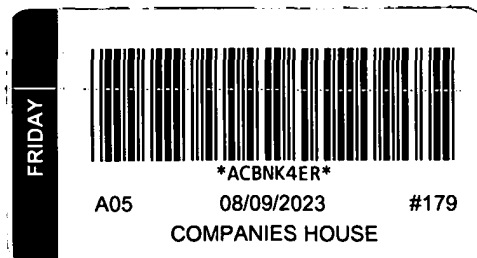


Registered number: 03115179

SPIRIT ENERGY PRODUCTION UK LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**



SPIRIT ENERGY PRODUCTION UK LIMITED

COMPANY INFORMATION

Directors	D.G.Jones N.J.MacLeod N.J.McCulloch J.Cowie (appointed 5 August 2022, resigned 7 April 2023) G.M.Harrison (resigned 24 June 2022)
Company secretary	N.J.MacLeod
Registered number	03115179
Registered office	1st Floor 20 Kingston Road Staines-Upon-Thames TW18 4LG
Independent auditors	Deloitte LLP 2 New Street Square London EC4A 3HQ

SPIRIT ENERGY PRODUCTION UK LIMITED

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4 - 6
Independent Auditors' Report	7 - 10
Income Statement	11
Balance Sheet	12 - 13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 - 49

SPIRIT ENERGY PRODUCTION UK LIMITED

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The Directors present their Strategic Report for SPIRIT ENERGY PRODUCTION UK LIMITED (the 'Company') for the year ended 31 December 2022.

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 financial position of the Company is presented in the Balance Sheet. Total equity as at 31 December 2022 was £759,777,000 (2021: £749,831,000). The profit for the financial year ended 31 December 2022 was £9,946,000 (2021: £83,381,000 loss). Overall increase in profit was due to significant increase in commodities prices in 2022.

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 104 billion cubic feet of gas at 31 December 2022 (2021: 117 billion cubic feet). During the year ended 31 December 2022, gas production averaged 23 billion cubic feet (2021: 24 billion cubic feet) with total condensate sales equivalent to 81,800 barrels of oil equivalent (2021: 88,600 barrels of oil equivalent).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of Spirit Energy Limited and its subsidiaries (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 6 and 7 of the Group's Annual Report and financial statements for the year ended 31 December 2022, which does not form part of this report and are available at the address detailed in note 27 of these financial statements.

Key performance indicators ('KPI's')

The performance of the Company is included in the consolidated results of the Spirit Energy 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. A discussion of the Group KPI's is included within the Group's Annual Report for the year ended 31 December 2022 on page 4, which does not form part of this report and are available at the address detailed in note 27 of these financial statements.

Given the nature of the business, the Company's Directors are of the opinion that the KPIs necessary for an understanding of the development, performance and position of the Company are net assets and Profit after tax as referenced in the business review section.

SPIRIT ENERGY PRODUCTION UK LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

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. 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 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 its 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 2022. In addition, Spirit Energy have also partnered with the Scottish Association for Mental Health for a further year.

Business relationships

The Company 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. During the year, the Company awarded a number of

SPIRIT ENERGY PRODUCTION UK LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

contracts which underpin delivery and contribute to developing successful working relationships with our supply chain.

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 2022, which does not form part of this report and are available at the address detailed in note 27 of these financial statements.

Streamlined energy and carbon reporting (SECR)

The energy and carbon reporting of the Company is included in the consolidated results of the Group. The Directors of Spirit Energy Limited have disclosed in the Group's energy and carbon reporting on pages 8-9 of the Group's Annual Report and financial statements for the year ended 31 December 2022, which does not form part of this report and are available at the address detailed in note 27 of these financial statements.

Carbon emissions and energy usage are not disclosed at a Company level due to exemptions detailed in Para 20A of Schedule 7 of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Future developments

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:

Dennis Jones

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D.G.Jones

Director

Date: 24/8/2023

SPIRIT ENERGY PRODUCTION UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The Directors present their report and the financial statements for the year ended 31 December 2022.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with 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;
- 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 and other information included in Directors' Reports may differ from legislation in other jurisdictions.

Results and dividends

The results of the Company are set out on page 11. The profit for the year, after taxation, amounted to £9,946,000 (2021: £83,381,000 loss).

No dividends were paid during the year (2021: nil).

Financial risk management

The Company's 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 70-73 of the Group's Annual Report and financial statements for the year ended 31 December 2022, which does not form part of the report and are available at the address detailed in note 27.

SPIRIT ENERGY PRODUCTION UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Exposure in terms of price risk, credit risk, liquidity risk and cash flow risk

Exposure to counterparty credit risk, liquidity risk and cash flow risk arises in the normal course of the Company's business. Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly. Liquidity risk is managed through funding arrangements with Group undertakings.

Credit risk is managed through the Group continually reviewing its rating thresholds for relevant counterparty credit limits and updating these as necessary, based on a consistent set of principles. Price risks are managed through using a range of derivatives to hedge any exposures arising.

Directors

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

D.G.Jones
N.J.MacLeod
N.J.McCulloch
J.Cowie (appointed 5 August 2022, resigned 7 April 2023)
G.M.Harrison (resigned 24 June 2022)

Future developments

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

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 it will continue to provide financial support to the Company to ensure it can meet its obligations as they fall due, for at least 20 months following from 20 April 2023, 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 pages 6 and 7. 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.

Disclosure of information to auditors

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 auditors are 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 auditors are 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

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.

Non-adjusting events after the balance sheet date

Significant events since the balance sheet date are contained in note 28 to the financial statements.

Auditors

The auditors, 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:

Dennis Jones

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D.G.Jones

Director

Date: 24/8/2023

SPIRIT ENERGY PRODUCTION UK LIMITED

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

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 2022 and of its Profits 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 Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 28.

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 Auditors' 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 United Kingdom, 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' 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.

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.

Auditors' 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 Auditors' 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' 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 and Directors about their own identification and assessment of the risks of irregularities including those that are specific to the company's business sector.

SPIRIT ENERGY PRODUCTION UK LIMITED

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

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

We obtained an understanding of the legal and regulatory framework 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.

We discussed among the audit engagement team including relevant internal specialists, such as IT, Tax and Valuation 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 procedures performed to address them are described below:

Valuation of decommissioning provision pinpointed to those assumptions that the model is most sensitive. To address this fraud risk we:

- tested the mechanical accuracy of the decommissioning model, tested the key inputs to the decommissioning model including rates and norms, asset infrastructure, phasing, and campaigning assumptions, agreeing to external data where relevant and assessed the reasonableness of the discount rate by benchmarking against third party data.

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 and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

SPIRIT ENERGY PRODUCTION UK LIMITED

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

Opinion 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 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:

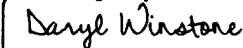
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law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

Use of our report

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

DocuSigned by:



C53C1D498845415
Daryl Winstone (Senior statutory auditor)

for and on behalf of

Deloitte LLP

2 New Street Square
London
EC4A 3HQ

Date: 24/8/2023

SPIRIT ENERGY PRODUCTION UK LIMITED
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**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
Revenue	4	487,489	366,455
Cost of sales	5	(205,409)	(169,120)
Loss on remeasurement of derivatives	8	(169,510)	(421,975)
Gross profit/(loss)		112,570	(224,640)
Operating costs	5	(21,663)	(21,281)
Exceptional items	9	-	232,398
Operating profit/(loss)		90,907	(13,523)
Finance income	12	12,000	3,028
Finance costs	13	(1,606)	(1,804)
Profit/(loss) before tax		101,301	(12,299)
Tax on profit/(loss)	15	(91,355)	(71,082)
Profit/(loss) for the financial year		9,946	(83,381)

There are no items of other comprehensive income for 2022 or 2021 other than the profit/(loss) for the year. As a result, no separate Statement of Comprehensive Income has been presented.

The notes on pages 15 to 49 form part of these financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED
REGISTERED NUMBER: 03115179

BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 £000	As restated 2021 £000
Non-current assets			
Property, plant and equipment	14	344,174	332,292
Deferred tax assets	15	84,111	171,044
Trade and other receivables	16	942,238	927,695
Derivative financial instruments	17	374,264	1,962
Total non-current assets		1,744,787	1,432,993
Current assets			
Inventories	18	8,165	6,996
Trade and other receivables	16	75,061	84,825
Derivative financial instruments	17	134,703	-
Cash at bank and in hand	19	1,792	47
Intangible assets	20	4,376	-
Total current assets		224,097	91,868
Current liabilities			
Trade and other payables	21	(83,564)	(86,706)
Lease liabilities	22	(616)	(3,842)
Derivative financial instruments	17	(276,857)	(175,599)
Decommissioning provision	23	(36,752)	(11,015)
Net current liabilities		(173,692)	(185,294)
Total assets less current liabilities		1,571,095	1,247,699
Non-current liabilities			
Lease liabilities	22	(1,828)	(2,671)
Derivative financial instruments	17	(390,242)	(113,921)
Decommissioning provision	23	(419,248)	(381,276)
Net assets		759,777	749,831

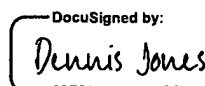
SPIRIT ENERGY PRODUCTION UK LIMITED
REGISTERED NUMBER: 03115179

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2022

		2022	<i>As restated</i>
	Note	£000	2021 £000
Capital and reserves			
Called up share capital	24	800,000	800,000
Other reserves	25	4,711	4,711
Retained losses	25	(44,934)	(54,880)
Total equity		<u>759,777</u>	<u>749,831</u>

The prior year comparatives have been restated following a reclassification between non-current and current assets. Further details are included in note 2.5.

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

DocuSigned by:


D.G. Jones
 Director
 Date: 24/8/2023

The notes on pages 15 to 49 form part of these financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital £000	Other reserves £000	Retained earnings/ (losses) £000	Total equity £000
At 1 January 2021	800,000	4,711	28,501	833,212
Loss for the year	-	-	(83,381)	(83,381)
Total comprehensive income for the year	-	-	(83,381)	(83,381)
At 1 January 2022	800,000	4,711	(54,880)	749,831
Profit for the year	-	-	9,946	9,946
Total comprehensive income for the year	-	-	9,946	9,946
At 31 December 2022	800,000	4,711	(44,934)	759,777

The notes on pages 15 to 49 form part of these financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

1. General information

SPIRIT ENERGY PRODUCTION UK LIMITED is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006 and registered in England and Wales.

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

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 1 - 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 due to the results being consolidated into the group accounts of Spirit Energy Limited. The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and Applicable Law), including FRS 101 Financial Reporting Standard 101 'Reduced Disclosure Framework'.

2.2 Changes in accounting policies

From 1 January 2022, the following standards and amendments are effective in the Company's Financial Statements:

- Amendments to IAS 16: 'Property, Plant and Equipment' - proceeds before intended use;
- Amendments to IAS 37: 'Provisions, contingent liabilities and contingent assets' - cost of fulfilling a contract;
- Amendments to IFRS 3 'Business Combinations' – reference to the Conceptual Framework; and
- Annual Improvements to IFRS 2018-2020.

None of these changes or amendments had any material impact on the Company's financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.3 Financial Reporting Standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 74A(b) of IAS 16
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

This information is included in the consolidated financial statements of Spirit Energy Limited as at 31 December 2022 and these financial statements may be obtained from the address included below in note 27.

2.4 Measurement convention

The financial statements have been prepared on the historical cost basis except for derivative financial instruments.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)**2.5 Re-presentation of amounts owned by Group Undertakings**

During 2021, the Company's current receivable balances within Group undertakings were reassessed against the classification criteria of current assets as set out in 'IAS 1 'Presentation of Financial Statements' that "entity shall classify an asset as current when it expects to realise the asset within twelve months after the reporting period". The Company reassessed the current amounts owed by Group undertakings based on expected timing and subsidiaries' intention to repay the amounts due within twelve months after the reporting date and concluded that £942,236,000 (2021: £927,695,000) of the current receivables as at 31 December 2022 should be classified as non-current assets; comparatives have therefore been restated as detailed in note 16 of the Financial statements.

At the same time, the Company has also analysed the current payable balance with Group undertakings presentation to 'IAS 1 'Presentation of Financial Statements' where these are not expected to be settled within twelve months after the reporting period. However, they are contractually payable on demand from Company's perspective, therefore due to within twelve months and continue to be presented as current liabilities as detailed in note 21 of the Financial Statements.

2.6 Going concern

The immediate parent company, Spirit Energy Limited confirms it will continue to provide financial support to the Company to ensure it can meet its obligations as they fall due, for at least 20 months following from 20 April 2023, 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. 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.7 Revenue

The Company recognises revenue reflecting the transfer of goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

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

Revenue associated with production sales (of natural gas, and condensates) is recognised when the customer obtains control of the goods. For oil and natural gas, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of natural gas, oil and condensates in which the 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). Tariff revenue from the use of the Company's platform and pipeline facilities is recognised at a point in time, when products are physically transferred into a vessel, pipe or other delivery mechanism as the customer gains control of the use of the pipeline facilities when the goods (oil and gas) are transferred into the vessel, pipe or other delivery mechanism.

2.8 Cost of sales

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

2.9 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 2022, 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.10 Remeasurment and settlement of energy contracts

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

2.11 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.

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Company's foreign currency translation reserve included in other equity.

2.12 Finance income

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

2.13 Finance costs

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

2.14 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 restructuring, significant onerous contract charges and asset write-downs/impairments.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)**2.15 Property, plant and equipment**

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 2.17.

2.16 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.

SPIRIT ENERGY PRODUCTION UK LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****2. Accounting policies (continued)****2.17 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 risk associated with the specific asset has increased significantly since initial recognition.

2.18 Inventories

Commodity inventories are valued at market value, being the spot rate at the balance sheet date less transportation costs. Other inventories are valued on a weighted average cost basis (total value divided by the number of units), at the lower of cost or estimated net realisable value after allowance for redundant and slow-moving items.

The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.19 Interests in joint arrangements and associates

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

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

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

2.20 Leases

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

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

Leasing activities for SPIRIT ENERGY PRODUCTION UK LIMITED relates to the rental of floating production storage and offloading facilities.

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), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the 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. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the

SPIRIT ENERGY PRODUCTION UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.20 Leases (continued)

event or condition that triggers those payments occurs.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the 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.

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.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)**2.20 Leases (continued)**

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 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 remeasurements of the lease liability.

2.21 Pensions**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.22 Trade and other receivables

Trade receivables are amounts due from customers for gas 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 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

2.24 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.

2.25 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.

2.26 Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas 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.

In circumstances where there is no decommissioning asset, or the asset is insufficient, the full asset pool would be considered. If the revision results in the asset pool being fully written down only the incremental balance would be charged to the Income Statement.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)
2.27 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 derecognised 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. 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.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as 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 2022 of the intermediate controlling party being Spirit Energy Limited, in the Strategic Report – Principal Risks and Uncertainties on pages 6 and 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.

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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

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.

2.28 Provisions for liabilities

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

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

2.29 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. Critical judgements in applying 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 9). 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 23)

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of facilities, but are currently anticipated to be incurred until 2038 (2021: 2038).

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 2022 is 1% (2021: 0%). There are a number of variable inputs into the calculation of discount rates including risk free interest rates and debt and equity risk premium. As a result of changes in yields on government gilts appropriate to the forecast profile of the decommissioning expenditure, it has been deemed appropriate to increase the decommissioning rate. A 1% change in this discount rate would change the decommissioning liability by approximately £19,662,000 (2021: £24,218,000).

Liquid reserves

The volume of proven and probable (2P) gas reserves is an estimate that affects the unit of production method of depreciating producing gas PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting liquid 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. Critical judgements in applying accounting policies and key sources of estimation uncertainty

Determination of fair values - energy derivatives (note 17)

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.

The impact of possible changes in commodity prices on profit and equity is considered at a group level and is not managed separately. The results based on a sensitivity analysis can be found on page 71 of the Group's Annual Report and financial statements for the year ended 31 December 2022, which does not form part of this report and are available at the address detailed in note 27 of these financial statements.

Impairment of long-lived assets

The Company makes judgements in considering whether the carrying amounts of its long-lived assets or cash generating units (CGUs) are recoverable and estimates their recoverable amounts. During 2021 and 2022 there were significant year-on-year increases in forward commodity prices, both in terms of observable market prices and forecast forward prices. As a result impairment reversals were booked in 2021. During 2022, the announcement of the Energy Profit Levy impacted the recoverable amounts of assets, but this did not result in any impairment.

Upstream gas assets

Forward prices for gas are a key input in the determination of the recoverable amount of the Company's gas assets. 2022 has seen continued increases in the prices for this commodity, both in terms of observable market prices and forecast forward prices. This increase, primarily due to higher commodity prices, has been partially offset by the implementation of the Energy Profit Levy. At 31 December 2022, impairment headroom remains for all significant fields. The recoverable amounts of the Company's gas assets are capped at depreciated historic cost; accordingly no material impairment reversals have been recorded during the period. Given the impairment headroom, the field values are no longer deemed subject to significant estimation uncertainty as at 31 December 2022 but remains a key source of estimation uncertainty due to potential future price decreases.

Climate change

The Company's consideration of the impact of climate change is disclosed in the Group's Annual Report and Financial Statements on pages 8 to 9. There has been no material impact identified on the financial reporting judgements and estimates.

The Directors specifically considered the impact of climate change in the following areas:

- cash flow forecasts used in the impairment assessment of non-current assets;
- carrying value and useful economic lives of property plant and equipment;
- recoverability of deferred tax assets; and
- going concern and viability of the Group over the next 2 years.

Whilst there is no short-term impact expected from climate change, the Directors are aware of the risks and regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. Revenue

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

	2022	2021
	£000	£000
Sale of gas from production	487,489	366,455
	487,489	366,455

All revenue arose within the United Kingdom.

SPIRIT ENERGY PRODUCTION UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

5. Analysis of (costs)/income by nature

	2022			2021		
	Cost of sales	Operating income/(costs)	Total	Cost of sales (restated)	Operating income/(costs)	Total
	£000	£000	£000	£000	£000	£000
Transportation, distribution and metering costs	(6,081)	-	(6,081)	(5,779)	-	(5,779)
Depreciation	(69,742)	(3,686)	(73,428)	(31,074)	(3,900)	(34,974)
Inventories write-down	-	(677)	(677)	-	(2,130)	(2,130)
Other costs	(106,832)	(17,306)	(124,138)	(108,299)	(15,598)	(123,897)
Employee costs	(22,754)	(36,172)	(58,926)	(23,968)	(45,017)	(68,985)
Foreign exchange gain	-	21	21	-	7	7
Income from recharges payroll costs	-	36,157	36,157	-	45,357	45,357
	<u>(205,409)</u>	<u>(21,663)</u>	<u>(227,072)</u>	<u>(169,120)</u>	<u>(21,281)</u>	<u>(190,401)</u>

Other costs within cost of sales are operated and non-operated production costs and maintenance charges. Within operating costs are insurance premiums, non-capital exploration costs and administrative costs.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

6. Employees

Staff costs were as follows:

	2022	<i>2021</i> <i>Restated</i>
	£000	£000
Wages and salaries	(47,636)	<i>(56,379)</i>
Social security costs	(5,723)	<i>(7,117)</i>
Cost of defined contribution scheme (note 7)	(5,567)	<i>(5,489)</i>
	<u>(58,926)</u>	<i><u>(68,985)</u></i>

In 2022, the Company uncovered a discrepancy in relation to the payroll booking entries. This discrepancy had implications for both Social Security costs and the cost of defined contributions. Consequently, immediate corrective measures were taken throughout 2022 to address the issue. The identified discrepancy indicated an overstatement of Social Security costs by £1,500,000 in 2022 and £1,901,000 in 2021. Additionally, it resulted in an underestimation of the cost of defined contributions by £1,500,000 in 2022 and £1,901,000 in 2021.

As a result of this identification, the Company has made the decision to restate the costs associated with Social Security for the year 2021. The restatement involves revising the previously reported Social security amount of £9,018,000 down to £7,117,000. Similarly, the costs of defined contributions are also being restated, with the initial figure of £3,588,000 being adjusted to £5,489,000.

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

	2022	<i>2021</i>
	No.	<i>No.</i>
Gas and oil production	179	<i>197</i>
Administration, finance and other support functions	282	<i>303</i>
	<u>461</u>	<i><u>500</u></i>

7. Pension commitments

The cost charged to the Income Statement of £5,567,000 (2021: £3,588,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

8. (Loss) on remeasurement of derivatives

	2022	<i>2021</i>
	£000	£000
Loss on the remeasurement of derivatives	(169,510)	<i>(421,975)</i>
	<u>(169,510)</u>	<i><u>(421,975)</u></i>

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

9. Exceptional income/(expenses)

	2022	2021
	£000	£000
Impairment reversal	-	234,003
Restructuring provision	-	(1,605)
	<u>-</u>	<u>232,398</u>

Impairment

During the prior year, the Company reversed impairments of £48,054,000 on the North Morecambe field, £113,662,000 on the Rhyl field and £72,287,000 on the South Morecambe field due to improved commodity prices.

Restructuring provision

In 2021 restructuring costs were provided for in due to organisation changes as a result of the Norway disposal and changes in strategy.

10. 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 £2,987,000 (2021: £1,740,000) from Spirit Energy Production UK Limited. It is estimated that £617,000 (2021: £301,000) relates to qualifying services in connection with this Company. This includes long term incentives of £102,000, payments into pension schemes of £9,000 and loss of office compensation of £38,000. On this basis the remuneration of the highest paid Director is £175,000 (2021: £90,000).

11. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2022	2021
	£000	£000
Audit fees	<u>82</u>	<u>80</u>

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. Finance income

	2022	2021
	£000	£000
Interest on amount owed by fellow Group undertakings	11,314	463
Net foreign exchange gains on financing transactions	21	-
Other interest income	665	2,565
	<u>12,000</u>	<u>3,028</u>

Year on year increase in Interest income from group undertakings, is due to increase in year on year interest rate in the UK.

13. Finance costs

	2022	2021
	£000	£000
Intercompany interest paid to Group undertaking	(1,576)	(1,499)
Net foreign exchange loss on financing transactions	-	(305)
Interest on lease liabilities (IFRS 16)	(30)	-
	<u>(1,606)</u>	<u>(1,804)</u>

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

14. Property, plant and equipment

	Gas and oil production £000
Cost or valuation	
At 1 January 2022	3,787,947
Additions	14,648
Decommissioning liability revisions (note 23)	<u>70,662</u>
At 31 December 2022	<u>3,873,257</u>
Depreciation	
At 1 January 2022	(3,455,655)
Charge for the year	<u>(73,428)</u>
At 31 December 2022	<u>(3,529,083)</u>
Net book value	
At 31 December 2022	<u><u>344,174</u></u>
At 31 December 2021	<u><u>332,292</u></u>

There were no impairment indicators identified as at 31 December 2022.

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

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10.5% (2021: 10.0%) to determine fair value less costs of disposal. A 10% increase or decrease in the price assumptions results in no further impairments or reversals and a 50% decrease in short term prices will result in £53,000,000 impairment.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

14. Plant, property and equipment (continued)

The right-of use assets (as explained in note 2.22) included in the above carrying amounts are as follows:

	Development & production assets £000
Cost or valuation	
At 1 January 2022	10,583
Additions	<u>32</u>
At 31 December 2022	<u>10,615</u>
Depreciation	
At 1 January 2022	(4,282)
Charge for the year	<u>(3,685)</u>
At 31 December 2022	<u>7,967</u>
Net book value	
At 31 December 2022	<u>2,648</u>
At 31 December 2021	<u>6,301</u>

SPIRIT ENERGY PRODUCTION UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. Taxation

	2022	2021
	£000	£000
Current tax		
UK corporation tax at 65% (2021: 40%)	(6,817)	(4,896)
Energy Profits Levy- Current Tax 25% (2021: 0%)	4,966	-
Adjustments in respect to prior years	(2,572)	(2,509)
Total current tax	(4,423)	(7,405)
Petroleum Revenue Tax (PRT) Current	-	14,435
Total current tax	(4,423)	7,030
Deferred tax		
Origination and reversal of temporary differences - UK	(21,903)	65,551
Energy Profit Levy-Deferred Tax	(57,204)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	3,568	12,415
Deferred petroleum revenue tax	(11,394)	(156,078)
Total deferred taxation	(86,933)	(78,112)
Tax charge on profit or loss	(91,355)	(71,082)

The main rate of corporation tax was 19% (2021: 19%). The deferred tax assets and liabilities outside of upstream oil and gas activities included in these financial statements are based on the rate of 19%.

The increase to UK corporation tax rate to 25% as announced in 2021 takes effect from 1 April 2023. This has the potential to impact the value of our deferred tax balances on non ring fence activities and the charge on UK profits from outside of upstream oil and gas 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.

On 26 May 2022 the Chancellor announced the introduction of the Energy Profits Levy (EPL) representing a 25% additional 'tax' on upstream profits. On 17 November the Chancellor announced further change to EPL, increasing the rate from 25% to 35% from 1 January 2023 and the sunset date extended from 31 December 2025 to 31 March 2028. EPL has been enacted and the impact of this is included in these financial statements.

Upstream oil and gas production activities are taxed at a corporation tax rate of 30% (2021: 30%) plus a supplementary charge of 10% (2021 :10%) and an Energy Profits Levy of 25% (2021: 0%) (increased to 35% from 1 January 2023) to give an overall rate of 65% (75% from 1 January 2023) (2021: 40%). Upstream deferred tax assets and liabilities included in these financial statements are based on the rate as applicable to the underlying asset or liability having regard for their reversal profiles.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Taxation (continued)

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

	2022	2021
	£000	£000
Profit/(loss) on ordinary activities before tax	101,301	(12,299)
Tax on loss/profit at standard UK corporation tax rate of 65% (2021: 40%)	(65,846)	4,920
Effects of:		
Non deductible expenditure	424	96
Increase (decrease) from effect of different UK tax rates on some earnings	(48,359)	(282)
Impact of PRT on CT	4,557	56,658
Additional relief on abandonment expenditure	(19,360)	(736)
Current PRT	-	14,435
Increase (decrease) in current tax from adjustment for prior periods	998	9,905
Deferred PRT	(11,393)	(156,078)
Additional upstream charges (EPL re-basing)	20,437	-
Recognition of SC and EPL investment allowance	27,187	-
Total tax charge	<u>(91,355)</u>	<u>(71,082)</u>

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Taxation (continued)

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

	Accelerated tax depreciation (corporation tax)	Provisions	Deferred PRT (to be included within other items)	Other items	Total
	£000	£000	£000	£000	£000
1 January 2021	(49,408)	186,327	167,471	(55,233)	249,157
(Charged)/credited to the Income Statement	(79,921)	(9,796)	(156,078)	167,682	(78,113)
31 December 2021	(129,329)	176,531	11,393	112,449	171,044
(Charged)/credited to the Income Statement	(116,677)	5,869	(11,393)	35,268	(86,933)
31 December 2022	<u>(246,006)</u>	<u>182,400</u>	<u>-</u>	<u>147,717</u>	<u>84,111</u>

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 £nil (2021: £24,486,000) in respect of investment allowances has not been recognised as at 31 December 2022 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 £84,111,000 (2021: £171,044,000) has been recognised on the Balance Sheet because there is sufficient evidence that the tax attributes will be used against future taxable profits of the Spirit Energy Group.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

16. Trade and other receivables

	2022		<i>(As restated) 2021</i>	
	Non-current	Current	<i>Non-current</i>	<i>Current</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Trade receivables	-	162	-	5,700
Amounts owed by Group undertakings	942,238	55	927,695	-
Amounts owed by related parties	-	67,646	-	54,716
Tax recoverable	-	-	-	18,825
Prepayments and accrued income	-	6,657	-	4,951
Other receivables	-	541	-	633
	<u>942,238</u>	<u>75,061</u>	<u>927,695</u>	<u>84,825</u>

The prior year has been restated to reclassify the amounts owed by fellow group undertakings of £927,695,000 as non-current assets as the balances do not meet the IAS 1 'Presentation of Financial Statements' classification criteria for current assets.

Current receivables

Amounts owed by related parties are unsecured. No provision against amounts receivable from related parties was recognised during the year through the income statement.

Non-current receivable

The amounts owed by Group undertakings have been presented on a gross basis. Included within the gross amounts owed by Group undertakings disclosed above is £942,236,000 (2021: £927,695,000) that bears interest at a monthly rate of between 0.1% and 2.86% (2021: 0.02% and 0.13%). The other gross 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. Fair value of financial instruments

The Company buys and sells commodities through a mixture of contracts with Centrica plc, the ultimate parent undertaking. These arrangements also include short-term forward market purchases of oil 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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. Fair value of financial instruments (continued)

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:

- 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 managements best estimate of fair value.

Financial instruments carried at fair value - in hedge accounting relationships

	Fair value and carrying value	Level 1	Level 2	Level 3
31 December 2022	£000	£000	£000	£000
Derivative financial assets				
Energy derivatives	<u>508,967</u>	<u>-</u>	<u>508,967</u>	<u>-</u>
Total financial assets at fair value	<u><u>508,967</u></u>	<u><u>-</u></u>	<u><u>508,967</u></u>	<u><u>-</u></u>
 Derivative financial liabilities				
Energy derivatives	<u>(667,099)</u>	<u>-</u>	<u>(667,099)</u>	<u>-</u>
Total financial liabilities at fair value	<u><u>(667,099)</u></u>	<u><u>-</u></u>	<u><u>(667,099)</u></u>	<u><u>-</u></u>
Total financial instruments at fair value	<u><u>(158,132)</u></u>	<u><u>-</u></u>	<u><u>(158,132)</u></u>	<u><u>-</u></u>

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. Fair value of financial instruments (continued)

	Fair value and carrying value	Level1	Level 2	Level 3
31 December 2021	£000	£000	£000	£000
Derivative financial assets				
Energy derivatives	<u>1,962</u>	-	1,962	-
Total financial assets at fair value	<u>1,962</u>	-	1,962	-
Derivative financial liabilities				
Energy derivatives	<u>(289,520)</u>	-	(289,520)	-
Total financial liabilities at fair value	<u>(289,520)</u>	-	(289,520)	-
Total financial instruments at fair value	<u>(287,558)</u>	-	(287,558)	-

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Current	134,703	(276,857)	-	(175,599)
Non-current	<u>374,264</u>	<u>(390,242)</u>	<u>1,962</u>	<u>(113,921)</u>
Total derivative financial instruments	<u>508,967</u>	<u>(667,099)</u>	<u>1,962</u>	<u>(289,520)</u>

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 2022 was 5% per annum (2021: 1% per annum).

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. Fair value of financial instruments (continued)

Fair value of financial assets and liabilities held at amortised cost

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

18. Inventories

	2022	2021
	£000	£000
Raw materials and consumables	8,165	6,996
	<u>8,165</u>	<u>6,996</u>

Operational spares and consumables recognised as an expense in the year and included in cost of sales amounted to £1,238,000 (2021: £1,533,000). The write-down of inventories to net realisable value amounted to £677,000 (2021: £2,130,000) in relation to South Morecambe. The write-down is included in operating costs, see note 5.

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

19. Cash and cash equivalents

	2022	2021
	£000	£000
Cash at bank and in hand	1,792	47
	<u>1,792</u>	<u>47</u>

20. Intangible assets

	Emissions
	£000
Cost or valuation	
Additions	<u>4,376</u>
At 31 December 2022	<u>4,376</u>

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

20. Intangible assets (continued)**Net book value**

At 31 December 2022

4,376**21. Trade and other payables**

	2022	2021
	£000	£000
Trade creditors	(6,724)	(4,306)
Amounts owed to Group undertakings	(6,393)	(1,036)
Amounts owed to other related parties	(37,265)	(46,801)
Other payables	(22,460)	(16,840)
Accruals and deferred income	<u>(10,722)</u>	<u>(17,723)</u>
	<u>(83,564)</u>	<u>(86,706)</u>
 Current	 <u>(83,564)</u>	 <u>(86,706)</u>

The amounts owed to Group undertakings have been presented on a gross basis. The amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

The significant portion of the year-on-year fluctuation in the category of other payables can be attributed to the accumulation of consumed carbon emissions by the year-end, which remains unsettled as of the reporting period.

SPIRIT ENERGY PRODUCTION UK LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

22. Lease liabilities

	2022	2021
	£000	£000
Non-current		
Lease liabilities	<u>(1,828)</u>	<u>(2,671)</u>
Current		
Lease liabilities	<u>(616)</u>	<u>(3,842)</u>

The maturity analysis for lease liabilities is as follows:

	2022	2021
	£000	£000
Within a year	(411)	(3,842)
1-2 years	(363)	(373)
2-5 years	(1,089)	(1,045)
More than 5 years	<u>(726)</u>	<u>(1,253)</u>
	<u>(2,589)</u>	<u>(6,513)</u>

The carrying amount of the ROU assets, additions and depreciation charges as a result of the application of IFRS 16 are disclosed in note 14. The total cash outflow in the year for lease arrangements was £4,131,000 (2021: £4,010,000). The average lease term for the year was 27 years. The average discount rate applied was 1.9% (2021: 1.1%).

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

23. Decommissioning provision

	Decommissioning provision £000
At 1 January 2022	(392,291)
Revision to provision on existing assets	(70,662)
Provisions used	6,953
At 31 December 2022	<u>(456,000)</u>
Current	<u>(36,752)</u>
Non-current	<u>(419,248)</u>

Decommissioning

The Company has recognised provisions for its obligations to decommission its oil fields at the end of their operating lives. The provisions recognised represent the best estimate at the current reporting date of the expenditures required to settle the present obligation at the current reporting date based on existing technology and current legislation requirements. Such cost estimates expressed at current price levels at the date of the estimate are discounted using a long-term pre-tax real rate of 1% (2021: 0%).

The timing of the decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2023 and 2038 (2021: 2022 and 2038).

24. Share capital

	2022 £000	2021 £000
Authorised, allotted, called up and fully paid		
800,000,000 (2021 - 800,000,000) Ordinary shares of £1.00 each	<u>800,000</u>	<u>800,000</u>

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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

25. Reserves

Other reserves

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 and settlement of interest on debt instruments. 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 earnings

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.

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

26. 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:

2022	Sale of goods and services (i) £000	Purchase of goods and services (i) £000	Amounts owed from (iii) (note 16) £000	Amounts owed to (ii) £000
Centrica plc	-	-	-	(894)
British Gas Trading Limited	438,147	10,161	64,136	-
British Gas Services Limited	-	-	-	(11)
GB Gas Holdings Limited	-	-	3,502	-
Centrica Management Services Limited	-	-	-	(29)
Centrica Services Limited	-	-	8	-
Centrica Energy Limited	113,358	298,935	-	(194,477)
	<u>551,505</u>	<u>309,096</u>	<u>67,646</u>	<u>(195,411)</u>

(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 £158,132,000 classified as derivative financial instrument liabilities (note 17).

2021	Sale of goods and services £000	Purchase of goods and services £000	Amounts owed from (iii) £000	Amounts owed to (ii) £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)
	<u>319,502</u>	<u>415,887</u>	<u>54,716</u>	<u>(335,211)</u>

(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 £182,686,000 classified as derivative financial instrument

SPIRIT ENERGY PRODUCTION UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

26. Related-party transactions (continued)

net liabilities and £36,345,000 other amounts owed to related parties.

(iii) Amounts owed from related parties includes £65,383,000 trading related receivables.

27. Immediate and ultimate parent undertaking

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

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

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

28. Non-adjusting events after the balance sheet date

There are no material events to disclose subsequent to the year ended 31 December 2022.