Registration number: 02855151

Spirit Energy Resources Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Spirit Energy Resources Limited

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Spirit Energy Resources Limited

Strategic Report for the Year Ended 31 December 2018

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

Principal activities

The principal activities of the Company are the production of oil and gas in the UK North Sea through its interest in oil and gas assets.

Review of the business

During the year ended 31 December 2018, oil and liquids production averaged 2,683 barrels per day (net) and gas production averaged 29.4 million cubic feet per day (net). This compares with average oil and liquids production of 3,440 barrels per day (net) and average gas production of 39.8 million cubic feet per day (net) during the year ended 31 December 2017.

During the year, the Company recognised an exceptional credit of £7,414,000 (2017: £54,560,000) on the revision of the decommissioning provision of fully-impaired fields.

Due to changing outlooks, the Company reversed previously recognised impairment losses of £13,811,000 on the Grove field (2017: £36,262,000 reversal of impairment on the Alba field and an impairment loss of £2,150,000 on the Olympus field).

During the prior year, the Company entered into negotiations to dispose of its interests in the Armada area assets. A sale and purchase agreement was entered into on 22 March 2018, and the sale completed on 1 June 2018. As a result of this transaction a gain on disposal of £2,449,000 has been recognised in the year and the Company has retained a decommissioning liability in relation to the assets.

Financial position

The financial position of the Company is presented in the Balance Sheet on page 11. Total deficit at 31 December 2018 was £554,653,000 (2017: £597,175,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of Spirit Energy Limited and its subsidiaries (the 'Group') of which the Company is a member and are not managed separately. The principal risks and uncertainties of the Group are disclosed on pages 5 and 6 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report and are available at the address detailed in note 25 of these financial statements.

Exit from the European Union

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

Key performance indicators ('KPIs')

The performance of the Company is included in the consolidated results of the Group. The Directors of Spirit Energy Limited manage the Group on a divisional basis and use a number of KPIs to monitor progress against the Group's strategy. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of the Company. A discussion of the Group KPIs is on pages 3 and 4 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report.

Future developments

From the perspective of the Company, the future developments are integrated within those of the Group and are not managed separately. The future developments of the Group are disclosed on page 4 of the Group's consolidated financial statements for the year ended 31 December 2018, which does not form part of this report.

It is expected that the Company will continue with its principal activities of the production of oil and gas in the UK North Sea through its interest in oil and gas assets.

Approved by the Board on 19 September 2019 and signed on its behalf by:

NJ McCulloch
Director

Company registered in England and Wales, No. 02855151

Registered office:

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

Directors' Report for the Year Ended 31 December 2018

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

Directors of the Company

The Directors of the Company who were in office during the year, unless otherwise indicated, and up to the date of signing the financial statements were as follows:

PMR Tanner (resigned 31 May 2018)
FD Weir (resigned 31 May 2018)
GM Harrison
AD Le Poidevin (resigned 31 May 2019)
R Martinsen (appointed 1 June 2018, resigned 31 December 2018)
NJ Macleod (appointed 11 September 2018)
NJ McCulloch (appointed 1 January 2019)

Results and dividends

The results of the Company are set out on page 9. The profit for the financial year ended 31 December 2018 is £42,756,000 (2017: £70,893,000). No dividends were paid during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

Future developments

Future developments are discussed in the Strategic Report on page 2.

Going concern

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

Directors' insurance and indemnities

Spirit Energy Limited, the immediate parent undertaking of the Company, maintains directors' and officers' liability insurance in respect of its Directors and those Directors of its subsidiary companies. Qualifying third-party indemnity provisions, as defined in S234 of the Companies Act 2006, were in force for the benefit of the Directors of the Company during the year and up to and including the date of the Directors' report.

Disclosure of information to auditor

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

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

Approved by the Board on 19 September 2019 and signed on its behalf by:

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NJ McCulloch
Director
Company registered in England and Wales, No. 02855151

Registered office:

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

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Spirit Energy Resources Limited

Independent Auditor's Report to the Members of Spirit Energy Resources Limited

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

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

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

We have nothing to report in respect of these matters.

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

Use of our report

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

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

Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

19 September 2019

Spirit Energy Resources Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	5	218,571	251,382
Gain on remeasurement of derivatives	6	20,048	13,277
Cost of sales	8	(163,971)	(207,543)
Gross profit		74,648	57,116
Operating costs	8	(8,725)	(16,340)
Exceptional items - impairment charges	9	-	(2,150)
Exceptional items - impairment reversals	9	13,811	36,262
Exceptional items - decommissioning provision revision	9	7,414	54,560
Other income	7	-	3
Operating profit		87,148	129,451
Finance income	11	1,945	8,717
Finance cost	11	(21,098)	(28,820)
		(19,153)	(20,103)
Profit before taxation		67,995	109,348
Tax charge	13	(27,688)	(37,227)
Profit for the year from continuing operations		40,307	72,121
Profit/(loss) for the year from discontinued operations (net of taxation)	4	2,449	(1,228)
Profit for the year		42,756	70,893

The notes on pages 14 to 39 form an integral part of these financial statements.

Spirit Energy Resources Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000 Continuing operations	2018 £ 000 Discontinued operations	2017 £ 000 Continuing operations	2017 £ 000 Discontinued operations
Profit/(loss) for the year	40,307	2,449	72,121	(1,228)
Other comprehensive loss				
Items that will be or have been reclassified to the Income Statement				
Net gain/(loss) on cash flow hedges	123	-	(85)	-
Transferred to income and expense on cash flow hedges	-	-	(5,700)	-
Exchange differences on translating foreign operations	(336)	-	433	-
Exchange differences recycled to the Income Statement on disposal	-	-	-	3,550
Taxation on cash flow hedges	(21)	-	359	-
Other comprehensive (loss)/income net of taxation	(234)	-	(4,993)	3,550
Total comprehensive income/(loss) for the year	40,073	2,449	67,128	2,322

The notes on pages 14 to 39 form an integral part of these financial statements.

Spirit Energy Resources Limited

Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Property, plant and equipment	14	200,126	221,152
Intangible assets	15	2,013	599
Deferred tax assets	13	175,072	174,526
Derivative financial instruments	24	5,802	-
		383,013	396,277
Current assets			
Trade and other receivables	16	38,304	65,018
Inventories	17	18,963	14,132
Derivative financial instruments	24	11,937	5,991
Current tax assets		9,266	7,155
Cash and cash equivalents		2,605	-
		81,075	92,296
Total assets		464,088	488,573
Current liabilities			
Trade and other payables	18	(457,862)	(492,723)
Derivative financial instruments	24	(11,683)	(18,939)
Provisions for other liabilities and charges	19	(16,712)	(23,684)
Borrowings	20	-	(1,217)
		(486,257)	(536,563)
Net current liabilities		(405,182)	(444,267)
Total assets less current liabilities		(22,169)	(47,990)
Non-current liabilities			
Trade and other payables	18	-	(11,343)
Derivative financial instruments	24	(1,830)	(2,975)
Provisions for other liabilities and charges	19	(530,654)	(534,867)
		(532,484)	(549,185)
Total liabilities		(1,018,741)	(1,085,748)
Net liabilities		(554,653)	(597,175)
Equity			
Share capital	21	120,000	120,000
Retained losses	21	(646,799)	(689,555)
Other deficit	21	(27,854)	(27,620)
Total deficit		(554,653)	(597,175)

The notes on pages 14 to 39 form an integral part of these financial statements.

Balance Sheet as at 31 December 2018 (continued)

The financial statements on pages 9 to 39 were approved and authorised for issue by the Board of Directors on 19 September 2019 and signed on its behalf by:

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NJ McCulloch
Director

Company number 02855151

Spirit Energy Resources Limited

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

	Share capital £ 000	Cash flow hedge reserve £ 000	Other deficit £ 000	Retained losses £ 000	Total deficit £ 000
At 1 January 2018	120,000	217	(27,837)	(689,555)	(597,175)
Profit for the year	-	-	-	42,756	42,756
Other comprehensive income/(loss)	-	102	(336)	-	(234)
Total comprehensive income/(loss)	-	102	(336)	42,756	42,522
At 31 December 2018	120,000	319	(28,173)	(646,799)	(554,653)

	Share capital £ 000	Cash flow hedge reserve £ 000	Other deficit £ 000	Retained losses £ 000	Total deficit £ 000
At 1 January 2017	120,000	5,643	(31,820)	(760,448)	(666,625)
Profit for the year	-	-	-	70,893	70,893
Other comprehensive (loss)/income	-	(5,426)	3,983	-	(1,443)
Total comprehensive (loss)/income	-	(5,426)	3,983	70,893	69,450
At 31 December 2017	120,000	217	(27,837)	(689,555)	(597,175)

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1. General information

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

The principal place of business is:

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2. Accounting policies

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 issued by the Financial Reporting Council. The financial statements therefore have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

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

As the consolidated financial statements of Spirit Energy Limited (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company has taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of IAS 7 'Statement of Cash Flows;
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related-party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

2. Accounting policies (continued)

Measurement convention
The financial statements have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value.

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

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

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when the customer obtains control of the goods. Revenue from the production of natural gas, oil and condensates in which the Company has an interest with other producers is recognised based on the Company's working interest and the terms of the relevant production sharing arrangements (the entitlement method).

Where differences arise between production sold and the Company's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Revenue is shown net of sales/value added tax, returns, rebates and discounts.

Finance income
Finance income is recognised in the Income Statement in the period in which the income is earned.

Finance costs
Finance costs are recognised in the Income Statement in the period in which they are incurred.

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

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 reporting 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.

2. Accounting policies (continued)

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 property, plant and equipment (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 borrowings, with the amount payable within 12 months included in 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 charged directly against income.

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

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 financing rate representative of the weighted average borrowing rate is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Foreign currencies
These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated), which is also the functional currency of the Company (the functional currency of the Trinidad branch is the US dollar and some of the Company's assets form a division, which is considered to have Euro functional currency). Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance cost'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

2. Accounting policies (continued)

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.

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same tax jurisdiction, in the foreseeable future, against which the deductible temporary differences can be utilised.

Deferred tax is provided on temporary differences except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Exploration and evaluation ('E&E') assets and development and production assets

The Company uses the successful efforts method of accounting for E&E expenditure. E&E expenditure associated with an exploration well, including acquisition costs related to E&E 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 ('UOP'), based on all of the proven and probable ('2P') reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is 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.

Property, plant and equipment ('PP&E')

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

2. Accounting policies (continued)

Property, plant and equipment ('PP&E') (continued)

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

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

Depreciation of PP&E

Depreciation is charged as follows:

Asset class	**Depreciation method and rate**
Development and production assets	UOP, based on 2P reserves

Assets held under finance leases are depreciated over their expected useful 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.

Interests in joint arrangements and associates

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. Associates are investments over which the Company has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Company's joint ventures and associates are accounted for at cost in accordance with IAS 27, less any provision for impairment as necessary.

The Company'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 Company 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 Company 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 Company is usually deemed to be an agent when it is appointed as operator and not a principal (as the contracts entered into do not convey control to the parties). Accordingly, the Company recognises its equity share of assets, liabilities, revenue and expenses 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 accordance with netting requirements under IAS 32 'Financial instruments: presentation'.

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.

2. Accounting policies (continued)

Provisions
Provisions are recognised when the Company 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 Company will be required to settle that obligation. Provisions are measured at the best estimate at the reporting date of the expenditure required to settle the obligation, 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 Income Statement within finance cost.

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 Income Statement within finance cost.

Exceptional items
Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

Impairment
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed for indications of impairment at each reporting date or earlier if events or circumstances indicate an impairment may exist. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. In accordance with IFRS 9: *'Financial instruments'*, the Group has applied the ECL model to the financial assets at the balance sheet date 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. Either the lifetime expected credit loss or a twelve-month expected credit loss is provided for, depending on the Company's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition.

2. Accounting policies (continued)

Financial instruments

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

a) Trade and other receivables

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

Trade receivables and related-party receivables are initially recognised at fair value, which for trade receivables is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial) less an impairment provision calculated under the expected credit loss model. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

b) Trade and other payables

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

Trade payables and related-party payables are initially recognised at fair value, which for trade payables is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discounting is often immaterial).

If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

c) Share capital

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

d) Cash and cash equivalents

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

e) Loans and other borrowings

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

f) Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use' contract) and are not within the scope of IAS 39.

Certain purchase and sales contracts for the physical delivery of gas and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

2. Accounting policies (continued)

Financial instruments (continued)

f) Derivative financial instruments (continued)
The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Group's consolidated financial statements for the year ended 31 December 2018 in the Strategic Report on page 5 and in note S2.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Company also holds derivatives which are not designated as hedges and are held for trading.

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. 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 Company enters into certain energy derivative contracts covering periods for which observable market data does not exist. 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 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 Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Derivatives are classified as current and non-current assets or liabilities. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

g) Hedge accounting
For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income Statement.

2. Accounting policies (continued)

Financial instruments (continued)

g) Hedge accounting (continued)

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

a) Critical judgements in applying the Company's accounting policies
Such key judgements include the presentation of elected items as exceptional (see note 9). No other key judgements have been made by the Directors in applying the Company's accounting policies.

b) Key sources of estimation uncertainty

Key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of 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 reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities but are currently anticipated to be incurred until 2038 (2017: 2037).

Gas and liquids reserves
The volume of 2P gas and liquids reserves is an estimate that affects the UOP depreciation of producing gas and liquids PP&E as well as being a significant estimate that affects decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Group's consolidated financial statements for the year ended 31 December 2018 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.

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

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. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate.

Impairment of long-lived assets

The Company has several material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or CGUs are recoverable. The key assets that are subjected to impairment tests are development and production assets the carrying value of which is £200,126,000 (2017: £221,152,000) as at 31 December 2018 (See note 14). The exploration and evaluation assets are also subjected to impairment tests the carrying value of which is £2,013,000 (2017: £599,000) as at 31 December 2018 (See note 15).

Upstream gas and oil assets

The recoverable amount of the Company'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 which requires professional judgement and assumptions to be used.

4. Discontinued operations

During the year, the Company agreed to sell its 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 £2,449,000 and is included in the Income Statement within results from discontinued operations. The decommissioning liability for the interest has been retained by is capped at the current pre-tax estimate of £86,000,000.

During 2016, the Company agreed to sell its Block 22 assets to Shell Exploration and Production, for a cash consideration of $10.9 million (£8.5 million). The transaction completed on 24 May 2017. A loss of £3,855,000 was made in relation to the disposal of assets held for sale and is included in the Income Statement within the results of the discontinued operations.

The results of the discontinued operations, which have been included in the Income Statement, were as follows:

	2018 £'000	2017 £'000
Expenses	-	(401)
Loss before tax	-	**(401)**
Tax credit relating to loss before tax of discontinued operations	-	6,194
Gain/(loss) on disposal of assets (disposal groups) held for sale	2,449	(3,471)
Exchange differences recycled to the Income Statement on disposal	-	(3,550)
Profit/(loss) for the year from discontinued operations	**2,449**	**(1,228)**

5. Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

By activity:

	2018 £ 000	2017 £ 000
Sale of gas and liquids from production	218,571	251,382
	218,571	251,382

By geography:

	2018 £ 000	2017 £ 000
United Kingdom	214,232	247,967
The Netherlands	2,772	1,869
Rest of the world	1,567	1,546
	218,571	251,382

6. Remeasurement of derivatives

	2018 £ 000	2017 £ 000
Remeasurement of foreign exchange derivatives	29,751	21,969
Remeasurement of energy derivatives	(9,703)	(8,692)
Gain on the remeasurement of derivatives	20,048	13,277

7. Other income

The analysis of the Company's other income for the year is as follows:

	2018 £ 000	2017 £ 000
Gain on disposal of PP&E	-	3

8. Analysis of costs by nature

Year ended 31 December	2018			2017		
	Cost of sales	**Operating costs**	**Total costs**	**Cost of sales**	**Operating costs**	**Total costs**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Transportation, distribution and metering costs	31,493	-	31,493	30,372	-	30,372
Inventories written back	-	(203)	(203)	-	(733)	(733)
Depreciation, impairment and write-downs (note 14)	58,845	-	58,845	91,011	-	91,011
Foreign exchange losses	-	44	44	-	906	906
Other operating costs	73,633	8,884	82,517	86,160	16,167	102,327
Total operating costs by nature	163,971	8,725	172,696	207,543	16,340	223,883

The Company did not have any employees in the current or prior year.

9. Exceptional items

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

	2018 £ 000	2017 £ 000
Impairment charges	-	(2,150)
Impairment reversals (note 14)	13,811	36,262
Decommissioning provision revision	7,414	54,560
	21,225	88,672

During the year, the Company:
- reversed impairment losses of £13,811,000 on the Grove field due to an improving outlook based on price and reserves;
- recognised an exceptional credit of £7,414,000 on the revision of the decommissioning provision of fully-impaired fields.

During the prior year, the Company:
- recognised an impairment charge on the Olympus field of £2,150,000;
- reversed impairment losses of £36,262,000 on the Alba field due to an improving outlook based on price and reserves;
- recognised an exceptional credit of £54,560,000 on the revision of the decommissioning provision of fully-impaired fields.

10. Directors' remuneration

The Directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Directors' emoluments	580	516
Compensation for loss of office	26	4
Contributions into pension schemes	-	39
	606	559

Remuneration of the highest paid Director:

	2018 £ 000	2017 £ 000
Director emoluments	151	167
Contributions into pension schemes	-	18
	151	185

During the year, the highest paid Director did not exercise share options and did not receive shares under a long-term incentive scheme.

During the year the number of Directors who received post-employment benefits and share incentives was as follows:

	2018 No.	2017 No.
Received or were entitled to receive shares under long-term incentive schemes	-	6
Accruing benefits under defined benefit pension scheme	-	1
Accruing benefits under money purchase pension scheme	6	6

11. Net finance cost

Finance income

	2018 £ 000	2017 £ 000
Interest income from amounts owed by fellow Group undertakings	-	765
Net changes in fair value of foreign exchange contracts	48	2,274
Net foreign exchange gains on financing transactions	1,857	5,678
Other interest income	40	-
Total finance income	1,945	8,717

Finance cost

	2018 £ 000	2017 £ 000
Interest on amounts owed to fellow Group undertakings	(14,347)	(18,734)
Interest on bank overdrafts and borrowings	-	(2,346)
Unwind of discount on provisions (note 19)	(6,751)	(7,740)
Total finance cost	(21,098)	(28,820)
Net finance cost	(19,153)	(20,103)

12. Auditor's remuneration

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

	2018 £ 000	2017 £ 000
Audit fees	30	30

13. Tax

Tax charged in the Income Statement

	2018 £ 000	2017 £ 000
Current tax		
UK corporation tax at 40% (2017: 40%)*	26,203	29,097
UK corporation tax adjustment to prior years	4,021	4,904
UK petroleum revenue tax	(1,990)	(1,069)
Total current tax	28,234	32,932
Deferred tax		
Origination and reversal of temporary differences - UK	14,013	20,533
UK petroleum revenue tax	(15,715)	1,586
Changes in tax rates	-	(21,792)
Write off of deferred tax asset	-	3,438
Adjustments in respect of prior years - UK	1,156	(5,664)
Total deferred tax	(546)	(1,899)
Tax on profit	27,688	31,033

*The prior year comparative has been restated to reflect the combined upstream tax rate applicable to the Company.

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

Upstream gas and oil 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 40% (2017: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax ('PRT') at 0% (2017: 0%), giving an overall effective rate of 40% (2017: 40%). Upstream deferred tax assets and liabilities included in these financial statements are based on the 40% overall effective tax rate having regard for their reversal profiles.

13. Tax (continued)

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

	2018	2017
	£ 000	£ 000
Profit before tax - continuing operations	67,995	109,348
Profit/(loss) before tax - discontinued operations (note 4)	2,449	(7,422)
Profit before tax	70,444	101,926
Tax on profit at standard UK corporation tax rate of 40% (2017: 40%)*	28,178	40,770
Effects of:		
Additional relief on abandonment expenditure	1,473	(19,059)
Increase/(decrease) from effect of different UK tax rates on some earnings	2,604	(124)
Adjustments in respect of prior years	5,178	4,904
Write off of deferred tax asset	-	3,438
CT impact of petroleum revenue tax	7,474	(199)
UK petroleum revenue tax	(1,990)	(1,069)
Impact of asset disposal	(980)	204
Group relief not paid for	-	4,565
Deferred petroleum revenue tax	(15,715)	1,586
Net expenses non-deductible for tax purposes	1,466	(3,983)
Total tax	27,688	31,033
Split as follows:		
Total tax from continuing operations	27,688	37,227
Total tax from discontinued operations (note 4)	-	(6,194)

*The prior year comparative has been restated to reflect the combined upstream tax rate applicable to the Company

Spirit Energy Resources Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13. Tax (continued)

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

	Accelerated tax depreciation (corporation tax)	Other timing differences including losses carried forward	Other provisions	Total
	£ 000	£ 000	£ 000	£ 000
1 January 2017	(49,731)	21,201	207,277	178,747
(Charged)/credited to the Income Statement	(7,520)	(6,453)	10,111	(3,862)
Credited to other comprehensive income	-	(359)	-	(359)
Category reclassifications	103	(1)	(102)	-
31 December 2017	(57,148)	14,388	217,286	174,526
(Charged)/credited to the Income Statement	(2,733)	3,652	(373)	546
31 December 2018	(59,881)	18,040	216,913	175,072

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. A deferred tax asset of £17,235,000 (2017: £15,637,000) in respect of investment allowances has not been recognised as at 31 December 2018 as management consider it is more likely than not that these allowances will not be recoverable from future taxable profits in the foreseeable future. A net deferred tax asset of £175,072,000 (2017: £174,526,000) has been recognised on the Balance Sheet because there is sufficient evidence that the tax attributes will be used against future taxable profits.

13. Tax (continued)

Tax directly recognised in equity

	2018 £ 000	2017 £ 000
Deferred tax recognised directly in equity		
Cashflow hedge reserve	-	187
Total tax recognised directly in equity	-	187

14. Property, plant and equipment

	Development and production assets £ 000
Cost	
At 1 January 2018	3,171,395
Additions	23,554
Revision to decommissioning assets (note 19)	355
Retranslation of foreign currency balances	4,675
At 31 December 2018	3,199,979
Accumulated depreciation and impairment	
At 1 January 2018	(2,950,243)
Depreciation charge for the year (note 8)	(58,845)
Reversal of impairment losses (note 9)	13,811
Retranslation of foreign currency balances	(4,576)
At 31 December 2018	(2,999,853)
Net book value	
At 31 December 2018	200,126
At 31 December 2017	221,152

Impairment

During the year, the Company reversed impairment losses of £13,811,000 on the Grove field due to an improving outlook based on prices and reserves (note 9).

In the prior year, the Company reversed impairment losses of £36,262,000 on the Alba field due to an improving outlook based on prices and reserves.

14. Property, plant and equipment (continued)

Impairment (continued)

The recoverable amounts of the assets are categorised in Level 3 (as described in note 24) of the fair value hierarchy and have been calculated on a fair value less costs of disposal basis.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9.5% (2017: 8.5%) to determine fair value less costs of disposal.

There were no other impairment indicators identified as at 31 December 2018 or 31 December 2017 in relation to the remaining property, plant and equipment assets.

Assets held under finance leases

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	2018 £ 000	2017 £ 000
Cost-capitalised finance lease	117,855	117,855
Accumulated depreciation	(117,855)	(117,855)
Net book value	-	-

15. Intangible assets

	Exploration and evaluation assets £ 000
Cost or valuation	
At 1 January 2018	2,749
Additions	1,414
At 31 December 2018	4,163
Impairment	
At 1 January 2018 and 31 December 2018	(2,150)
Carrying amount	
At 31 December 2018	2,013
At 31 December 2017	599

Impairment

During the prior year, the Company recognised an impairment charge on the Olympus field of £2,150,000.

16. Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Trade receivables	1,844	2,596
Amounts owed by fellow Group undertakings	3,360	31,038
Amounts owed from other related parties (note 23)	4,615	-
Prepayments	95	808
Accrued income	6,131	11,031
Other receivables	22,259	19,545
	38,304	65,018

The amounts owed by fellow Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. The amounts owed by Group undertakings are interest-free, unsecured and repayable on demand.

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

17. Inventories

	2018 £ 000	2017 £ 000
Operational spares and consumables	18,963	14,132

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £nil (2017: £nil). The write-down of inventories to net realisable value amounted to £nil (2017: £nil). The reversal of write-downs amounted to £203,000 (2017: £733,000). The reversals of write-downs are included in operating costs and relate to inventory for the York and Grove assets following assets reviews.

There is no significant difference between the replacement cost of inventories and their carrying amounts.

18. Trade and other payables

	2018 Current £ 000	2018 Non-current £ 000	2017 Current £ 000	2017 Non-current £ 000
Trade payables	3,187	-	2,417	-
Accrued expenses	9,321	-	11,807	-
Amounts owed to fellow Group undertakings	416,260	-	466,433	11,343
Amounts owed to other related parties (note 23)	13,486	-	-	-
Other payables	15,608	-	12,066	-
	457,862	-	492,723	11,343

The amounts owed to fellow Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £329,112,000 (2017: £381,712,000) that was charged interest at the quarterly rates ranging between 3.25% and 3.74% (2017: ranged between 3.25% and 4.38%). Amounts owed to fellow Group undertakings include amounts payable under finance leases within one year of £3,279,000 (2017: £5,903,000) and over one year of £11,343,000 (2017: £17,246,000), which bear interest at 4% (2017: 4%). See note 20. The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

19. Provisions for other liabilities and charges

	Decommissioning £ 000	Other provisions £ 000	Total £ 000
At 1 January 2018	558,538	13	558,551
Charged to the Income Statement	2,259	-	2,259
Unused provision reversed to Income Statement	(11,337)	-	(11,337)
Revision to provision on existing assets (Note 14)	355	-	355
Provisions used	(9,646)	-	(9,646)
Retranslation of foreign currency balances	433	-	433
Increase due to discount unwinding (Note 11)	6,751	-	6,751
At 31 December 2018	547,353	13	547,366
Non-current liabilities	530,641	13	530,654
Current liabilities	16,712	-	16,712

Decommissioning

The Company has recognised provisions for its obligations to decommission its oil and gas fields at the end of their operating lives. The provisions recognised represent the best estimate at the current reporting date of the expenditures required to settle the present obligation at the current reporting date based on existing technology and current legislation requirements. Such cost estimates expressed at current price levels at the date of the estimate are discounted using a long-term pre-tax real rate of 1.2% (2017: 1.2%).

The timing of the decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2019 and 2038 (2017: 2018 and 2037).

Other provisions

Other provisions include amounts in respect of taxation on share-based payments.

20. Borrowings

	2018 £ 000	2017 £ 000
Current bank overdrafts, loans and borrowings		
Bank overdrafts	-	1,217

Bank overdrafts are repayable on demand and are interest free.

Finance lease liabilities

The Company entered into lease arrangements in respect of its York terminal facilities.

Finance lease liabilities are secured as the rights to the leased asset revert to the lessor in the event of default.

The undiscounted minimum lease payments at the end of the reporting period are as follows:

	2018 £ 000	2017 £ 000
Not later than 1 year	3,654	6,453
Later than 1 year and not later than 5 years	8,535	12,189
	12,189	18,642
Less: Future finance charge on finance lease liabilities	(846)	(1,396)
Present value of finance lease liabilities	11,343	17,246

The present value of the finance lease liabilities is as follows:

	2018 £ 000	2017 £ 000
Not later than 1 year	3,279	5,903
Later than 1 year and not later than 5 years	8,064	11,343
Present value of finance lease liabilities (Note 18)	11,343	17,246

21. Capital and reserves

Share capital

Allotted, called up, authorised and fully paid shares

	2018		2017	
	No. 000	**£ 000**	**No. 000**	**£ 000**
Ordinary shares of £1 each	120,000	120,000	120,000	120,000

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

Reserves

Cash flow hedge 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 Income Statement or the Balance Sheet as and when the hedged item affects the Income Statement or the 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. This is included within other deficit on the balance sheet.

Other deficit

The other deficit caption is mainly made up of translation differences that arise as a result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the reporting date, which differs from the rate in effect at the last measurement date of the respective item. Other deficit also includes the cash flow hedge reserve on the balance sheet.

Retained losses

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

22. Other commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2018	2017
	£ 000	**£ 000**
Contracted oil and gas exploration	6,243	2,340
	6,243	2,340

22. Other commitments and contingencies (continued)

Contractual commitments to acquire intangible assets

The contractual commitments in relation to exploration activities are as follows as at the reporting date:

	2018 £ 000	2017 £ 000
Contracted oil and gas exploration	8,800	32,815
	8,800	32,815

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £486,000 (2017: £2,397,000), in relation to the acquisition of property, plant and equipment.

23. Related party transactions

During the year, the Company entered into the following arm's length transactions with related parties (who are not members of the Spirit Energy Limited Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

	Sale of goods and services (i) £ 000	Purchase of goods and services (i) £ 000	Other - net interest £ 000	Amounts owed from (see note 16) £ 000	Amounts owed to (see note 18) £ 000
Centrica plc	-	(18,616)	-	1,621	(438)
GB Gas Holdings Limited	-	389	211	-	(80)
British Gas Trading Limited	110,605	(4,408)	-	2,994	
Centrica Energy Limited	-	(15,368)	-		(76)
Centrica Storage Limited	-	(17,182)	(549)	-	(12,892)
	110,605	**(55,185)**	**(338)**	**4,615**	**(13,486)**

(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.

Joint arrangements

Material joint arrangements owned by the Company that are classified as joint operations and accounted for in accordance with IFRS 11 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	Location	Percentage holding in ordinary shares and net assets
Grove	Netherlands	93

24. Financial instruments at fair value

The Company buys and sells commodities through a mixture of contracts with operators of gas fields. These arrangements also include short-term forward market purchases of gas at fixed and floating prices. An analysis is performed to assess whether these arrangements are financial instruments or not ('own-use contracts').

The fair value information as disclosed below relates to supply contracts that are in scope of IAS 39 'Financial Instruments: recognition and measurement', as well as to foreign currencies and interest rate derivatives entered into, to hedge the risks arising from the business of the Company. These trades are usually placed with Group counterparties that trade with third parties on its behalf ('back-to-back type arrangements').

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc.

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.
- 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.

Financial instruments carried at fair value		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2018	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	17,500	-	17,500	-
Foreign exchange derivatives	239	-	239	-
Total financial assets at fair value	17,739	-	17,739	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(8,540)	-	(8,540)	-
Foreign exchange derivatives	(4,973)		(4,973)	
Total financial liabilities at fair value	(13,513)	-	(13,513)	-
Total financial instruments at fair value	4,226	-	4,226	-

24. Financial instruments at fair value (continued)

Financial instruments carried at fair value

		Fair value hierarchy		
	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2017	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	1,132	-	1,132	-
Foreign exchange derivatives	4,859	-	4,859	-
Total financial assets at fair value	5,991	-	5,991	-
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(21,914)	-	(21,914)	-
Total financial liabilities at fair value	(21,914)	-	(21,914)	-
Total financial instruments at fair value	(15,923)	-	(15,923)	-

25. Immediate and ultimate parent undertaking

The immediate parent undertaking of the Company is Spirit Energy Limited, a company registered in England and Wales.

Spirit Energy Limited is the parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member. Spirit Energy Limited, which has its registered office at 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG, is registered in England and Wales. Copies of Spirit Energy Limited's financial statements can be obtained from the Register of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which Group accounts are prepared is Centrica plc. Centrica plc has its registered office at Millstream, Maidenhead Road, Windsor, England, SL4 5GD and is registered in England and Wales. Centrica plc's financial statements can be obtained at www.centrica.com.