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COMPANIES HOUSE

SPIRIT ENERGY

Consolidated Financial Statements

Year ended 31 December 2018

2018

£913m
ADJUSTED OPERATING CASH FLOW

£89m
ADJUSTED PROFIT AFTER TAX

£426m
ADJUSTED OPERATING PROFIT

2P RESERVES
270 MMBOE
2C RESOURCES
512 MMBOE
R/P* 5.8

£444m
FREE CASH FLOW

TRIF**
0.20
PSIR*** (T1 & T2)
0.11

PRODUCTION
46.8MMBOE
128KBOE/D

£13.7/boe
LIFTING COST PER BARREL

Interests across the UK, Norway, the Netherlands and Denmark, with 33 producing fields and 148 exploration licences

*2P reserves to production ratio

**Total recordable injury frequency rate, per 200,000 hours

***Process safety incident rate, per 200,000 hours

SPIRIT ENERGY

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GENERAL INFORMATION

Directors
V.M. Hanafin (Chairman)
Dr. T.C. Meerpohl (Deputy Chairman)
J.A. Bell
C.M. Cox
T. Holm
D.A. Isenegger
K.M. Robertson

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.

STRATEGIC REPORT

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 2018.

Principal activities and strategy

Spirit Energy is a leading independent oil and gas operator in Europe, with 2018 production of 46.8 million barrels oil equivalent (mmboe), proven and probable (2P) reserves of 270 mmboe and contingent (2C) resources of 512 mmboe as at the end of 2018. The Group has operated and non-operated interests across the UK, Norway, the Netherlands and Denmark, with 33 producing fields and 148 exploration licences.

The Group's strategy is to add value as a lean, agile and sustainable company with a focus on growth in north-west Europe. The Group will add value by increasing production efficiency and lowering unit operating costs and by delivering its project pipeline and growing contingent resources through exploration and acquisitions to restore reserves to a level which will sustain production in the long term.

Spirit Energy acquired the European exploration and production assets of Centrica plc and Bayerngas Norge on 8 December 2017. The Company is owned by Centrica plc (69%) and Bayerngas Norge's former shareholders, led by Stadtwerke München Group (31%).

Key performance indicators (KPIs)

In order to monitor the delivery of its strategy, the Group has identified the 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 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	Performance for year ended 31 December 2018	2017
Adjusted operating profit (i)	Operating profit before exceptional items and certain re-measurements	Reflects company profitability performance	£426m	£176m
Adjusted profit after tax (i)	Profit/(loss) for the year after tax before exceptional items and certain re-measurements and related taxation	Reflects company profitability performance	£89m	(£6m)
Adjusted operating cash flow (i)	Net cash flow from operating activities before payments relating to exceptional charges	Reflects cash flow available for capital expenditure	£913m	£411m
Free cash flow (i)	Adjusted operating cash flow less purchases of PP&E and intangibles and proceeds from sales of PP&E and intangibles	Reflects cash flow available for shareholder dividends	£444m	£33m
Lifting cost per barrel (ii)	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	£13.7/boe	£12.4/boe

(i) The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. The description of the KPI in the table above defines how the KPI can be derived from the underlying IFRS measures.

(ii) Trinidad has been excluded from the calculation of the KPI for 2017 for comparison purposes.

Non-financial KPIs

KPI	Description	Relevance to Group strategy	Performance for year ended 31 December 2018	2017
Total recordable incident frequency rate (TRIF)	Total recordable incidents per 200,000 hours for operated assets	Reflects safety performance which is a core foundation of a sustainable company	0.20	0.43
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	0.11	0.21
Production (i)	Production of gas, oil and liquids	Core driver of revenue generation and long- term sustainability	46.8mmboe	44.2mmboe
Reserves/production (i)	2P reserves/current year production	Reflects long-term sustainability of production	5.8	8.2

(i) Trinidad has been excluded from the calculation of the KPI for 2017 for comparison purposes.

Operating review

Production was lower than expected during 2018, principally reflecting a higher level of unplanned outages at Statfjord and Kvitebjørn, repairs to key plant and equipment at Morecambe, export constraints at Cygnus and the shut-in of the Chiswick C4 well following intervention to address well integrity issues. The Group's 2P reserves fell by 93 mmboe to 270 mmboe at the end of 2018, representing a reserves/production ratio of 5.8 times. The reduction principally reflected production in the year and a reserve downgrade at Maria due to reservoir performance and reclassification of Hejre 2P reserves to contingent resources as the operator re-evaluates development options.

Unit lifting cost increased from £12.4/boe to £13.7/boe, the increase principally reflecting additional repair and maintenance expenditure incurred during the extended shut down of the Morecambe assets and well interventions on Chiswick and Trees. In 2017, the formation of Spirit Energy involved the integration of two businesses which yielded cost and headcount savings. In addition, the Group is undertaking a transformation programme to improve cost efficiency.

The Group continued to focus investment on the most attractive development options in its portfolio. In May 2018, a positive final investment decision was taken on the Nova oil field development in which the Group has a 20% interest. The Group's share of the development cost is expected to be approximately NOK2,000 million (£180 million), with 2P reserves of 15mmboe for Spirit Energy. The development of the Oda field where Spirit Energy is the operator continued with a successful campaign to drill the production wells. The project is ahead of schedule and first oil was achieved on 16 March 2019. The Group's share of the development cost is expected to be approximately NOK1,840 million (£166 million), with 2P reserves of 13mmboe to Spirit Energy.

An appraisal well was drilled at Spirit Energy's operated Fogelberg discovery, in which Spirit Energy owns a 51.7% interest. The results of the well and implications for further development are currently under consideration. The Group also experienced exploration success at the Lille Prinsen and Hades/Iris prospects. Drilling at Tethys, Rungne, Cygnus Fault Block 9, Scarecrow and Cassidy were all unsuccessful wells.

Future developments in business

The Group's objective remains to deliver production in the range 45–55mmboe and to reduce unit lifting costs through production efficiency and cost efficiency programmes below £12/boe.

In August 2018, the Group farmed into 50% of Hurricane Energy's Greater Warwick Area, West of Shetland. The Group will fund a £141 million ($180 million) campaign in the first phase to further prove up the potential of an area which is one of the largest resource bases in Europe. Spirit Energy has interests in discovered 2C resources of 304mmboe (net) and prospective resources of 467mmboe (net). In 2019, the Group is expecting to invest in two exploration wells and one appraisal well.

Further projects to sustain production and grow reserves include drilling the C5 infill well on Chiswick and two further wells on the Maria field. Other developments are being progressed towards Final Investment Decisions including Pegasus in the Southern North Sea, Fogelberg in Norway and Hejre and Solsort in Denmark. Exploration wells are planned in 2019 on the Andromeda, Darrach, and Bergknapp licenses and appraisal wells are under consideration at Iris and Lille Prinsen.

The Group continues to execute decommissioning projects, in particular on A fields and with Morecambe as operator.

Financial review

Group revenue increased by £457 million, or 33%, to £1,854 million (2017: £1,397 million) due to the acquisition of Bayerngas Norge's business and rising oil and gas prices.

Cost of sales were £1,226 million, 12% higher than 2017. The increase in costs principally represents the full year following the acquisition of Bayerngas Norge's business in 2017 as well as repairs and maintenance expenditure incurred during the extended shut down of the Morecambe assets and well interventions on Chiswick and Trees.

Operating costs of £202 million were £77 million higher than £125 million in 2017 reflecting higher dry well costs for the drilling activity undertaken in 2018.

Operating profit of £512 million was achieved this year compared to a loss of £244 million for the year ended 2017. Operating profit included exceptional items of £91 million (2017: exceptional charges of £438 million). This comprised the reversal of net impairments of £60 million (post-tax £58 million) on certain fields, predominantly due to increases in price forecasts and changes to expected decommissioning costs, a reversal in unused decommissioning provisions of £35 million (post-tax £24 million) relating to assets previously impaired through exceptional items and a £4 million change (post-tax £1 million) in respect of restructuring charges. Profit after taxation for the year is £191 million (2017: £144 million loss).

Adjusted operating cash flow was up 122% to £913 million, reflecting the higher operating profit and the timing of tax payments. After capital expenditure of £470 million, the Group generated free cash flow of £444 million in 2018 compared to £33 million in 2017.

Principal risks and uncertainties

Spirit Energy is exposed to risks arising from regulatory, environmental, strategic, operational, and financial factors. Accordingly, the Group's 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 its strategy.

Key risks include significant operational risks, particularly relating to the safe and reliable operation of the business. Spirit Energy invests heavily in its resource capability and management system including standards, policies, procedures and controls to minimise the severity of the impact and probability of such risks arising. The Group also maintains a comprehensive insurance programme against losses incurred in the operation of its assets and executing exploration drilling, capital developments and decommissioning projects.

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

Spirit Energy manages liquidity risks through an agreed financial framework to build sustainable long-term cash flow underpinning its liquidity requirements and capital investments. The Group has significant cash and cash equivalents and a £200 million shareholder revolving unsecured credit facility, which together are expected to cover its liquidity requirements. Investments and dividends will be managed to ensure that the Group maintains a working capital liquidity buffer. In the event of a potential liquidity shortfall, the Group can access external borrowings and request funding from shareholders. In addition, exposures to commodity prices, foreign exchange rate movements and credit risk are managed through agreed hedging and treasury policies.

Spirit Energy is also exposed to high inherent risks such as IT security, data protection and fraud which are mitigated through a framework of relevant controls.

Climate change

The Group believes that climate change is one of the biggest challenges facing society, and that there are a wide range of outcomes for the oil and gas industry over the longer term. The Group's portfolio is weighted towards gas, which has an important role to play in the energy transition to a low-carbon economy, and it has put in place management systems and targets to improve its environmental performance on a continuous basis. Throughout its operations, the Group adheres to the environmental policy of Centrica plc, its major shareholder. As part of this policy, the Group is committed to understanding, managing and reducing the environmental and ecological impacts of its activities through innovation, technology and cultural change.

Exit from the European Union
The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Group. However, it is considered that the direct impact of these uncertainties on the Group is limited in the short term, although many details of the implementation process continue to remain unclear. Extricating from the European Union treaties is a task of immense complexity, but the Company has prepared itself to manage the possible impacts on its business. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Approval

This report was approved by the Board of Directors on 19 March 2019 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 2018.

Results and dividends

The Group's results and performance summary for the year are set out in the Group Strategic Report on pages 3 to 6. No dividends have been paid in 2018 (2017: £833 million). The Directors propose a final dividend of 36.96 pence per ordinary share and 4.92 pence per preference share, totalling £353 million and £47 million, respectively, for the year ended 31 December 2018. The dividend will be submitted for formal approval at a Directors' Board meeting to be held on 19 March 2019 and, subject to approval, will be paid on 25 March 2019.

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 38.

Future developments

A description of future developments can be found in the Group Strategic Report on page 4. A description of the Group's exposure and management of risks is provided in the Group Strategic Report on page 5.

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 and the Directors have a reasonable expectation that the Group has adequate resource 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.

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 31, 45 and 47.

Directors

The Directors who served throughout the year, except as noted, were as follows:
V.M. Hanafin (Chairman)
Dr. T.C. Meerpohl (Deputy Chairman)
J.A. Bell
C.M. Cox
T. Holm
D.A. Isenegger
K.M. Robertson (appointed 4 May 2018)
S.M. Wills (resigned 4 May 2018)

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 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 2018 and remain in force. The Company maintains Directors' and officers' liability insurance in respect of its Directors and members of the 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 and development, performance reviews and promotion through to retirement. The Group's policy is to promote equality of opportunity, diversity, respect and inclusion in the workplace, 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.

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 45 to 47.

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 49 to 51.

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. During the year, the Company reduced its share premium account by £1,000 million and transferred the resulting distributable reserves to retained losses.

Disclosure of information to the Company's auditor

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

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 19 March 2019 and signed on its behalf by:

Chris Cox
Director and Chief Executive Officer

SPIRIT ENERGY

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

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

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 19 March 2019 and signed on its behalf by:

By order of the Board

Chris Cox
Director and Chief Executive Officer

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Spirit Energy Limited (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

G. Hollis

Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, UK
19 March 2019

SPIRIT ENERGY

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2018 £m	2017 £m
Revenue	4	**1,854**	1,397
Cost of sales	5	**(1,226)**	(1,096)
Re-measurement of energy contracts	6	**(5)**	18
Gross profit		**623**	319
Operating costs	5	**(202)**	(125)
Exceptional items	6	**91**	(438)
Operating profit/(loss)		**512**	(244)
Financing costs	7	**(42)**	(121)
Investment income	7	**15**	64
Profit/(loss) before taxation		**485**	(301)
Taxation on profit/loss	8	**(294)**	157
Profit/(loss) for the year		**191**	(144)

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

The notes on pages 17 to 53 form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2018 £m	2017 £m
Profit/(loss) for the year	**191**	(144)
Other comprehensive income/(loss) for the year:		
Items that will be or have been reclassified to the Consolidated Income Statement:		
Exchange differences on translation of foreign operations	**2**	36
Exchange differences recycled to the Consolidated Income Statement on disposal	**–**	2
Net gains on cash flow hedges	**1**	–
Cash flow hedges transferred to the Consolidated Income Statement	**–**	(6)
Items that will not be reclassified to the Consolidated Income Statement:		
Net actuarial gains on defined benefits pension schemes	**–**	17
Taxation on net actuarial gains on defined benefits pension schemes	**–**	(5)
	–	12
Other comprehensive income for the year, net of taxation	**3**	44
Total comprehensive income/(loss) for the year	**194**	(100)

The notes on pages 17 to 53 form part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	11	**3,343**	3,337
Other intangible assets	12	**189**	215
Goodwill	12	**497**	487
Deferred tax assets	13	**593**	570
Trade and other receivables	14	**113**	189
Derivative financial instruments	16	**13**	–
		4,748	4,798
Current assets			
Trade and other receivables	14	**397**	426
Inventories	15	**87**	72
Derivative financial instruments	16	**26**	13
Current tax assets		**97**	76
Cash and cash equivalents	21	**639**	294
		1,246	881
Total assets		**5,994**	5,679
Current liabilities			
Derivative financial instruments	16	**(50)**	(33)
Trade and other payables	17	**(429)**	(476)
Current tax liabilities		**(251)**	(101)
Provisions for other liabilities and charges	18	**(167)**	(151)
Bank overdrafts, loans and other borrowings	21	**(11)**	(113)
		(908)	(874)
Non-current liabilities			
Deferred tax liabilities	13	**(277)**	(151)
Derivative financial instruments	16	**(12)**	–
Trade and other payables	17	**(105)**	(111)
Provisions for other liabilities and charges	18	**(2,096)**	(2,194)
Retirement benefit obligation	19	**–**	(1)
Loans and other borrowings	21	**–**	(11)
		(2,490)	(2,468)
Total liabilities		**(3,398)**	(3,342)
Net assets		**2,596**	2,337
Share capital	22	**19**	19
Share premium	23	**2,594**	3,594
Retained losses		**(1,700)**	(2,891)
Other equity	S4	**1,683**	1,615
Shareholders' equity		**2,596**	2,337

The Consolidated Financial Statements on pages 12 to 53, of which the notes on pages 17 to 53 form part, were approved and authorised by the Board of Directors on 19 March 2019 and were signed below on its behalf by:

Chris Cox
Director and Chief Executive Officer

SPIRIT ENERGY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (note 22) £m	Share premium (note 23) £m	Retained losses £m	Other equity (note S4) £m	Total £m
1 January 2017	19	3,594	(1,876)	1,845	3,582
Loss for the year	–	–	(144)	–	(144)
Other comprehensive income for the year	–	–	–	44	44
Total comprehensive loss for the year	–	–	(144)	44	(100)
Dividends paid to equity holders (note 9)	–	–	(833)	–	(833)
Acquisition of business	–	–	–	(315)	(315)
Employee share schemes	–	–	–	3	3
Transfer of cumulative actuarial losses to retained losses on closure of pension schemes	–	–	(38)	38	–
31 December 2017	19	3,594	(2,891)	1,615	2,337
Profit for the year	–	–	191	–	191
Other comprehensive income for the year	–	–	–	3	3
Total comprehensive income for the year	–	–	191	3	194
Acquisition of business	–	–	–	65	65
Reduction in share premium and transfer to retained losses	–	(1,000)	1,000	–	–
31 December 2018	**19**	**2,594**	**(1,700)**	**1,683**	**2,596**

The notes on pages 17 to 53 form part of these Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Notes	2018 £m	2017 £m
Operating profit/(loss)		**512**	(244)
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments of fixed assets	11(a),12(a)	**530**	993
(Profit)/loss on disposals		**(3)**	8
Decrease in provisions		**(164)**	(239)
Employee share scheme costs		**–**	2
Unrealised loss/(gains) arising from re-measurement of energy contracts		**5**	(18)
Operating cash flows before movements in working capital		**880**	502
Increase in inventories		**(14)**	(1)
Decrease in trade and other receivables		**37**	24
Increase in trade and other payables		**57**	41
Operating cash flows before payments relating to taxes, interest and exceptional charges		**960**	566
Taxes paid		**(47)**	(152)
Operating interest paid		**–**	(3)
Payments relating to exceptional charges		**(19)**	(8)
Net cash flow from operating activities		**894**	403
Purchase of businesses, net of cash acquired	10(b)	**31**	78
Proceeds from the sale of assets		**1**	26
Purchase of property, plant and equipment and intangible assets		**(470)**	(406)
Sale of property, plant and equipment and intangible assets		**–**	2
Interest received		**2**	–
Movements in deferred consideration		**(9)**	–
Net cash flow used in investing activities		**(445)**	(300)
Financing interest and fees paid		**(9)**	(34)
Equity dividends paid	9	**–**	(833)
Proceeds from related party borrowings	21(e)	**–**	2,246
Repayment of related party borrowings	21(e)	**(106)**	(1,384)
Capital element of finance leases	21(e)	**(6)**	(9)
Cash contributed by immediate shareholder on establishment of Spirit Energy Limited		**–**	191
Issue of share capital	22	**16**	–
Realised net foreign exchange loss on cash settlement of derivative contracts		**(2)**	–
Net cash flow (used in)/from financing activities		**(107)**	177
Net increase in cash and cash equivalents		**342**	280
Cash and cash equivalents at 1 January		**293**	20
Effect of foreign exchange rate changes		**4**	(7)
Cash and cash equivalents at 31 December		**639**	293
Included in the following lines of the Consolidated Balance Sheet:			
Cash and cash equivalents	21(e)	**590**	229
Restricted cash within cash and cash equivalents	21(e)	**49**	65
Overdrafts included within current bank overdrafts, loans and other borrowings	21(e)	**–**	(1)

The notes on pages 17 to 53 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, formerly Centrica Newco 123 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. Its principal place of business is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG. Its registered office address is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG. The Company, together with its subsidiaries as detailed in note S7, comprises 'the Group'.

1. 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 2018, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, subject to the limitations outlined below.

The Consolidated Financial Statements constitute statutory accounts for the period ended 31 December 2018 and contain all disclosures required by the Companies Act. These represent the first set of statutory accounts for the Company to be delivered to the Registrar of Companies.

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

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

The Consolidated Financial Statements have been prepared on a going concern basis. The Group operates under a financial framework to build sustainable long-term cash flow underpinning its liquidity requirements and capital investments. The Group has significant cash and cash equivalents and a £200 million shareholder revolving unsecured credit facility, which together are expected to cover its liquidity requirements. Investments and dividends will be managed to ensure that the Group maintains a working capital liquidity buffer. In the event of a potential liquidity shortfall, the Group can access external borrowings and request funding from shareholders.

Basis of consolidation

On 29 September 2017, the Company acquired the entire share capital of the following entities from GB Gas Holdings Limited (GBGH), a fellow subsidiary of Centrica plc:

- 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.; and
- Spirit Resources (Armada) Limited.

On 31 October 2017, Spirit Energy Limited acquired the entire share capital of the following entities from GBGH:

- Spirit Energy Norge AS; and
- Spirit Norway Limited trading as Spirit Energy Norway AS (previously Spirit Energy NUF).

A full list of subsidiary undertakings is provided in note S7. The reporting date of Spirit Energy WOS Limited, an entity in the Group which has been incorporated on 26 July 2018, is being extended to 31 December 2019 for the purpose of preparing statutory accounts.

The initial step of contributing the legal entities that comprised the Centrica plc's exploration and production business is a common control transaction and was outside the scope of IFRS 3 'Business combinations'. The Group has adopted an accounting policy of predecessor accounting for these entities such that the assets and liabilities of the entities recognised in the Group's Consolidated Financial Statements reflect the carrying values of these assets and liabilities in the Centrica plc group consolidation.

In accordance with the principles of predecessor accounting, the Group's Consolidated Financial Statements are presented as if the entities acquired were always part of the Spirit Energy Group despite the Spirit Energy Group not being a legal group prior to the dates of acquisition of the entities from GBGH. Further details on the accounting policy and associated judgements and estimates are provided in note 3(a).

Immediately prior to the disposal of the entities listed above by GBGH on 29 September 2017, the Centrica plc group reorganised ownership of its Dutch legal entities. Spirit Energy Nederland B.V. and its wholly-owned subsidiary Spirit Infrastructure B.V. were acquired by Spirit Energy Limited and this reorganisation impacted membership of fiscal groups for Dutch corporation tax purposes. The members of a fiscal group are jointly and severally liable for Dutch corporation tax payable by the companies within the fiscal group, and corporation tax assets and liabilities relating to the entire fiscal group are recognised by the head of the fiscal group.

Prior to this reorganisation, the Dutch legal entities were part of a fiscal group headed by a legal entity outside the Group perimeter, and all corporation tax assets and liabilities were recognised by the head of the fiscal group in its legal entity statutory accounts. As a result of the change of ownership, the two Dutch legal entities formed a new fiscal group at the time of acquisition, headed by Spirit Energy Nederland B.V. For the purposes of the Consolidated Financial Statements, the current tax charges associated with the Dutch legal entities within the Group have been included based on the combined pre-tax positions of those entities since the date of the reorganisation, and deferred tax balances were established based on the taxable temporary differences between the tax base and the accounting base of the entities.

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. Further details of this transaction are set out in note 10(b). This was deemed as an IFRS 3 business combination.

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

(b) Standards, amendments and interpretations effective or adopted in 2018

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

- IFRS 9: 'Financial instruments'
- IFRS 15: 'Revenue from contracts with customers'

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

The following standards and amendments to IFRSs became effective for the period beginning on 1 January 2018 and did not have a material impact on the consolidated financial statements:

- IFRIC 22: 'Foreign Currency Transactions and Advance Consideration'
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 Cycle
- Transfers to Investment Property – Amendments to IAS 40.

IFRS 9: Financial instruments

The Group has applied IFRS 9 from 1 January 2018. In accordance with the transition provisions in the standard, the Group has elected not to restate comparatives on initial application of IFRS 9. An assessment has been performed to identify the impact of adopting the new standard on the financial instruments and hedging relationships as of the date of initial application.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group accounts for expected credit losses, and these amounts are updated at each reporting date. The Group has applied the simplified approach to recognise expected credit losses for its trade receivables, finance lease receivables and contract assets. The calculation of the loss allowance as of 31 December 2018 and 31 December 2017 was immaterial.

Hedge accounting

The Group has not applied IFRS 9's hedge accounting requirements and continues to account for its hedge relationships in accordance with IAS 39.

IFRS 15: Revenue from contracts with customers

IFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. Management has conducted an analysis across each of the Group's revenue streams based on materiality, complexity and nature of each revenue stream and has assessed the standard as having no material impact on the Group, although comparatives have been restated to reflect the appropriate classification of revenue between IFRS 15 and transactions outside the scope of IFRS 15. Therefore, the primary impact is the revision of accounting policies to reflect the five-step approach to revenue recognition required by the standard.

Under IFRS 15, revenue is recognised when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids and other items sold by the Group coincides with title passing to the customer and the customer taking physical possession. The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Therefore, the accounting for revenue under IFRS 15 does not represent a substantive change for recognising revenue from sales to customers.

In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives within the notes for the 2017 financial year.

The Group has applied the following practical expedients on initial application:

- IFRS 15:C5(a): Exemption from the requirement to apply the standard to contracts that begin and end within the same annual reporting period and contracts completed at the beginning of the earliest period presented.

- IFRS 15:C5(b): Use of the transaction price at the date the contract was completed for completed contracts with variable consideration rather than estimating variable consideration amounts in the comparative reporting periods.

None of the above practical expedients had a material effect on the Consolidated Financial Statements. In addition, IFRS 15 requires companies to disclose revenue segregated into IFRS 15 and non-IFRS 15 revenue and receivables. Within the Group, the majority of revenue is classified as IFRS 15 whilst non-IFRS 15 revenue principally relates to hedging and derivatives, which for the Group includes certain gas sales in Norway that are accounted for as financial instruments and commodity hedging.

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

Endorsed by the EU

The Group has not yet applied the following standards and amendments relevant to the Group's financial statements as these are not yet effective, although they have been endorsed by the EU and will be effective from 1 January 2019:

- IFRS 16: 'Leases';
- Amendments to IFRS 9: 'Prepayment features with negative compensation'; and
- IFRIC 23: 'Uncertainty over Income Tax Treatments'.

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's Consolidated Financial Statements, as all leases will be recognised on the balance sheet (with the exception of short-term and low-value leases). An initial impact analysis on the Group's results was carried out in 2017, with implementation and data capture work continuing in 2018. The Group will apply the Standard retrospectively on a modified basis from 1 January 2019, utilising certain of the practical expedients provided within the Standard, and the cumulative effect of initial application will be recognised in retained earnings at 1 January 2019. The key judgements made have been assessing whether a lease exists within a joint arrangement, determining the customer in the lease, and the treatment of the right of use asset and liability where a leased asset is controlled by more than one party in an arrangement. The expected impact on transition will be the recognition of a lease liability and an equal right of use asset of £95 million.

Management does not currently expect the future application of Amendments to IFRS 9: 'Prepayment features with negative compensation' and IFRIC 23: 'Uncertainty over Income Tax Treatments' interpretations and amendments to have a material impact on the amounts reported and disclosed in the Consolidated Financial Statements.

Not endorsed by the EU

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

- Amendments to IAS 19: 'Plan amendment, curtailment or settlement', effective from 1 January 2019;
- Amendment to IFRS 3: 'Business combinations', effective from 1 January 2020;
- Amendments to IAS 1 and IAS 8: 'Definition of material', effective from 1 January 2020; and
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3: 'Business combinations', IFRS 11: 'Joint arrangements', IAS 12: 'Income taxes' and IAS 23: 'Borrowing costs', effective from 1 January 2019.

The amendments to IAS 19 apply to plan amendments, curtailments or settlements that occur on or after 1 January 2019. The annual improvements to IFRS Standards 2015-2017 cycle relating to amendments to IFRS 3 and IFRS 11 apply to acquisitions of additional interests in joint arrangements for which the acquisition date is on or after 1 January 2019. The amendments to IFRS 3 clarifying the definition of a business apply to acquisitions on or after 1 January 2020. As these types of transactions can vary in size and are non-recurring in nature, the Group cannot quantify the effect that these amendments could potentially have in the future.

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

2. SPECIFIC ACCOUNTING MEASURES

Exceptional items and certain re-measurements

To be able to provide readers with clear information regarding the business performance of the Group, the effects of certain re-measurements of financial instruments 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 certain re-measurements are reported separately until such time as the underlying transaction or asset matures at which time the realised gain or loss is recorded in revenue since this relates to the revenue activities of the Group.

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Such key judgements include the following:

- the presentation of selected items as exceptional (see notes 2 and 6); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements (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:

Business combinations and asset acquisitions
Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

Business combinations and acquisitions of joint arrangements require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets and liabilities.

As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

The farm-in arrangement with Hurricane Energy Limited in respect of the acquisition of licences in the Greater Warwick Area has been treated as an asset acquisition in line with IAS 16 Property, Plant and Equipment (see note 10).

The Group's acquisition of Bayerngas Norge AS's exploration and production business on 8 December 2017 has been accounted for as a business combination as set out in note 10. A fair value update assessment has been performed and measurement period adjustments have been reflected in the Consolidated Financial Statements which are also set out in note 10.

Contribution of Centrica plc's exploration and production business and acquisition of Bayerngas Norge entities during the year ended 31 December 2017
As described in note 1, during the year ended 31 December 2017, certain entities, which comprised the exploration and production business of Centrica plc, were contributed to the Group.

The combination of Centrica plc's and Bayerngas Norge's exploration and production businesses followed a series of legal steps whereby first, Centrica plc entities were contributed by GBGH in exchange for ordinary and preference shares issued by Spirit Energy Limited, followed by the acquisition of the Bayerngas Norge entities.

The contribution of Centrica plc's entities to Spirit Energy Limited, which at the time was a wholly-owned subsidiary of the Centrica plc group, was a common control transaction and management chose to account for this transaction on a predecessor accounting basis, recording the assets and liabilities acquired by the Group based on the carrying values of those assets and liabilities in the Centrica plc group consolidation.

The Company took advantage of group reconstruction relief in accordance with the Companies Act which permits the Company to record the ordinary shares issued at the nominal value of the shares issued, plus a minimum share premium value which is based on the cost of the assets transferred which, for the investments in subsidiaries transferred by GBGH, have been recorded at predecessor values in GBGH.

The acquisition of Bayerngas Norge's exploration and production business was a deemed business combination within the scope of IFRS 3 'Business combinations'. Consequently, the assets and liabilities of the Bayerngas Norge exploration and production business acquired have been fair valued on acquisition. The key judgements are oil and gas reserves, price assumptions and decommissioning cost estimates, as further described in 3(b).

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

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

(b) Key sources of estimation uncertainty

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of oil & 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 2040 (2017: 2040)

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2018 is 1.2% (2017: 1.2%). A 1% variation in this discount rate would change the decommissioning liabilities by approximately £182 million before tax.

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 60.

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.

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

Further details of the assumptions used in determining the recoverable amounts, the impairments and the impairment reversals booked during the year and the sensitivity to the assumptions are provided in note 6.

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

Further detail on impairments arising 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 relates to transfer pricing challenges in jurisdictions outside the UK. While the Group applies the arm's length principle to all intra-group transactions, taking 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 has not been funded at completion. The amount recognised on the Consolidated Balance Sheet as at 31 December 2018 in respect of the uncertain tax provision was £141 million.

Brexit
The Group has considered the potential impact of a no-deal Brexit as noted in the Strategic Report on page 6. Economists have suggested that a no-deal Brexit could lead to lower base interest rates and higher inflation, following a likely weakening of sterling against other currencies. The sensitivity of a change in forward energy prices and the impact this would have on impairment of the Group's assets is disclosed in note 6. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial but could have a greater impact on future trade receivable recoverability.

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	2018 £m	2017 £m
IFRS 15 revenue		
Sale of goods:		
Gas	783	540
Oil and liquids	762	505
Pipeline tariff revenue	64	57
Other revenue	21	17
Total IFRS 15 revenue	1,630	1,119
Non-IFRS 15 revenue		
Sale of goods:		
Gas	348	297
Losses on commodity hedging	(124)	(19)
Total-non IFRS 15 revenue	224	278
Total revenue	1,854	1,397

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	2018 £m	2017 £m
UK	1,142	938
Norway	425	346
Switzerland	188	65
USA	31	–
Netherlands	23	34
Rest of the world	45	14
Total revenue	1,854	1,397

5. COST OF OPERATIONS

(a) Analysis of costs by nature

Year ended 31 December	2018 Cost of sales £m	2018 Operating costs £m	2018 Total costs £m	2017 Cost of sales £m	2017 Operating costs £m	2017 Total costs £m
Transportation and distribution costs	(186)	–	(186)	(139)	–	(139)
Commodity costs	(28)	–	(28)	(38)	–	(38)
Depreciation, amortisation, impairments and write-downs of fixed assets	(530)	(60)	(590)	(493)	(6)	(499)
Employee costs (i) (ii)	(20)	(76)	(96)	(19)	(57)	(76)
Other direct costs (iii)	(462)	(66)	(528)	(407)	(62)	(469)
Total costs before exceptional items and certain re-measurements	(1,226)	(202)	(1,428)	(1,096)	(125)	(1,221)
Exceptional items and certain re-measurements within Group operating profit (note 6)	(5)	91	86	18	(438)	(420)
Total costs within Group operating profit	(1,231)	(111)	(1,342)	(1,078)	(563)	(1,641)

(i) Includes only those 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) Certain of the Group's employees participated in employee share schemes operated by Centrica plc, the ultimate parent company of GB Gas Holdings Limited, the Group's immediate parent undertaking, which gave rise to a cost of £0.5 million] (2017: £5 million) charged to operating costs.

(iii) 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) Employee costs

Year ended 31 December	2018 £m	2017 £m
Wages and salaries	**(87)**	(56)
Social security costs	**(10)**	(12)
Pension and other post-employment benefits costs	**(8)**	(8)
Share scheme costs (note 5(a))	**–**	(5)
	(105)	(81)
Capitalised employee costs	**9**	5
Employee costs recognised in the Consolidated Income Statement	**(96)**	(76)

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

(c) Average number of employees during the year

Year ended 31 December	2018 Number	2017 Number
United Kingdom [i]	**507**	274
Norway	**112**	119
Netherlands	**55**	60
	674	453

(i) Centrica exploration and production employees and Group functions were moved into Spirit Energy as part of the formation of the Group in December 2017.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(a) Exceptional items

Year ended 31 December	2018 £m	2017 £m
Net reversal of impairment/(impairment) of exploration and production assets [i]	**60**	(494)
Net reversal of unused decommissioning provisions [ii]	**35**	86
Loss on disposal of business [iii]	**–**	(9)
Business change and restructuring costs [iv]	**(4)**	(21)
Exceptional items included within Group operating profit/ (loss)	**91**	(438)
Taxation on exceptional items (note 8)	**14**	305
Surrender of tax losses (note 8) [v]	**–**	(16)
Net exceptional items after taxation	**105**	(149)

(i) Net reversal of impairments/(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 reversal of impairments of £60 million (2017: impairment £494 million), post-tax reversal of impairments of £58 million (2017: impairments £162 million) including a PRT charge of £14 million (2017: credit of £207 million) are predominantly due to changes in long-term price forecasts, reserves and expected decommissioning costs following the conclusion of a review of decommissioning assets.

(ii) The reversal of decommissioning provisions (pre-tax £35 million (2017: £86 million), post-tax £24 million (2017: £51 million)) relates to assets previously impaired through exceptional items.

(iii) On 27 May 2017, the Group disposed of its remaining portfolio of gas assets in Trinidad and Tobago for consideration of US$35 million (£26 million) giving rise to a pre- and post-tax loss on disposal of £9 million. The Trinidad and Tobago assets were foreign operations and accounted for in non-GBP currencies. Consequently, the relevant foreign currency translation reserve (including any net investment hedging) was recycled to the Consolidated Income Statement in the year ended 31 December 2017.

(iv) Business change and restructuring costs include restructuring costs of £4 million (2017: £2 million). The costs incurred relate principally to redundancy costs, transformational spend and consultancy costs incurred in implementing a new organisational model to reposition Spirit Energy as a European business. Additionally, for the year ended 31 December 2017, change of control and consultancy costs of £19 million were incurred in relation to the acquisition of Bayerngas Norge. The combined post-tax impact of the business change and restructuring costs is £1 million (2017: £13 million).

(v) The tax deed in the agreements for the transaction to combine Centrica plc's existing exploration and production business with that of Bayerngas Norgo AS during the year ended 31 December 2017 includes a mechanism through which the Group will surrender losses on activities unrelated to oil and gas production to its shareholders for no payment. An exceptional tax charge of £16 million was recognised to reflect the tax value of the losses to be surrendered in this respect, which were previously valued as an asset of the Group prior to completion of the transaction.

(b) Certain re-measurements

Year ended 31 December	2018 £m	2017 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net (losses)/gains arising on market price movements and new contracts	(27)	5
Net gains arising on delivery of contracts	22	13
Net re-measurements included within Group operating loss	**(5)**	18
Taxation on certain re-measurements (note 8)	2	(7)
Net re-measurements after taxation	**(3)**	11

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill; property, plant and equipment; 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 Group 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. A FVLCD calculation has been used to determine recoverable amounts for all CGUs that include 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 reversal of impairment of £95 million (2017: impairment of £408 million) has been recorded within exceptional items for the Group's exploration and production assets, including £35 million (2017: £86 million) of reductions to decommissioning provisions. For those assets subject to net impairment, the associated recoverable amounts (net of decommissioning costs) are £823 million (2017: £401 million). FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first five years are based on business plans submitted to the Spirit Energy Board and thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.5% (2017: 8.5%) to determine the FVLCD. The discount rate reflects the current market assessments of the time value of money and is based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Inflation rates used in the five-year business plan were based on a blend of a number of publicly available inflation forecasts for the UK. Inflation rates used were 2% (2017: 2%).

The valuation of exploration and production assets and goodwill are particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/– 10%. Changes in price generate different production profiles and in some cases the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For exploration and production assets, an increase in gas and oil prices of 10% would reverse £82 million (2017: £135 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 £74 million (2017: £133 million) but no post-tax impairment of goodwill (2017: nil) due to adequate headroom.

7. NET FINANCE COST

Year ended 31 December	Financing costs £m	Investment income £m	2018 Total £m	Financing costs £m	Investment income £m	2017 Total £m
Interest income	–	6	6	–	64	64
Interest cost and financing fees	(10)	–	(10)	(98)	–	(98)
Interest cost on finance leases	(1)	–	(1)	(1)	–	(1)
	(11)	6	(5)	(99)	64	(35)
Net gains on revaluation	–	9	9	–	–	–
Other operating interest	(1)	–	(1)	(4)	–	(4)
Notional interest arising from discounting	(30)	–	(30)	(27)	–	(27)
	(42)	15	(27)	(130)	64	(66)
Capitalised borrowing costs [(i)]	–	–	–	9	–	9
Net finance costs	(42)	15	(27)	(121)	64	(57)

(i) There were no borrowing costs capitalised during the year. For the year ended 31 December 2017, borrowing costs had been capitalised using an average rate of 4.55%.

8. TAXATION

(a) Analysis of tax charge

Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	2018 Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	2017 Results for the year £m
Current tax						
UK corporation tax	(3)	–	(3)	4	(16)	(12)
UK petroleum revenue tax	50	–	50	63	–	63
Non-UK tax	(240)	3	(237)	(33)	–	(33)
Adjustments in respect of prior years – UK	(1)	–	(1)	45	–	45
Adjustments in respect of prior years – non-UK	3	–	3	7	–	7
Total current tax	(191)	3	(188)	86	(16)	70
Deferred tax						
Origination and reversal of temporary differences – UK	7	(22)	(15)	21	64	85
UK petroleum revenue tax	(1)	(14)	(15)	(6)	207	201
Origination and reversal of temporary differences – non-UK	(119)	49	(70)	(197)	27	(170)
Adjustments in respect of prior years – UK	(7)	–	(7)	(26)	–	(26)
Adjustments in respect of prior years – non-UK	1	–	1	(3)	–	(3)
Total deferred tax	(119)	13	(106)	(211)	298	87
Total taxation on profit/(loss)	(310)	16	(294)	(125)	282	157

Tax on items taken directly to equity is disclosed in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity. The Group earns the majority of its profits in Norway. UK exploration and production activities are taxed at a corporation tax rate of 30% (2017: 30%) plus a supplementary charge of 10% (2017: 10%) to give an overall rate of tax on upstream activities of 40% (2017: 40%). Petroleum revenue tax (PRT) is now set at nil% (2017: 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 23% (2017: 24%) plus a special tax of 55% (2017: 54%) resulting in an aggregate tax rate of 78% (2017: 78%).

The Group's non-upstream UK profits are taxed at the standard rate of 19% (2017: 19.25%) reducing to 17% from 1 April 2020.

(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 profit/(loss) before taxation is as follows:

			2018			2017
Year ended 31 December	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Results for the year £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Group profit/(loss) before tax	**399**	**86**	**485**	119	(420)	(301)
Tax on profit/(loss) at UK corporation tax rate of 40% (2017: 40%)	**(160)**	**(34)**	**(194)**	(48)	168	120
Effects of:						
Depreciation/impairment on non-qualifying assets (including write-backs)	**(36)**	**(3)**	**(39)**	–	–	–
Movement in tax rates	**8**	**–**	**8**	(56)	(2)	(58)
Non-taxable disposals	**1**	**–**	**1**	(1)	2	1
Other non-allowable/non-taxable items	**(11)**	**–**	**(11)**	(1)	(15)	(16)
Upstream investment incentives	**47**	**32**	**79**	40	–	40
UK petroleum revenue tax rates	**24**	**(8)**	**16**	34	124	158
Non-UK tax rates	**(169)**	**29**	**(140)**	(99)	10	(89)
Movement in uncertain tax provisions	**(6)**	**–**	**(6)**	(9)	–	(9)
Movement in unrecognised deferred tax assets	**(5)**	**–**	**(5)**	(2)	(5)	(7)
Adjustments in respect of prior years	**(3)**	**–**	**(3)**	17	–	17
Taxation on profit/(loss) for the year	**(310)**	**16**	**(294)**	(125)	282	157
Less: Movement in deferred tax	**119**	**(13)**	**106**	211	(298)	(87)
Total current tax	**(191)**	**3**	**(188)**	86	(16)	70

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.

Profits from oil and gas production in the UK continue to be taxed at rates above the UK's upstream 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 61% (2017: 52%) is expected to remain above the UK upstream rate.

9. DIVIDENDS

	2018 £m	2018 Pence per share	2018 Date of payment	2017 £m	2017 Pence per share	2017 Date of payment
Prior year final dividend	–	–	–	–	–	–
Interim dividend [(i)]	–	–	–	833	104.12	Sep-2017
	–			833		

(i) The interim dividend paid in 2017 represents dividends paid by Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited) to its former shareholder, GB Gas Holdings Limited, prior to legal formation of the Spirit Energy Group. See note S5 for related party disclosures.

The final dividend of 36.96 pence per ordinary share and 4.92 pence per preference share, totalling £353 million and £47 million, respectively, for the year ended 31 December 2018 was submitted for approval by the Board on 19 March 2019 and subject to final approval, the dividends are to be paid on 25 March 2019.

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 54.

10. ACQUISITIONS AND DISPOSALS

(a) 2018 acquisitions - Greater Warwick Area farm-in arrangement

On 3 September 2018, the Group completed the acquisition of a 100% interest in Hurricane Resources Limited for £1, which had previously acquired from Hurricane Holdings Limited a 50% interest in the Lincoln field and Warwick prospect, which are part of the Greater Warwick Area. Greater Warwick Area is part of the Rona Ridge fractured basement play in the UK Continental Shelf West of Shetland basin, which pre-acquisition was wholly owned by Hurricane Energy PLC, an AIM-listed independent oil and gas exploration company.

The acquisition is in the form of a farm-in arrangement in which the Group is responsible for the funding of an exploration and appraisal drilling programme. The initial commitment is to cover the phase 1 drilling of three wells at a cost of £141 million ($180 million), £3 million of which has already been incurred as of 31 December 2018. Although these costs are committed, they do not immediately meet the definition of a liability as there is no past event giving rise to an obligation. The remaining commitment has been disclosed in note 20.

Consideration was applied as to whether the acquisition of Hurricane Resources Limited falls into the definition of a business combination. Under IFRS 3, a business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The substance of the transaction is the acquisition of an interest in a licence rather than the acquisition of a business. Therefore, the legal entity has been viewed as a corporate shell which holds an interest in a licence with no processes in place and no ability to create outputs. It has been concluded that the transaction would not fall under the definition of an IFRS 3 business combination. It has therefore been accounted for as an asset acquisition under IAS 16 'Property, Plant, and Equipment'.

(b) 2017 business combinations – measurement period adjustments in year ending 31 December 2018

On 8 December 2017, agreement was reached for Centrica plc to acquire 100% of Bayerngas Norge Group in exchange for 31% of the Spirit Energy Group which combined post-acquisition the Centrica plc exploration and production business and Bayerngas Group. Goodwill on acquisition was calculated as £101 million, representing £(56) million bargain purchase and £157 million of technical goodwill.

IFRS 3 'Business combinations' allows a measurement period in which the acquirer may adjust the provisional values recognised for a business combination. During the year, the Group has made a redetermination in respect of the provisional fair values of certain assets and liabilities which had been acquired from Bayerngas Norge AS. The final fair values of the assets acquired were increased by £39 million from the provisional values. This was due to the discounted cash flows being finalised based on additional assumptions which existed at acquisition date but had not been incorporated into the provisional fair values originally calculated. The balance sheet also included a provision for uncertain tax positions from the acquired Bayerngas Norge Group business which has been reassessed and reduced by £14 million and the Group 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 Group finalised acquisition discussions with Centrica and Bayerngas Norge's former shareholders (led by SWM Gasbeteiligungs GmbH), which determined that £33 million was due from Centrica, an increase of £25 million from the provisional estimate, and a £2 million amount was payable to Bayerngas Norge's former shareholders. These amounts have been settled in the year.

The overall result of this redetermination is that the fair values of these assets and liabilities have been adjusted with a corresponding £9 million increase in the goodwill recognised.

(c) 2018 transfer of business within the Group

When establishing Spirit Energy in 2017, Bayerngas Norge AS transferred its Norwegian business to Spirit Norway Limited and its production licences to Spirit Energy Norge AS (SENAS), both 100% owned subsidiaries of Spirit Energy Limited.

SENAS held the participating interest in the production licences of Spirit Energy on the Norwegian continental shelf. Pursuant to pass-through agreements to which Spirit Norway Limited and SENAS are parties, Spirit Norway Limited, through its branch, Spirit Energy NUF, conducted the business of Spirit Energy under the SENAS production licences. The Ministry of Petroleum and Energy in Norway expressed an expectation that these pass-through agreements be terminated in 2018.

During 2018, the business activities of Spirit Norway Limited and the production licences of SENAS were both transferred to Spirit Energy Norway AS, which is a 100% owned subsidiary of Spirit Norway Limited. This was deemed to be a transfer of assets and a common control transaction accounted for under the predecessor method in December 2018. This effectively terminated the need for the pass-through agreements in 2018.

(d) 2018 disposal of interests in the Armada Area

On 16 March 2018, the Group signed a sale and purchase agreement for the divestment of their respective non-operated interests in the Armada Area (including the Armada, Seymour and Maria Fields) to Chrysaor Limited for de minimis consideration. The economic date for the sale was 1 January 2018 and it was completed on 1 June 2018. The profit on disposal was £2 million. The decommissioning liability for the interest has been retained by the Group but is capped at the current pre-tax estimate of £86m. This disposal is not considered to be material enough to be shown as discontinued operations on the face of the Group income statement as this does not represent a separate major line of business or material geographic area of operations.

11. PROPERTY, PLANT AND EQUIPMENT

(a) Carrying amounts

				2018				2017
	Land and buildings £m	Plant and equipment £m	Gas and oil production £m	Total £m	Land and buildings £m	Plant and equipment £m	Gas and oil production £m	Total £m
Cost								
1 January	7	10	14,133	**14,150**	7	9	12,999	13,015
Additions and capitalised borrowing costs	–	1	333	**334**	–	1	361	362
Acquisitions (note 10)	–	–	3	**3**	–	–	761	761
Transfer from other intangible assets	–	–	36	**36**	–	–	–	–
Disposals/retirements (note 10(d))	–	(1)	(410)	**(411)**	–	–	(1)	(1)
Decommissioning liability revisions and additions (note 18)	–	–	50	**50**	–	–	50	50
Exchange adjustments	–	–	25	**25**	–	–	(37)	(37)
31 December	**7**	**10**	**14,170**	**14,187**	**7**	**10**	**14,133**	**14,150**
Accumulated depreciation and impairment								
1 January	3	8	10,802	**10,813**	2	8	9,824	9,834
Charge for the year	–	1	530	**531**	–	1	492	493
Reversal of impairment charge (i)	–	–	(105)	**(105)**	–	–	–	–
Impairment charge	–	–	–	**–**	–	–	494	494
Disposals/retirements	–	–	(410)	**(410)**	–	–	–	–
Exchange adjustments	–	–	15	**15**	1	(1)	(8)	(8)
31 December	**3**	**9**	**10,832**	**10,844**	**3**	**8**	**10,802**	**10,813**
Net book value at 31 December	**4**	**1**	**3,338**	**3,343**	**4**	**2**	**3,331**	**3,337**

(i) The reversal of impairment charge has been included in exceptional items. See note 6.

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

31 December	2018 £m	2017 £m
Gas and oil production	585	621

(c) Assets held under finance leases and to which title was restricted included in above carrying amounts

	2018 Gas and oil production £m	2017 Gas and oil production £m
Cost at 1 January and 31 December	415	415
Aggregate depreciation at 1 January	399	398
Charge for the year	15	1
Aggregate depreciation at 31 December	414	399
Net book value at 31 December	1	16

12. OTHER INTANGIBLE ASSETS AND GOODWILL

(a) Carrying amounts

	2018					2017				
	Goodwill £m	Exploration and evaluation expenditure £m	Application software £m	Other intangibles £m	Total £m	Goodwill £m	Exploration and evaluation expenditure £m	Application software £m	Other intangibles £m	Total £m
Cost										
1 January	997	207	8	3	1,215	900	137	–	3	1,040
Additions (i)	–	114	–	–	114	–	36	8	–	44
Acquisitions (note 10(b))	9	–	–	–	9	101	42	–	–	143
Write-downs (ii)	–	(100)	–	–	(100)	–	(5)	–	–	(5)
Transfers to property, plant and equipment	–	(36)	–	–	(36)	–	–	–	–	–
Disposals/retirements and surrenders	–	–	–	–	–	–	(2)	–	–	(2)
Exchange adjustments	1	–	–	–	1	(4)	(1)	–	–	(5)
31 December	**1,007**	**185**	**8**	**3**	**1,203**	997	207	8	3	1,215
Accumulated amortisation										
1 January	510	–	1	2	513	510	–	–	2	512
Amortisation	–	–	4	–	4	–	–	1	–	1
31 December	510	–	5	2	517	510	–	1	2	513
Net book value at 31 December	**497**	**185**	**3**	**1**	**686**	487	207	7	1	702

(i) Included within additions is £nil (2017: £9 million) of capitalised borrowing costs. See note 7.
(ii) Write-downs of £55 million were recognised within operating costs (2017: £5 million) in respect of drilling expenditure and write-downs of £45 million (2017: £nil) were recognised within exceptional items.

(b) Impairment reviews – summary of results

During the year, no goodwill impairment was recognised (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

	Accelerated tax depreciation (corporation tax) £m	Net decommis-sioning £m	Losses carried forward £m	Other timing differences £m	Marked to market positions £m	Net deferred petroleum revenue tax £m	Retirement benefit obligation £m	Total £m
1 January 2017	(796)	825	173	19	16	15	7	259
Credit/(charge) to income	85	(39)	(105)	35	(7)	121	(3)	87
Charge to equity	–	–	–	–	–	–	(5)	(5)
Acquisition/disposal of businesses	(147)	28	231	(17)	–	–	–	95
Exchange and other adjustments	(3)	(9)	46	(51)	–	–	–	(17)
31 December 2017	(861)	805	345	(14)	9	136	(1)	419
(Charge)/credit to income (note 8)	(126)	11	(24)	39	2	(9)	1	(106)
Exchange and other adjustments	–	–	–	3	–	–	–	3
31 December 2018	**(987)**	**816**	**321**	**28**	**11**	**127**	**–**	**316**

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:

31 December	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Gross deferred tax balances	**1,706**	**(1,390)**	1,815	(1,396)
Offsetting deferred tax balances	**(1,113)**	**1,113**	(1,245)	1,245
Net deferred tax balances (after offsetting for financial reporting purposes)	**593**	**(277)**	570	(151)

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 £2,662 million (2017: £1,793 million), of which £1,881 million (2017: £1,326 million) are carried forward tax losses and allowances available for utilisation against future taxable profits. £Nil millions 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 unpredictability of future profit streams.

14. TRADE AND OTHER RECEIVABLES

31 December	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Financial assets:				
Trade receivables	**13**	**–**	52	–
Other accrued income	**36**	**–**	47	–
Related party receivables	**233**	**101**	202	176
Other receivables	**69**	**–**	86	13
	351	**101**	387	189
Less: provision for credit losses	**(1)**	**–**	–	–
	350	**101**	387	189
Non-financial assets: prepayments and other receivables	**47**	**12**	39	–
	397	**113**	426	189

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Receivables are generally considered to be fully performing until the payment that is due remains outstanding 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 31 December	2018 £m	2017 £m
Balances that are not past due	**343**	309
Balances that are past due but not considered to be individually impaired	**6**	78
Balances with customers that are considered to be individually impaired	**1**	–
	350	387

An ageing of the carrying value of trade and other receivables that are past due but are not considered to be individually impaired is as follows:

Financial assets within trade and other receivables 31 December	2018 £m	2017 £m
Days past due:		
Less than 30 days	**6**	75
Greater than 365 days	**–**	3
	6	78

15. INVENTORIES

31 December	2018 £m	2017 £m
Oil in storage and transportation	**10**	5
Other raw materials and consumables	**77**	67
	87	72

The Group consumed £7 million (2017: £6 million) of inventories during the year. Write-downs amounting to £7 million (2017: £14 million) were charged to the Consolidated Income Statement in the year and previous write-downs amounting to £4 million (2017: £9 million) have been reversed in the year due to stock being repurposed on other projects.

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 Group had no material derivatives in hedge accounting relationships as at 31 December 2018 (2017: nil).

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

31 December	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives – for procurement/optimisation	**37**	**(55)**	5	(32)
Foreign exchange derivatives	**1**	**(7)**	8	–
Derivative financial instruments in hedge accounting relationships:				
Foreign exchange derivatives	**1**	**–**	–	(1)
Total derivative financial instruments	**39**	**(62)**	13	(33)
Included within:				
Derivative financial instruments – current	**26**	**(50)**	13	(33)

The contracts included within energy derivatives are £(40) million (2017: £5 million) of gas and £22 million (2017: £(32) million) of oil financial swaps used to hedge the price the Group sells its gas and oil production, respectively.

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

31 December	2018 Income statement £m	2018 Equity £m	2017 Income statement £m	2017 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading under IFRS 9	(4)	–	20	–
Derivative financial instruments in hedge accounting relationships	–	1	–	(1)
	(4)	1	20	(1)

17. TRADE AND OTHER PAYABLES

31 December	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Financial liabilities:				
Trade payables	(46)	–	(44)	–
Capital payables	(26)	(105)	(38)	(110)
Other payables	(149)	–	(158)	–
Related party payables	(79)	–	(100)	–
Accruals	(117)	–	(119)	–
	(417)	(105)	(459)	(110)
Non-financial liabilities:				
Other payables and accruals	(10)	–	(15)	–
Deferred income	(2)	–	(2)	(1)
	(429)	(105)	(476)	(111)

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

31 December	2018 £m	2017 £m
Less than 90 days	(384)	(438)
90 to 182 days	(15)	(13)
183 to 365 days	(18)	(8)
	(417)	(459)

18. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Current provisions	1 January 2018 £m	Charged in the year £m	Utilised £m	Unused and reversed in the year £m	Transfers [(i)] £m	31 December 2018 £m
Decommissioning costs [(ii)]	(146)	–	116	–	(134)	(164)
Purchase contract loss provision [(iii)]	(5)	(2)	7	6	(6)	–
Other	–	(3)	–	–	–	(3)
	(151)	(5)	123	6	(140)	(167)

Non-current provisions	1 January 2018 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers(i) £m	Exchange adjustments £m	31 December 2018 £m
Decommissioning costs (ii)	(2,185)	(4)	(28)	44	(50)	134	(4)	**(2,093)**
Purchase contract loss provision(iii)	(6)	–	–	–	–	6	–	**–**
Other	(3)	–	–	–	–	–	–	**(3)**
	(2,194)	**(4)**	**(28)**	**44**	**(50)**	**140**	**(4)**	**(2,096)**

(i) Includes transfers to/from other balance sheet accounts.

(ii) Provision has been made for the estimated net present cost of decommissioning gas and oil production facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timings of decommissioning payments are dependent on the production life of the respective field but are currently anticipated to be incurred until 2040. During the year, of the £44 million (2017: £129 million) credit to operating profit/(loss) for provisions which were unused and reversed, £35 million (2017: £86 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.

(iii) The purchase contract provision related to a rig contract has been fully utilised in the year.

19. POST-RETIREMENT BENEFITS

(a) Defined benefit pension schemes

Spirit Energy Group employees have not participated in defined benefit pension schemes in 2018. The value of the net retirement defined benefit pension obligation at 31 December 2018 was £nil (2017: £1 million).

On 8 December 2017, Centrica plc combined its Exploration and Production business with that of Bayerngas Norge AS to form the Spirit Energy Group. Until this date, certain Spirit Energy Group employees participated in the Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS), which are defined benefit pension schemes. Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS formed the majority of the Group's defined benefit obligation in 2017. Additionally, certain employees of the Bayerngas Norge business participated in a Norwegian defined benefit pension scheme, the net obligation of which was acquired as part of the formation of the Group.

The Centrica Registered Pension Schemes closed for future accrual in 2017 and employees within the Spirit Energy Group became deferred members. The defined pension liability was assumed by Centrica plc under a flexible apportionment arrangement and Spirit Energy Group ceased to retain any ongoing obligation with regard to the Registered Pension Schemes. Employees who were members of Centrica defined benefit and Centrica defined contribution schemes were eligible to join a new Spirit Energy defined contribution pension scheme from 8 December 2017.

The Norwegian pension scheme closed to future accrual in 2018. All employees previously part of the scheme, have been transferred to the new Spirit Energy defined contribution pension scheme by 31 December 2018. All the employees' earned defined benefit pension obligations have been paid and therefore the defined benefit pension liabilities have been settled. The net defined benefit obligation remaining related to future adjustments on calculated assumptions and this has been reversed and a credit of £1 million has been recognised the income statement in 2018.

(b) Defined contribution pension scheme contributions

The total cost charged to income of £8 million (2017: £6 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

31 December	2018 £m	2017 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Nova oil and gas field	143	–
Development of West of Shetland Lincoln and Warwick field	138	–
Development of Danish Hejre oil and gas field	–	219
Development of Norwegian Oda oil and gas assets	38	55
Development of Cygnus gas field	16	36
Development of Norwegian Maria oil and gas field	–	31
Development of other exploration and production assets	–	38
Other capital expenditure	38	34
Commitments in relation to the acquisition of intangible assets:		
Exploration activity	24	78
Other intangible assets	–	5
Other commitments:		
Transportation capacity	117	192
Other contracts	25	25
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	71	85

At 31 December, the maturity analysis for the total minimum lease payments under non-cancellable operating leases was:

31 December	2018 £m	2017 £m
<1 year	35	49
1–2 years	14	25
2–3 years	5	2
3–4 years	5	2
4–5 years	4	2
>5 years	8	5
	71	85

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	2018 £m	2017 £m
Minimum lease payments (net of sub-lease receipts)	9	15

(b) Guarantees and indemnities

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

Most of these securities relate to decommissioning liabilities and in this respect the securities cover field developments owned or partly owned by the Group. These securities are provided to fellow partners and previous owners of these fields, who may be liable for the Group's share of the decommissioning costs in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2018, £615 million (2017: £694 million) of letters of credit and on demand payment bonds have been issued in respect of decommissioning obligations included in the Consolidated Balance Sheet. The majority of these guarantees have been issued from bank facilities held by Centrica plc with the remainder issued by Centrica Production Limited, a fellow subsidiary of the Centrica group.

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

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

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

Centrica plc has provided a parent company guarantee to the Danish Regulator and Nordsøfonden covering the economic liability that the Danish subsidiaries have undertaken as licensees in connection with their petroleum activities on the Danish Continental Shelf. The liability is uncapped.

Centrica Plc has provided a Parent Company Guarantee to the Danish Oil Pipe that follows from the Danish Pipeline Act that the shippers in the facilities of Danish Oil Pipe A/S are obliged to provide security under Transportation Agreements entered into. The liability is uncapped.

Centrica Plc has provided a Parent Company Guarantee to Gassco guaranteeing payment obligations in connection with the booking of capacity in the Gassled system (infrastructure on the Norwegian Continental Shelf). The liability is capped at NOK 900m.

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 has provided security in favour of an energy trading company, guaranteeing Spirit Energy Resources Limited's obligations under a crude oil sale agreement. The liability is capped at US$25 million in aggregate.

Spirit Energy Limited acts as guarantor to the Group's obligations under the revolving unsecured credit facility agreement described in note 21(b).

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

Spirit Energy AS has bank guarantees issued on its behalf covering operational and office licence agreements. These guarantees are valued at £5 million and are fully secured by restricted cash deposits held with the issuing bank.

(c) Contingent liabilities

On 13 June 2013, the Group acquired an interest in the Bowland exploration licences in Lancashire from Cuadrilla Resources Ltd and AJ Lucas Group Ltd for £44 million in cash and agreed to pay up to £60 million of additional costs related to exploration activities under a carry agreement. The obligations under the carry agreement had been fully expended as at 31 December 2018. Following the completion of an agreed work programme, the Group would pay additional costs of £35 million under a further carry agreement should the Group elect to continue into development phase activities related to the interest.

The Spirit Energy contribution agreement contains a mechanism whereby GBGH has the right to require that the Group transfers 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 though 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.

There are no other material contingent liabilities.

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 show below:

31 December	2018 £m	2017 £m
Cash and cash equivalents less borrowings	**(628)**	(170)
Equity	**2,596**	2,337
	1,968	2,167

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 on account that the Group is well funded, with flexibility within its financial framework to be sustainable and maintain liquidity in the long term, as described in the basis of preparation.

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

At 31 December 2018, the Group had unrestricted cash and cash equivalents of £590 million (2017: £228 million) and an undrawn revolving unsecured credit facility agreement of £200 million. The £200 million revolving unsecured credit facility agreement is provided by Centrica plc, the ultimate parent company of the Group's shareholder GBGH, and SWM Bayerische E&P Beteiligungsgesellschaft mbH, the Group's other shareholder. This facility, which unless earlier terminated, will be available through to 30 November 2020.

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

(c) Overdrafts, loans and other borrowings

	2018			2017
31 December	**Current £m**	Current £m	Non-current £m	Total £m
Bank overdrafts [(i)]	–	(1)	–	(1)
Related-party interest bearing loans [(ii)]	–	(106)	–	(106)
Related-party obligations under finance leases [(ii)]	**(11)**	(6)	(11)	(17)
	(11)	(113)	(11)	(124)

(i) Bank overdrafts were repayable on demand and attracted variable interest at Base Rate plus 1.25%.
(ii) Refer to note S5 for the main terms and conditions.

(d) Maturity analysis for non-current borrowings

31 December	**2018 £m**	2017 £m
1–2 years	–	(3)
2–5 years	–	(7)
>5 years	–	(1)
	–	(11)

SPIRIT ENERGY

(e) Cash, overdrafts and cash equivalents and borrowings summary

	Cash, overdrafts and cash equivalents (i) (ii) (iii) £m	Related party finance lease £m	Net related party receivable/ (borrowings) £m	Total £m
1 January 2017	20	(26)	813	807
Cash outflow from payment of capital element of finance leases	(9)	9	–	–
Cash inflow from borrowings	2,246	–	(2,246)	–
Cash outflow from repayment of borrowings	(1,384)	–	1,384	–
Remaining cash inflow	(539)	–	–	(539)
Financing interest paid	(34)	1	31	(2)
Increase in interest payable	–	(1)	(32)	(33)
Acquisitions	–	–	(66)	(66)
Exchange adjustments	(7)	–	18	11
Non-cash movements	–	–	(8)	(8)
31 December 2017	293	(17)	(106)	170
Cash outflow from repayment of borrowings	(106)	–	106	–
Cash outflow from payment of capital element of finance leases	(6)	6	–	–
Financing interest paid	(1)	1	–	–
Increase in interest payable	–	(1)	–	(1)
Remaining cash inflow	455	–	–	455
Exchange adjustments	4	–	–	4
31 December 2018	**639**	**(11)**	**–**	**628**

(i) Cash and cash equivalents are net of £nil million (2017: £1 million) of overdrafts.
(ii) Cash and cash equivalents include £49 million (2017: £65 million) of restricted cash relating to joint operations obligations, collateral to support the issue of bank guarantees (refer to note 20(b)) and withholdings of employee payroll tax.
(iii) Cash and cash equivalents include a £532 million (2017: £228 million) related-party cash equivalent. Refer to note S5 for the terms and conditions.

22. SHARE CAPITAL

Allotted and fully paid share capital of the Company:

31 December	2018 £m	2017 £m
296,056,457 A class ordinary shares of 1 pence each (2017: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2017: 658,964,372)	6	6
1 deferred share of £1 (2017: nil)	–	–
955,020,829 preference shares of 1 pence each (2017: 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 share premium of £16 million has been recognised in 2017 while cash settlement and allotment of the share occurred during the year ended 31 December 2018.

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

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

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

25. EVENTS AFTER THE BALANCE SHEET DATE

The Directors propose a final dividend of 36.96 pence per ordinary share and 4.92 pence per preference share, totalling £353 million and £47 million, respectively, for the year ended 31 December 2018 (2017: £833 million). The dividends are to be paid on 25 March 2019.

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 promised 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. Please refer to note 1 for further details on the application of IFRS 15.

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 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, royalty costs and direct labour costs.

Investment income

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

Borrowing costs

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

Foreign currencies

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

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

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

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

	Closing rate at 31 December		Average rate for the year ended 31 December	
Exchange rate per pound sterling (£)	2018	2017	2018	2017
Euro	**1.11**	1.13	**1.13**	1.15
US dollars	**1.28**	1.35	**1.33**	1.30
Norwegian krone	**11.04**	11.09	**10.87**	10.71
Danish krone	**8.32**	8.39	**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.

Employee share schemes

The Group did not operate employee share schemes during the year ended 31 December 2018. During the year ended 31 December 2017, prior to Centrica plc's contribution of its Exploration and Production business to the Group, Centrica plc group operated a number of employee share schemes under which it made equity-settled share-based payments to certain employees of the Group. Equity-settled share-based payments were measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value was determined at the grant date and expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

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.

Acquisitions of joint operations that meet the definition of a business as defined in IFRS 3 are accounted for as a business combination.

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

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include application software, emissions trading schemes and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads.

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

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and are tested for impairment annually otherwise they are assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the 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. The useful economic life for application software is up to 15 years.

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

EU Emissions Trading Scheme

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

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

Exploration, evaluation, development and production assets

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

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

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

Interests in joint arrangements

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

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

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

Property, plant and equipment (PP&E)

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

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

Freehold land is not depreciated. Other PP&E, with the exception of exploration and production assets (see above), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

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

Assets held under finance 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.

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within loans and other borrowings, with the amount payable within twelve months included in bank overdrafts, loans and other borrowings within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as 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.

Payments under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the term of the relevant lease.

Inventories

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

Decommissioning costs

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

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

The discount rates used in calculating the decommissioning provisions are:

Years ended 31 December 2018 and 2017	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. Changes in the Group's impairment policy as a result of the application of IFRS 9 are shown at Note 1. 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 for example preference shares, are classified as equity where they are judged to meet the definition of equity where, for example, the issuer has the ability to avoid repayment and any coupon is discretionary.

Cash and cash equivalents

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

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

Interest-bearing loans and other borrowings

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

Related party receivables and payables

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

Derivative financial instruments

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

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

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

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

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

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

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

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

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

Impairment of financial assets
In accordance with IFRS 9, the Group has applied the expected credit loss model to financial assets measured at amortised cost and fair value through Other Comprehensive Income. 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 foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

(i) Transactional currency risk
The Group is exposed to transactional currency risk on revenues 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 krone 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.

It is the Group's policy to hedge 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 translational currency risk as a result of various net investments in Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group hedges certain translational currency exposures and only in accordance with treasury policies for managing such risks.

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 2018, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2018 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)	2018 Reasonably possible change in variable % (ii)	Base price (i)	2017 Reasonably possible change in variable % (ii)
UK gas (p/therm)	56	+/-13	48	+/– 11
UK oil (US$/bbl)	55	+/-19	62	+/– 10
UK emissions (€/tonne)	25	+/-20	8	+/– 18

Incremental profit/(loss)	2018 Impact on profit (ii) £m	2017 Impact on profit (ii) £m
UK energy prices (combined) – (decrease)/increase	(86)/86	(31)/29

(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 $853 million (2017: $512 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 £58 million (2017: £36 million) and a 10% decrease in the value of GBP to USD would have resulted in an increase to revenue of £71 million (2017: £39 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 reviews the creditworthiness of its counterparties on an ongoing basis.

The Group is exposed to credit risk in its trading and energy sales activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2018 Derivative financial instruments with positive fair values £m	2018 Cash and cash equivalents £m	2017 Derivative financial instruments with positive fair values £m	2017 Cash and cash equivalents £m
AAA to AA	–	–	1	–
AA– to A–	–	40	–	53
BBB+ to BBB–	39	599	12	241
	39	639	13	294

(i) The unrated counterparty financial assets primarily comprise amounts due from related parties.

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Credit risk is managed by periodically assessing the financial reliability of customers and other financial counterparties. The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies.

Liquidity risk management
Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. To mitigate this risk, the Group holds adequate cash and cash equivalents and has access to a revolving unsecured credit facility. See note 21(b) for more information.

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

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

Due for payment 2017	<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	(32)	–	–	–	–	–
Financial liabilities within provisions	–	–	(8)	–	–	–
Borrowings	(106)	–	–	–	–	–
Finance lease: (i)						
Minimum lease payments	(6)	(4)	(3)	(2)	(2)	(1)
Capital elements of leases	(6)	(3)	(3)	(2)	(2)	(1)

(i) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.

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	2018 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2017 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	37	–	37	–	5	–	5
Foreign exchange derivatives	–	2	–	2	–	8	–	8
Total financial assets at fair value	–	**39**	–	**39**	–	13	–	13
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	–	(55)	–	(55)	–	(32)	–	(32)
Foreign exchange derivatives	–	(7)	–	(7)	–	(1)	–	(1)
Total financial liabilities at fair value	–	**(62)**	–	**(62)**	–	(33)	–	(33)

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

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2018 was 1% (2017: 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	Emissions	Oil
UK (years)	3	3	3

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside of the scope of IAS 39 and are not fair valued. 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, borrowings and provisions are estimated to approximate their carrying values.

S4. Other equity

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Share-based payment reserve £m	Merger reserve £m	Total £m
1 January 2017	6	(117)	(50)	15	1,991	1,845
Actuarial gain	–	–	17	–	–	17
Employee share schemes	–	–	–	3	–	3
Cash flow hedges transferred to the Consolidated Income Statement	(6)	–	–	–	–	(6)
Taxation on above items			(5)	–	–	(5)
Acquisition of businesses	–	–	–	–	(315)	(315)
Recycled to Consolidated Income Statement on disposal	–	2	–	–	–	2
Exchange adjustments	–	36	–	–	–	36
Transfer to retained losses on closure of defined benefit plan (see note 19)	–	–	38	–	–	38
31 December 2017	–	(79)	–	18	1,676	1,615
Acquisition of businesses	–	–	–	–	65	65
Exchange adjustments	–	2	–	–	–	2
Net gains on cash flow hedges	1	–	–	–	–	1
31 December 2018	**1**	**(77)**	**–**	**18**	**1,741**	**1,683**

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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 S2 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.

Actuarial gains and losses reserve

The defined pension schemes closed for future accrual in 2017 and employees within the Spirit Energy Group became deferred members. The defined pension liability was assumed by Centrica plc under a flexible apportionment arrangement and Spirit Energy Group ceased to retain any ongoing obligation with regard to the Registered Pension Schemes. The reserve position was transferred to retained losses upon closure of the scheme and extinguishment of liabilities.

Share-based payment reserve

The share-based payment reserve reflects the obligation to deliver shares to employees under the Group's share schemes 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. Further details of this transaction are set out in note 10(b). 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:

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

								2017
	Sale of goods and services (i) £m	Purchase of goods and services (i) £m	Other – net interest £m	Other – dividends (ii) £m	Other – cash flow hedge reserve (iii) £m	Loan repayments £m	Amounts owed from (iv) £m	Amounts owed to (v) £m
Centrica plc	–	(25)	(26)	–	(1)	–	232	(112)
GB Gas Holdings Limited	1	(10)	(1)	(833)	–	–	299	(51)
Centrica Overseas Holdings Limited	–	–	6	–	–	–	–	–
Centrica Holdings Limited	–	–	8	–	–	–	–	–
British Gas Trading Limited	832	(29)	–	–	–	–	84	(41)
British Gas Services Limited	–	–	–	–	–	–	1	(1)
Centrica Energy Limited	–	(10)	–	–	–	–	3	(32)
Brae Canada (Alberta) Limited	–	(6)	–	–	–	–	–	–
Centrica International BV	–	–	(24)	–	–	–	–	–
Centrica Services Limited	–	(9)	–	–	–	–	–	–
Centrica Storage Limited	–	(9)	(1)	–	–	–	–	(19)
Direct Energy Marketing Limited	4	–	–	–	–	–	–	–
SWM Gasbeteiligungs GmbH	–	–	–	–	–	(66)	–	–
	837	(98)	(38)	(833)	(1)	(66)	619	(256)

(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) During 2018, Spirit Energy Production UK Limited (formerly Hydrocarbon Resources Limited) paid an interim dividend of £nil million (2017: £833 million) to GB Gas Holdings Limited.
(iii) Representing gains/(losses) on derivatives that are hedge accounted.
(iv) Amounts owed from related parties includes £39 million (2017: £13 million) classified as derivative financial assets and £532 million (2017: £228 million) classified as cash equivalents.
(v) Amounts owed to related parties includes £62 million (2017: £33 million) classified as derivative financial liabilities and £11 million (2017: £17 million) classified as finance lease 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 2018 was nil.

Amounts owed from/(owed to) related parties carry the following terms:

Interest rate	Maturity date	£m
Floating (cash equivalent) (i)	On demand	492
Fixed 0.85% (cash equivalent)	29 January 2019	20
Fixed 0.93% (cash equivalent)	06 March 2019	20
Non-interest bearing (ii)	31 March 2023	208
Non-interest bearing	20 January 2019	91
Non-interest bearing	On demand	(70)
Fixed 4% (finance lease)	31 December 2019	(11)
Non-interest bearing (iii)	Legal trigger	2
		752

(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 £221 million projected net spend of identified assets as set out in the Contribution Agreement.
(iii) The contribution agreement contains a mechanism whereby GBGH has the right to require that the Group transfer all or part of its interests in the Bowland licences to GBGH. In such circumstances, the Group is able to recover costs incurred after 1 January 2017 in connection with the Bowland licences from GBGH. Should GBGH not exercise such right or should GBGH require the sale of the Bowland licences to a third party, the contribution agreement contains a mechanism through which the Group also has the ability to recover costs incurred after 1 January 2017 in connection with the Bowland licences, save in limited circumstances. £3 million represents the value of the Group assets that would not be recovered under this mechanism.

Key management personnel comprise members of the Board and Executive Committee, a total of 12 individuals at 31 December 2018 (2017: 7).

Compensation paid to key management personnel is as follows:

Year ended 31 December	2018 £000	2017 £000
Short-term employee benefits (i)	2,923	812
	2,923	812

(i) Compensation in 2017 included one executive director, no further key management personnel were identified.

Compensation for one executive Director and four members of the Executive Committee was borne by the Group.

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Compensation for two Directors was borne by the Statwerke Munchen Group. No allocation of this compensation has been made to the Group. For one Director, compensation is considered to be nil as he operates in a non-executive capacity.

Compensation for five Directors was borne by Centrica plc. For two Directors, compensation is considered to be nil as they operate in a non-executive capacity. No allocation of compensation has been made to the Group in respect of two directors, whose compensation amounted to £3,236,000 in 2018.

Remuneration of the highest paid Director is as follows:

Year ended 31 December	2018 £000	2017 £000
Short-term employee benefits	**937**	812
	937	812

The highest paid Director was in a money purchase pension scheme and did not exercise share options or receive shares in the year (2017: nil).

S6. Auditor's remuneration

Year ended 31 December	2018 £000	2017 £000
Fees payable to the Company's auditors for the audit of the Company's individual and Consolidated Financial Statements	**563**	518
Audit of the Company's subsidiaries	**515**	450
Total fees related to the audit of the parent and subsidiary entities	**1,078**	968
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	**10**	–
Other assurance services	**25**	–
	1,113	968

S7. Related undertakings

(a) Subsidiary undertakings

Below is a list of Spirit Energy Limited's subsidiary undertakings at 31 December 2018. 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* Lilleakerveien 8, 0283 Oslo, Norway	Gas and/or oil exploration and production	Norway
Bayerngas Produksjon Norge AS Lilleakerveien 8, 0283 Oslo, Norway	Finance company	Norway
Bowland Resources (No.2) Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Bowland Resources Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Elswick Energy Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
NSGP (Ensign) Limited 13 Castle Street, St Helier, JE4 5UT	Gas and/or oil exploration and production	Jersey
Spirit Energy Danmark ApS Rådhuspladsen 16, 1550 København V, Denmark	Gas and/or oil exploration and production	Denmark
Spirit Energy Hedging Holding Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Holding company	UK

Spirit Energy Hedging Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Finance company	UK
Spirit Energy Nederland BV* Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Gas and/or oil exploration and production	Netherlands
Spirit Energy Norge AS* Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy Norway AS Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy North Sea Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy North Sea Oil Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Energy Petroleum Danmark AS Lilleakerveien 8, 0283 Oslo, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy Production UK Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Resources Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Southern North Sea Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Treasury Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Finance company	UK
Spirit Energy WOS Limited (*formerly Hurricane Resources Limited*) 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Europe Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Holding company	UK
Spirit Infrastructure BV Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Construction, ownership and exploitation of infrastructure	Netherlands
Spirit North Sea Gas Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Norway Limited* trading as Spirit Energy NUF 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK
Spirit Production (Services) Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Business services	UK
Spirit Resources (Armada) Limited* 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW1 4LG	Gas and/or oil exploration and production	UK

(b) Joint arrangements

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

Joint operations – fields/assets

31 December 2018	Nature of relationship	Location	Percentage holding in ordinary shares and net assets
Cygnus	Non-operated	UK North Sea	61.25
Hejre	Non-operated	Denmark	40.00

COMPANY BALANCE SHEET

As at 31 December	Notes	2018 £m
Non-current assets		
Investments	C	2,691
Trade and other receivables	D	101
		2,792
Current assets		
Trade and other receivables	D	137
Cash and cash equivalents		469
		606
Total assets		3,398
Current liabilities		
Trade and other payables	E	(3)
		(3)
Net assets		3,395
Share capital	F	19
Share premium	G	2,594
Retained earnings		740
Other equity	H	42
Shareholders' equity		3,395

The Financial Statements on pages 54 to 59, of which the notes on pages 56 to 59 form part, were approved and authorised by the Board of Directors on 19 March 2019 and were signed below on its behalf by:

Chris Cox
Director and Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Retained earnings £m	Other equity (note H) £m	Total £m
06 July 2017	–	–	–	–	–
Loss for the period	–	–	(260)	–	(260)
Issue of share capital	19	3,594	–	–	3,613
Reduction in share premium and transfer to retained earnings	–	(1,000)	1,000	–	–
Acquisition of business	–	–	–	42	42
31 December 2018	**19**	**2,594**	**740**	**42**	**3,395**

As permitted by section 408(3) of the Companies Act 2006, no income statement or statement of comprehensive income is presented. The Directors propose a final dividend of 36.96 pence per ordinary share and 4.92 pence per preference share, totalling £353 million and £47 million, respectively, for the period ended 31 December 2018. Details of the dividends are given in note 9 to the Consolidated Financial Statements.

The notes on pages 56 to 59 form part of these Financial Statements.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

A. General information and principal accounting policies of the Company

General information

Spirit Energy Limited, formerly Centrica Newco 123 Limited ('the Company'), is the parent company of the Spirit Energy Group. The Company was incorporated on 6 July 2017. It is a private company limited by shares, domiciled and incorporated in the UK and registered in England and Wales with registration number 10854461. Its principal place of business and registered address is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG.

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

Basis of preparation

The Company Financial Statements are being prepared and presented for the first time for the period from incorporation on 6 July 2017 to 31 December 2018.

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

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

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

Measurement convention

The Company Financial Statements have been prepared on the historical cost basis with the exception of indemnities arising from shareholders which have been measured at fair value.

Going concern

The accounts have been prepared on a going concern basis, as described in the Directors' Report and note 3 of the Consolidated Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty are set out in note 3 of the Consolidated Financial Statements. The key accounting judgement of the Company is the carrying value of its investments in subsidiary undertakings and receivables from these undertakings. During the period, the Company reviewed the carrying value of its investments through its impairment review process as described below and recorded an impairment provision of £238 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 period presented in these Financial Statements.

Foreign currencies

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

Investments

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

Impairment

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

The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Receivables from Group undertakings 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 in the period. 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.

C. Investment in subsidiaries

	2018 £m
Cost	
At 06 July 2017	–
Additions	2,929
At 31 December 2018	2,929

	2018 £m
Accumulated impairment	
At 06 July 2017	–
Impairment provision	(238)
At 31 December 2018	(238)

	2018 £m
Net book value	
At 06 July 2017	–
At 31 December 2018	2,691

On 29 September and 31 October 2017, GB Gas Holdings Limited (GBGH), a fellow subsidiary of Centrica plc, contributed the entire share capital of the following entities to the Company in exchange for Class A ordinary shares with a value of £633 million and Class B ordinary shares with a value of £1,482 million: Spirit Energy North Sea Limited, Spirit Energy North Sea Oil Limited, Spirit Energy Production UK Limited; Spirit Energy Resources Limited; Spirit Energy Treasury Limited; Spirit North Sea Gas Limited; Spirit Production (Services) Limited; Spirit Energy Nederland B.V.; Spirit Resources (Armada) Limited; Spirit Energy Norge AS and Spirit Norway Limited 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. The acquisition of the Bayerngas Norge assets is described in note 10(b) to the Consolidated Financial Statements.

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.

Impairment provision

During the period, the Company made an impairment provision against its subsidiary investments in Spirit Energy Production UK Limited (£29 million), Spirit North Sea Gas Limited (£8 million), Spirit Energy Nederland B.V. (£2 million), Spirit Resources (Armada) Limited (£3 million), Spirit Norway Limited (£111 million) and Bayerngas Norge AS (£85 million). The impairments were recognised to align the carrying value of the investment to its estimated recoverable amount.

D. Trade and other receivables

31 December	2018 Current £m	 Non-current £m
Financial assets:		
Related-party receivables	132	101
Other receivables	5	–
	137	101

The receivables are not past due and no provisions for credit losses have been taken.

E. Trade and other payables

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

F. Share capital

Allotted and fully paid share capital of the Company:

31 December	2018 £m
296,056,457 A class ordinary shares of 1 pence each	3
658,964,372 B class ordinary shares of 1 pence each	6
1 deferred share of £1	–
955,020,829 preference shares of 1 pence each	10
	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. The preference shares are deemed to be equity instruments.

G. Share premium

31 December	2018 £m
296,056,457 A class ordinary shares of £2.13 each	630
658,964,372 B class ordinary shares of £3.19 each	2,103
955,020,829 preference shares of 88.5 pence each	845
1 deferred share of £15,796,893.60	16
Reduction in share premium	(1,000)
	2,594

Share premium of £3,578 million arose on the contribution of entities to the Company in October and September 2017 as described in note 1(a) to the Consolidated Financial Statements. Additional share premium of £16 million has been recognised on the issue of the deferred share. In December 2018, by special resolution of the Board and pursuant to Companies Act sections 641and 642, the Company reduced its share premium account by £1,000 million and transferred the resulting distributable reserves to retained earnings.

H. Other equity

During the period, 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 to the value of £15 million.

The cumulative impact of the redetermination has been recognised in other equity.

I. Related-party transactions

During the period, 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:

31 December	Amounts owed from £m	2018 Amounts owed to £m
GB Gas Holdings Limited	227	(3)
SWM Gasbeteiligungs GmbH	6	–
Spirit Energy Treasury Limited (i)	469	–
	702	(3)

(i) Disclosed as cash and cash equivalents in accordance with the accounting policy set out in Note A.

The Company recognised an expense of £30 million in the Income Statement in relation to a reduction in the deferred consideration due from GB Gas Holdings Limited. Additionally, indemnities of £5 million have been recognised from GB Gas Holdings Limited in the Income Statement.

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, Oda, Nova, Ivar Aasen, Cygnus, Maria, South and North Morecambe, Rhyl and Chiswick. 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 2018	1,273
Revisions of previous estimates (i)	(69)
Disposals of reserves in place (ii)	(7)
Production (iii)	(186)
31 December 2018	**1,011**

Estimated net 2P reserves of liquids	Million barrels
1 January 2018	151
Revisions of previous estimates (i)	(33)
Disposals of reserves in place (ii)	(1)
Production (iii)	(16)
31 December 2018	**101**

Estimated net 2P reserves (million barrels of oil equivalent)	Million barrels of oil equivalent
31 December 2018 (iv)	**270**

(i) Revision of previous estimates include those associated with South Morecambe, Hejre, Nova, Kvitebjørn, Maria and Valemon areas in Europe.
(ii) Reflects the disposal of non-operated interests in the Armada Area (including the Armada, Seymour and Maria Fields).
(iii) Represents total sales volumes of gas and oil produced from the Group's reserves.
(iv) Includes the total of estimated gas and liquids reserves at 31 December 2018 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

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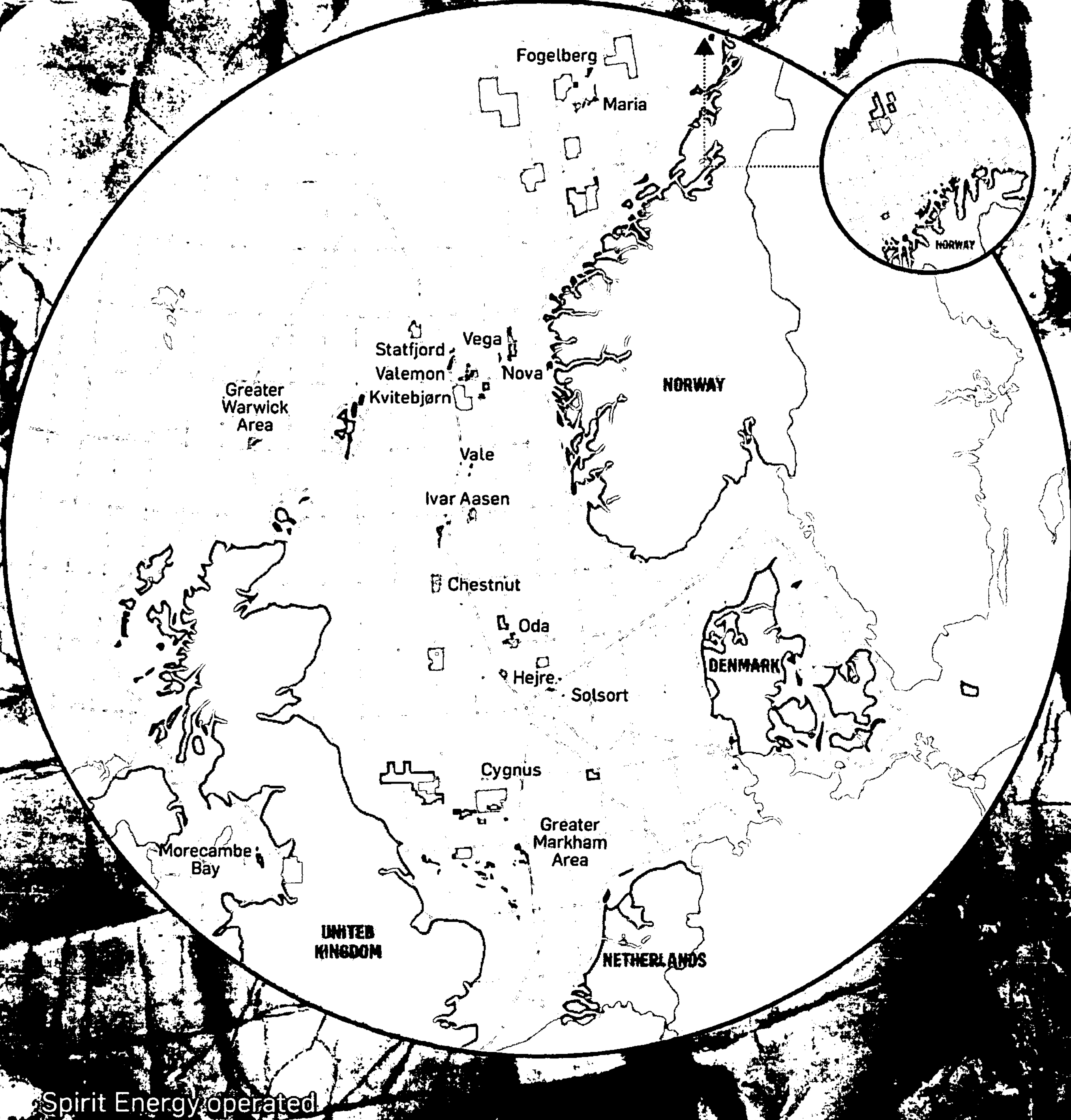

Spirit Energy operated
Spirit Energy partner

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