Registered number: 03115179

SPIRIT ENERGY PRODUCTION UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

SPIRIT ENERGY PRODUCTION UK LIMITED

COMPANY INFORMATION

Directors	G M Harrison (resigned 24 June 2022) N J MacLeod N J McCulloch D G Jones J Cowie (appointed 5 August 2022)
Company secretary	N J MacLeod
Registered number	03115179
Registered office	1st Floor 20 Kingston Road Staines-Upon-Thames United Kingdom TW18 4LG
Independent auditor	Deloitte LLP Union Plaza 1 Union Wynd Aberdeen AB10 1SL

SPIRIT ENERGY PRODUCTION UK LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors present their Strategic Report for Spirit Energy Production UK Limited (the 'Company') for the year ended 31 December 2021.

Principal activities

The principal activities of the Company are the production of gas from the Rhyl and the North and South Morecambe gas fields.

Business review

The Company's major activity is the production of gas and associated condensate from its main production fields (Rhyl, North Morecambe and South Morecambe) in Morecambe Bay. These fields represent proven and probable reserves of approximately 117 billion cubic feet of gas at 31 December 2021 (2020: 142 billion cubic feet). Production of gas amounted to 24 billion cubic feet (2020: 27 billion cubic feet) in the year with total condensate sales equivalent to 88,600 barrels of oil equivalent (2020: 90,000 barrels of oil equivalent). Loss for the year reduced to £83,381,000 (2020: £88,536,000) driven by improvements in commodity prices offset by large hedging losses.

The Company recognised an exceptional impairment reversal of £234,003,000 (2020: £89,449,000 impairment charge) based on updated price assumptions. Further details are provided in note 13 to these financial statements.

Financial position

The financial position of the Company is presented in the Balance Sheet on pages 14-15. Total equity at 31 December 2021 was £749,831,000 (2020: £833,212,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties, including COVID-19, are integrated with those of Spirit Energy Limited and its subsidiaries (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on page 7 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

Key performance indicators ('KPI's')

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 KPI's to monitor progress against the Group's strategy. For this reason, the Company's Directors believe that analysis using KPI's 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 KPI's is on page 4 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

Section 172(1) Statement

The Board and its individual Directors consider that they have acted in good faith in the manner that is most likely to promote the success of the Company for the benefit of its members as a whole and in doing so having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006.

A Director of a Company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decisions in the long-term;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between shareholders of the Company.

The following paragraphs summarise how the Directors fulfil their duties:

Long-term success

From the perspective of the Company, the Directors believe that they have acted in a way that would most likely promote the long-term success of Spirit Energy Production UK Limited. The Directors continually challenge the way the business works to ensure streamlined and efficient delivery to be a lean and agile business.

The Directors focus on ensuring that the Company achieves industry-leading safety standards, deliver every possible barrel of production, and keep control of costs to generate superior returns and be resilient to fluctuations in commodity prices.

The Company is funded via Spirit Energy Treasury Limited and the Company has the ability to deposit and access funds as required.

In addition, the Directors note the key role the Company plays in the wider Spirit Energy Group and to Spirit Energy Limited as parent Company and as such the principal risks and uncertainties of the Company are in line with those of the wider group. Further details are included in the Section 172(1) Statement on page 3 of the Annual Report and financial statements of Spirit Energy Limited. The Directors of the Company are members of the Spirit Energy Limited Executive Committee.

Impact of operations

The Directors recognise the need to decarbonise energy systems and accept that in the foreseeable future oil and gas will play a significant part in that transition. The Directors' ambition is for the Company to be a top-quartile operator in terms of carbon intensity amongst peers. The Company aims to minimise primary production emissions through improved operational efficiency, reduced flaring and fugitive leak detection and repair programmes combined with reviewing the feasibility of low-carbon electricity to supply operations. Further details are included in the Streamlined energy and carbon reporting section on pages 8-9 of the Annual Report and financial statements of Spirit Energy Limited.

The Directors recognise the impact on communities as well and within Spirit Energy various community projects have taken place during 2021. In addition, Spirit Energy have also partnered with the Scottish Association for Mental Health for a further year.

Section 172(1) Statement (continued)

Business relationships

Spirit Energy Production UK Limited aims to build enduring relationships with suppliers driven by the Spirit Energy Group's values of care, agility, courage, delivery and collaboration. The Company is measured by these values and works closely with suppliers in encouraging them to do the same.

In addition, as licence operator, Spirit Energy Production UK Limited works closely with the Oil and Gas Authority and holds regular check-ins regarding business development and ongoing operations.

Climate change

The Company's impact on climate change is considered with that of the Group as a whole and is not managed separately. Consideration of the Group's impact on climate change are included on pages 8-9 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

Energy and carbon reporting

The Company is exempt from the requirements to disclose its energy consumption in accordance with the Companies Act (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as they are disclosed on pages 8-9 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

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 5 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

It is expected that the Company will continue with its principal activities of the production of gas from the Rhyl, North and South Morecambe gas fields.

This report was approved by the board and signed on its behalf.

DocuSigned by:
Dan Jones
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D G Jones
Director
Date:22/8/2022

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Results and dividends

The results of the Company are set out on page 12. The loss for the financial year ended 31 December 2021 is £83,381,000 *(2020 - loss of £88,536,000)*.

No dividends were paid during the year (2020: £nil). The Directors do not recommend the payment of a final dividend (2020: £nil).

Directors

The Directors who served during the year and up to the date of signing the financial statements (unless otherwise stated) were:

G M Harrison (resigned 24 June 2022)
N J MacLeod
N J McCulloch
D G Jones
J Cowie (appointed 5 August 2022)

Future developments

Future developments are discussed in the Strategic Report on page 3.

Engagement with employees

During 2021, the Company employed an average of 500 people (2020: 495), all employed in the United Kingdom. Employees are regularly updated on performance against the Group's strategy, of which the Company is a member. There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views.

The Group is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents. To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees. The Group's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way.

Financial risk management

From the perspective of the Company, the financial risks are integrated within those of the Group and are not managed separately. The financial risk management of the Group are disclosed on pages 70 to 73 of the Group's Annual Report and financial statements for the year ended 31 December 2021, which does not form part of this report and are available at the address detailed in note 28 of these financial statements.

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 Section 234 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 persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be 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.

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 29 to the Financial Statements on page 48.

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 immediate parent company, Spirit Energy Limited confirms its present intention to continue to provide financial support to the Company to ensure it can meet its obligations as they fall due, for at least 17 months following from 31 May 2022, provided the Company remains a member of the Group. The amounts owed to Group undertakings will not be required to be repaid to Spirit Energy Limited for at least 12 months following the signing of the financial statements. Therefore, the Directors continue supporting the use of the going concern basis in preparing these financial statements.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 7 and specifically explains the increased challenges the Group faces with COVID-19. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

DocuSigned by:
Dan Jones
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D G Jones
Director
Date: 22/8/2022

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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 29.

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

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

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

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

Other information

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

Other information (continued)

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

We have nothing to report in this regard.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the 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.

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

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

We considered the nature of the Company's industry and its control environment, and reviewed the documentation of the policies and procedures relating to fraud and compliance with laws and regulations that has been established by the Company's ultimate parent. We also enquired of management about their own identification and assessment of the risks of irregularities.

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

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

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

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below.

Impairment and/or write back of long-life assets.

To address this fraud risk we:
- Considered the risk factors at the individual asset level, including related key internal controls and inquiries regarding management's impairment processes, and the oversight and governance of those processes relating to impairment of the assets;
- Assessed the design and implementation of key controls relating to manual adjustments made to reserves and production profiles;
- Challenged the data used in the FVLCD calculation by having a direct dialogue with the independent third-party firm of reserves engineers, to understand and confirm their challenge of management's data;
- Involved our reserves specialists to challenge the reports provided to the independent third-party firm of reserves engineers, including key inputs and caveats in such reports;
- Reconciled the reserves figures within the impairment model to the '2P' reserves report produced by management and the independent third-party firm of reserves engineers;
- Challenged management regarding any manual adjustments made to reserves estimates and future production profiles in the impairment models, assessed their reasonableness based on historical performance, assessed the accuracy of forecasting and any known uncertainties as a result of current production; and
- Considered the climate change and any contradictory evidence identified in assessing impairment conclusions made by management and performed a look back to the judgements made at the interim review.

Valuation of decommissioning provision pinpointed to those assumptions that the model is most sensitive.

To address this fraud risk we:
- Considered the risk factors, including related internal controls, and inquired regarding management's processes, and the oversight and governance of those processes relating to decommissioning;
- Assessed the design and implementation of key controls relating to the valuation of decommissioning provision;
- Engaged internal specialists to test the mechanical accuracy of the decommissioning model in addition to producing insightful analytics to direct our areas of audit focus;
- Performed testing over inputs to the decommissioning model including rates and norms, asset infrastructure, phasing, and campaigning assumptions, with a particular focus on those rates and norms to which the provision is most sensitive;
- Evaluated estimates received from operator statements and considered appropriateness of assumptions used;
- Performed test of details for actual costs incurred during the year and the unwinding recognised against the provision;
- Assessed the competency, capability and objectivity of management experts;
- Challenged the discount rate adopted by management and assessed the reasonableness by benchmarking against 3rd party data; and
- Audited the relevant disclosures.

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

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

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

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

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 PRODUCTION UK LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Graham Hollis
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Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen
Date: 22/8/2022

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Revenue	4	366,455	107,799
Loss on remeasurement of derivatives	5	(421,975)	(12,803)
Cost of sales	6	(169,120)	(147,612)
Gross loss		(224,640)	(52,616)
Operating costs	6	(21,281)	(18,562)
Exceptional items - impairment reversal/(charge)	13	232,398	(89,449)
Operating loss		(13,523)	(160,627)
Finance income	10	3,028	3,125
Finance cost	11	(1,804)	(6,527)
Loss before tax		(12,299)	(164,029)
Tax (charge)/credit on loss	12	(71,082)	75,493
Loss for the financial year		(83,381)	(88,536)

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

The notes on pages 17 to 48 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 £000	2020 £000
Loss for the financial year	(83,381)	(88,536)
Items that will not be reclassified to profit or loss:		
Net gain on cash flow hedges	-	446
Taxation on cash flow hedges	-	(172)
Total comprehensive loss for the year	(83,381)	(88,262)

The notes on pages 17 to 48 form part of these financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED
REGISTERED NUMBER:03115179

BALANCE SHEET
AS AT 31 DECEMBER 2021

	Note		2021 £000		2020 £000
Non-current assets					
Property, plant and equipment	14		332,292		*133,383*
Deferred tax assets	12		171,044		*249,157*
Derivative financial instruments	26		1,962		*26*
			505,298		*382,566*
Current assets					
Inventories	15	6,996		*7,330*	
Trade and other receivables	16	1,012,520		*936,933*	
Derivative financial instruments	26	-		*1,005*	
Cash at bank and in hand	17	47		*1,129*	
		1,019,563		*946,397*	
Current liabilities					
Trade and other payables	18	(86,706)		*(50,323)*	
Derivative financial instruments	26	(175,599)		*(10,425)*	
Provisions for other liabilities and charges	19	(11,015)		*(28,730)*	
Borrowings	20	(3,842)		*(870)*	
Net current assets			742,401		*856,049*
Total assets less current liabilities			1,247,699		*1,238,615*
Non-current liabilities					
Provisions for other liabilities and charges	19	(381,276)		*(391,318)*	
Derivative financial instruments	26	(113,921)		*(12,133)*	
Borrowings	20	(2,671)		*(1,952)*	
			(497,868)		*(405,403)*
Net assets			749,831		*833,212*

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2021

	Note	2021 £000	*2020 £000*
Equity			
Called up share capital	**21**	**800,000**	*800,000*
Other reserves	**22**	**4,711**	*4,711*
Retained (losses)/earnings	**22**	**(54,880)**	*28,501*
Total equity		**749,831**	*833,212*

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:
Dan Jones
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D G Jones
Director
Date: 22/8/2022

The notes on pages 17 to 48 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital £000	Other reserves £000	Retained (losses)/ earnings £000	Total equity £000
At 1 January 2020	**800,000**	**4,985**	**117,037**	**922,022**
Loss for the year	-	-	(88,536)	(88,536)
Net gain on cash flow hedges	-	274	-	274
Total comprehensive loss for the year	-	274	(88,536)	(88,262)
Equity-settled share-based transactions	-	(548)	-	(548)
At 1 January 2021	**800,000**	**4,711**	**28,501**	**833,212**
Loss for the year	-	-	(83,381)	(83,381)
Total comprehensive loss for the year	-	-	(83,381)	(83,381)
At 31 December 2021	**800,000**	**4,711**	**(54,880)**	**749,831**

The notes on pages 17 to 48 form part of these financial statements.

1. General information

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

The address of its registered office and principal place of business is:

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 3.

2. Accounting policies

2.1 Basis of preparation of financial statements

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 (IFRS) as issued by the IASB and in conformity with the requirements of the Companies Act 2006.

2.2 Changes in Accounting Policies

There have been no new standards or amendments effective for the period beginning 1 January 2021.

As the Annual Report and financial statements of Spirit Energy Limited (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company, as a qualifying entity, 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 requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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; and
- disclosures in respect of capital management.

2.3 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.

2. Accounting policies (continued)

2.4 Going concern

The immediate parent company, Spirit Energy Limited confirms its present intention to continue to provide financial support to the Company to ensure it can meet its obligations as they fall due, for at least 17 months following from 31 May 2022, provided the Company remains a member of the Group. The amounts owed to Group undertakings will not be required to be repaid to Spirit Energy Limited for at least 12 months following the signing of the financial statements. Therefore, the Directors continue supporting the use of the going concern basis in preparing these financial statements.

The Group's principal risks and uncertainties are detailed in the Group's Strategic Report on page 7 and specifically explains the increased challenges the Group faces with COVID-19. The Directors of the Company are satisfied that the actions and sensitivities included in the cash-flow forecasts prepared by Group adequately address the current risks and are therefore satisfied that the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

2.5 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 and condensates) is recognised when the customer obtains control of the goods. For 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 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.

2.6 Finance income

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

2.7 Finance costs

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

2. Accounting policies (continued)

2.8 Employee share schemes

The Centrica plc group, to which the Company belongs, has a number of employee share schemes, detailed in note S2 to the Centrica plc Annual Report and Accounts 2021, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Centrica plc financial statements.

2.9 Cost of sales

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

2.10 Overlift and underlift

Off-take arrangements for 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.

2.11 Leases

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

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

Leasing activities for Spirit Energy Production UK Limited relates to the rental of drilling rigs and support vessels.

2. Accounting policies (continued)

2.11 Leases (continued)

Lease liabilities

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

Lease payments included in the initial measurement of the lease liability comprise of fixed payments (including in-substance fixed payments), amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

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

Extensions and terminations – Leases

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

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

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

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

2. Accounting policies (continued)

2.11 Leases (continued)

Extensions and terminations – Leases (continued)

If an extension or termination option is 'reasonably certain' to be exercised, the termination period or extended period will be included or excluded from the lease term when calculating the lease liability. The Company will reassess the 'reasonably certain' criteria upon the occurrence of significant event. An event is considered significant if it affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term.

Joint arrangements – Leases

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

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

Right-of-use (ROU) assets – Leases

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

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

2. Accounting policies (continued)

2.12 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. 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 balance sheet 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.

2.13 Taxation

Current tax, including UK corporation tax and UK petroleum revenue 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 difference 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 differences 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.

2. Accounting policies (continued)

2.14 Property, plant and equipment (PP&E)

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. Depreciation costs in relation to production and development assets are recognised within cost of sales in the Income Statement. Assets held as right-of-use assets 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. Further details can be found in 2.18.

2.15 Pensions and other post-employment benefits

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

2.16 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 balance sheet date or earlier if events or changes in circumstances indicate an impairment may exist. If any such indication exists, then the asset's recoverable amount is estimated.

The Company provides for impairments of financial assets when there is objective evidence of impairment as a result of events that impact the estimated future cashflows of financial assets. 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.

2. Accounting policies (continued)

2.17 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.

2.18 Inventories

Commodity inventories 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.

2.19 Cash and cash equivalents

Cash is represented by cash in hand and current accounts with financial institution. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.20 Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and condensate 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, if there is insufficient economic benefit. 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.

2. Accounting policies (continued)

2.21 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) Derivative financial instruments

The Company 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 Company's expected sale requirements ('own use') and are not within the scope of IFRS 9.

Certain purchases and sales contracts for the physical delivery of gas are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS9 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.

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 Annual Report and Accounts 2021 of the intermediate controlling party being Spirit Energy Limited, in the Strategic Report – Principal Risks and Uncertainties on page 7 and in note S2. 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 Balance Sheet, and changes in the fair value that do not qualify for hedge accounting are recognised immediately in the 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.

2. Accounting policies (continued)

2.21 Financial instruments (continued)

(a) Derivative financial instruments (continued)

The Company 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 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.

(b) 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 Company'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 Income Statement. The gains and losses that are initially recognised in the cash flow reserve in the Statement of Comprehensive Income are transferred to the 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 Company 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 Income Statement. The ineffective portion of gains and losses on cash flow hedging is recognised immediately in the Income Statement.

The Company'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 Company maintains strict policies to manage its financial risks as approved by the Directors. This includes the use of financial derivative instruments to hedge certain of these exposures.

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

2. Accounting policies (continued)

2.22 Trade and other receivables

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

Trade 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.

2.23 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 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.

2.24 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.

2.25 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.

3. Critical judgements in applying the Company's accounting policies 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 13). No other key judgements have been made by the Directors in applying the Company's accounting policies.

(b) Key sources of estimation uncertainty

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

Decommissioning costs (note 19)

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed annually or earlier if events or changes in circumstance indicate an impairment may exist 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 2039 (2020: 2037).

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 2021 is 0% (2020: 0%). A 1% variation in this discount rate would change the decommissioning liabilities by approximately £24,218,000 (2020: £25,009,000).

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described in the Annual Report and financial statements of the Group on page 88.

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 judgements in applying the Company's accounting policies and key sources of estimation uncertainty (continued)

Determination of fair values - energy derivatives (note 26)

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 estimates and the assumptions underpinning these estimates 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 balance sheet 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 £332,292,000 (2020: £133,383,000) as at 31 December 2021 (see note 14).

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.

The valuation of production assets are particularly sensitive to the price assumptions made in the impairment calculations and the price assumptions for gas and oil have been varied by +/- 10%. A 10% increase or decrease in the price assumptions results in no further impairments or reversals.

4. Revenue

An analysis of revenue by class of business is as follows:

	2021	*2020*
	£000	*£000*
Sales	**366,455**	*107,799*

All revenue arose within the United Kingdom.

5. Loss on remeasurement of derivatives

	2021	*2020*
	£000	*£000*
Loss on the remeasurement of derivatives	**(421,975)**	*(12,803)*

The large derivative loss is driven by the unforeseen increase in commodity prices resulting in ongoing hedges being significantly out of the money.

6. Analysis of (costs)/income by nature

Year ended 31 December			2021			2020
	Cost of sales	Operating income/(costs)	Total income/ (costs)	*Cost of sales*	*Operating income/ (costs)*	*Total income/ (costs)*
	£000	£000	£000	*£000*	*£000*	*£000*
Inventories written down (note 15)	-	(2,130)	(2,130)	-	*(2,510)*	*(2,510)*
Depreciation (note 14)	(36,853)	(3,900)	(40,753)	*(33,199)*	*(4,288)*	*(37,487)*
Employee costs (note 9)	(23,968)	(45,017)	(68,985)	*(23,779)*	*(42,791)*	*(66,570)*
Foreign exchange gains/(losses)	-	7	7	-	*(6)*	*(6)*
Other costs	(108,299)	(15,598)	(123,897)	*(90,634)*	*(11,787)*	*(102,421)*
Income from recharged payroll costs	-	45,357	45,357	-	*42,820*	*42,820*
Total operating costs by nature	(169,120)	(21,281)	(190,401)	*(147,612)*	*(18,562)*	*(166,174)*

7. Directors' remuneration

The Directors of the Company are executives of the holding company, Spirit Energy Limited and are also Directors of a number of fellow group undertakings. The Directors received total remuneration of £1,740,000. It is estimated that £301,000 relates to qualifying services in connection with this Company. On this basis the remuneration of the highest paid Director is £90,000.

8. Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**80**	*26*

9. Employees

Staff costs were as follows:

	2021 £000	2020 £000
Wages and salaries	**56,379**	*56,263*
Social security costs	**9,018**	*7,231*
Cost of defined contribution scheme (note 27)	**3,588**	*3,076*
	68,985	*66,570*

The average monthly number of employees, including the Directors, during the year was as follows:

	2021 No.	2020 No.
Gas and oil production	**197**	*205*
Administration, finance and other support functions	**303**	*290*
	500	*495*

10. Finance income

	2021	*2020*
	£000	*£000*
Interest income from amounts owed by Group undertakings	**463**	*1,867*
Other interest income	**2,565**	*1,258*
	3,028	*3,125*

11. Finance cost

	2021	*2020*
	£000	*£000*
Unwind of discount on provisions (note 19)	**-**	*(4,188)*
Net foreign exchange loss on financing transactions	**(305)**	*(231)*
Interest on amounts owed to Group undertakings	**(1,499)**	*(1,941)*
Interest expense on lease obligations	**-**	*(167)*
	(1,804)	*(6,527)*

12. *Taxation*

Tax (charged)/credited in the Income Statement

	2021	2020
	£000	£000
Current tax		
UK corporation tax at 40% (2020: 40%)	(4,895)	(5,376)
UK corporation tax adjustment to prior years	(2,509)	8,329
UK petroleum revenue tax	14,435	46,694
Total current tax	7,031	49,647
Deferred tax		
Origination and reversal of temporary differences - UK	65,551	65,738
UK adjustment to prior years	12,414	(7,971)
UK petroleum revenue tax	(156,078)	(31,921)
Total deferred tax	(78,113)	25,846
Tax (charge)/credit	(71,082)	75,493

The main rate of corporation tax for the year to 31 December 2021 was 19% (2020: 19%). The deferred tax assets and liabilities included in these financial statements are based on the rate of 19%.

On 3 March 2021, the UK government announced an intention to increase the UK corporation tax rate to 25% with effect from 1 April 2023, this increase has now been enacted. This had the potential to impact the value of our deferred tax balances on non ring fence activities, and the tax charge on UK profits from non ring fence activities generated in 2023 and subsequently. Spirit Energy has reviewed the impact of this change, and as we have no deferred tax balances on our balance sheet from non ring fence activities, we expect the impact of this change to be £nil.

Upstream gas and oil production activities are taxed at a corporation tax rate of 30% (2020: 30%) plus a supplementary charge of 10% (2020: 10%) to give an overall rate of 40% (2020: 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.

12. Taxation (continued)

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

	2021	2020
	£000	£000
Loss before tax	(12,299)	(164,029)
Tax on loss at standard UK corporation tax rate of 40% (2020: 40%)	4,920	65,612
Effects of:		
Adjustments in respect of prior years	9,905	357
Increase from effect of different UK tax rates on some earnings	(282)	(64)
Current petroleum revenue tax	14,435	46,694
Additional relief on abandonment expenditure	(736)	(3,391)
Impact of petroleum revenue tax on corporation tax	56,658	(5,718)
Deferred petroleum revenue tax	(156,078)	(31,920)
Non-taxable income/(deductible expenditure)	96	(302)
Reversal of uncertain tax position	-	4,225
Total tax (charge)/credit	(71,082)	75,493

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 2020	(83,445)	111,827	194,929	223,311
Recognised in the Income Statement	34,037	411	(8,602)	25,846
31 December 2020	(49,408)	112,238	186,327	249,157
Recognised in the Income Statement	(79,921)	11,604	(9,796)	(78,113)
31 December 2021	(129,329)	123,842	176,531	171,044

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 £25,841,000 (2020: £22,353,000) in respect of investment allowances has not been recognised as at 31 December 2021 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 £171,044,000 (2020: £249,157,000) has been recognised on the Balance Sheet because there is sufficient evidence that the tax attributes will be used against future taxable profits.

13. Exceptional items

	2021	2020
	£000	£000
Impairment reversal/(charge) (note 14)	234,003	(89,449)
Restructuring provision	(1,605)	-
	232,398	(89,449)

Impairment

During the year, the Company reversed impairments of £48,054,000 (2020: impairment charge of £48,407,000) on the North Morecambe field, £113,662,000 (2020: impairment of £7,364,000) on the Rhyl field and £72,287,000 (2020: £33,678,000 impairment charge) on the South Morecambe field due to improved commodity prices.

The cashflows are based on a base gas price of 151 pence per therm, a 5-year price of 88 pence per therm, a 10-year price of 69p per therm and an inflation rate of 2.4%. A 10% increase or decrease in the price assumptions results in no further impairments or reversals.

Restructuring provision

Restructuring costs were provided for in 2021 (2020: £nil) due to organisation changes as a result of the Norway disposal and changes in strategy.

14. Property, plant and equipment

	Development & production assets £000
Cost	
At 1 January 2021	**3,788,520**
Additions	**14,483**
Disposals	**(6,232)**
Revision to decommissioning assets (note 19)	**(8,824)**
At 31 December 2021	**3,787,947**
Depreciation	
At 1 January 2021	**(3,655,137)**
Charge for the year (note 6)	**(40,753)**
Disposals	**6,232**
Impairment reversal (note 13)	**234,003**
At 31 December 2021	**(3,455,655)**
Net book value	
At 31 December 2021	**332,292**
At 31 December 2020	133,383

Impairment
During the year, the Company reversed impairments of £48,054,000 (2020: impairment charge of £48,407,000) on the North Morecambe field, £113,662,000 (2020: impairment of £7,364,000) on the Rhyl field and £72,287,000 (2020: £33,678,000 impairment charge) on the South Morecambe field due to improved commodity prices. Further details on the impairment reversals are included in note 13.

The recoverable amounts of the assets are categorised in Level 3 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 10.0% (2020: 10.0%) to determine fair value less costs of disposal.

There were no impairment indicators identified as at 31 December 2021 or 31 December 2020 in relation to the remaining property, plant and equipment assets.

14. Property, plant and equipment (continued)

Right-of-use assets included in the above carrying amounts:

	Development & production assets £000
Cost	
At 1 January 2021	**9,205**
Additions	**7,610**
Disposals	**(6,232)**
At 31 December 2021	**10,583**
Depreciation	
At 1 January 2021	**(6,614)**
Charge for the year	**(3,900)**
Disposals	**6,232**
At 31 December 2021	**(4,282)**
Net book value	
At 31 December 2021	**6,301**
At 31 December 2020	2,591

15. Inventories

	2021 £000	*2020 £000*
Operational spares and consumables	**6,996**	*7,330*

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £1,533,000 (2020: £206,000). The write-down of inventories to net realisable value amounted to £2,130,000 (2020: £2,510,000 in relation to South Morecambe) in relation to South Morecambe. The write-down is included in operating costs.

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

16. Trade and other receivables

	2021 £000	2020 £000
Trade receivables	**5,700**	*4,296*
Amounts owed by Group undertakings	**927,695**	*817,671*
Amounts owed by related parties (note 25)	**54,716**	*18,603*
Other receivables	**633**	*702*
Prepayments and accrued income	**4,951**	*16,217*
Tax recoverable	**18,825**	*79,444*
	1,012,520	*936,933*

The amounts owed by Group undertakings have been presented on a gross basis. Included within the amounts owed by Group undertakings disclosed above is £927,641,000 (2020: £813,137,000) that bears interest at a monthly rate of between 0.02% and 0.70% (2020: 0.04% and 0.70%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are 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. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	**47**	*1,129*

18. Trade and other payables

	2021 £000	2020 £000
Trade creditors	**(4,306)**	*(6,722)*
Amounts owed to other related parties (note 25)	**(46,801)**	*(934)*
Other creditors	**(16,840)**	*(32,523)*
Amounts owed to Group companies	**(1,036)**	*(9,780)*
Accruals	**(17,723)**	*(364)*
	(86,706)	*(50,323)*

The amounts owed to fellow Group undertakings have been presented on a gross basis. The 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
At 1 January 2021	420,048
Revision to provision on existing assets (note 14)	(8,824)
Provisions used	(18,933)
At 31 December 2021	392,291
Current liabilities	11,015
Non-current liabilities	381,276

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 reporting date of the expenditures required to settle the present obligation 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 0% (2020: 0%).

The timing of the decommissioning payments is dependent on the lives of a number of fields but are anticipated to occur between 2022 and 2039 (2020: 2021 and 2037).

20. Borrowings

	2021 £000	*2020 £000*
Non-current bank overdrafts, loans and borrowings		
Lease liabilities	2,671	*1,952*

	2021 £000	*2020 £000*
Current bank overdrafts, loans and borrowings		
Lease liabilities	3,842	*870*

20. Borrowings (continued)

The maturity analysis for lease liabilities is as follows:

	2021 £000	2020 £000
Within 1 year	**3,842**	*870*
1-2 years	**373**	*405*
2-3 years	**345**	*395*
3-4 years	**348**	*363*
4-5 years	**352**	*363*
After 5 years	**1,253**	*426*
	6,513	*2,822*

21. Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
800,000,000 (2020: 800,000,000) Ordinary shares of £1.00 each	**800,000**	*800,000*

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.

22. Reserves

Other reserves

Other reserves comprises the cash flow hedging reserve and the share option reserve.

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IFRS 9. 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. This reserve is non-distributable.

The share option reserve reflects the obligation to deliver shares to employees under the existing share schemes in return for services provided to the Company. This is shown within other reserves in the Balance Sheet and is non-distributable.

Retained losses

The balance classified as retained earnings 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.

23. Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in a number of share schemes which gave rise to a credit of £nil (2020: £532,000) which is shown under the financial line item 'operating costs'. The major schemes, which are all operated by Centrica plc, the ultimate parent company, are described below.

Sharesave
Under Sharesave, the Group Board may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month and may elect to save over three and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

The fair value of employee share options is measured using the Black-Scholes model.

On Track Incentive Plan ("OTIP")
Awards under the OTIP were available to senior executives, senior and middle management. Awards vest subject to continued employment within the Centrica plc group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to invested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on page 177 of the Centrica plc 2021 Annual Report and Accounts.

The fair value of services received in return for share awards granted are measured by reference to the fair value of share awards granted. For the scheme described above, the fair value of employee share awards is the market value of the award at the award date.

24. Other commitments and contingencies

The Company and Centrica plc, the ultimate parent company have agreed to provide security to a subsidiary undertaking of Royal Dutch Shell plc, BG International Limited, following the change of name of BG Exploration and Production Limited who, as original licence holder for the Morecambe gas fields, will have exposure to abandonment costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Company and its ultimate parent company. The security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked. At 31 December 2021, the security provided was £159,222,000 (2020: £200,657,000).

25. 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 Group but which were related parties since they are fellow subsidiaries of the wider Centrica plc group), and had the following associated balances:

2021	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from (note 16)	Amounts owed to (ii)
	£000	£000	£000	£000
Centrica plc	-	62	161	(1,051)
Centrica DG Limited	-	-	391	(382)
British Gas Trading Limited	319,502	8,130	50,504	(2,348)
British Gas Services Limited	-	-	-	(11)
GB Gas Holdings Limited	-	-	3,502	-
Centrica Management Services Limited	-	-	144	(173)
Centrica Services Limited	-	-	14	(6)
Centrica Energy Limited	-	407,695	-	(331,240)
	319,502	415,887	54,716	(335,211)

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.

(ii) Amounts owed to related parties include £287,558,000 (2020: £21,588,000) classified as derivative financial instrument liabilities (note 26) and £47,653,000 (2020: £934,000) (note 18) shown as amounts owed to related parties.

25. Related party transactions (continued)

2020	Sale of goods and services (i)	Purchase of goods and services (i)	Amounts owed from (note 16)	Amounts owed to (ii)
	£000	£000	£000	£000
Centrica plc	-	19	-	(894)
Centrica DG Limited	-	-	14	-
GB Gas Holdings Limited	-	305	3,502	-
British Gas Trading Limited	64,525	-	13,778	-
British Gas Services Limited	-	-	-	(11)
Centrica Management Services Limited	-	-	-	(29)
Centrica Services Limited	-	-	9	-
Centrica Energy Limited	-	12,803	1,300	(21,588)
	64,525	13,127	18,603	(22,522)

(i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.

(ii) Amounts owed to related parties includes £21,588,000 classified as derivative financial instrument assets (note 26) and £934,000 classified as amounts owed from related parties in note 18.

26. Derivative financial instruments

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 of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopts Group internal policies for determining fair value including methodologies used to establish valuation adjustments required for credit risk.

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 'Fair value measurement' and are consistent with those used by Centrica plc, the Company's ultimate controlling party.

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:

26. Derivative financial instruments (continued)

Fair value hierarchy (continued)

- 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 and carrying value**	**Fair value hierarchy**		
		Level 1	**Level 2**	**Level 3**
31 December 2021	**£000**	**£000**	**£000**	**£000**
Derivative financial assets - in hedge accounting relationships				
Energy derivatives	1,962	-	1,962	-
Total financial assets at fair value	**1,962**	**-**	**1,962**	**-**
Derivative financial liabilities - in hedge accounting relationships				
Energy derivatives	(289,520)	-	(289,520)	-
Total financial liabilities at fair value	**(289,520)**	**-**	**(289,520)**	**-**
Total financial instruments at fair value	**(287,558)**	**-**	**(287,558)**	**-**

26. Derivative financial instruments (continued)

Financial instruments at fair value	*Fair value and carrying value*	*Fair value hierarchy*		
		Level 1	*Level 2*	*Level 3*
31 December 2020	*£000*	*£000*	*£000*	*£000*
Derivative financial assets - in hedge accounting relationships	-	-	-	-
Energy derivatives	*954*	-	*954*	-
Foreign exchange derivatives	*77*	-	*77*	-
Total financial assets at fair value	*1,031*	-	*1,031*	-
Derivative financial liabilities - in hedge accounting relationships	-	-	-	-
Energy derivatives	*(22,543)*	-	*(22,543)*	-
Foreign exchange derivatives	*(15)*	-	*(15)*	-
Total financial liabilities at fair value	*(22,558)*	-	*(22,558)*	-
Total financial instruments at fair value	*(21,527)*	-	*(21,527)*	-

26. Derivative financial instruments (continued)

		2021		*2020*
Total derivative financial instruments	**Assets**	**Liabilities**	*Assets*	*Liabilities*
Included within:	**£000**	**£000**	*£000*	*£000*
Derivative financial instruments - current	**-**	**(175,599)**	*1,005*	*10,425*
Derivative financial instruments - non-current	**1,962**	**(113,921)**	*26*	*12,133*
	1,962	**(289,520)**	*1,031*	*22,558*

Methods and assumptions
There were no material transfers during the financial year between level 1 and 2. There were no Level 1 trades during the year and at the end of the year.

Transfers between fair value hierarchy levels are based on the values of the relevant assets and liabilities at the beginning of the reporting period.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:
• quoted prices in active markets for the same instrument (i.e. without modification or repackaging) (Level 1); and
• quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2).

Assessing the significance of a particular input requires judgement. For the purposes of the fair value hierarchy, the Directors have determined Level 2 as the appropriate hierarchy level for all valuations generated from the Company's trading system given that all financial assets and financial liabilities measured and held at fair value mature within the active period.

Valuation techniques used to derive Level 2 fair value and valuation process

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which 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 2021 was 1% per annum (2020: 1% per annum).

27. Pension commitments

The cost charged to the Income Statement of £3,588,000 (2020: £3,076,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

28. 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, United Kingdom, 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, United Kingdom, SL4 5GD and is registered in England and Wales. Centrica plc's financial statements can be obtained at www.centrica.com.

29. Non-adjusting events after the balance sheet date

Following the balance sheet date, Russia's invasion of Ukraine and the related sanctions caused disturbance in energy markets, which has tightened oil and gas markets further. The Company is actively monitoring the impact of the conflict, although currently there is no immediate direct exposure.

On 26 May 2022, the UK government announced the introduction of the Energy Profits Levy, an additional 25% tax on UK oil and gas profits, increasing the combined rate of tax on profits to 65%. Given the timing of the announcement, the Company has not yet been able to determine the full financial impact of this change in tax laws.

There are no other material events to disclose subsequent to the year ended 31 December 2021.