficiency and cost efficiency programmes at below £12/boe in 2021.

Our majority shareholder, Centrica plc, has reiterated its intention to divest its 69% interest in Spirit Energy. Spirit Energy's focus is on what we can control and delivering value today.

We plan to continue to reinvest up to 80% of our operating cash flow on capital projects across our operated portfolio which include Oda, Grove and York, and non-operated portfolio on Statfjord life extension, and the Nova development in Norway where production is due to begin in the second quarter of 2022.

Furthermore, we expect to participate in up to two appraisal wells in Norway at Bergknapp and Lille Prinsen, and in the UK, two exploration wells are planned at Fotla and Edinburgh.

The Group continues to execute decommissioning projects and in 2021 will be focussing primarily on Morecambe.

We recognise the world's demand for action to address climate change and we aim to play our part in helping to sustainably meet energy demand. Our vision is to become a net-zero company for operational (Scope 1 and 2) emissions by 2050. In pursuit of this we are developing a route map and strategy for addressing the principal environmental risks and will continue to invest in energy efficiency projects across Spirit Energy.

Financial review

Group revenue decreased by £402 million, or 28%, to £1,029 million (2019: £1,431 million) principally due to lower commodity prices and adverse foreign exchange movements.

Cost of sales were £1,054 million, 12% lower than 2019. The decrease in costs principally represents lower lifting costs.

Operating costs of £181 million were £1 million higher than £180 million in 2019.

The statutory operating loss was £831 million in 2020 compared to £115 million in 2019. Operating loss included exceptional costs of £620 million (2019: £516 million). £570 million (post-tax £301 million) of this comprised of net impairments on certain fields, predominantly due to decreases in price forecasts and portfolio rationalisations. £125 million (£75 million post-tax) related to the write down of the Greater Warwick Area, £45 million (pre and post-tax) related to an impairment on goodwill due to changes in the certain gas and oil fields that support the goodwill balance. £6 million of exceptional costs were from business change and restructuring costs and a £7 million loss occurred from the disposal of subsidiaries. These amounts were offset by a reversal in unused decommissioning provisions of £8 million (post-tax £5 million) relating to assets previously impaired through exceptional items. Further details can be found in note 6.

Gross loss of £30 million (2019: profit of £581 million) included £5 million of losses from the re-measurements of energy contracts (2019: gain of £342 million). This consisted of a £254 million loss (2019: gain of £194 million) from the re-measurement of certain energy contracts offset by a £249 million gain (2019: £148 million) from the settlement of energy contracts.

Loss after taxation for the year was £501 million (2019: £271 million).

Alternative performance measures

Adjusted operating profit was down £164 million or 79% to £43 million principally due to lower commodity price, offset by favourable lifting costs and operating costs.

Adjusted profit after tax increased by £32 million, or 86%, to £69 million (2019: £37 million). This reflects the overall decline in gross profit offset by lower taxes and financing costs.

Adjusted operating cash flow was down 3% to £529 million, driven primarily by lower commodity prices offset by tax receipts and improved working capital movements. After capital expenditure of £313 million and outflows of £66 million from the sale of businesses, the Group generated free cash flow of £159 million in 2020 compared to £117 million in 2019.

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 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.

The COVID-19 pandemic presented a new key risk in 2020, which remains an area of intense focus for Spirit Energy with measures in place in order to ensure safe operations both on and offshore, thereby enabling Spirit Energy to maintain consistent oil and gas production.

A further key uncertainty for Spirit Energy arises due to the ongoing majority shareholder sales process, targeted completion of which was deferred from 2020 into 2021 because of market conditions and COVID-19.

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. Risks associated with political and regulatory intervention have increased with the exit from the European Union. Spirit Energy has mitigated these risks through focus on compliance training for employees in the relevant departments. This is discussed further in the Exit from the European Union section of the Strategic Report.

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 a sustainable long-term cash flow underpinning the Group's liquidity requirements and capital investments. Spirit Energy has significant cash and cash equivalents of £444 million, and a £250 million revolving unsecured credit facility provided by its Shareholders (refer to note 21b), which expires at end of September 2021 and will not be renewed. Spirit Energy has sufficient funds, notwithstanding the expiration of the revolving credit facility, to cover its liquidity requirements for the foreseeable future. Investments and dividends are 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 can request, although it is not guaranteed, funding from Shareholders. In addition, exposures to commodity prices, foreign exchange rate movements and credit risk are managed through agreed hedging and treasury policies, thereby shielding Spirit Energy from external market risks such as the commodity price drop of 2020.

Spirit Energy is also exposed to IS security risks, in relation to cyber-attack and misuse, data protection and fraud which are mitigated through a framework of relevant controls.

Energy Transition has increased in significance, with Spirit Energy developing a route map and strategy for addressing the principal environmental risks it faces in the current climate. Ensuring we continue to provide energy systems to support homes and economies without damaging the environment is one of the greater challenges of our team. Refer to the Streamlined Energy and Carbon Reporting section for further details on our vision to address this.

Streamlined energy and carbon reporting (SECR)

Our vision

Spirit Energy believes that the provision of energy in the face of the climate emergency is one of the biggest challenges confronting the world. We recognise that the world demands action to address climate change and we aim to play our part in helping to sustainably meet energy demand.

Our vision is to become a net-zero company for operational (Scope 1 and 2) emissions by 2050.

We also intend to explore how our assets could be repurposed to generate net-zero carbon energy.

Background

On 1 April 2019, The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 entered into force. The 2018 Regulations obligate large, unquoted companies (including Spirit Energy) to report on energy use and carbon emissions. This report, in compliance with the 2018 Regulations, states Spirit Energy's annual Scope 1 and 2 emissions in tonnes of carbon dioxide equivalent (TeCO2e) resulting from our operations during the 2020 reporting period.

Definitions

Scope 1 emissions are defined as greenhouse gases (GHG) released to the atmosphere directly, including combustion (diesel, fuel gas & flaring) and process emissions (venting & fugitive gas). Scope 2 emissions are defined as those released into the atmosphere indirectly from the consumption of purchased electricity (in kwh). We account for these under the following business activities:

- Offshore upstream – emissions from our permanent offshore installations (Scope 1)
- Onshore midstream – emissions from our onshore receiving facilities in which we hold an equity share (Scope 1 & 2)
- Offshore drilling – emissions from drilling rigs and rig move vessels (Scope 1)
- Onshore facilities – emissions from powering our offices (Scope 2)

Scope 3 emissions, for example those associated with our supply chain, travel, and routine logistics (e.g. non-drilling related vessel activity, such as supply boats), are not represented within the report, as is also the case for emissions from mid-stream processing, where Spirit Energy does not hold an equity share in the facility.

Hybrid methodology organisational boundary

Spirit Energy accounts for our share of emissions from all our operated and non-operated assets, across the UK, Netherlands and Norway. Just as we account for profit from every barrel, we account for carbon from every barrel. Our approach is consistent with the principles of the GHG Protocol Corporate Standard, adopting a hybrid of the equity share and operational control methodologies.

For our assets which are tied-back to host processing facilities operated by others, we have taken an apportionment of the host's CO2e emissions, based on our percentage share of production throughput. In cases where Spirit Energy is an equity partner in such assets, we have taken a further apportionment based on our equity percentage. This approach best reflects the principle of reporting emissions in line with our financial activity, as stated by the 2018 Regulations.

The table below represents Spirit Energy's total share of emissions under the hybrid methodology.

Total emissions data under the hybrid methodology[(vi) – (viii)]	UK	NL	NO	Total
Offshore Upstream Emissions:				
Scope 1 ($TeCO_2e$)	274,419	55,088	426,785	756,292
Carbon Intensity ($TeCO_2e$/mboe)[(v)]	14.8	19.8	18.1	16.9
Onshore Midstream Emissions:				
Scope 1 ($TeCO_2e$)	417,164	122	–[(ii)]	417,286
Scope 2 ($TeCO_2e$)	15,393	–[(i)]	–[(ii)]	15,393
Offshore Drilling Emissions:				
Scope 1 ($TeCO_2e$)	21,089	–[(iii)]	14,488	35,577
Onshore Facilities Emissions:				
Scope 2 ($TeCO_2e$)	245	48	220	513
Total Scope 1 & 2 ($TeCO_2e$)	728,310	55,258	441,493	**1,225,061**[(iv)]

(i) Scope 1 and Scope 2 midstream emissions (for facilities in which Spirit Energy is an equity partner) are captured in the top-line totals.
(ii) Spirit Energy does not hold an equity in mid-stream emissions in Norway.
(iii) Chiswick 49/04a-C6 drilling emissions captured within UK drilling totals.
(iv) Due to the different methodologies applied by various E&P Companies under SECR requirements, it is possible that some of these emissions have also been reported by the host platform operator.
(v) ($TeCO_2e$/mboe): tonnes of carbon dioxide equivalent per thousand barrels of oil equivalent.
(vi) Gas combustion: for instances where emissions analysis is unavailable, an emissions factor of 2542.41 $kgCO_2e$ per tonne was used (UK Government GHG Conversion Factors for Company Reporting).
(vii) Diesel combustion: for instances where emissions analysis is unavailable, an emissions factor of 3206.62 $kgCO_2e$ per tonne was used (UK Government GHG Conversion Factors for Company Reporting).
(viii) Methane venting/fugitives: un-combusted methane released to atmosphere is considered to have a 100-year global warming potential of 25 times carbon dioxide (IPCC AR4).

Operational control boundary definitions

We have also chosen to disclose our operational control emissions. This is an alternative view of accounting for carbon emissions, from assets where Spirit Energy has direct control of the asset operations as defined under the SECR guidance (2018 Regulations) of operational control. These emissions represent an alternative view to the hybrid methodology approach (shown in the table above) and the two volumes are not additive. The table below represents Spirit Energy's emissions under operational control for the 2020 reporting year.

Operated assets emissions data	UK	NL	NO	Total
Total Scope 1 and 2 ($TeCO_2e$)	690,399	80,134	5,472	**776,005**

Energy efficiency actions

During the 2020 reporting period, Spirit Energy directly invested in energy efficiency modifications to the main power generation system of the Morecambe CPC facility which is expected to reduce CO2e emissions by an estimated 7,000 tonnes annually.

Investment in further energy efficiency projects across Spirit Energy's portfolio of assets was approved and scheduled for completion in 2020. However, the unprecedented challenges of the COVID-19 pandemic resulted in the postponement of many offshore projects, to reduce the risk of outbreaks. Projects to reduce emissions are now planned for execution on our operated assets in 2021 and we continue to work with our partners to reduce emissions across the entire portfolio.

Employee engagement and culture

COVID-19 had a significant impact on the way our employees worked throughout 2020. Despite the sudden changes, Spirit Energy continued to show their care with continued focus on the three pillars of wellbeing: mental, physical and financial. A mental health coaching service (Sanctus) was launched alongside our physical wellbeing programme (CorLife). Employees were also given access to Nudge to support financial planning. Collaboration between the D&I Network Groups and the IFW team, led to a wealth of supportive COVID-19, remote working, work-life balance information/guidance being shared via the intranet 'Pipeline', Yammer and newsletter 'Teamspirit'.

After considering feedback from our Free Spirits, the Spirit Hub for Improvement, Education, Learning and Development (SHIELD) launched 1st of April. SHIELD is an online learning resource designed to support learning and development anytime, anywhere, open to all our employees. SHIELD also hosts Spirit mandatory training, as well as diversity and inclusion and Incident Free Workplace learning materials. In addition to this, a leadership library has been launched for all at Spirit Energy, providing the latest curated content on a wide variety of leadership topics.

At a time where keeping in touch was more difficult than ever, virtual coffee sessions were rolled out across the business, led by an Executive Committee member. Virtual Townhalls were held to give employees a continued line of communication with management, as well as highlighting progress towards KPIs. In addition, information regarding performance and updates were made easily accessible through Pipeline.

The Network expanded significantly during 2020 and now supports six areas of diversity; Working Parents Group, Young Professionals Group, Carers, Disabilities and Wellbeing Group, Ethnicity Group, Gender Balance Group and LGBTQ group. Each group is led by Spirit Energy employees and has a Spirit Energy ExCom member appointed as an Ambassador. Spirit Energy achieved finalist position in the 2020 Oil & Gas UK Awards for Diversity & Inclusion and first place for Employee Engagement.

CASE STUDY
WELLBEING

As well as the steps we have taken to mitigate the operational impact of the COVID-19 pandemic on our business, a key focus for us in 2020 has been on tackling the potential impact of the pandemic on our people.

Reduced manning at all of our offshore installations meant non safety-critical work was reprioritised, as attention turned to keeping our teams safe while keeping energy supplies flowing.

In March, our crews working at the Barrow Gas Terminals or offshore were identified as key workers, essential to keeping energy flowing for homes and business, while at the same time most of our office-based teams started working from home. It meant that employee wellbeing, already a central part of our culture, became more important than ever.

Work that was already in progress at the start of 2020 was accelerated as the coronavirus pandemic took hold, built around our three pillars of wellbeing – mental, physical and financial.

“We already had a growing focus on supporting our teams where we could in these areas,” said Susan Grayson, our Director of Diversity & Inclusion (D&I), Resourcing, Talent and Learning & Development.

“That focus only became more acute as many of our people started working from home – while it comes with many benefits, we wanted to help our teams guard against the risks of becoming isolated or reduced physical activity in lockdown.”

Susan added that support for Spirit teams’ mental wellbeing had also been driven by the dedicated D&I function and the Network, our employee-led organisation which advocates for inclusion across groups focused on areas like gender balance, developing professionals, ethnicity and working parents.

“Above everything else, ensuring our teams have felt as connected to each other as possible, even from far apart, has been a top priority for us in 2020,” she said.

Spirit Energy wants to continue to build on its offering, and via engagement surveys is seeking feedback from employees across its operations on what’s working well and what can be improved.

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, which was held virtually in 2020, we had almost 250 attendees from more than 150 companies and continued our supplier recognition initiative with the 2nd Spirit Energy Supply Chain Awards for operating in line with our values.

In 2020 we awarded major contracts in a number of categories including drilling, projects and operations and maintenance, which are helping us reduce complexity and build stronger, deeper relationships with the selected suppliers. We also worked constructively with our supply chain to address the significant challenges to operators and suppliers from the COVID-19 pandemic, cost challenges and preparation for Brexit.

In addition, as licence operator, Spirit Energy works closely with the Oil and Gas Authority (OGA), the Norwegian Petroleum Directorate (NPD) and OGUK. We also hold regular check-ins regarding business development and ongoing operations. Spirit Energy participates in a number of industry-led working groups and taskforce initiatives.

Exit from the European Union

The UK left the EU on 31 January 2020. Under the transition period until 11pm on 31 December 2020 the UK continued to adhere to EU law, and therefore, existing arrangements largely continued to apply for the Company throughout the financial year. A trade and cooperation agreement was reached by the UK and the EU on 30 December 2020, with effect from 1 January 2021. The impact on the Company has so far been immaterial, with the provisions relating to movement of goods resulting in little disruption to Spirit Energy's supply chain. Withdrawing from the European Union treaties is nevertheless a task of immense complexity with implications beyond agreement on zero quotas and additional tariffs, and the Company is keeping the possible impacts on the business stemming from the new regime under review across areas ranging from impact on the workforce, GDPR and data protection law to new customs practices and carbon emissions trading.

Corporate taxation is not affected by Brexit scenarios, although it is recognised that work is required with Shareholders to define the impacts on shareholder distributions and controlled foreign corporation (CFC) restrictions. Where appropriate we will continue to seek external advice to assist in the understanding and potential mitigation of negative impacts on the business.

Approval

This report was approved by the Board of Directors on 24 May and signed on its behalf by:

Chris Cox
Director and Chief Executive Officer

DIRECTORS' REPORT

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 2020.

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 20. The Board has not recommended a payment of final dividend for the year ended 31 December 2020.

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 25 to the Consolidated Financial Statements on page 61.

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 15.

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 21(b) on page 58.

Financial instruments

Full details of the Group's financial instruments can be found in notes 16, S2 and S3 to the Consolidated Financial Statements on pages 53, 73 and 77.

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)
C.M. Cox
T. Holm
D.A. Isenegger (resigned 31 May 2020)
G.C. McKenna
J.S. Bessell (appointed 1 May 2020)
D.J. House (appointed 1 June 2020)

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 2020 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 Beteiligungsgesellschaft MBH (SWM) and SWM Gasbeteiligungs GMBH (BE/PB)) is principally governed by the Articles of Association and the Shareholders' Agreement. Together these documents stipulate the mutual obligations between Spirit Energy and its Shareholders. The Shareholders' Agreement lays 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 net cash flow from operating activities 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 by way of an annual dividend to the Preference Shareholders in the first instance, with any amount remaining distributed by way of an annual dividend to the Ordinary Shareholders. Details within the S.172 statement on page 11 sets out our engagement with our stakeholders.

Principal risks to free cash flow include: commodity prices and foreign exchange rates, production outages, the working capital cycle, emergency costs 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; reduce or amend dividend payments to ordinary 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 Shareholders' Agreement also stipulates 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. Key management disclosures are included within note S5. 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 Shareholders' Agreement, which are reserved for approval by the Shareholders. These include (but are not restricted 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 seven 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 Shareholders' Agreement 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 73 to 76.

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 80 to 81.

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 22. 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.

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 24 May 2021 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) in conformity with the requirements of the Companies Act 2006 and have chosen to prepare the financial statements of Spirit Energy Limited ('the Company') 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 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; 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 Group and Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 May 2021 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 Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006;
- the 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;
- the Consolidated and the Company Balance Sheet;
- the Consolidated and the 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 Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the 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 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and/or the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information within the Annual Report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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 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 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.

Extent to which the audit was considered capable of detecting irregularities (including fraud)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Group's industry and its control environment, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and members of the Audit Committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included, Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included terms of the field licences monitored by the Industry Regulator and local health and safety and environmental laws and regulations.

We discussed among the audit engagement team including significant component audit teams and relevant internal specialists such as tax, valuations and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in respect of estimating the cost of decommissioning oil and gas fields at the end of the producing lives. To address this fraud risk we:

- inquired regarding management's decommissioning process, including the oversight and governance of the processes relating to decommissioning;
- engaged specialists to test the mechanical accuracy of the decommissioning model, together with producing analytics to direct our areas of audit focus;

- performed tests over inputs to the decommissioning model; and
- assessed the discount rate applied.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, members of the Audit Committee, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

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 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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
24 May 2021

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2020 £m	2019 £m
Revenue	4	1,029	1,431
Cost of sales	5a	(1,054)	(1,192)
Re-measurement of energy contracts	5b	(5)	342
Gross (loss)/profit		**(30)**	**581**
Operating costs	5a	(181)	(180)
Exceptional items	6a	(620)	(516)
Operating loss		**(831)**	**(115)**
Financing costs	7	(30)	(46)
Investment income	7	4	5
Loss before taxation		**(857)**	**(156)**
Taxation on loss	8	356	(115)
Loss for the year		**(501)**	**(271)**

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

The notes on pages 35 to 84 form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Year ended 31 December	Notes	2020 £m	2019 £m
Loss for the year		**(501)**	**(271)**
Other comprehensive loss for the year:			
Items that will be or have been reclassified to the Consolidated Income Statement:			
Exchange loss on translation of foreign operations	S4	(17)	(49)
Exchange differences recycled to the Consolidated Income Statement on disposal	10	12	–
Net gain/(loss) on cash flow hedges	S4	1	(1)
Taxation on cash flow hedges	S4	(1)	1
Other comprehensive loss for the year, net of taxation		**(5)**	**(49)**
Total comprehensive loss for the year		**(506)**	**(320)**

The notes on pages 35 to 84 form part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2020 £m	2019 £m
Non-current assets			
Goodwill	12	436	480
Other intangible assets	12	104	200
Property, plant and equipment	11	1,961	2,428
Derivative financial instruments	16	4	22
Deferred tax assets	13	569	402
Trade and other receivables	14	103	84
		3,177	**3,616**
Current assets			
Inventories	15	70	87
Trade and other receivables	14	318	380
Derivative financial instruments	16	18	160
Current tax assets		78	70
Assets held for sale		–	12
Cash and cash equivalents	21a	444	361
		928	**1,070**
Total assets		**4,105**	**4,686**

CONSOLIDATED BALANCE SHEET

CONTINUED

As at 31 December	Notes	2020 £m	2019 £m
Current liabilities			
Trade and other payables	17	(245)	(378)
Current tax liabilities		(91)	(197)
Lease liabilities	21c	(28)	(23)
Derivative financial instruments	16	(65)	(9)
Provisions for other liabilities and charges	18	(64)	(132)
Liabilities associated with assets held for sale		–	(6)
		(493)	**(745)**
Non-current liabilities			
Deferred tax liabilities	13	(89)	(131)
Provisions for other liabilities and charges	18	(2,001)	(1,787)
Lease liabilities	21c	(42)	(63)
Derivative financial instruments	16	(40)	(1)
Trade and other payables	17	(69)	(87)
		(2,241)	**(2,069)**
Total liabilities		**(2,734)**	**(2,814)**
Net assets		**1,371**	**1,872**
Equity			
Share capital	22	19	19
Share premium	23	1,094	1,094
Retained losses		(1,357)	(866)
Other equity	S4	1,615	1,625
Shareholders' equity		**1,371**	**1,872**

The Consolidated Financial Statements on pages 29 to 84, of which the notes on pages 35 to 84 form part, were approved and authorised by the Board of Directors on 24 May 2021 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 2019		**19**	**2,594**	**(1,700)**	**1,683**	**2,596**
Loss for the year		–	–	(271)	–	(271)
Other comprehensive loss for the year		–	–	–	(49)	(49)
Total comprehensive loss for the year		**–**	**–**	**(271)**	**(49)**	**(320)**
Reduction in share premium and transfer to retained losses		–	(1,500)	1,500	–	–
Dividends paid to equity holders		–	–	(400)		(400)
Employee share schemes		–	–	5	(9)	(4)
31 December 2019		**19**	**1,094**	**(866)**	**1,625**	**1,872**
Loss for the year		–	–	(501)	–	(501)
Other comprehensive loss for the year	S4	–	–	5	(5)	–
Total comprehensive loss for the year		**–**	**–**	**(496)**	**(5)**	**(501)**
Employee share schemes	S4	–	–	5	(5)	–
31 December 2020		**19**	**1,094**	**(1,357)**	**1,615**	**1,371**

The notes on pages 35 to 84 form part of these Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Notes	2020 £m	2019 £m
Operating loss		**(831)**	**(115)**
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments of fixed assets	11a, 12a	1,137	1,210
Loss/(profit) on disposals		2	(6)
Decrease in provisions		(63)	(164)
Exceptional charges reflected directly in operating profit	6a	6	–
Loss/(gain) arising from certain re-measurements of energy contracts	6b	254	(194)
Operating cash before movements in working capital and exceptional payments		**505**	**731**
Decrease/(increase) in inventories		17	(3)
Decrease/(increase) in trade and other receivables		45	(11)
Decrease in trade and other payables		(68)	(60)
Cash generated by operations		**499**	**657**
Taxes received/(paid)		6	(110)
Payments relating to exceptional charges		(1)	(3)
Operating interest received		–	1
Net cash from operating activities		**504**	**545**
Receipt of indemnities		13	–
Proceeds from the sale of assets		9	33
Sale of business		(66)	–
Purchase of property, plant and equipment and intangible assets		(313)	(470)
Profit from sale of property, plant and equipment and intangible assets		–	6
Investing interest received		–	3
Deferred consideration (paid)/received		(9)	48
Net cash used in investing activities		**(366)**	**(380)**
Financing interest and fees paid		(12)	(13)
Financing interest and fees received		1	–
Equity dividends paid	9	–	(400)
Repayment of related-party borrowings	21e	(14)	–
Capital element of finance leases	21e	(25)	(29)
Realised net foreign exchange loss on cash settlement of derivative contracts		(1)	–
Net cash used in financing activities		**(51)**	**(442)**
Net increase/(decrease) in cash and cash equivalents		**87**	**(277)**
Cash and cash equivalents at 1 January		361	639
Effect of foreign exchange rate changes		(4)	(1)
Cash and cash equivalents at 31 December	21e	**444**	**361**
Included in the following lines of the Consolidated Balance Sheet:			
Cash and cash equivalents		430	338
Restricted cash within cash and cash equivalents		14	23

The notes on pages 35 to 84 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. The registered office address and principal place of business is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG. The Company, together with its subsidiaries as detailed in note S7, comprise '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 2020, prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006, subject to the limitations outlined below.

The Consolidated Financial Statements constitute statutory accounts for the year ended 31 December 2020 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 which notwithstanding the expiration of the revolving credit facility on 30 September 2021 is 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 request, but is not guaranteed, funding from Shareholders. Under the financial framework the Company could further seek borrowings from Third Party debt as a mitigation strategy. The Board's consideration of going concern is described in note 21(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.

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

CONTINUED

(b) Standards, amendments and interpretations effective or adopted in 2020

The following standards and amendments to IFRSs became effective for the period beginning on 1 January 2020 and did not have a material impact on the Consolidated Financial Statements:

- Amendment to IFRS 3: 'Business Combinations'; and
- Amendment to IAS 1 and IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- Conceptual framework for Financial Reporting 2018

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

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:

- Amendments to IAS 16: 'Property, Plant and Equipment';
- Amendments to IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets'; and
- Annual Improvements to IFRS Standards 2018–2020 Cycle: 'Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture'.

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

(d) Restatements

During the year, it was identified that a balance of £38 million was incorrectly classified as a related party payable rather than a related party loan balance. The amount has been repaid during the year and note 21 (e) has been restated to adjust for the presentation as a related party loan.

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, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the Group Income Statement reflects the underlying results of the Group, these exceptional items are also reported separately in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, asset impairments/write-backs, the tax effects of these items and the effect of changes in UK upstream tax rates.

The Group distinguishes between business performance asset impairments/write-backs and exceptional impairments/write-backs on the basis of the underlying driver of the impairment, as well as the magnitude of the impairment. Drivers that are deemed to be outside of the control of the Group (e.g. commodity price changes) give rise to exceptional impairments. Additionally, impairment charges that are of a one-off nature (e.g. reserves downgrades) and significant enough value to distort the underlying results of the business are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are not classed as exceptional.

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 6); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as re-measurements of energy contracts (see notes 2, 6 and 16).

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

The sections below detail the assumptions the Group makes about the future and other major sources of estimation uncertainty when measuring its assets and liabilities at the reporting date. The information given relates to the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to those assets and liabilities in the next financial year.

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CONTINUED

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 2041 (2019: 2049).

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 2020 was 0% (2019: 1.2%). The change was made in response to the continued suppression of market risk-free rates. A 1% variation in this discount rate would change the decommissioning liabilities by approximately £189 million before taxation (2019: £197 million).

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 Property, plant and equipment (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 93.

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 6. 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 consider 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.

2020 has seen significant reductions in forward commodity prices, both in terms of observable market prices and forecast forward prices. This price suppression has been exacerbated by the reduction in demand for commodities experienced as a result of the COVID-19 pandemic. This has increased the level of estimation uncertainty in determining the value of gas and oil assets. Similarly, there is significant uncertainty around future value in the Greater Warwick Area exploration and evaluation asset. As a result, write downs have been booked.

The valuation of exploration and production assets are particularly sensitive to the price assumptions made in the impairment calculations. 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, including assumptions for climate-related matters, are provided in note 6.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CONTINUED

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.

The valuation of goodwill is particularly sensitive to the price assumptions made in the impairment calculations. A 10% reduction in the forecast prices for gas and oil would result in further impairment charge of £271 million (2019: £nil million).

Further detail on impairments tests and the assumptions used in determining the recoverable amounts is provided in notes 6 and 12.

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 2020 in respect of the uncertain tax provision was £118 million (2019: £128 million).

Climate change

Climate change has been identified as a key estimation uncertainty for the year ended 31 December 2020. When performing the impairment assessments per IAS 36 'Impairment of Assets', considerations around the carbon costs associated with climate change have been factored into the asset cases when determining the recoverable amounts.

Exposure to climate-related matters does not currently present an indicator of impairment within the Group's gas and oil assets when adjusting for the Paris Agreement price curves. An adjustment for the prices based on the Paris Agreement would result in a further impairment charge of £8 million across our portfolio of assets and £134 million further impairment of goodwill. Please refer to note 6 for further information on the sensitivity.

4. 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	**2020 £m**	2019 £m
IFRS 15 revenue		
Sale of goods:		
Gas	400	567
Oil and liquids	545	629
Pipeline tariff revenue	53	74
Other revenue	31	30
Total IFRS 15 revenue	**1,029**	**1,300**
Non-IFRS 15 revenue		
Sale of goods:		
Gas	–	131
Total non-IFRS 15 revenue	**–**	**131**
Total revenue	**1,029**	**1,431**

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	**2020 £m**	2019 £m
UK	548	861
Norway	255	323
Switzerland	158	169
USA	48	58
Netherlands	14	15
Rest of the world	6	5
Total revenue	**1,029**	**1,431**

5. COST OF OPERATIONS

(a) Analysis of costs by nature

Year ended 31 December	Note	Cost of sales 2020 £m	Operating costs 2020 £m	2020 Total costs £m	Costs of sales 2019 £m	Operating costs 2019 £m	2019 Total costs £m
Transportation and distribution costs		(176)	–	(176)	(181)	–	(181)
Commodity costs		(29)	–	(29)	(32)	–	(32)
Depreciation, amortisation, impairments and write-downs of fixed assets		(470)	(52)	(522)	(584)	(77)	(661)
Employee costs[i]		(24)	(74)	(98)	(24)	(73)	(97)
Other direct costs[ii]		(355)	(55)	(410)	(371)	(30)	(401)
Total costs before exceptional items and re-measurement of energy contracts		**(1,054)**	**(181)**	**(1,235)**	**(1,192)**	**(180)**	**(1,372)**
Exceptional items	6a	–	(620)	(620)	–	(516)	(516)
Total costs before re-measurement of energy contracts within Group operating (loss)/profit		**(1,054)**	**(801)**	**(1,855)**	**(1,192)**	**(696)**	**(1,888)**

(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 15.

(b) Re-measurement of energy contracts

Year ended 31 December	Note	2020 £m	2019 £m
Certain re-measurements of energy contracts	6b	(254)	194
Settlement of energy contracts		249	148
Re-measurement of energy contracts		**(5)**	**342**

(c) Employee costs

Year ended 31 December	Note	2020 £m	2019 £m
Wages and salaries		(85)	(83)
Social security costs		(10)	(10)
Pension and other post-employment benefits costs	19	(9)	(9)
		(104)	**(102)**
Capitalised employee costs		6	5
Employee costs expensed		**(98)**	**(97)**

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	2020 Number	2019 Number
UK	499	507
Norway	126	139
Netherlands	55	56
Total	**680**	**702**

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS OF ENERGY CONTRACTS

(a) Exceptional items

Year ended 31 December	Note	2020 £m	2019 £m
Impairment of exploration and production assets[i]		(570)	(548)
Impairment of goodwill[ii]		(45)	–
Net reversal of unused decommissioning provisions[iii]		8	32
Business change and restructuring costs[iv]		(6)	–
Loss on disposal of subsidiaries[v]		(7)	–
Exceptional items included within Group operating loss		**(620)**	**(516)**
Taxation on exceptional items[vi]	8	202	91
Net exceptional items after taxation		**(418)**	**(425)**

(i) Impairment of exploration and production assets relate to the net changes in value of certain UK, Dutch and Norwegian gas and oil fields. The pre-tax impairment of £(570) million (2019: £(548) million), post-tax impairment of £301 million (2019: £408 million), is predominantly due to changes in long-term price forecasts and reserves.

(ii) The pre-tax impairment of goodwill of £45m (2019 £nil million), post-tax impairment of £45million (2019 £nil million) relates to changes in the value of UK, Dutch and Norwegian gas and oil fields that support the goodwill balance.

(iii) The reversal of decommissioning provisions pre-tax £8 million (2019: £32 million), post-tax £5 million (2019: £20 million) relates to assets previously impaired through exceptional items.

(iv) Business change and restructuring costs include restructuring costs of £6 million (2019: £nil million), post-tax cost of £3 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 due to falling commodity prices.

(v) In 2020 Spirit Energy sold its subsidiaries Spirit Energy Danmark ApS and Spirit Energy Petroleum Danmark AS resulting in a loss of £7 million on disposal, post tax a £7 million loss.

(vi) In 2020 Spirit Energy derecognised £80 million (2019: £58 million) of deferred tax assets in relation to tax losses, and recognised an additional £13 million (2019: £9 million) of deferred tax assets in relation to decommissioning provisions mainly due to falling commodity prices and long-term forecast profitability.

(b) Certain re-measurements of energy contracts

Year ended 31 December	Note	2020 £m	2019 (restated)[ii] £m
Certain re-measurements recognised in relation to energy contracts:			
Net (loss)/gain arising on market price movements and new contracts	16	(105)	170
Net (loss)/gain arising on delivery of contracts		(149)	24
Net (loss)/gain from certain re-measurements of energy contracts included within Group operating profit/(loss)[i]	2, 5b	**(254)**	**194**
Taxation on certain re-measurements	8	102	(77)
Net re-measurements after taxation		**(152)**	**117**

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

(ii) Prior year figures for net (loss)/gain arising on market price movements and new contracts and net (loss)/gain arising on delivery of contracts have been restated from £184 million to £170 million and £10 million to £24 million, respectively. The restatement correctly classifies £14 million of market price movements that were included within in net (loss)/gain arising on delivery of contracts.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS OF ENERGY CONTRACTS

CONTINUED

(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.

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 £562 million (2019: £516 million) has been recorded within exceptional items for the Group's exploration and production assets, including £8 million (2019: £32 million) of reductions to decommissioning provisions. For those assets subject to net impairment, the associated recoverable amounts (net of decommissioning costs) are £209 million (2019: £371 million). In addition, a net impairment of £45 million (2019 £nil million) has been recorded within exceptional items for the Group's goodwill, the impairment is primarily driven by the adverse impact of commodity prices on the Group's portfolio of assets which supports the value of goodwill. 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 10% (2019: 9%) 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% (2019: 2%).

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

CONTINUED

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 £69 million (2019: £91 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 £30 million (2019: £89 million) and further impairment of goodwill of £271 million (2019: £nil million).

Exposure to climate-related matters does not currently present an indicator of impairment within the Group's gas and oil assets. However, recognising the uncertainty around climate change and international governmental intervention to reduce CO_2 emissions on forecast prices, a sensitivity analysis has been performed based on forecast prices aligned to the International Energy Agency's ('IEA') Sustainable Development Scenarios, which assumes governmental policies are put in place to align with temperature goals under the Paris Agreement.

The sensitivity retains the prices for the liquid period (4 years) but replaces the longer term with IEA's forecast prices for Sustainable Development. Based on these price assumptions, a further impairment charge of £8 million would have been recognised on the Group's portfolio of assets, and a further £134 million write down of goodwill would have been charged in the income statement.

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).

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 discount rate of 10% (2019: 9%).

Re-measurements of energy contracts are energy derivative contracts and foreign exchange contracts related to energy derivatives, which are valued at the balance sheet date using quoted future market prices.

7. NET FINANCE COSTS

Year ended 31 December	Financing costs £m	Investment income £m	2020 Total £m	Financing costs £m	Investment income £m	2019 Total £m
Interest income	–	4	4	–	5	5
Interest cost and financing fees	(9)	–	(9)	(14)	–	(14)
Interest cost on leases	(2)	–	(2)	(2)	–	(2)
	(11)	**4**	**(7)**	**(16)**	**5**	**(11)**
Net gains/(losses) on revaluation	1	–	1	(2)	–	(2)
Notional interest arising from discounting	(20)	–	(20)	(28)	–	(28)
Net finance costs	**(30)**	**4**	**(26)**	**(46)**	**5**	**(41)**

8. TAXATION

(a) Analysis of tax charge

Year ended 31 December	2020 Business performance £m	2020 Exceptional items and certain re-measurements of energy contracts £m	2020 Results for the year £m	2019 Business performance £m	2019 Exceptional items and certain re-measurements of energy contracts £m	2019 Results for the year £m
Current tax						
UK corporation tax	13	–	13	(4)	–	(4)
UK petroleum revenue tax	71	–	71	17	–	17
Non-UK tax	43	3	46	(123)	–	(123)
Adjustments in respect of prior years –– UK	20	–	20	14	–	14
Adjustments in respect of prior years – non-UK	2	–	2	1	–	1
Total current tax	**149**	**3**	**152**	**(95)**	**–**	**(95)**
Deferred tax						
Origination and reversal of temporary differences – UK	(24)	222	198	10	(60)	(50)
UK petroleum revenue tax	(22)	1	(21)	(5)	23	18
Origination and reversal of temporary differences – non-UK	(37)	78	41	(22)	51	29
Adjustments in respect of prior years – UK	(14)	–	(14)	(18)	–	(18)
Adjustments in respect of prior years – non-UK	–	–	–	1	–	1
Total deferred tax	**(97)**	**301**	**204**	**(34)**	**14**	**(20)**
Total taxation on profit/(loss)	**52**	**304**	**356**	**(129)**	**14**	**(115)**

Tax on items taken directly to equity is disclosed in the Consolidated Statement of Comprehensive Loss 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% (2019: 30%) plus a supplementary charge of 10% (2019: 10%) to give an overall rate of tax on upstream activities of 40% (2019: 40%). Petroleum revenue tax (PRT) is now set at nil% (2019: 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% (2019: 22%) plus a special tax of 56% (2019: 56%) resulting in an aggregate tax rate of 78% (2019: 78%).

Within current tax liabilities are amounts totalling £nil million (2019: £20 million) that are to be settled with the ultimate parent group companies.

The Group's non-upstream UK profits are taxed at the standard rate of 19% (2019: 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	2020 Business performance £m	2020 Exceptional items and certain re-measurements of energy contracts £m	2020 Results for the year £m	2019 Business performance £m	2019 Exceptional items and certain re-measurements of energy contracts £m	2019 Results for the year £m
Group (loss)/profit before tax	**17**	**(874)**	**(857)**	**166**	**(322)**	**(156)**
Tax on (loss)/profit at UK corporation tax rate of 40% (2019: 40%)	(7)	350	343	(66)	129	63
Effects of:						
Depreciation/impairment on non-qualifying assets (including write-backs)	(20)	(5)	(25)	(19)	(10)	(29)
Movement in tax rates	–	12	12	–	(3)	(3)
Non-taxable disposals	5	6	11	(6)	–	(6)
Other non-allowable/non-taxable items	(7)	(19)	(26)	(3)	–	(3)
Upstream investment incentives	40	–	40	37	–	37
UK petroleum revenue tax rates	30	1	31	7	14	21
Non-UK tax rates	(6)	32	26	(65)	87	22
Goodwill and investment impairments	–	5	5	–	(157)	(157)
Movement in uncertain tax provisions	11	–	11	(7)	–	(7)
Movement in unrecognised deferred tax assets	(2)	(78)	(80)	(5)	(46)	(51)
Adjustments in respect of prior years	8	–	8	(2)	–	(2)
Taxation on (loss)/profit for the year	**52**	**304**	**356**	**(129)**	**14**	**(115)**
Movement in deferred tax	97	(301)	(204)	34	(14)	20
Total current tax	**149**	**3**	**152**	**(95)**	**–**	**(95)**

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.

2020 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 42% (2019: (73)%) is expected to remain above the UK upstream rate.

9. DIVIDENDS

Year ended 31 December	2020 £m	2020 Pence per share	2020 Date of payment	2019 £m	2019 Pence per share	2019 Date of payment
Prior year final dividend						
Ordinary shares	–	–	–	353	36.96	25 March 2019
Preference shares	–	–	–	47	4.92	25 March 2019
	–			**400**		

The Board has not recommended a payment of final dividend for the year ended 31 December 2020.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Spirit Energy Limited, currently has adequate levels of realised profits within its retained earnings to support dividend payments. Refer to the Spirit Energy Limited Company Balance Sheet on page 85.

10. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

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

(b) Disposals

Disposal of Babbage field

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 consideration of £6 million, adjusted for final working capital.

The economic date for the sale was 1 July 2019 and was completed 14 May 2020 with a profit on disposal of under £2 million. The assets and liabilities were classified as held for sale in 2019 on the Consolidated Balance Sheet.

Disposal of Kvitebjørn Gas Pipeline capacity

In July 2020, the group signed a sale and purchase agreement for the divestment of their interest in the Kvitebjørn Gas Pipeline Capacity upgrade to Gassled for a consideration of £4 million (NOK 40 million), with a profit on disposal of £2 million before tax.

Disposal of Danish companies

On 28 February 2020, the Group signed a sale and purchase agreement for the divestment of their 100% share ownership in Danish companies Spirit Energy Danmark ApS and Spirit Energy Petroleum Danmark AS to INEOS E&P AS for consideration of $25 million, adjusted for working capital.

This is in line with the Group's strategy of managing the portfolio, which concluded that the Danish assets are no longer core to the business. Approval of the sale to INEOS from Danish Energy Agency (DEA) was received on 9 November 2020 and completed on 19 November 2020.

10. ACQUISITIONS AND DISPOSALS

CONTINUED

To enable the disposal of the Danish companies the Group settled the Fredericia liability at closing of DKK 920 million (£110 million), including VAT. The consideration received was cash of £23 million and resulted in a loss on disposal of £7 million after recycling of the foreign currency translation balance. Spirit Energy is required to make a contingent payment of £72 million in the event that the development of the fields does not progress. This contingent payment has been provided for and is included in the consideration table below:

	Danish Fields £m
Current assets	1
Non-current assets	2
Current liability	(1)
Non-current liability	(56)
Net liabilities disposed of	**(54)**
Indemnity provisions	(72)
Recycling of foreign currency translation reserve on disposals	(12)
Consideration received (net of transaction costs)	23
Loss on disposals, net of taxation	**(7)**

Additional contingent consideration of £47 million is due from INEOS based on future development of the fields. No amount has been recognised in respect of this due to the level of uncertainty over the amount to be received.

The operation in Denmark does not represent a major business segment and is not presented in the Consolidated Income Statement as a discontinued operation.

The sale of the Danish companies is presented as a cash outflow from sale of business of £66 million in the Consolidated Cashflow Statement relating to the settlement of the Fredericia liability in Denmark £(89) million (excluding VAT), partly offset by £23 million proceeds from disposal.

11. PROPERTY, PLANT AND EQUIPMENT

(a) Carrying amounts

	Note	2020 Land and buildings £m	2020 Plant and equipment £m	2020 Gas and oil production £m	2020 Total £m	2019 Land and buildings £m	2019 Plant and equipment £m	2019 Gas and oil production £m	2019 Total £m
Cost									
1 January		34	10	13,721	13,765	7	10	14,170	14,187
IFRS 16 adjustment		–	–	–	–	28	–	33	61
Adjusted opening balance		**34**	**10**	**13,721**	**13,765**	**35**	**10**	**14,203**	**14,248**
Lease modifications and re-measurements		–	–	–	–	–	–	37	37
Additions		–	1	244	245	–	1	280	281
Transfer from other intangible assets		–	–	3	3	–	–	5	5
Transfer to disposal groups held for sale		–	–	–	–	–	–	(17)	(17)
Disposals		(1)	–	(257)	(258)	–	(1)	(381)	(382)
Decommissioning liability revisions and additions	18	–	–	231	231	–	–	(129)	(129)
Exchange adjustments		–	–	92	92	(1)	–	(277)	(278)
31 December		**33**	**11**	**14,034**	**14,078**	**34**	**10**	**13,721**	**13,765**
Accumulated depreciation and impairment									
1 January		(8)	(9)	(11,320)	(11,337)	(3)	(9)	(10,832)	(10,844)
Charge for the year		(4)	(1)	(490)	(495)	(5)	–	(599)	(604)
Transfer to disposal groups held for sale		–	–	–	–	–	–	5	5
Impairment charge[(i)]		–	–	(451)	(451)	–	–	(426)	(426)
Disposals		–	–	255	255	–	–	355	355
Exchange adjustments		–	–	(89)	(89)	–	–	177	177
31 December		**(12)**	**(10)**	**(12,095)**	**(12,117)**	**(8)**	**(9)**	**(11,320)**	**(11,337)**
Net book value at 31 December		**21**	**1**	**1,939**	**1,961**	**26**	**1**	**2,401**	**2,428**

(i) £2 million of the impairment charge has been recognised within operating costs (2019: £nil million) and £449 million has been recognised within exceptional items (2019: £426 million).

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

As at 31 December	**2020 £m**	2019 £m
Gas and oil production	171	143

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

	2020 Land and Buildings £m	2020 Gas and oil Production £m	2020 Total £m	2019 Land and Buildings £m	2019 Gas and oil Production £m	2019 Total £m
Net book value 1 January	23	57	80	–	–	–
Additions	–	12	12	27	70	97
Depreciation charge for the year	(5)	(22)	(27)	(4)	(13)	(17)
Net book value at 31 December	**18**	**47**	**65**	**23**	**57**	**80**

12. OTHER INTANGIBLE ASSETS AND GOODWILL

(a) Carrying amounts

	2020 Goodwill £m	2020 Exploration and evaluation expenditure £m	2020 Other intangibles £m	2020 Total £m	2019 Goodwill £m	2019 Exploration and evaluation expenditure £m	2019 Other intangibles £m	2019 Total £m
Cost								
1 January	990	198	11	1,199	1,007	185	11	1,203
Additions	–	55	–	55	–	214	–	214
Write-downs[(i)]	–	(145)	–	(145)	–	(178)	–	(178)
Transfers to property, plant and equipment	–	(3)	–	(3)	–	(5)	–	(5)
Disposals	–	(2)	(3)	(5)	–	(14)	–	(14)
Exchange adjustments	1	1	(1)	1	(17)	(4)	–	(21)
31 December	**991**	**104**	**7**	**1,102**	**990**	**198**	**11**	**1,199**
Accumulated amortisation								
1 January	(510)	–	(9)	(519)	(510)	–	(7)	(517)
Impairment	(45)	–	–	(45)	–	–	–	–
Amortisation	–	–	(1)	(1)	–	–	(2)	(2)
Disposal	–	–	3	3	–	–	–	–
31 December	**(555)**	**–**	**(7)**	**(562)**	**(510)**	**–**	**(9)**	**(519)**
Net book value as at 31 December	**436**	**104**	**–**	**540**	**480**	**198**	**2**	**680**

(i) Within operating costs, write-downs of £24 million (2019: £56 million) were recognised in respect of drilling expenditure and £121 million were recognised within exceptional items (2019: £122 million).

(b) Impairment reviews – summary of results

During the year, goodwill was impaired by £45 million (2019: £nil million) (see note 6 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 6.

13. DEFERRED TAX LIABILITIES AND ASSETS

	Note	Accelerated tax depreciation (corporation tax) £m	Net decommis-sionning £m	Losses carried forward £m	Other timing differences £m	Marked-to-market positions £m	Net deferred petroleum revenue tax £m	Total £m
As at 1 January 2019		(987)	816	321	28	11	127	316
(Charge)/credit to income	8	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**
(Charge)/credit to income	8	215	11	(112)	-	102	(12)	204
Disposal of business		3	-	-	-	-	-	3
Exchange and other adjustments		-	-	1	1	1	(1)	2
As at 31 December 2020		**(649)**	**810**	**134**	**26**	**34**	**125**	**480**

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	**Assets £m**	**2020 Liabilities £m**	Assets £m	2019 Liabilities £m
Gross deferred tax balances	1,477	(997)	1,467	(1,196)
Offsetting deferred tax balances	(908)	908	(1,065)	1,065
Net deferred tax balances (after offsetting for financial reporting purposes)	**569**	**(89)**	**402**	**(131)**

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 £1,776 million (2019: £3,228 million), of which £1,721 million (2019: £2,230 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.

14. TRADE AND OTHER RECEIVABLES

As at 31 December	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 Non-current £m
Financial assets:				
Trade receivables	34	–	15	–
Other accrued income	53	–	45	–
Related-party receivables	141	90	186	69
Other receivables (including loans)	62	3	79	4
	290	**93**	**325**	**73**
Less: provision for credit losses	(1)	–	(1)	–
	289	**93**	**324**	**73**
Non-financial assets: prepayments and other receivables	29	10	56	11
	318	**103**	**380**	**84**

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	2020 £m	2019 £m
Balances that are not past due	287	324
Balances that are past due but not considered to be individually impaired	2	–
	289	**324**

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 (2019: £1 million).

15. INVENTORIES

As at 31 December	2020 £m	2019 £m
Oil in storage and transportation	2	18
Other raw materials and consumables	68	69
	70	**87**

The Group consumed less than a million (2019: £3 million) of inventories during the year. Write-downs amounting to £5 million (2019: £5 million) were charged to the Consolidated Income Statement in the year.

16. 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 2020 was not material.

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

As at 31 December	**2020** Assets £m	**2020** Liabilities £m	2019 Assets £m	2019 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives	10	(105)	172	(7)
Foreign exchange derivatives	12	–	9	(3)
Derivative financial instruments in hedge accounting relationships:				
Foreign exchange derivatives	–	–	1	–
Total derivative financial instruments	**22**	**(105)**	**182**	**(10)**
Included within:				
Derivative financial instruments – current	18	(65)	160	(9)
Derivative financial instruments – non-current	4	(40)	22	(1)

The contracts included within energy derivatives are £(87) million (2019: £168 million) of gas and £(8) million (2019: £(3) million) of oil financial swaps used to hedge the price at which the Group sells its gas and oil production.

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

As at 31 December	**2020** Income Statement £m	**2020** Equity £m	2019 Income Statement £m	2019 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading under IFRS 9	6	–	10	–
Derivative financial instruments in hedge accounting relationships	–	1	–	(1)
	6	**1**	**10**	**(1)**

17. 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	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 Non-current £m
Financial liabilities:				
Trade payables	(29)	–	(42)	–
Capital payables	(34)	–	(61)	(86)
Other payables	(96)	(69)	(139)	(1)
Related-party payables	(14)	–	(51)	–
Accruals	(53)	–	(68)	–
	(226)	**(69)**	**(361)**	**(87)**
Non-financial liabilities:				
Other payables and accruals	(15)	–	(13)	–
Deferred income	(4)	–	(4)	–
	(245)	**(69)**	**(378)**	**(87)**

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

As at 31 December	2020 £m	2019 £m
Less than 90 days	(216)	(347)
90 to 182 days	(10)	(13)
183 to 365 days	–	(1)
	(226)	**(361)**

18. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Current provisions	1 January 2020 £m	Utilised £m	Disposals £m	Revisions and additions £m	Transfers[i] £m	31 December 2020 £m
Decommissioning costs[ii]	(132)	71	1	–	(3)	(63)
Other	–	–	–	(1)	–	(1)
	(132)	**71**	**1**	**(1)**	**(3)**	**(64)**

Non-current provisions	1 January 2020 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers[i] £m	Disposals £m	Foreign Exchange £m	31 December 2020 £m
Decommissioning costs[ii]	(1,776)	(23)	(19)	14	(231)	3	49	(9)	(1,992)
Other[iii]	(11)	–	–	1	1	–	2	(2)	(9)
	(1,787)	**(23)**	**(19)**	**15**	**(230)**	**3**	**51**	**(11)**	**(2,001)**

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

(i) 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 2041. During the year, of the £15 million (2019: £44 million) credit to operating loss for provisions which were unused and reversed, £8 million (2019: £32 million) has been included as an exceptional item (see note 6(a)). Refer to note S1 for a summary of the Group's decommissioning accounting policy and the discount rates used.

(ii) The other provision relates to production tariffs and is expected to be paid in 2026.

19. POST-RETIREMENT BENEFITS

Defined contribution pension scheme contributions

The cost charged to the Consolidated Income Statement of £9 million (2019: £9 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.

20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at 31 December	2020 £m	2019 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Nova oil and gas field	37	33
Development of West of Shetland Lincoln and Warwick oil field	5	165
Development of Statfjord area oil and gas assets	31	14
Development of Ivar Aasen oil and gas field	15	12
Other capital expenditure	27	23
Commitments in relation to the acquisition of intangible assets:		
Exploration activity	33	10
Other commitments:		
Transportation capacity	118	114
Other contracts	19	11

The carrying amount of the ROU assets, additions and depreciation charges as result of the application of IFRS 16 are disclosed in note 11. The total cash outflow in the year for lease arrangements was £25 million (2019: £29 million) and the maturity analysis of cash flows associated with the Group's lease liability at the reporting date is shown in note 21.

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	2020 £m	2019 £m
Short-term leases	3	15

The Group's expense related to short-term lease commitments predominantly related to leased drilling rigs.

(b) Guarantees and indemnities

The Group has provided a number of guarantees and letters of credit to third parties 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 guarantees are provided by members of the Group and a number of Centrica group entities. The letters of credit are issued by various financial institutions and are supported by Centrica group entities. The Group pays a charge set on an arms-length basis for the guarantees issued by the Centrica group entities and letters of credit. Spirit Energy has given a counter indemnity for any guarantees and letters of credit issued or supported by entities in the Centrica group.

Most of the guarantees and letters of credit relate to decommissioning liabilities and in this respect, the guarantees and letters of credit cover E&P assets owned or partly owned by the Group. They 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 2020, £640 million (2019: £651 million) of letters of credit have been issued in respect of decommissioning obligations included in the Consolidated Balance Sheet.

In addition, there are a number of capped and uncapped 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 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 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 21(b).

21. 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, as shown in the table below.

	2020 £m	2019 £m
Cash and cash equivalents	444	361
Borrowings	(70)	(124)
Equity	1,371	1,872

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 in note 2.

The Group has treasury and hedging policies and prepares an annual budget 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 £444 million (2019: £361 million) at 31 December 2020. This includes restricted cash and cash equivalents of £14 million (2019: £23 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, after which it will not be extended.

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 are set out in the Strategic Report on page 15 including the depression in commodity prices, production uncertainties, and continued credit support from the Company's ultimate parent company, Centrica plc. The Group remains committed to stay free cash flow positive in 2021 and 2022 and the Board meet regularly to review the Group's cash flow projections.

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 40p/th for 2021 and 33p/th in 2022, and an average oil price of $49/bbl for 2021 and $41/bbl in 2022. This sensitivity analysis also includes production outage scenarios and certain climate related impacts in respect of potential carbon allowance shortfalls in the UK. The Board has also considered the implications on the Group's collateral requirement in the event that its immediate parent company does not continue to provide credit support in relation to certain obligations. Furthermore, the Board has considered implications of the undrawn revolving unsecured credit facility agreement of £250 million not being extended beyond September 2021. The Board considers these risks are mitigated by the significant cash and cash equivalents balance noted above. Consequently, the Board is satisfied that the Group can continue as a going concern.

21. SOURCES OF FINANCE
CONTINUED

(c) Lease liabilities

As at 31 December	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 Non-current £m
Lease liabilities	(28)	(42)	(23)	(63)
	(28)	**(42)**	**(23)**	**(63)**

(d) Maturity analysis for non-current borrowings

As at 31 December	2020 £m	2019 £m
1–2 years	(22)	(23)
2–5 years	(20)	(36)
>5 years	–	(4)
	(42)	**(63)**

(e) Net debt summary

	Related-party finance lease £m	Other leases and financing costs accrual £m	Related-party borrowings (restated)[iii] £m	Gross debt £m	Cash, overdrafts and cash equivalents[i] [ii] £m	Net debt £m
31 December 2018	**(11)**	**–**	**(38)**	**(49)**	**639**	**590**
IFRS 16 adjustment	–	(61)		(61)	–	(61)
Adjusted opening balance	(11)	(61)	(38)	(110)	639	529
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)**	**(38)**	**(124)**	**361**	**237**
New lease commitments	–	(10)	–	(10)	–	(10)
Cash outflow from payment of capital element of finance leases	–	25	–	25	(25)	–
Financing interest and fees paid	–	–	–	–	(12)	(12)
Repayment of borrowings	–	–	38	38	(38)	–
Remaining cash outflow	–	–	–	–	162	162
Exchange adjustments	–	1	–	1	(4)	(3)
31 December 2020	**–**	**(70)**	**–**	**(70)**	**444**	**374**

(i) Cash and cash equivalents include restricted cash relating to joint operations of £13 million (2019: £22 million) and withholdings of employee payroll tax of £1 million (2019: £1 million).
(ii) Cash and cash equivalents include £419 million (2019: £312 million) which is due from a related-party and classified as a cash equivalent. Refer to note S5 for the terms and conditions.
(iii) The note has been restated to reflect related party borrowings repaid during the year. The repayment of £38 million was net settled with a related-party receivable from Centrica plc of £24 million in relation to group relief, resulting in £14 million cash payment in the Consolidated Cash Flow Statement.

22. SHARE CAPITAL

Allotted and fully paid share capital of the Company:

As at 31 December	2020 £m	2019 £m
296,056,457 A class ordinary shares of 1 pence each (2019: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2019: 658,964,372)	6	6
1 deferred share of £1 (2019: 1)	–	–
955,020,829 preference shares of 1 pence each (2019: 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.

23. SHARE PREMIUM

	2020 £m	2019 £m
As at 1 January	1,094	2,594
Reduction in share premium	–	(1,500)
As at 31 December	**1,094**	**1,094**

24. 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, and 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.

25. EVENTS AFTER THE BALANCE SHEET DATE

On 30 April 2021, Spirit Energy signed an agreement with Neptune Energy to farm-down 38.75% equity in the Pegasus and Andromeda licences, reducing Spirit's equity share to 61.25%. The sale is expected to complete at the end of May 2021. Spirit will remain operator of the Pegasus West licence under the transaction, which is effective from 1 January 2021, until a final investment decision is approved, at which point Neptune will become operator of the development through to first gas and into production.

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.

Re-measurement and settlement of energy contracts

Re-measurement and settlement of energy contracts includes both realised (settled) commodity sales contracts in the scope of IFRS 9, as well as unrealised (fair value changes) on active contracts, as detailed in note 2.

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 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:

Exchange rate per pound sterling (£)

	Closing rate		Average rate	
As at 31 December	**2020**	2019	**2020**	2019
Euro	1.12	1.18	1.13	1.14
US dollar	1.37	1.33	1.29	1.28
Norwegian krone	11.72	11.65	12.13	11.25
Danish krone	8.31	8.83	8.42	8.52

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.

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'.

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.

The carrying values of goodwill is tested annually for impairment and is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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 accumulated 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 on a straight-line basis. 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.

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

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 within cost of sales in the Consolidated Income Statement.

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. Depreciation costs in relation to production and development assets are recognised within cost of sales in the Consolidated Income Statement

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 and equipment	3 to 20 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 6(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.

Leasing activities for Spirit Energy relate to the rental of offices, drilling rigs and support vessels.

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 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.

Extensions and terminations – Leases

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. 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.

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 – Leases

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.

Right-of-use (ROU) assets – Leases

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.

Inventories

Oil inventory is measured at market value, being the spot rate at the balance sheet date less transportation costs. Other inventories are valued on a weighted-average-cost basis (total value divided by the number of units), 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, if there is insufficient economic benefits. 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:

Year ended 31 December 2020

	UK	Netherlands	Norway	Denmark
Real	0%	0%	0%	0%
Inflation	2.50%	2.50%	2.50%	2.50%
Nominal	2.50%	2.50%	2.50%	2.50%

Years ended 31 December 2019

	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 Loss 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.

The Group has not adopted IFRS 9 for hedge accounting and therefore IAS 39 requirements continue to apply.

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 and EUR. The Group selectively manages this risk by replicating foreign debt using derivatives that pay cash flows in the currency of the respective exposure.

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 2020, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2020 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	Base price[i]	2020 Reasonably possible change in variable %[ii]	Base price[i]	2019 Reasonably possible change in variable %[ii]
UK gas (pence/therm)	44	+/-22	40	+/-15
UK oil (US$/bbl)	50	+/-14	60	+/-9

Incremental (loss)/profit	2020 Impact on loss[ii] £m	2019 Impact on loss[ii] £m
UK energy prices (combined) – (decrease)/increase	(99)/99	(42)/42

(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 $681 million (2019: $737 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 £48 million (2019: £52 million) and a 10% decrease in the value of GBP to USD on the USD value would have resulted in an increase to gross (loss)/profit of £59 million (2019: £64 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:

	2020		2019	
	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)]	–	25	–	49
BBB+ to BBB–[(ii)]	12	419	10	312
Un-rated Centrica Group companies	10	–	172	–
	22	**444**	**182**	**361**

(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. Liquidity risk has remained unaffected by COVID-19. See note 21(b) for more information.

Maturity profiles

Maturities of derivative financial instruments, provisions, borrowings and finance leases are provided in the following tables:

2020 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	(65)	(40)	–	–	–	–
Lease liabilities	(28)	(22)	(10)	(6)	(4)	–

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)	–	–	–	–	–
Lease liabilities	(23)	(23)	(20)	(11)	(5)	(4)

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	2020 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2019 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	10	–	10	–	172	–	172
Foreign exchange derivatives	–	12	–	12	–	10	–	10
Total financial assets at fair value	**–**	**22**	**–**	**22**	**–**	**182**	**–**	**182**
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	–	(105)	–	(105)	–	(7)	–	(7)
Foreign exchange derivatives	–	–	–	–	–	(3)	–	(3)
Total financial liabilities at fair value	**–**	**(105)**	**–**	**(105)**	**–**	**(10)**	**–**	**(10)**

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

Level 2 foreign exchange derivatives comprise of 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 2020 was 1% (2019: 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)	4	4

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 IFRS 9. 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

	Note	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Share-based payment reserve £m	Merger reserve £m	Total £m
As at 1 January 2019		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**
Other comprehensive loss for the year:						
Exchange adjustments		–	(17)	–	–	(17)
Exchange differences recycled on disposal of business	10	–	12	–	–	12
Net gains on cash flow hedges		1	–	–	–	1
Taxation on cash flow hedges		(1)	–	–	–	(1)
Other comprehensive loss for the year, net of taxation		**–**	**(5)**	**–**	**–**	**(5)**
Share based payment transactions		–	–	(5)	–	(5)
As at 31 December 2020		**1**	**(131)**	**4**	**1,741**	**1,615**

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 16 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 2020, 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	Loan repayments £m	Amounts owed from[(ii)] £m	2020 Amounts owed to[(iii)] £m
Centrica plc	6	(1)	2	–	442	(10)
GB Gas Holdings Limited	–	(7)	(9)	–	154	(3)
British Gas Trading Limited	399	(30)	–	(38)	70	(11)
Centrica Energy Limited	–	(8)	–	–	6	(95)
Centrica Storage Limited	–	(2)	–	–	–	–
	405	**(48)**	**(7)**	**(38)**	**672**	**(119)**

	Sale of goods and services[(i)] £m	Purchase of goods and services[(i)] £m	Other-net interest £m	Amounts owed from[(ii)] £m	2019 Amounts owed to[(ii)] £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)**

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.
(ii) Amounts owed from related parties includes £419 million (2019: £312 million) classified as cash equivalents; £22 million (2019: £182 million) classified as derivative financial assets; and £nil million (2019: £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.
(iii) Amounts owed to related parties includes £105 million (2019: £10 million) classified as derivative financial liabilities.

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 2020 was £nil million (2019: £nil million).

Interest rate	Maturity date	£m
Floating (cash equivalent)(i)	On demand	359
Fixed 0.17% (cash equivalent)	11–14 January	60
Non-interest bearing(ii)	31 March 2023	152
Non-interest bearing	On demand	(21)
Non-interest bearing(iii)	Legal Trigger	3
		553

(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 £154 million (2019: £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. Also contained in these amounts are indemnities owed from GBGH which are outlined in the Shareholders' Agreement.

Key management personnel comprise members of the Board and Executive Committee. Two Board members resigned and were replaced during the year. A total of 14 individuals were considered key management personnel at 31 December 2020 (2019: 12).

Compensation paid to key management personnel is as follows:

Year ended 31 December	2020 £000	2019 £000
Short-term employee benefits	5,135	3,614
	5,135	**3,614**

Compensation for one executive Director and seven 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	2020 £000	2019 £000
Short-term employee benefits	1,342	901
	1,342	**901**

The highest paid Director was not in a money purchase pension scheme and did not exercise share options or receive shares in the year (2019: £nil million).

S6. AUDITOR'S REMUNERATION

Year ended 31 December	2020 £000	2019 £000
Audit fee payable for the Company's individual and Consolidated Financial Statements	560	543
Audit of the Company's subsidiaries	520	525
Total fees related to the audit of the Company and subsidiary entities	**1,080**	**1,068**
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	–	85
Other assurance services	44	25
	1,124	**1,178**

S7. RELATED UNDERTAKINGS

(a) Subsidiary undertakings

Below is a list of Spirit Energy Limited's subsidiary undertakings at 31 December 2020. 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, TW18 4LG	Gas and/or oil exploration and production	UK
Bowland Resources Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Elswick Energy Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 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 Hedging Holding Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Dormant company	UK
Spirit Energy Hedging Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Dormant company	UK
Spirit Energy Nederland BV* Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Gas and/or oil exploration and production	Netherlands
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, TW18 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 Production UK Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Resources Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK

Name of undertaking and registered address	Principal activity	Country or territory of incorporation
Spirit Energy Southern North Sea Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Treasury Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Finance company	UK
Spirit Europe Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 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, TW18 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, TW18 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 2020	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	Notes	2020 £m	2019 £m
Non-current assets			
Investments	C	2,083	2,669
Trade and other receivables	D	90	69
		2,173	**2,738**
Current assets			
Trade and other receivables	D	62	119
Cash and cash equivalents		–	–
		62	**119**
Total assets		**2,235**	**2,857**
Current liabilities			
Bank overdrafts, loans and other borrowings		(838)	(747)
Trade and other payables	E	–	(3)
		(838)	**(750)**
Net assets		**1,397**	**2,107**
Equity			
Share capital	F	19	19
Share premium	G	1,094	1,094
Retained earnings		242	952
Other equity	H	42	42
Shareholders' equity		**1,397**	**2,107**

The Company reported a loss for the financial year ended 31 December 2020 of £710 million (2019: £888 million).

The Financial Statements on pages 85 to 92, of which the notes on pages 87 to 92 form part, were approved and authorised by the Board of Directors on 24 May 2021 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
1 January 2019		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**
Loss and total comprehensive loss for the year		–	–	(710)	–	(710)
31 December 2020		**19**	**1,094**	**242**	**42**	**1,397**

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 2020 (2019: £nil million).

The notes on pages 87 to 92 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 and 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 2020. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC.

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101: 'Reduced disclosure framework' (FRS 101) and the Companies Act 2006. In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards 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; and
- disclosures in respect of capital management.

Standards, amendments and interpretations effective or adopted in 2020 have been disclosed in note 1 of the Consolidated Financial Statements.

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.

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. The key source of estimation uncertainty 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 £664 million (2019: £889 million) as described in note C below.

Principal accounting policies

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

Foreign currencies

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 (2019: 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 (2019: none).

C. Investment in subsidiaries

	2020 £m	2019 £m
Cost		
At 1 January	3,796	2,929
Additions	78	867
At 31 December	**3,874**	**3,796**

	2020 £m	2019 £m
Accumulated impairment		
At 1 January	(1,127)	(238)
Impairment provision	(664)	(889)
At 31 December	**(1,791)**	**(1,127)**

	2020 £m	2019 £m
Net book value		
At 1 January	2,669	2,691
At 31 December	**2,083**	**2,669**

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 2019 financial year, 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.

In the 2020 financial year, the Company made a cash investment of £78 million in Bayerngas Norge AS.

Impairment provision

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

- Spirit Energy Production UK Limited £56 million (2019: £15 million);
- Spirit North Sea Gas Limited £nil million (2019: £391 million);
- Spirit Resources (Armada) Limited £nil million (2019: £7 million);
- Spirit Norway Limited £46 million (2019: £nil million);
- Bayerngas Norge AS £77 million (2019: £411 million);
- Spirit Production (Services) Limited £nil million (2019: £65 million); and
- Spirit Energy Resources Limited £485 million (2019: £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.

During the year Spirit Energy Norge AS was relinquished and thus the Company derecognised its investment of £20,155.

D. Trade and other receivables

As at 31 December	Note	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 Non-current £m
Financial assets:					
Related-party receivables	I	62	90	114	69
Other receivables		–	–	5	–
		62	**90**	**119**	**69**

E. Trade and other payables

As at 31 December	2020 £m	2019 £m
Amounts owed to parent undertaking	–	(3)

F. Share capital

Allotted and fully paid share capital of the Company:

As at 31 December	2020 £m	2019 £m
296,056,457 A class ordinary shares of 1 pence each (2019: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2019: 658,964,372)	6	6
1 deferred share of £1 (2019: 1)	–	–
955,020,829 preference shares of 1 pence each (2019: 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

	2020 £m	2019 £m
As at 1 January	1,094	2,594
Reduction in share premium	–	(1,500)
As at 31 December	**1,094**	**1,094**

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 2020.

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	2020 Amounts owed from £m	2020 Amounts owed to £m	2019 Amounts owed from £m	2019 Amounts owed to £m
GB Gas Holdings Limited	152	–	179	(3)
SWM Bayerische E&P Beteiligungsgesellschaft mbH	–	–	4	–
Spirit Energy Treasury Limited[(i)]	–	(838)	–	(747)
	152	**(838)**	**183**	**(750)**

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

All amounts owed from related parties are non-interest bearing, not past due and no provisions for credit losses have been taken. Terms relating to the amount receivable from GB Gas Holdings Limited of £152 million are described in note S5 to the Consolidated Financial Statements, in footnotes (ii) and (iii), respectively. The amounts owed to related parties are payable on demand. An interest rate of LIBOR plus 3% is applied to amounts owing to Spirit Energy Treasury Limited.

During the year, the Company recognised in its Income Statement an expense of £5 million (2019: £5 million) for a reduction in deferred consideration and income of £6 million (2019: £6 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 2020	990
Revisions of previous estimates(i)	10
Disposals of reserves in place(ii)	(8)
Production(iii)	(161)
31 December 2020	**831**

Estimated net 2P reserves of liquids(v)	**Million barrels**
1 January 2020	120
Revisions of previous estimates(i)	6
Production(iii)	(17)
31 December 2020	**109**

Estimated net 2P reserves	**Million barrels of oil equivalent**
31 December 2020(iv)	**246**

(i) Revision of previous estimates include those associated with Statfjord, Oda, Kvitebjørn, Ivar Aasen, Chiswick, Chestnut, Cygnus, York and Morecambe areas.
(ii) Reflects the disposal of operated interests in the Babbage field.
(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 as at 31 December 2020 in mmboe.
(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	2020 £m	2019 £m
Adjusted operating profit		43	207
Exceptional items	I/S	(620)	(516)
Certain re-measurements of energy contracts	6(b)	(254)	194
Operating loss	I/S	**(831)**	**(115)**

(b) Adjusted profit after tax

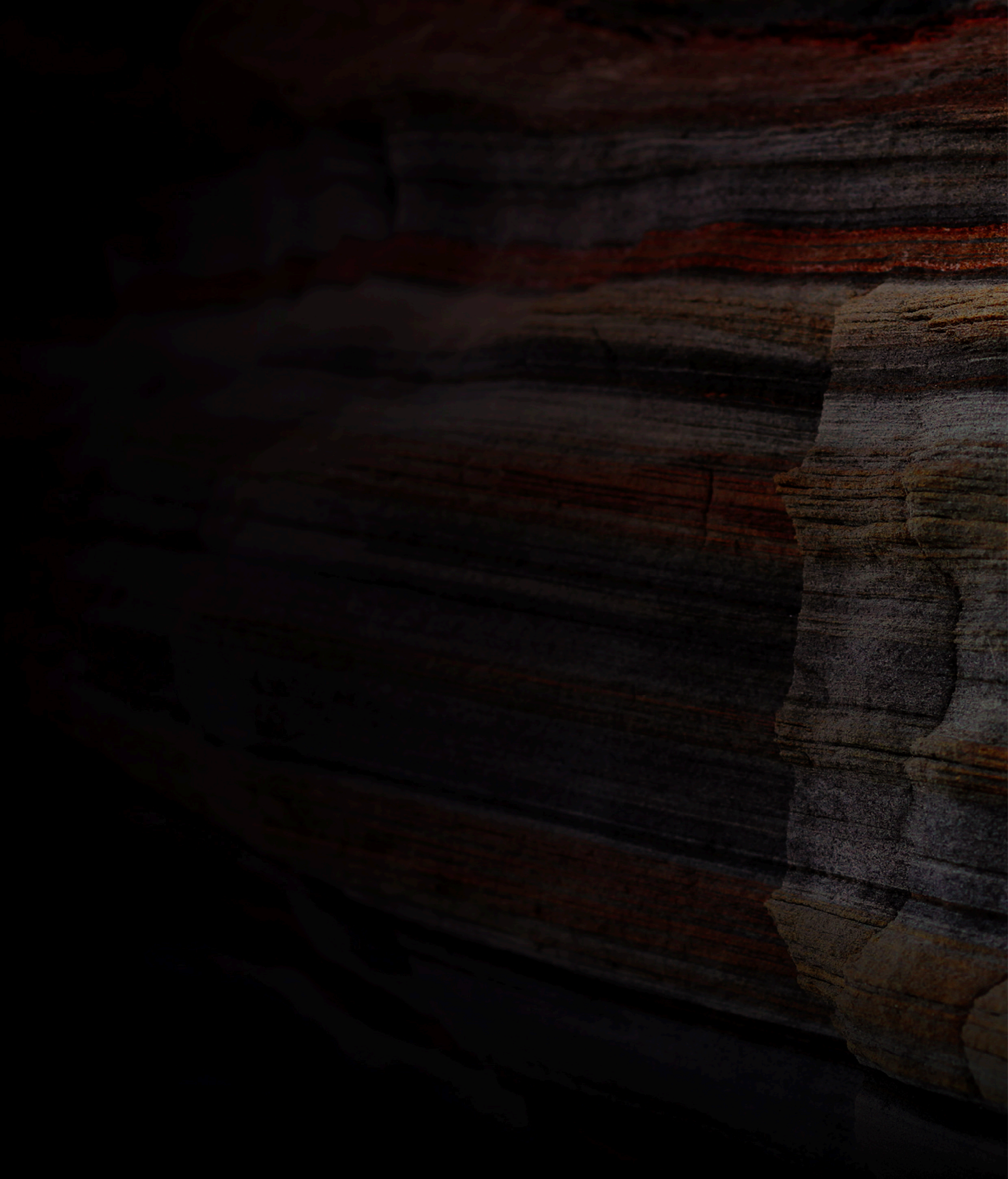
Year ended 31 December	Note	2020 £m	2019 £m
Adjusted profit after tax		69	37
Exceptional items	I/S	(620)	(516)
Certain re-measurements of energy contracts	6(b)	(254)	194
Tax on exceptional items and certain re-measurements of energy contracts	8(a)	304	14
Loss for the year	I/S	**(501)**	**(271)**

(c) Adjusted operating cash flow

Year ended 31 December	Note	2020 £m	2019 £m
Adjusted operating cash flow		529	548
Payments relating to exceptional charges	C/F	(1)	(3)
Adjustment for non-cash settlement of group relief	21(e)	(24)	–
Net cash from operating activities	C/F	**504**	**545**

(d) Free cash flow

Year ended 31 December	Note	2020 £m	2019 £m
Adjusted operating cash flow		529	548
Proceeds from the sale of assets	C/F	9	33
Purchase of property, plant and equipment and intangible assets	C/F	(313)	(470)
Sale of property, plant and equipment and intangible assets	C/F	–	6
Sale of business	C/F	(66)	–
Free cash flow		**159**	**117**



SPIRIT ENERGY