



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 989 490 168
Organisasjonsform: Aksjeselskap
Foretaksnavn: SPIRIT NORWAY HOLDING AS
Forretningsadresse: c/o Advokatfirmaet Schjødt AS
Kongsgårdbakken 3
4005 STAVANGER

Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler
Benyttet ved utarbeidelsen av årsregnskapet til konsernet: -

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Elisabeth Skeie
Dato for fastsettelse av årsregnskapet: 05.05.2022

Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 21.07.2023



Resultatregnskap

Beløp i: NOK	Note	2021	2020
RESULTATREGNSKAP			
Kostnader			
Loss from disposal of business	2	8 070 000	217 516 000
Other operating expenses	6	1 154 000	8 077 000
Sum kostnader		9 224 000	225 593 000
Driftsresultat		-9 224 000	-225 593 000
Finansinntekter og finanskostnader			
Reversal of Impairment of financial	7	2 423 000 000	
Renteinntekt fra foretak i samme konsern	7	528 000	961 000
Annen renteinntekt	7		23 000
Foreign exchange gain	7	24 000 000	17 478 000
Sum finansinntekter		2 447 528 000	18 462 000
Impairment of financial assets	7		1 646 723 000
Foreign exchange loss	7	15 000	
Notional interest arising from indem	7	17 704 000	
Sum finanskostnader		17 719 000	1 646 723 000
Netto finans		2 429 809 000	-1 628 261 000
Ordinært resultat før skattekostnad		2 420 585 000	-1 853 854 000
Ordinært resultat etter skattekostnad		2 420 585 000	-1 853 854 000
Årsresultat		2 420 585 000	-1 853 854 000
Overføringer og disponeringer			
Transfer to / (from) other equity	9	2 420 587 000	1 853 996 000
Sum overføringer og disponeringer		2 420 587 000	1 853 996 000



Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	10	28 000	35 000
Sum immaterielle eiendeler		28 000	35 000
Finansielle anleggsmidler			
Investering i datterselskap	11	3 986 300 000	1 563 300 000
Sum finansielle anleggsmidler		3 986 300 000	1 563 300 000
Sum anleggsmidler		3 986 328 000	1 563 335 000
Omløpsmidler			
Varer			
Fordringer			
Receivables owed from group companies	8	222 263 000	65 009 000
Trade and other current receivables	5	4 000	174 385 000
Sum fordringer		222 267 000	239 394 000
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents		1 257 000	621 000
Sum bankinnskudd, kontanter og lignende		1 257 000	621 000
Sum omløpsmidler		223 524 000	240 015 000
SUM EIENDELER		4 209 852 000	1 803 350 000
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	9	10 122 118 000	10 122 118 000
Overkurs	9	6 003 699 000	6 003 699 000
Sum innskutt egenkapital		16 125 817 000	16 125 817 000



Balanse

Beløp i: NOK	Note	2021	2020
Opptjent egenkapital			
Udekket tap		12 774 179 000	15 194 765 000
Sum opptjent egenkapital		-12 774 179 000	-15 194 765 000
Sum egenkapital		3 351 638 000	931 052 000
Gjeld			
Langsiktig gjeld			
Other non -current liabilities	3	823 971 000	857 231 000
Sum avsetninger for forpliktelser		823 971 000	857 231 000
Annen langsiktig gjeld			
Sum langsiktig gjeld		823 971 000	857 231 000
Kortsiktig gjeld			
Tax payable	10		142 000
Kortsiktig konserngjeld	8		1 330 000
Trade and other payables	4	34 243 000	13 595 000
Sum kortsiktig gjeld		34 243 000	15 067 000
Sum gjeld		858 214 000	872 298 000
SUM EGENKAPITAL OG GJELD		4 209 852 000	1 803 350 000



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2022 896689

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Brønnøysundregistrene, 30.08.2022



Organisasjonsnr: 989 490 168
SPIRIT NORWAY HOLDING AS

RESULTATREGNSKAP

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Organisasjonsnr: 989 490 168
SPIRIT NORWAY HOLDING AS

BALANSE

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Langsiktig gjeld			
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Organisasjonsnr: 989 490 168
SPIRIT NORWAY HOLDING AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Sum Beløp

Balanseført verdi 31.12. Varige driftsmidler Immaterielle eiend.

Konsernregnskap

Virksomheten inngår i konsolideringen til morselskapets konsernregnsk.: Ja

Morselskapet sitt navn

Spirit Energy Limited

Forretningskontor for morselskapet

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

Datterselskap er utelatt fra konsolideringen: Ja

Begrunnelse for at datterselskap er utelatt fra konsolideringen

Included in Spirit Energy Limited consolidated group accounts.

Samlet beløp - tilknyttet selskap Årets Fjorårets

Samlet beløp - foretak i samme konsern Årets Fjorårets

Samlet beløp - foretak i samme konsern Årets Fjorårets

Samlet beløp - felles kontrollert virksomhet Årets Fjorårets

Pantstillelse Beløp

Note

Fordringer

Fordringer som forfaller senere enn ett år etter regnskapsårets slutt

Mer om fordringer

Note



Virkelig verdi og resultatført verdiendr. i perioden, finansielle instrumenter

Mer om finansielle instrumenter

Beskrivelse av finansielle derivater

<u>Beholdning av egne aksjer</u>	<u>Antall</u>	<u>Pålydende</u>	<u>Andel av aksjek.</u>
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Annual Report 2021

Spirit Norway Holding AS

Org.no 989 490 168



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Annual report 2021

Background and location

The company changed name from Bayerngas Norge AS to Spirit Norway Holding AS ("the company") in August 2021.

The Company was originally incorporated in 2006 as an independent oil and gas company registered in Norway until 11 December 2017. On 17 July 2017 the main shareholders of Spirit Norway Holding AS, SWM Gasbeteiligungs GmbH & Co. KG and Bayerngas GmbH, agreed with Centrica Plc to register a new joint venture company in the UK, Spirit Energy Limited. Each party contributed their Exploration & Production companies located in North West Europe to the new joint venture company. Subsequent to the completion of the deal on 8 December 2017, 100% of the shares in Spirit Norway Holding AS were held by Spirit Energy Limited. On 11 December 2017 a consolidation of the Norwegian assets owned by Spirit Energy Limited took place. All the Norwegian assets, business activities and employees relating to the Norwegian Continental Shelf were transferred from Spirit Norway Holding AS to Spirit Energy Norway AS and Spirit Norway Limited.

Following the sale of the Norway assets in Spirit Norway Holding AS, the company remained a holding company with shares in Spirit Energy Danmark ApS, Spirit Energy Petroleum Danmark AS, Spirit Europe Limited and Bayerngas Produksjon Norge AS.

In 2018 the subsidiary Bayerngas Produksjon Norge AS was merged with Spirit Norway Holding AS and consequently, Bayerngas Produksjon Norge AS was dissolved and deregistered.

On 28 February 2020, Spirit Norway Holding AS signed a Sale and Purchase Agreement with INEOS E&P A/S to divest 100% of its share ownership in the Danish companies Spirit Energy Petroleum Danmark AS and Spirit Energy Danmark ApS for consideration of US\$25 million, adjusted for working capital. This is in line with Spirit Energy Group's strategy of managing the portfolio, which concluded that the Danish assets are no longer core to the business. Approval of the sale to INEOS from Danish Energy Agency (DEA) was received on 9 November 2020 and completed on 19 November 2020.

As at 31 December 2021, the only asset remaining in Spirit Norway Holding AS was the shares of Spirit Europe Limited.

The head office address is in Stavanger.

Comments on the financial statements

In 2021 the profit after tax for Spirit Norway Holding AS was NOK 2 420 587 thousand (2020: Loss NOK 1 853 996 thousand). The 2021 profit is driven by the reversal of impairment of financial assets totalling NOK 2 423 000 thousand.

The Company's total assets at year-end amounted to NOK 4 209 852 thousand (2020: NOK 1 803 350 thousand), whereof NOK 3 986 300 thousand related to the investment in subsidiary Spirit Europe Ltd and NOK 222 263 thousand to receivables owed from group companies.

The Company's total liability at year-end amounted to NOK 858 214 thousand (2020: NOK 872 298 thousand). The total liability is mainly related to contingent payment of NOK 810 327 thousand in the event that the development of the Danish fields sold to INEOS E&P AS does not progress. This contingent payment has been provided for and classified as other non-current liability. Additional contingent consideration of US\$65 million is due from INEOS based on future development of the fields. No amount has been recognised in respect of this due to the level of uncertainty over the amount to be received. Total liability among others also contains Fredericia Degassing indemnity liability of total NOK 37 997 thousand at 31 December 2021, according to the payment schedule is NOK 11 308 thousand is classified as other non-current liabilities and NOK 26 690 as current liabilities.

Spirit Norway Holding AS equity is NOK 3 351 638 thousand at year-end (NOK 931 052 thousand in 2020). Spirit Norway Holding AS equity ratio increased from 52% in 2020 to 80 % in 2021 mainly due to the reversal of impairment of the investment in subsidiary.

Cash flow and liquidity

The Cash Flow Statement shows that the Company's operational activities generated a positive cash flow of NOK 9 171 thousand in the reporting period (2020: negative cash flow of NOK 13 268 thousand).

The positive cash flow from investing activities of NOK 148 756 thousand is received from INEOS for indemnities arising from the sale of the Danish companies.



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The positive cash flow from the operating and investing activities have increased the receivable owed from group companies by NOK 157 291 thousand.

The company has a receivable owed from group companies of NOK 222 263 thousand at 31 December 2021. The bank balances of NOK 1 257 thousand, together with the receivable owed from group companies, is considered adequate for the expected activity and cash requirements in 2022.

Financial risk

Although Spirit Norway Holding AS is a holding company with limited financial risk, the company is heavily exposed to fluctuations in commodity prices as the development of natural gas prices will impact the valuation of the investment in Spirit Europe Limited due the indirect ownership in gas producing assets Cygnus and Clipper South.

The company is exposed to currency fluctuations in US\$ and Danish kroner from the indemnities arise from the sale of the Danish companies. The Company's foreign currency strategy is managed by the parent company, which continuously monitors and initiates financial risk instruments.

Health, Safety and Environment

As the Company has no activity, the Company does not pollute the environment and has not engaged in any specific environmental activities.

There were no employees in the Company in 2021.

Market developments and outlook

Russia's invasion of Ukraine in 2022 has sent oil and gas prices soaring, as the eastern European country is a critical supplier of natural gas to Europe and sends oil to the global markets.

Spirit Energy's Procurement & Supply Chain are actively monitoring the Ukrainian/Russian conflict, for its impact on global supply chains. Current findings indicate no immediate direct exposure to Russian or Ukrainian supply and consequently no direct risk of dealing with sanctioned entities, or disruption to directly contracted supply.

INEOS E&P AS decision on whether to develop the Danish fields divested in 2020 is still uncertain and is now expected to be made in 2023. This will bring more certainty on the related contingent liability and consideration

Insurance for board members and general manager

Spirit Energy Ltd maintains Directors' and Officers' liability insurance in respect of its Directors and members of the Group's Executive Committee. The insurance also extends to Directors and Officers of its subsidiary companies (owned more than 50%). The insurance covers personal legal liabilities including defence costs arising from a claim. The insurance policy is issued by a reputable insurer with an appropriate rating.

Going concern

The financial statements have been presented based on the assumption of continued operations. The Board of Directors and General Manager considers the Company to have acceptable equity. It is the Board of Directors' opinion that the financial statements, which include Income Statement, Balance Sheet, Cash Flow Statement and notes, give a true and fair view of the state of the affairs of the Company.

The Board of Directors recommends that the Company allocates the 2021 net profit for the year of NOK 2 420 587 thousand to other equity, as presented in the Income Statement.

The Board of Directors confirm that the assumptions for the Company as a going concern are present and the annual accounts are based on the going concern principle in accordance with the Accounting Act §3-3a.



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Stavanger, 5 May 2022

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Gro Kyllingstad
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Gro Kyllingstad

General manager and Chairman of the Board

DocuSigned by:
Nicola Macleod
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Nicola Jane Macleod

Board Member

DocuSigned by:
Dennis Jones
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Dennis Gareth Jones

Board Member

DocuSigned by:
Kjersti Wilskow
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Kjersti Elisabeth Wilskow

Board Member



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Spirit Norway Holding AS

Income Statement (NOK 1 000)

	Note	2021	2020
OPERATING EXPENSES			
Loss from disposal of business	2	(8 070)	(217 516)
Other operating expenses	6	(1 154)	(8 077)
Total operating expenses		(9 224)	(225 593)
NET OPERATING LOSS		(9 224)	(225 593)
FINANCE INCOME AND EXPENSES			
Interest income	7	528	962
Interest expense	7	(17 704)	(4 158)
Reversal of impairment of financial assets	7, 11	2 423 000	(1 642 566)
Other financial income	7	24 000	17 501
Other financial expense	7	(15)	-
Net financial income / (expense)		2 429 809	(1 628 261)
NET PROFIT / (LOSS) BEFORE TAX		2 420 585	(1 853 854)
Total tax income / (expense)	10	2	(142)
NET PROFIT / (LOSS) FOR THE YEAR		2 420 587	(1 853 996)
APPROPRIATIONS			
Transfer to / (from) other equity	9	2 420 587	(1 853 996)
Total		2 420 587	(1 853 996)



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Spirit Norway Holding AS

Balance Sheet (NOK 1 000)

Assets	Note	31.12.2021	31.12.2020
NON-CURRENT ASSETS			
Intangible assets			
Deferred tax assets	10	28	35
Total intangible assets		28	35
Financial assets			
Investment in subsidiaries	11	3 986 300	1 563 300
Total financial assets		3 986 300	1 563 300
Total non-current assets		3 986 328	1 563 335
CURRENT ASSETS			
Trade and other current receivables	5	4	174 385
Receivables owed from group companies	8	222 263	65 009
Cash and cash equivalents		1 257	621
Total current assets		223 524	240 015
TOTAL ASSETS		4 209 852	1 803 350



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Spirit Norway Holding AS

Balance Sheet (NOK 1 000)

Equity and liabilities	Note	31.12.2021	31.12.2020
EQUITY			
Paid-in capital			
Share capital	9	10 122 118	10 122 118
Premium reserve	9	6 003 699	6 003 699
Total paid-in capital		16 125 817	16 125 817
Other equity			
Retained loss	9	(12 774 179)	(15 194 765)
Total other equity		(12 774 179)	(15 194 765)
Total equity		3 351 638	931 052
LIABILITIES			
Provisions for liabilities and charges			
Other non-current liabilities	3	823 971	857 231
Total provisions for liabilities and charges		823 971	857 231
Current liabilities			
Trade and other payables	4	34 243	13 595
Tax payable	10	-	142
Current liabilities owed to group companies	8	-	1 330
Total current liabilities		34 243	15 067
Total liabilities		858 214	872 298
TOTAL EQUITY AND LIABILITIES		4 209 852	1 803 350

Stavanger, 5 May 2022

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Gro Kyllingstad

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Gro Kyllingstad

General Manager & Chairman of the Board

DocuSigned by:

Dennis Jones

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Dennis Gareth Jones

Board Member

DocuSigned by:

Nicola Macleod

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Nicola Jane Macleod

Board Member

DocuSigned by:

Kjersti Wilskow

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Kjersti Elisabeth Wilskow

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Spirit Norway Holding AS

Statement of Cash Flows (NOK 1 000)

	Note	2021	2020
Profit/(loss) before tax		2 420 585	(1 853 855)
Notional interest arising from indemnities	7	17 704	-
(Reversal of impairment) / impairment	4, 8	(2 423 000)	1 642 566
Loss on disposal of business	2	8 070	217 516
Tax paid		(133)	-
Change in working capital		(14 055)	(19 495)
Cash flow provided / (used) by operated activities		9 171	(13 268)
Capital increase in subsidiaries	2, 8	-	(1 528 566)
Cash from sale of business	2	148 756	497 734
Cash flow provided / (used) by investing activities		148 756	(1 030 832)
Payments received from related parties		22 039	1 538 934
Payments to related parties		(179 330)	(1 426 234)
Capital increase	6	-	925 000
Cash flow (used) / provided by finance activities		(157 291)	1 037 701
Net increase / (decrease) in cash and cash equivalents		636	(6 399)
Cash and cash equivalents beginning of the period		621	7 020
Cash and cash equivalents end of the period		1 257	621



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Spirit Norway Holding AS

Notes to the Financial Statements

Note 1 Accounting principles

The financial statements are presented in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual amounts could differ from those estimates.

Classifications

Assets linked to the flow of goods, receivables falling due within one year, and assets not determined for permanent ownership and use are classified as current assets. Other assets are classified as non-current. Liabilities falling due within one year are classified as current liabilities. Other liabilities are classified as non-current. Cash and cash equivalents include

Accruals and contingent liabilities

Expenses are recognised according to the matching principle. In case of uncertainty, losses are recognised if they are probable (i.e. more likely than not) and measurable, while uncertain gains are deferred.

Where the Company has entered into unit arrangements with adjacent licences, ownership shares are reviewed regularly according to the unit agreement based on updated estimates of reserves contributed by each partner in the unit. In the event a review results in a decreased share in the unit, excess volumes received in the past are redelivered by the partner with the reduced ownership share according to an agreed schedule. Such redelivery of volumes are accounted for at the

Foreign currency

The Company's functional currency is NOK. Foreign currency transactions are recorded using average month exchange rates. Monetary items denominated in foreign currencies are converted to NOK using exchange rates at the balance sheet date. The resulting realised and unrealised currency gains and losses are included in the income statement.

Financial assets

Subsidiaries are valued at acquisition cost adjusted for any previous writedowns in the balance sheet of the parent company. The value is tested for impairment at year-end, or otherwise when there are indications that the asset has been

Receivables

Receivables, including accounts receivable, are carried at original amounts less an allowance for doubtful amounts, if any.

Tax

The income tax expense consists of tax payable/refundable and the change in deferred tax during the period. Tax payable/refundable and deferred tax are recognised directly towards equity to the extent that they relate to equity transactions. Deferred tax is calculated according to the liability method. Based on the tax rates and tax provisions applicable on the balance sheet date, deferred tax is based on temporary differences between the carrying amount of the company's assets and liabilities in the financial statements and the carrying amount of the company's assets and liabilities for tax purposes. Uplift is recognised as earned in the year if it becomes deductible and included in payable tax calculation. A deferred tax asset is recognised in the balance sheet to the extent future utilisation is probable.



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Note 2 Sale of Danish companies

On 28 of February 2020, Spirit Norway Holding AS signed a SPA with INEOS E&P A/S to divest 100% share ownership in the Danish companies Spirit Energy Petroleum Danmark AS and Spirit Energy Danmark ApS for consideration of USD\$25 million, adjusted for working capital. This was in line with the Group's strategy of managing the portfolio, which concluded that the Danish assets are no longer core to the business. Approval of the sale to INEOS from Danish Energy Agency (DEA) was received on 9 November 2020 and completed on 19 November 2020.

Prior to closing the transaction in 2020, Spirit Norway Holding AS increased the capital in Spirit Energy Petroleum Danmark AS by NOK 947 million and Spirit Energy Danmark ApS NOK 582 million, to enable the disposal of the Danish companies. The capital was used to settle the Fredericia liability at closing in 2020 of DKK 920 million, including VAT.

Cash from sale of business (NOK 1000)	2021	2020
Consideration of US\$ 25 million	-	224 656
Working capital	-	56 952
Indemnity receivables - cash received ²⁾	167 973	216 125
Indemnity liability - payments	(15 770)	-
Other payment related to the sale of business	(3 447)	-
Net cash received from INEOS E&P	148 756	497 734

Loss from disposal of business (NOK 1000)	2021	2020
Consideration of US\$ 25 million	-	224 656
Working capital	-	56 952
Contingent indemnity liability provision ¹⁾	17 993	(868 226)
Other long term indemnity liability ³⁾	(32 107)	(14 862)
Transaction cost / Other short term indemnity	(3 876)	(15 541)
Indemnity receivables ²⁾	9 919	399 505
Loss on disposals	(8 070)	(217 516)

¹⁾ Spirit Norway Holding AS was required to make contingent payment at closing of NOK 868 226 thousand in the event that the development of the fields does not progress. The contingent indemnity liability estimate has decreased by NOK 17 993 at 31 December 2021 compared to 31 December 2020 mainly due to expected timing of payment is delayed. Refer to note 3 for further information.

²⁾ Refer to note 5.

³⁾ The loss from other long term indemnity liability in 2021 is related to Fredericia Degassing indemnity of NOK 42 913 thousand, partly offset by reduction in Ravn P&A well estimate of NOK 10 807 thousand. Refer to note 3.

Additional contingent consideration of US\$ 65 million is due from INEOS E&P AS based on future development of the fields. No amount has been recognised in respect of this due to the level of uncertainty over the amount to be received.

Note 3 Other non-current liabilities

(NOK 1 000)	2021	2020
Contingent payments ¹⁾	810 327	843 095
Fredericia Degassing indemnity ²⁾	11 307	-
Ravn P&A well indemnity ³⁾	2 337	12 866
Fredericia Opex indemnity	-	1 270
Total 31 December	823 971	857 231

All liabilities classified as non-current liabilities are related to the sale of the Danish companies in 2020.

¹⁾ Spirit Norway Holding AS is required to make contingent payment in the event that the development of the Danish fields does not progress. The contingent payments are in DKK and US\$ and discounted with an interest rate of 2,2 %. Interest expense of NOK 17 335 thousand classified as finance in the income statement is partly offset by reduction in the estimate of contingent liability of NOK 17 993 thousand classified as disposal of business in the income statement. The reduction in contingent payments in 2021 of NOK 32 769 thousand mainly relates to change in exchange rate for NOK compared to USD and US\$.

²⁾ In the beginning of the year a loss of NOK 42 913 thousand was recognised for the Fredericia Degassing indemnity, no liability was recognised for this indemnity at 31 December 2020. The liability have decreased in year by NOK 4 916 thousand due to payment of NOK 7 916 thousand, partly offset by notional interest arising from indemnities NOK (469) thousand and foreign exchange loss of NOK (2 531) thousand. The Fredericia Degassing indemnity is in total NOK 37 997 thousand at 31 December 2021, NOK 11 308 thousand is classified as other non-current liabilities and NOK 26 690 as current liabilities.

³⁾ Operator's study of the Ravn P&A well has reduced the estimated liability.



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Note 4 Trades and other payables

(NOK 1000)	2021	2020
Fredricia Degassing indemnity	26 689	-
Fredricia Opex indemnity	1 214	5 177
Other short term indemnity	6 340	8 419
Total 31 December	34 243	13 596

All liabilities classified as trade and other payables at 31 December 2021 and 31 December 2020 are indemnities related to from the sale of the Danish companies in 2020.

Note 5 Trade and other receivables

At 31 December 2020, other receivables of DKK 123.6 million (NOK 174.4 million) were recognised from the sale of the Danish companies. In January 2021 DKK 69.0 million of the amount was received from INEOS, the additional DKK 54.6 million including a true-up of DKK 7 million (NOK 9 900 thousand) was received in November 2021. The balance at 31 December 2021 was DKK nil.

Cash received is classified as cash from sale of business in the Statement of Cash Flows.

Note 6 Specification of payroll and expenses to auditor

Remuneration to the Board of Directors

There has been no remuneration to the Board of Directors in 2021 or 2020.

Loans and guarantees

No loans were granted or guarantees pledged to employees, shareholders or Directors of the Board in 2021.

Audit fees and other expenses to auditor (NOK 1 000 excl. VAT)	2021	2020
Statutory audit fee	39	30
Other compliance services "non-audit related"	12	25
Total payments to auditor	51	55



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Note 7 Financial items

Financial income (NOK 1 000)	2021	2020
Interest income from group companies	528	961
Foreign exchange gain	24 000	17 478
Interest income	-	23
Reversal of Impairment of financial assets ⁽¹⁾	2 423 000	-
Total financial income	2 447 528	18 462
Financial expense (NOK 1 000)	2021	2020
Interest expense to group companies	-	4 158
Notional interest arising from indemnities	17 704	-
Foreign exchange loss	15	-
Impairment of financial assets ⁽¹⁾	-	1 642 566
Total financial expense	17 719	1 646 723
Net financial items - income/ (expense)	2 429 809	(1 628 261)

⁽¹⁾ Refer to note 11.

Note 8 Related party transactions

Net receivables and liabilities to group companies (NOK 1 000)	2021	2020
Receivables owed from group companies ⁽¹⁾	222 263	65 009
Current liabilities owed to group companies	-	1 330
Total 31 December	222 263	66 339

⁽¹⁾ Group company Spirit Energy Treasury Ltd has provided an unsecured revolving credit facility to Spirit Norway Holding AS of MNOK 1 800.

Cash received in 2021 from the sale of the Danish companies have increased the receivable balance owed from Spirit Energy Treasury Ltd.

Note 9 Equity

(NOK 1 000)

	Share capital ⁽¹⁾	Premium reserve	Other equity	Total equity
Equity 1 January 2021	10 122 118	6 003 699	(15 194 765)	931 052
Profit for the year	-	-	2 420 586	2 420 586
Equity 31 December 2021	10 122 118	6 003 699	(12 774 179)	3 351 638

⁽¹⁾ Share capital as of 31 December 2021 consists of 5 061 059 shares with a par value of NOK 2 000 per share. All shares have equal voting rights.

Shareholders 31 December 2021	Shares	Allocation	Share capital
Spirit Energy Limited	5 061 059	100,00 %	10 122 118



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Note 10 Tax

Tax on net income/loss (-) (NOK 1 000)	2021	2020
Correction of tax payable from prior period	9	-
Tax payable	-	(142)
Change in deferred tax assets	(7)	-
Total tax Income / (expense)	2	(142)
Deferred tax asset	2021	2020
Deferred tax asset	28	35
Deferred tax asset 31 December	28	35
Reconciliation of nominal statutory tax rate to effective tax rate (NOK 1 000)	2021	2020
Net profit/(loss) before tax	2 420 585	(1 853 855)
Calculated income tax at statutory rate nominal 22%	(532 529)	407 848
Total tax at nominal rate	(532 529)	407 848
Tax effect (NOK 1 000)		
Permanent differences	532 560	(407 990)
Correction of tax payable from prior period	9	-
Deferred tax assets from loss carried forward not capitalised	(38)	-
Total tax income/(expense)	2	(142)
Effective tax rate	0,0 %	0,0 %

Deferred tax asset of NOK 38 thousand is not recognised in the balance sheet in respect of loss carried forward.

Note 11 Investment in subsidiaries

(NOK 1 000)

Company	Registered office	Ownership/voting share	Book value of shares 01.01.21	Debt conversion/EQ infusion/Merger	Reversal of impairment	Book value of shares 31.12.21
Spirit Europe Limited ¹⁾	London	100 %	1 563 300	-	2 423 000	3 986 300
Total book value			1 563 300	-	2 423 000	3 986 300

2021 Equity and year-end result (in 1 000)

Company	Profit	Equity
Spirit Europe Limited (in £ 000) ²⁾	203 521	336 849

¹⁾ Spirit Europe Limited is a holding company and holds 100% of the shares in Spirit Energy Southern North Sea Limited. The major activity in Spirit Energy Southern North Sea limited is the production of gas and associated condensate from its main production fields Cygnus Development (12.5%) and Clipper South (25%) in the Southern North Sea. These fields represent proven and probable reserves of approximately 54 billion cubic feet of gas as at 31 December 2021 (2020: 61 billion cubic feet). Production of gas amounted to 12 billion cubic feet (2020: 16 billion cubic feet) in the year with total condensate sales equivalent to 35,000 barrels of oil equivalent (2020: 28,000 barrels of oil equivalent).

²⁾ Note that these are preliminary numbers

Note 12 Events after the balance sheet date

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



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To the General Meeting of Spirit Norway Holding AS

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Spirit Norway Holding AS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable legal requirements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Organisasjonsnummer: 980 211 282

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Independent Auditor's Report -
Spirit Norway Holding AS

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stavanger, 6 May 2022
Deloitte AS

Arnstein Antonsen
State Authorised Public Accountant

Penneo Dokumentnr: JYASB-AWYCYG-GFFAN-M8QKT-777PE-WN13H



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Arnstein Antonsen

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Annual Report & Financial Statements
Year ended 31. December 2021

SPIRIT ENERGY



TABLE OF CONTENT

General Information	2
Strategic Report	3
Directors' Report	12
Directors' Responsibility Statement	16
Financial Report	17
Independent Auditor's Report	18
Consolidated Income Statement	22
Consolidated Statement of Comprehensive Loss	23
Consolidated Balance Sheet	24
Consolidated Statement of Changes in Equity	26
Consolidated Cash Flow Statement	27
Notes to the Consolidated Financial Statements	29
Company Balance Sheet	80
Company Statement of Changes in Equity	81
Notes to the Company Financial Statements	82
Gas and Liquids Reserves (Unaudited)	88
Definitions and Reconciliation of Adjusted Performance Measures (Unaudited)	89



GENERAL INFORMATION

Directors

C.M. O'Shea (Chairman) (appointed 2 February 2022)
Dr. T.C. Meerpohl (Deputy Chairman)
N.J. McCulloch (Chief Executive Officer) (appointed 2 February 2022)
T. Holm
J.S. Bessell
D.J. House
M.R. Scargill (appointed 14 July 2021)
G.C. McKenna (resigned on 14 July 2021)
V.M. Hanafin (resigned 2 February 2022)
C.M. Cox (resigned 2 February 2022)

Registered office

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

Auditor

Deloitte LLP
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Company number

10854461

Company type

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



STRATEGIC REPORT

The Directors present their Consolidated Strategic Report for Spirit Energy Limited (the 'Company') and its subsidiaries (together, the 'Group' or 'Spirit Energy') for the year ended 31 December 2021.

Principal activities and strategy

In December 2021, Spirit Energy's shareholders announced the sale of its Norwegian oil and gas portfolio. The strategy for the remaining UK gas portfolio is to deliver a focused business that will realise value to its shareholders through the safe delivery of production from its existing assets, meeting and de-risking its decommissioning obligations, and exploring strategic energy transition opportunities from its existing assets.

Section 172(1) Directors' Duty

As a result of being responsible for overseeing our strategy described above, the Directors remain conscious of the impact their decisions can have on employees, communities and the environment.

Proactive engagement remains a central focus for the Board, which ensures the Directors have regard to the matters set out in S.172(1) (a) to (f) of the Companies Act. They receive regular stakeholder insights and feedback, which enables them to place stakeholder considerations at the very heart of the Board's decisions as follows:

Section	Reference	Page
Decisions for the long-term success of the Company	Strategic Report – Principal activities and strategy	3
	Directors' Report – Going concern	12
	Strategic Report – Future developments in business	5
	Directors' Report – Governance framework	13
	Note 21 – Sources of finance	56
	Strategic Report – Streamlined energy and carbon reporting	8
How the Board engages with stakeholders and how the Directors have regard to the need to foster the Company's business relationships with all of its stakeholders, and the effect of that regard	Strategic Report – Business relationship	11
	Directors' Report – Employment policies	13
	Directors' Report – Governance framework	13
Risks	Strategic Report – Principal risks and uncertainties	7
	Note S2 – Financial risk management	70
Training and information	Strategic Report – Employee engagement and culture	10
	Directors' Report – Employment policies	13
Policies and procedures	Directors' Report – Governance framework	13
Capital allocation and dividend policy	Directors' Report – Governance framework	13
	Note 9 – Dividends	43
Culture and workforce	Strategic Report – Employee engagement and culture	10
	Directors' Report – Employment policies	13
Climate Change	Strategic Report – Streamlined energy and carbon reporting	8



STRATEGIC REPORT

CONTINUED

Key performance indicators ('KPIs')

In order to monitor the delivery of our strategy, we have identified KPIs which are used across the business to manage the assets and identify opportunities to improve performance and adapt operating plans to changing circumstances. Performance against KPIs is tracked and reviewed at monthly meetings of the Executive Committee and is reported to the Board of Directors. The Directors believe that these financial KPIs provide additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Please refer to page 89 for definitions and reconciliation of adjusted performance measures to the statutory results. The following tables discuss the financial and non-financial KPIs for the current year with prior year comparatives.

Financial KPIs

KPI	Description	Relevance to Group strategy	2021 Performance for year	2020 Performance for year (restated) ⁽ⁱ⁾
Adjusted operating profit	Operating profit before exceptional items and certain re-measurements of energy contracts ⁽ⁱⁱ⁾	Reflects Group profitability performance	£34m	£8m
Adjusted profit after tax	Profit for the year after tax before exceptional items and certain re-measurements of energy contracts and related taxation ⁽ⁱⁱ⁾	Reflects Group profitability performance	£32m	£39m
Adjusted operating cash flow	Net cash flow from operating activities before payments relating to exceptional charges	Reflects cash flow available for capital expenditure	£294m	£246m
Free cash flow	Adjusted operating cash flow less purchases of PP&E and intangibles and proceeds from sales of PP&E, intangibles and business	Reflects cash flow available for Shareholder dividends and servicing finance	£262m	£62m
Lifting cost per barrel	All field operating costs and tariffs (net of costs incurred for running a third-party terminal at Barrow)	Reflects competitive cost structure and ability to generate cash flow in a low-price environment	£16.3/boe	£13.9/boe

Non-financial KPIs

KPI	Description	Relevance to Group strategy	2021 Performance for year	2020 Performance for year (restated) ⁽ⁱⁱ⁾
Total recordable incident frequency ('TRIF') rate	Total recordable incidents per 200,000 hours for operated assets	Reflects safety performance which is a core foundation of a sustainable company	0.11	0.21
Process safety incident rate ('PSIR')	Number of Tier 1 and Tier 2 process safety incidents per 200,000 hours for operated assets	Reflects safety performance which is a core foundation of a sustainable company	0.00	0.00
Production	Production of gas, oil and liquids	Core driver of revenue generation and long-term sustainability of production	17.8 mmboe	21.4 mmboe
Reserves/production	2P reserves/current year production	Reflects long-term sustainability of production	4.1	4.4

(i) A description of exceptional items and re-measurements of energy contracts is provided in note 2 within the notes to the Financial Statements.

(ii) With the exception of TRIF and PSIR which are company-wide safety metrics, prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.



STRATEGIC REPORT

CONTINUED

Operating review

During the year, the sale of the interests in Statfjord (UK and Norway) and the full portfolio of Norwegian oil and gas assets to two unrelated third-party buyers was agreed for a headline consideration of \$1,076 million, subject to purchase price adjustments. The sale completed on 31 May 2022. These disposals have been treated as discontinued operations in the financial statements.

For continuing operations, annual production was down 16% to 17.8mmboe compared to 2020, with natural field decline, longer turnarounds at Morecambe and Greater Markham Area, and unplanned downstream restrictions curtailing production at Cygnus, partially offset by the impact of new production wells at York and Grove North East. Our 2P reserves were 20mmboe lower at the end of 2021 than at the end of 2020, due to production and negative provisions of 1.5mmboe during the year. Overall, this represented a reserves/production ratio of 4.1 times (2020: 4.4 times).

2021 has seen significant increases in forward commodity prices, both in terms of observable market prices and forecast forward prices. As a result, write-backs totalling £743 million were booked offset by £20 million impairment charges due to increased decommissioning liabilities (2020: impairment charge of £469 million). Additionally, £32 million of intangible assets have been written off as exceptional charges during the year due to refocussing Group strategy on safe production and decommissioning, while minimising future investment in exploration.

Lifting costs increased from £13.9/boe in 2020 to £16.3/boe in 2021, principally reflecting lower production partially offset by improvements in underlying costs.

We continued to achieve substantial cost savings across our operated decommissioning portfolio. In the UK, an infill drilling campaign in Grove North East, an operated asset, was completed.

Future developments in business

The Group's objective is to maintain safe production at a low cost in order to generate strong cash flow which will be utilised to meet the remaining portfolio's decommissioning obligations while minimising further investment in oil and gas exploration.

We will progress infill drilling at Chiswick as operator, and expect to participate in the in-fill drilling campaign as non-operated partners in Cygnus.

The Group continues to execute decommissioning projects and in 2022 will be focussing primarily on Chestnut, Trees and A-Fields.

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



STRATEGIC REPORT

CONTINUED

Financial review

Revenue increased by £882 million, or 207%, to £1,308 million (2020: £426 million) principally due to higher commodity prices.

Cost of sales were £544 million, 2% lower than 2020 (2020: £554 million).

Operating costs of £71 million were £42 million lower than £113 million in 2020 due to lower exploration costs.

The statutory operating loss was £567 million in 2021 compared to £762 million in 2020 primarily due to losses on re-measurements of energy contracts offset by impairment write-backs due to improved commodity prices. Operating loss included exceptional income of £511 million (2020: costs of £516 million). £723 million of this comprised of net impairment reversals on certain fields, predominantly due to increases in price forecasts. £40 million related to reversals in unused decommissioning provisions relating to assets previously impaired through exceptional items. £187 million related to an impairment on goodwill due to the disposal of the Norwegian fields and Statfjord and a write-off of the remaining exploration and evaluation assets of £32 million pre-tax due to the update in strategy to minimise investment in oil and gas exploration. £3 million of exceptional costs were from business change and restructuring costs and a £30 million loss occurred from the disposal of subsidiaries. Further details can be found in note 6.

Gross loss of £1,007 million (2020: £133 million) included £1,771 million of losses from the re-measurements of energy contracts (2020: £5 million). This consisted of a £1,112 million loss (2020: £254 million) from the re-measurement of certain energy contracts and a £659 million loss (2020: gain of £249 million) from the settlement of energy contracts due to the increase in commodity prices.

Loss after taxation for the year from continuing operations was £304 million (2020: £508 million).

Alternative performance measures

The following alternative performance measures only relate to continuing operations.

Adjusted operating profit increased by £26 million to £34 million principally due to improved commodity prices.

Adjusted profit after tax decreased by £7 million to a profit of £32 million (2020: £39 million)

Adjusted operating cash flow increased by 19% to £294 million, driven primarily by improved prices. After capital expenditure of £76 million (2020: £124 million) and inflows of £44 million (2020: outflows of £66 million) from the sale of businesses, the Group generated free cash flow of £262 million in 2021 compared to £62 million in 2020.

Lifting costs increased from £13.9/boe in 2020 to £16.3/boe in 2021, principally reflecting lower production partially offset by improvements in underlying costs.



STRATEGIC REPORT

CONTINUED

Principal risks and uncertainties

Spirit Energy is exposed to risks arising from compliance, environmental, strategic, operational and financial factors. Accordingly, our management system includes a risk, assurance and control framework to ensure that consistent methods and processes are applied across the business to manage risks and opportunities arising in delivering our strategy.

Key risks include operational risks, particularly relating to the safe and reliable operation of the business, retention and succession of key people and effective and available information systems and security. Spirit Energy invests heavily in its resource capability and management systems including standards, policies, procedures and controls to minimise the severity of the impact and probability of such risks arising. We also maintain a comprehensive insurance programme against losses incurred in the operation of our assets and executing exploration drilling, capital developments and decommissioning projects.

Spirit Energy's response to the COVID-19 pandemic remained an area of focus throughout 2021. Pandemic response plans were reviewed throughout the year to align with government guidelines and ensure safe operations both on and offshore.

Spirit Energy monitors and ensures compliance with regulatory requirements. The risks associated with compliance includes market conduct, financial crime, data protection, competition and various reporting obligations such as the Modern Slavery Act.

We manage liquidity risks through an agreed financial framework to build a sustainable long-term cash flow underpinning the Group's liquidity requirements and capital investments. Spirit Energy has significant cash and cash equivalents of £1,233 million as at 31 December 2021 (2020: £444 million) to cover its liquidity requirements for the foreseeable future. Investments and dividends are managed to ensure that we maintain a working capital liquidity buffer. In addition, exposures to commodity prices, foreign exchange rate movements and credit risk are managed through agreed hedging and treasury policies, thereby shielding Spirit Energy from external market risks.

Spirit Energy is also exposed to information system (IS) security risks, in relation to cyber-attack and misuse, data protection and fraud which are mitigated through a framework of relevant controls. Increased vigilance is required due to the ongoing Ukrainian/Russian conflict.

Spirit Energy's Procurement & Supply Chain group are actively monitoring the Ukrainian/Russian conflict, for its impact on global supply chains. Current findings indicate no immediate direct exposure to Russian or Ukrainian supply and consequently no direct risk of dealing with sanctioned entities, or disruption to directly contracted supply. However, there may be lower tier/sub-supply risk – which is being investigated and action will be taken as necessary following the discovery of any red flags. The risk of disruption to supply, considered medium-high at the current time, is being investigated through key suppliers and may change as the situation evolves. Currently this is the only risk identified associated with the conflict.

The risk of cost escalation is also currently considered medium-high, based on commodity and service-related increases already being experienced. The extent and impact of this is being reviewed in detail to enable a more comprehensive assessment and allow actions to be taken to mitigate and lower the risk exposure to Spirit Energy.

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



STRATEGIC REPORT

CONTINUED

Streamlined energy and carbon reporting (SECR)

Our vision

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

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

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

Background

On 1 April 2019, The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 entered into force. The 2018 Regulations obligate large, unquoted companies (including Spirit Energy) to report on energy use and carbon emissions. This report, in compliance with the 2018 Regulations, states Spirit Energy's annual Scope 1 and 2 emissions in tonnes of carbon dioxide equivalent (TeCO₂e) resulting from our operations during the 2021 reporting period.

Definitions

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

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

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

Hybrid methodology organisational boundary

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

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



STRATEGIC REPORT

CONTINUED

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

Total emissions data under the hybrid methodology ⁽ⁱ⁾⁻⁽ⁱⁱⁱ⁾	UK	NL	NOR	2021 Total	UK	NL	NOR	2020 Total
Offshore Upstream Emissions:								
Scope 1 (TeCO ₂ e)	239,439	43,568	387,483	670,490	274,419	55,088	426,785	756,292
Carbon Intensity (TeCO ₂ e/mboe) ^(iv)	12.9	15.7	16.5	15.0 ^(iv)	14.8	19.8	18.1	16.9
Onshore Midstream Emissions:								
Scope 1 (TeCO ₂ e)	338,005	122	– ⁽ⁱⁱ⁾	338,127	417,164	122	– ⁽ⁱⁱ⁾	417,286
Scope 2 (TeCO ₂ e)	10,367	– ⁽ⁱ⁾	– ⁽ⁱⁱ⁾	10,367	15,393	– ⁽ⁱ⁾	– ⁽ⁱⁱ⁾	15,393
Offshore Drilling Emissions:								
Scope 1 (TeCO ₂ e)	5,319	– ⁽ⁱⁱⁱ⁾	11,237	16,556	21,089	– ⁽ⁱⁱⁱ⁾	14,488	35,577
Onshore Facilities Emissions:								
Scope 2 (TeCO ₂ e)	273	48	220	541	245	48	220	513
Total Scope 1 & 2 (TeCO₂e)	593,403	43,738	398,940	1,036,081^(iv)	728,310	55,258	441,493	1,225,061^(iv)

(i) Scope 1 and Scope 2 midstream emissions (for facilities in which Spirit Energy is an equity partner) are captured in the top-line totals.

(ii) Spirit Energy does not hold any equity in mid-stream emissions in Norway.

(iii) Chiswick 49/D4a-C8 drilling emissions captured within UK drilling totals.

(iv) Due to the different methodologies applied by various E&P Companies under SECR requirements, it is possible that some of these emissions have also been reported by the host platform operator.

(v) (TeCO₂e/mboe): tonnes of carbon dioxide equivalent per thousand barrels of oil equivalent.

(vi) Gas combustion: for instances where emissions analysis is unavailable, an emissions factor of 2542.41 kgCO₂e per tonne was used (UK Government GHG Conversion Factors for Company Reporting).

(vii) Diesel combustion: for instances where emissions analysis is unavailable, an emissions factor of 3206.62 kgCO₂e per tonne was used (UK Government GHG Conversion Factors for Company Reporting).

(viii) Methane venting/fugitives: un-combusted methane released to atmosphere is considered to have a 100-year global warming potential of 25 times carbon dioxide (IPCC AR4).

(ix) Average carbon intensity across UK, NL & NOR.

Operational control boundary definitions

We have also chosen to disclose our operational control emissions. This is an alternative view of accounting for carbon emissions, from assets where Spirit Energy has direct control of the asset operations as defined under the SECR guidance (2018 Regulations) of operational control. These emissions represent an alternative view to the hybrid methodology approach (shown in the table above) and the two volumes are not additive. The table below represents Spirit Energy's emissions under operational control for the 2021 reporting year.

Operated assets emissions data	UK	NL	NOR	2021 Total	2020 Total
Total Scope 1 and 2 (TeCO ₂ e)	596,697	65,290	220	662,207	776,005

Energy efficiency actions

The reduction in emissions from 2020 to 2021 is in part due to asset shutdown periods and natural production decline. During the 2021 reporting period, Spirit Energy initiated a project to operationalise GHG emissions. An emissions management framework (EMF) was created and implemented on a pilot basis at the Morecambe Bay offshore upstream and onshore midstream assets. The framework aligns with Spirit Energy's existing production management system, and facilitates real-time intra-day emissions monitoring, interventions, and management. It is conservatively estimated that operational interventions from the EMF could result in approximately 5%-10% reduction in emissions. Following the successful pilot phase, Spirit Energy intends to roll-out the EMF across all operated assets.



STRATEGIC REPORT

CONTINUED

Employee engagement and culture

Employee engagement

COVID-19 and subsequent government guidance continued to have a significant impact on the way our workforce carried out business operations in 2021. Whilst challenges existed throughout the year, our teams repeatedly responded with commitment and determination to deliver on Spirit Energy's organisational objectives, including voluntarily isolating before mobilising offshore, remaining available to backfill when on field breaks, introducing increased agility around working hours when having to work from home, and contributing to the design and considerations as we changed our approach to office-based working arrangements. These efforts were a direct result of repeated engagement efforts with our staff and employee-led networks who directly supported the trials of our new hybrid working models across many of our offices.

The results of our second annual Employee Engagement Survey were published in early 2021. Participation remained high at 83% and despite the many challenging factors outside of our control, we maintained our 2020 engagement score. To further strengthen employee engagement in 2021, we focussed on Reward Transparency, Personal Growth, COVID-19 response and Health & Wellbeing – Physical, Mental and Financial.

In line with our commitment to improve people leadership capability, the first cohort of people leaders started their participation in Spirit Energy's in-house virtual leadership development programme – Spiritwise. In addition, responding to feedback from our employee engagement survey we designed and launched our in-house Morecambe Hub Supervisory Leadership Programme (MSLP), aimed at building supervisory capability within our teams at Barrow Terminal and offshore Morecambe Bay.

Talent reviews were further embedded in the Company to provide an equal opportunity for all employees to openly discuss their career aspirations and receive feedback from management. The output of these reviews was often used to support the internal placement of our people when opportunities arose. We continued to strive for gender balanced candidate slates and interview panels in all recruitment interviews together with extending our reach into diverse external talent pools when searching for external talent. During 2021 we expanded our intern programme, providing a virtual, paid internship for 8 interns across both our technical and support functions in the UK and Norway.

The employee led Diversity & Inclusion (D&I) Network groups have continued to support Spirit Energy by providing a variety of events, thought leadership and guidance during 2021. Many of these efforts have been recognised externally. Spirit Energy won the 2021 Oil & Gas UK Awards for Diversity & Inclusion; were a national finalist in the Best Employee Wellbeing strategy at the 2021 Engage Awards and were finalists at the AFBE (Association for Black and Minority Ethnic Engineer) Awards in the 'Mentor' category, as well as runners up in Company of the Year category. This was great recognition for our employee led Network and their contribution to the employee experience at Spirit Energy.

Reward and benefits

The new Spirit Long Term Incentive Plan (LTIP) was introduced with grants made to eligible employees.

In line with previous years, Spirit Energy operated an open enrolment for selection and participation in UK employee benefits. Listening to our employees, Spirit Energy were able to competitively introduce two new benefits in 2021 – 'Partner' Life Insurance and an increase in the amount available to purchase in technology vouchers. 54% of eligible employees exercised their choice to participate in one or more benefits available.

Spirit Energy's 2020 Gender Pay Gap (GPG) was published as part of the Centrica plc report. We will continue to make progress in closing Spirit Energy's GPG. Our mean gender pay gap, or the difference between our hourly wage spend-per-woman and hourly wage spend per-man, has continued moving in the right direction, falling by one percentage point to 16% (a 6-percentage point decrease since 2018). This keeps us in line with the UK national average for all employees. Our mean gender bonus gap has improved year on year, falling from 26% in 2019 to 15% in 2020. This reflects the increase in bonuses paid to a higher proportion of women in senior roles, some one-time payments associated with their recruitment and the payment of deferred bonus plans, which matured during the reporting period.

Organisation

We successfully concluded collective consultation with the Operations teams in the Morecambe Hub Asset group. Organisational improvements and updated terms and conditions for the Maintenance and Support teams at Barrow Terminals came into effect, driving further clarity on accountabilities for production performance, operational



STRATEGIC REPORT

CONTINUED

integrity and compliance while also improving focus on work preparation and planning.

Spirit Energy's voluntary attrition rate in 2021 was 6.3%. This compares to 3.9% in 2020 and 6.8% in 2019.

Business relationships

Spirit Energy aims to build enduring relationships with suppliers driven by our core values of Care, Agility, Courage, Delivery and Collaboration. We measure ourselves by these values and work closely with our suppliers in encouraging them to do the same, seeing them as an extension of our teams.

In 2021 we awarded major contracts in a number of categories including decommissioning, drilling, projects and operations and maintenance, which are helping us on our journey to reduce complexity and build stronger, deeper relationships with our key suppliers. We also continued to work constructively with our supply chain to address the challenges from the effects of the COVID-19 pandemic and Brexit.

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

Approval

This report was approved by the Board of Directors on 31 May 2022 and signed on its behalf by:

Neil McCulloch
Director and Chief Executive Officer



DIRECTORS' REPORT

The Directors submit their report on the affairs of the Group, together with the Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2021.

Results and dividends

The Group's results and performance summary for the year are set out in the Group Strategic Report on pages 3 to 11. No dividends have been paid in 2021 (2020: nil). The Directors proposed a final dividend of 39.27 pence per ordinary share and nil pence per preference share, totalling £375 million for the year ended 31 December 2021. The dividend was approved by the Board on 31 May 2022 and will be paid in June 2022. Notwithstanding the provisions of the Articles, the Shareholders have agreed to disapply certain provisions of the Articles in order to pay dividends on the ordinary shares following the sale of the Norwegian business, despite not having redeemed all of the preference shares first.

Events after the balance sheet date

Significant events since the balance sheet date are contained in note 25 to the Consolidated Financial Statements on page 59.

Future developments

A description of future developments can be found in the Group Strategic Report on page 5. A description of the Group's exposure and management of risks is provided in the Group Strategic Report on page 7.

Going concern

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis. The Group has considered its funding position and financial projections from the date of the approval of these financial statements until 31 December 2023, including stress test sensitivities, and the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Directors' considerations for the going concern assessment is summarised in note 21(b) on page 56.

Financial instruments

Full details of the Group's financial instruments can be found in notes 16, S2 and S3 to the Consolidated Financial Statements on pages 51, 70 and 73.

Directors

The Directors who served throughout the year and to the date of this report, except as noted, were as follows:

C.M. O'Shea (Chairman) (appointed 2 February 2022)
Dr. T.C. Meerpohl (Deputy Chairman)
N.J. McCulloch (Chief Executive Officer) (appointed 2 February 2022)
T. Holm
J.S. Bessell
D.J. House
M.R. Scargill (appointed 14 July 2021)
G.C. McKenna (resigned on 14 July 2021)
V.M. Hanafin (resigned 2 February 2022)
C.M. Cox (resigned 2 February 2022)

Directors' indemnities and insurance

In accordance with the Company's articles of association, the Company has granted an indemnity, to the extent permitted by law, to Directors and members of the Group's Executive Committee. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2021 and remain in force. The Company maintains Directors' and officers' liability insurance in respect of its Directors and members of the Group's Executive Committee and those Directors of its subsidiary companies.



DIRECTORS' REPORT

CONTINUED

Employment policies

Employee involvement

Spirit Energy remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through town halls, personal briefings, regular meetings, email and broadcasts by Executive Committee members during the year.

In addition to employee involvement and communication related to business updates and performance, the Group actively encourages employee engagement in various initiatives across the organisation.

Equal opportunities

Spirit Energy is committed to an active equal opportunities policy from recruitment and selection, through training, development, performance reviews and promotion, until retirement. The Group's policy is to promote equality of opportunity, diversity, respect and inclusion in the workplace and to eliminate unfair or unlawful discrimination.

Employment policies and practices reflect a culture where decisions are made solely on the basis of individual capability and potential in relation to the needs of the business. Protected characteristics covered by legislation are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (including ethnic origins, nationality and colour), religion or belief, sex and sexual orientation. In addition, the Group ensures it does not treat anyone less favourably because of factors such as working part-time and or on a fixed-term contract.

Employees with disabilities

The Group's policy is committed to the fair treatment of people with disabilities in relation to job applications and they should have full and fair consideration for all vacancies. During the year, the Group continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria and endeavoured to retain employees in the workforce if they became disabled during employment. In addition, the Group offers opportunities to disabled employees for training, career development and promotion. In the event of an existing employee becoming disabled during their employment, the Group's policy is to provide continuing employment wherever practicable and to provide suitable training where required.

Human rights

The Group recognises its responsibility to respect human rights across its business, supply chain and communities and is committed to uphold and protect the human rights of individuals working in the communities and societies in which the Group operates. The Group supports and embeds the standards set out in the Universal Declaration of Human Rights; the Group will support and respect the protection of internationally proclaimed human rights and make sure that it is not complicit in human rights abuses. The Group also recognises the opportunity to contribute positively to global efforts to ensure human rights are understood and observed.

Governance framework

Spirit Energy's relationship with its Shareholders ((GB Gas Holdings Limited (GBGH), SWM Bayerische E&P Beteiligungsgesellschaft MBH (BE/PB) and SWM Gasbeteiligungs GMBH (SWM)) is principally governed by the Articles of Association and the Shareholders' Agreement. Together these documents stipulate the mutual obligations between Spirit Energy and its Shareholders. The Shareholders' Agreement lays out the agreed strategy, objective and purpose of the Company, as well as defining the Financial Framework, which governs how investment and distribution of profits are balanced to achieve the Company's objective of sustainable long-term cash flow.

As a result of the sale of the Spirit Energy's Norwegian oil and gas exploration and production business, excluding the Statfjord field, to Sval Energy AS and interests in the Statfjord field to subsidiaries of Equinor ASA, an amended Shareholders' Agreement and Articles of Association has been signed and took effect from completion of the sale.

The amended Shareholders' Agreement provides that Spirit Energy's future strategy will be to realise value from its remaining portfolio assets while minimising further investments in oil and gas exploration and development, and to utilise cash from the Spirit Energy Group's operations to meet, and de-risk, decommissioning obligations in respect of its remaining portfolio. Excluding any distribution relating to the sale of the Norwegian Business, cash will be distributed to Spirit Energy's shareholders only to the extent that cash held by Spirit Energy exceeds 1.5x the estimated future pre-tax decommissioning liabilities of the remaining Spirit Energy portfolio. Details within the S.172 statement on page 3 sets out our engagement with our stakeholders.



DIRECTORS' REPORT

CONTINUED

Principal risks to free cash flow include: commodity prices and foreign exchange rates, production outages, the working capital cycle, emergency costs and capital project delays or overruns. The Group undertakes hedging activity to protect against commodity and foreign exchange volatility.

In the instance that the Group is reasonably expected to suffer an adverse cashflow position, it shall seek to: manage and reduce its capital expenditure; consider divestment of assets; disapplying or amending the Distribution policy; and/or seek third party debt. Spirit Energy monitors its adherence to the Financial Framework through appropriate metrics such as cash flow generation, dividend pay-out rate and debt capacity. Investment decisions are made with reference to appropriate criteria, and in all cases seek to create value for the Group.

The Shareholders' Agreement also stipulates the Board composition, governance and decision approval requirements including in relation to the disposal of assets. Our Board of Directors is composed of seven non-independent directors: four non-executive directors (including the Chairman) appointed by GBGH; two non-executive directors (including the Deputy-Chairman) appointed by BE/PB; and our executive director, the CEO of the Company. Quorum is met when at least one representative director from each Shareholder is present and decisions are approved on a simple majority basis, with each director allocated one vote. The Board has established an Audit Committee and a Remuneration Committee to act on an advisory basis. Key management disclosures are included within note S5. The Board is responsible for: implementing the Group's objective and purpose; determining and implementing the Group's strategy; management and operational oversight of the Group; and taking decisions in respect of certain matters. This includes the approval of the annual budget, which allocates capital to a scope of work that the Group anticipates undertaking in the forthcoming calendar year.

There exist some matters and decisions, as specified by the Shareholders' Agreement, which are reserved for approval by the Shareholders. These include (but are not restricted to): activities that are misaligned with the Group's stated objective and purpose, entry and amendment of related party agreements, raising of debt or entry into obligations with third parties; mergers and material acquisitions; and the remuneration and performance targets set for executive senior management.

The Board has conferred levels of authority for decision making to the CEO of Spirit Energy. The CEO is assisted by

the Executive Committee, a team of executive senior managers (including the CFO and General Counsel), who convene on a regular basis to consult on material business matters and make informed approval decisions.

As per the Shareholders' Agreement and subject to confidentiality provisions therein, Spirit Energy provides regular and routine performance reporting to its Shareholders, as well as providing ad hoc information when it is reasonably requested.

Political donations

The Group operates on a politically-neutral basis. No political donations were made, or political expenditure incurred by the Group for political purposes during the current or prior year.

Financial risk management

Details of the Group's financial risk management can be found in note S2 to the Consolidated Financial Statements on pages 70 to 73.

Related-party transactions

Full details of the Group's related-party transactions can be found in note S5 to the Consolidated Financial Statements on pages 76 and 77.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 22. The Company has two classes of ordinary shares; each share carries a full voting, dividend, and capital distribution right. The preference shares have attached to them voting, and capital distribution rights. The deferred share does not have any right to a dividend, vote or distribution of profits of the Company on winding up.



DIRECTORS' REPORT

CONTINUED

Disclosure of information to the Company's auditor

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

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Reappointment of auditor

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as the Company's auditor in the absence of an Annual General Meeting.

Approval

This report was approved by the Board of Directors on 31 May 2022 and signed on its behalf by:

Neil McCulloch
Director and Chief Executive Officer



DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006 and have chosen to prepare the financial statements of Spirit Energy Limited ('the Company') in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

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

In preparing the Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 31 May 2022 and signed on its behalf by:

By order of the Board

Neil McCulloch
Director and Chief Executive Officer



FINANCIAL REPORT

Financial report	
Independent Auditor's Report	18
Consolidated Income Statement	22
Consolidated Statement of Comprehensive Loss	23
Consolidated Balance Sheet	24
Consolidated Statement of Changes in Equity	26
Consolidated Cash Flow Statement	27
Notes to the Consolidated Financial Statements	29
Company Balance Sheet	80
Company Statement of Changes in Equity	81
Notes to the Company Financial Statements	82
Gas and Liquids Reserves (Unaudited)	88
Definitions and Reconciliation of Adjusted Performance Measures (Unaudited)	89



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

Report on the audit of the financial statements

Opinion

In our opinion:

- the Financial Statements of Spirit Energy Limited (the Company) and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Loss;
- the Consolidated and Company Balance Sheets;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the related notes 1 to 25 and S1 to S7 to the Consolidated Financial Statements; and
- the related notes A to H to the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and 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.



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

CONTINUED

Other information

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

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

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included 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 Group's ability to operate or to avoid a material penalty. These included the Group's field licences monitored by the Industry Regulators, Health and Safety, and Environmental Laws and Regulations.



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

CONTINUED

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

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

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

To address this fraud risk we:

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

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

To address this fraud risk we:

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

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;



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

CONTINUED

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit, members of the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

**Graham Hollis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
31 May 2022**



CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Continuing operations			
Revenue	4	1,308	426
Cost of sales	5a	(544)	(554)
Re-measurement of energy contracts	5b	(1,771)	(5)
Gross loss		(1,007)	(133)
Operating costs	5a	(71)	(113)
Exceptional items	6a	511	(516)
Total operating income/(costs)		440	(629)
Operating loss		(567)	(762)
Financing costs	7	(11)	(25)
Investment income	7	4	4
Loss before taxation from continuing operations		(574)	(783)
Taxation on loss from continuing operations	8	270	275
Loss after taxation for the year from continuing operations		(304)	(508)
Discontinued operations⁽ⁱⁱ⁾			
Profit after taxation for the year from discontinued operations	10	200	7
Loss for the year		(104)	(501)

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

(ii) Profit from discontinued operations is entirely attributable to equity holders of the parent company.

The notes on pages 29 to 79 form part of these Consolidated Financial Statements.



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CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Year ended 31 December	Notes	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Loss for the year		(104)	(501)
Other comprehensive loss for the year:			
Items that will be or have been reclassified to the Consolidated Income Statement:			
Exchange loss on translation of foreign operations	S4	(10)	(17)
Exchange differences recycled to the Consolidated Income Statement on disposal	S4	-	12
Net gain on cash flow hedges	S4	-	1
Taxation on cash flow hedges	S4	-	(1)
Other comprehensive loss for the year, net of taxation		(10)	(5)
Total comprehensive loss for the year		(114)	(506)
Total comprehensive income/(loss) for the year from:			
Continuing operations		(304)	(509)
Discontinued operations		190	3

(i) The 2020 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.

The notes on pages 29 to 79 form part of these Consolidated Financial Statements.



CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2021 £m	2020 (restated) ⁽ⁱ⁾ £m	2019 (restated) ⁽ⁱ⁾ £m
Non-current assets				
Goodwill	12	-	436	480
Other intangible assets	12	-	104	200
Property, plant and equipment	11	1,375	1,961	2,428
Derivative financial instruments	16	3	4	22
Deferred tax assets	13	725	579	412
Trade and other receivables	14	60	103	84
		2,163	3,187	3,626
Current assets				
Inventories	15	43	70	87
Trade and other receivables	14	496	318	380
Derivative financial instruments	16	4	18	160
Current tax assets		32	78	70
Assets held for sale	10	1,665	-	12
Cash and cash equivalents	21a	1,233	444	361
		3,473	928	1,070
Total assets		5,636	4,115	4,696

(i) The 2020 and 2019 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.



CONSOLIDATED BALANCE SHEET

CONTINUED

As at 31 December	Notes	2021 £m	2020 (restated) ⁽ⁱ⁾ £m	2019 (restated) ⁽ⁱ⁾ £m
Current liabilities				
Trade and other payables	17	(354)	(245)	(378)
Current tax liabilities		(296)	(91)	(197)
Lease liabilities	21c	(24)	(28)	(23)
Derivative financial instruments	16	(886)	(65)	(9)
Provisions for other liabilities and charges	18	(122)	(64)	(132)
Liabilities associated with assets held for sale	10	(1,232)	-	(6)
		(2,914)	(493)	(745)
Non-current liabilities				
Deferred tax liabilities	13	-	(89)	(131)
Provisions for other liabilities and charges	18	(1,064)	(2,013)	(1,799)
Lease liabilities	21c	(17)	(42)	(63)
Derivative financial instruments	16	(317)	(40)	(1)
Trade and other payables	17	(69)	(69)	(87)
		(1,467)	(2,253)	(2,081)
Total liabilities		(4,381)	(2,746)	(2,826)
Net assets		1,255	1,369	1,870
Equity				
Share capital	22	19	19	19
Share premium	23	-	1,094	1,094
Retained losses		(369)	(1,359)	(868)
Other equity	S4	1,605	1,615	1,625
Shareholders' equity		1,255	1,369	1,870

(i) The 2020 and 2019 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.

The Consolidated Financial Statements on pages 22 to 79, of which the notes on pages 29 to 79 form part, were approved and authorised by the Board of Directors on 31 May 2022 and were signed below on its behalf by:

Neil McCulloch
Director and Chief Executive Officer



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium £m	Retained losses £m	Other equity £m	Total £m
1 January 2020 (restated)⁽ⁱ⁾		19	1,094	(868)	1,625	1,870
Loss for the year		-	-	(501)	-	(501)
Other comprehensive loss for the year		-	-	5	(5)	-
Total comprehensive loss for the year		-	-	(496)	(5)	(501)
Employee share schemes		-	-	5	(5)	-
31 December 2020		19	1,094	(1,359)	1,615	1,369
Loss for the year		-	-	(104)	-	(104)
Other comprehensive loss for the year	S4	-	-	-	(10)	(10)
Total comprehensive loss for the year		-	-	(104)	(10)	(114)
Reduction in share premium		-	(1,094)	1,094	-	-
31 December 2021		19	-	(369)	1,605	1,255

(i) Opening retained earnings have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.

The notes on pages 29 to 79 form part of these Consolidated Financial Statements.



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Notes	2021 £m	2020 (restated) ¹ £m
Continuing operations			
Operating profit/(loss)		(567)	(762)
Add back/(deduct):			
Depreciation, amortisation, write-downs, (write-backs) and impairments of fixed assets	11a, 12e	(269)	732
Loss on disposals	10	30	4
Decrease in provisions		(79)	(56)
Exceptional charges reflected directly in operating profit	6a	3	3
Loss arising from certain re-measurements of energy contracts	6b	1,112	254
Operating cash before movements in working capital and exceptional payments		230	175
(Increase)/decrease in inventories		(7)	19
(Increase)/decrease in trade and other receivables		(175)	17
Increase/(decrease) in trade and other payables		179	(34)
Cash generated by operations		227	177
Taxes received		65	45
Payments relating to exceptional charges		(2)	(1)
Operating interest received		2	–
Net cash from continuing operating activities		292	221
Net cash from discontinued operating activities		771	283
Net cash from operating activities		1,063	504
Continuing operations			
Receipt of indemnities		4	13
Proceeds from the sale of assets		–	6
Sale of business		44	(66)
Purchase of property, plant and equipment and intangible assets		(76)	(124)
Deferred consideration received/(paid)		13	(9)
Net cash used in continuing investing activities		(15)	(180)
Net cash used in discontinued investing activities		(203)	(186)
Net cash used in investing activities		(218)	(366)



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**CONSOLIDATED
CASH FLOW STATEMENT**

CONTINUED

Year ended 31 December	Notes	2021 €m	2020 (restated) ⁽ⁱ⁾ €m
Continuing operations			
Financing interest and fees paid		(10)	(12)
Financing interest and fees received		-	1
Equity dividends paid		-	-
Repayment of related-party borrowings	21e	-	(14)
Capital element of finance leases	21e	(26)	(22)
Realised net foreign exchange gain on cash settlement of derivative contracts		3	-
Net cash used in continuing financing activities		(33)	(47)
Net cash used in discontinued financing activities		(3)	(4)
Net cash used in financing activities		(36)	(51)
Net increase in cash and cash equivalents		809	87
Cash and cash equivalents at 1 January		444	361
Cash transferred to held for sale	10	(18)	(4)
Effect of foreign exchange rate changes		(2)	-
Cash and cash equivalents at 31 December	21e	1,233	444
Included in the following lines of the Consolidated Balance Sheet:			
Cash and cash equivalents		1,192	430
Restricted cash within cash and cash equivalents		41	14

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

The notes on pages 29 to 79 form part of these Consolidated Financial Statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Spirit Energy Limited ('the Company') was incorporated on 6 July 2017. It is domiciled and incorporated in the UK and registered in England and Wales with registration number 10854461. The registered office address and principal place of business is 1st Floor, 20 Kingston Road, Staines-upon-Thames, England, TW18 4LG. The Company, together with its subsidiaries as detailed in note S7, comprise 'the Group'.

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

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below in the notes to the Consolidated Financial Statements, which focus on areas that are key to understanding the business, and in the Supplementary Information (notes S1 to S7). Unless otherwise stated, these policies have been consistently applied throughout the years presented.

(a) Basis of preparation

This document incorporates the Consolidated Financial Statements of the Group for the year ended 31 December 2021, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and in conformity with the requirements of the Companies Act 2006, subject to the limitations outlined below.

The Consolidated Financial Statements constitute statutory accounts for the year ended 31 December 2021 and contain all disclosures required by the Companies Act.

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

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

The Consolidated Financial Statements have been prepared on a going concern basis. The Group operates under a financial framework to build sustainable long-term cash flow underpinning its liquidity requirements and capital investments. The Group has significant cash and cash equivalents which is expected to cover its liquidity requirements. Investments and dividends will be managed to ensure that the Group maintains a working capital liquidity buffer. Under the financial framework the Company could further seek borrowings from Third Party debt as a mitigation strategy. The Board's consideration of going concern is described in note 21(b).

Basis of consolidation

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

(b) Standards, amendments and interpretations effective or adopted in 2021

The following standards and amendments to IFRS became effective for the period beginning 1 January 2021 and did not have a material impact on the Consolidated Financial Statements:

- Amendments to IFRS 17 and IFRS 4: 'Insurance Contracts' – deferral of IFRS 9; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Report- Phase 2.

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

The Group has not applied the following standards or amendments relevant to the Group's operations in the Consolidated Financial Statements as they are not yet effective:

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

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

CONTINUED

- IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture’;
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies;
 - Amendments to IAS 8: Definition of Accounting Estimates;
 - Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
 - Amendments to IAS 1: Classification of Liabilities as Current or Non-current; and
 - IFRS 17: Insurance contracts.

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

(d) Restatements

Prior year comparatives have been restated for the omission of a decommissioning liability. The following table summarises the impact of the prior year adjustment on the Financial Statements of the Group:

Consolidated Balance Sheet		
As at 31 December	2020 £m	2019 £m
Deferred tax asset	10	10
Provisions and other liabilities in more than a year	(12)	(12)
Decrease in net assets	(2)	(2)

As this liability forms part of the Norwegian disposal group, it has been allocated to held for sale in 2021.

2. SPECIFIC ACCOUNTING MEASURES

Exceptional items and re-measurements of energy contracts

To be able to provide readers with clear information regarding the business performance of the Group, the effects of re-measurements of energy contracts and exceptional items are reported separately in the Consolidated Income Statement.

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production.

2. SPECIFIC ACCOUNTING MEASURES

CONTINUED

These trades are designed to reduce the risk of holding such assets and are subject to strict risk limits and controls. Primarily, because some of these trades include terms that permit net settlement (they are prohibited from being designated as 'own use'), the rules within IFRS 9: 'Financial Instruments' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to the Group's exploration and production assets which are typically not fair valued. Therefore, these re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The Group's result for the year presents both realised and unrealised fair value movements on all derivative energy contracts within the 're-measurement of energy contracts' line item.

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Such key judgements include the following:

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

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Consolidated Financial Statements:

Spirit Energy Limited preference shares

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

Similarly, the conversion rights are at the discretion of Spirit Energy Limited and do not create an obligation. Accordingly, the preference shares are deemed to represent equity rather than a financial liability.

Assets held for sale and discontinued operations

On 8 December 2021, the Group announced that it had agreed to dispose of the Statfjord fields and the Norwegian portfolio of assets for a headline consideration of \$1,076 million (£800 million). In line with IFRS 5, the assets and liabilities of the disposal groups have been classified as held for sale and presented separately on the Group Balance Sheet from 8 December 2021. This is the date at which the disposal groups satisfied the criteria of being readily available for immediate sale and considered highly probable to complete.

Additionally, the disposal groups represent a separate major geographical area of operations, therefore, their results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Loss and Group Cash Flow Statement.

(b) Key sources of estimation uncertainty

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

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

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of oil and gas fields is reviewed annually and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the production life of the respective field but a majority of costs are currently anticipated to be incurred until 2038 (2020: 2041).

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2021 was 0% (2020: 0%). A 1% variation in this discount rate would change the decommissioning liabilities (excluding liabilities moved to held for sale) by approximately £65 million before taxation (2020: £189 million).

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids Property, plant and equipment (PP&E) as well as being a significant

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CONTINUED

estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates and the process for estimating reserve quantities and reserve recognition are described on page 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.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the sensitivity analysis and assumptions used in determining fair valuations of energy derivatives is provided in note S2 and S3.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 6. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are exploration, development and production gas and oil assets and goodwill, as detailed below.

In 2021, the Group's strategy was revised to minimise future spend on exploration and evaluation assets. Therefore, the remaining portfolio of exploration assets of £32 million pre-tax (£20 million post-tax) was fully written off at the end of the year.

Development and production gas and oil assets

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

2021 has seen significant increases in forward commodity prices, both in terms of observable market prices and forecast forward prices. This has increased the level of estimation uncertainty in determining the value of gas and oil assets. As a result, write-backs have been booked.

The valuation of production assets are particularly sensitive to the price assumptions made in the impairment calculations. Further details of the assumptions used in determining the recoverable amounts, the impairments and the impairment reversals booked during the year and the sensitivity to the assumptions, including assumptions for climate-related matters, are provided in note 6.

Goodwill

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

The Group have considered IAS 36.87 in allocating goodwill based on the relative fair value of the assets. However, based on impairment tests prior to the disposal, it was determined that the goodwill balance was supported solely by the Norway business and Statfjord Fields. The full goodwill balance has therefore been allocated to the disposal groups. The goodwill is then further allocated across the disposal group assets within the profit or loss calculation, based on the FVLCTD.

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



3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CONTINUED

Climate change

Climate change has been identified as a key estimation uncertainty for the year ended 31 December 2021. When performing the impairment assessments per IAS 36 'Impairment of Assets', considerations around the carbon costs associated with climate change have been factored into the asset cases when determining the recoverable amounts. For operated assets, the price curves are derived from external sources with long term price assumptions from third-party comparator median curves. These are deemed to be aligned with prices a reasonable market participant would use. As these are external market-based data sources, the price curves consider climate change and any possibility of carbon pricing.

Exposure to climate-related matters does not currently present an indicator of impairment within the Group's gas and oil assets when adjusting for the Net zero price curves. An adjustment for the prices based on the Net zero prices would result in a reduction in write-backs of £2 million (2020: £8 million impairment) across our portfolio of assets, excluding the held for sale balances. Please refer to note 6 for further information on the sensitivity.



4. REVENUE

The principal activities from which the Group derives its revenues are the production and processing of gas and oil. An analysis of the Group's revenue is set out in the table below.

Year ended 31 December	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Revenue from continuing operations		
Sale of goods:		
Gas	1,147	263
Oil and liquids	105	109
Pipeline tariff revenue	22	25
Other revenue	34	29
Total revenue from continuing operations	1,308	426
Revenue from discontinued operations		
Sale of goods:		
Gas	575	137
Oil and liquids	533	436
Pipeline tariff revenue	26	28
Other revenue	2	2
Total revenue from discontinued operations	1,136	603
Total revenue	2,444	1,029

An analysis of revenue by geographical territory, based on the location of the customer, is set out the in the table below.

Year ended 31 December	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Continuing operations		
UK	1,233	388
Norway	35	3
Switzerland	26	8
USA	-	10
Netherlands	13	14
Rest of the world	1	3
Total revenue from continuing operations	1,308	426
Discontinued operations		
UK	866	160
Norway	128	252
Switzerland	36	150
USA	-	38
Rest of the world	106	3
Total revenue from discontinued operations	1,136	603
Total revenue	2,444	1,029

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information

5. COST OF OPERATIONS

(a) Analysis of costs by nature

Year ended 31 December	Note	Cost of sales £m	Operating costs £m	2021 Total costs £m	Costs of sales £m	Operating costs £m	2020 (restated) ⁽ⁱ⁾ Total costs £m
Continuing operations							
Transportation and distribution costs		(78)	-	(78)	(82)	-	(82)
Commodity costs		(25)	-	(25)	(20)	-	(20)
Depreciation, amortisation, impairments and write-downs of fixed assets		(209)	(26)	(235)	(191)	(27)	(218)
Employee costs ⁽ⁱⁱ⁾		(24)	(53)	(77)	(24)	(51)	(75)
Other direct costs ⁽ⁱⁱⁱ⁾		(208)	8	(200)	(237)	(35)	(272)
Total costs before exceptional items and re-measurement of energy contracts for continuing operations		(544)	(71)	(615)	(554)	(113)	(667)
Exceptional items	6a	-	511	511	-	(516)	(516)
Total costs before re-measurement of energy contracts within Group operating (loss)/profit for continuing operations		(544)	440	(104)	(554)	(629)	(1,183)
Discontinued operations							
Transportation and distribution costs		(75)	-	(75)	(94)	-	(94)
Commodity costs		(11)	-	(11)	(9)	-	(9)
Depreciation, amortisation, impairments and write-downs of fixed assets		(210)	(27)	(237)	(279)	(25)	(304)
Employee costs ⁽ⁱⁱ⁾		-	(21)	(21)	-	(23)	(23)
Other direct costs ⁽ⁱⁱⁱ⁾		(115)	(22)	(137)	(118)	(20)	(138)
Total costs for discontinued operations		(411)	(70)	(481)	(500)	(68)	(568)
Exceptional items	6a	-	55	55	-	(104)	(104)
Total costs within Group operations (loss)/profit for discontinued operations		(411)	(15)	(426)	(500)	(172)	(672)

(i) Only includes costs incurred by employing legal entities within the Group. Costs for staff employed by legal entities outside the Group are recharged and recognised within 'Other direct costs'.

(ii) Included within cost of sales are operated and non-operated production costs, maintenance charges, recharged labour costs, tariffs and royalty expenses. Included within operating costs are insurance premiums, non-capital exploration costs, recharged labour costs and office and administrative costs. Operating costs also includes inventory impairment as detailed in note 15.

(iii) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

(b) Re-measurement of energy contracts

Year ended 31 December	Note	2021 £m	2020 £m
Certain re-measurements of energy contracts	6b	(1,112)	(254)
Settlement of energy contracts		(659)	249
Re-measurement of energy contracts		(1,771)	(5)



5. COST OF OPERATIONS

(c) Employee costs

Year ended 31 December	Note	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Continuing operations			
Wages and salaries		(63)	(62)
Social security costs		(9)	(8)
Pension and other post-employment benefits costs	19	(5)	(5)
Employee costs expensed for continuing operations		(77)	(75)
Discontinued operations			
Wages and salaries		(20)	(23)
Social security costs		(2)	(2)
Pension and other post-employment benefits costs	19	(2)	(4)
Employee costs expensed for discontinued operations		(24)	(29)
Capitalised employee costs		3	6
Employee costs expensed		(21)	(23)

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

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

(d) Average number of employees during the year

Year ended 31 December	2021 Number	2020 (restated) ⁽ⁱ⁾ Number
Continuing operations		
UK	511	499
Netherlands	54	55
Average number of employees for continuing operations	565	554
Discontinued operations		
Norway	106	126
Average number of employees for discontinued operations	106	126

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

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

(a) Exceptional items

Year ended 31 December	Note	2021 £m	2020 (restated) ^{(i)-(vii)} £m
Continuing operations			
Write-back/(impairment) of exploration and production assets ⁽ⁱ⁾		723	(469)
Impairment of goodwill and intangibles ⁽ⁱⁱ⁾		(219)	(45)
Net reversal of unused decommissioning provisions ⁽ⁱⁱⁱ⁾		40	8
Business change and restructuring costs ^(iv)		(3)	(3)
Loss on disposal of subsidiaries ^(v)		(30)	(7)
Exceptional items included within Group operating loss		511	(516)
Taxation on exceptional items ^(vi)	8	(180)	121
Net exceptional items after taxation		331	(395)
Discontinued operations			
Write-back/(impairment) of exploration and production assets ⁽ⁱ⁾		59	(101)
Business change and restructuring costs ^(iv)		(4)	(3)
Exceptional items included within Group operating loss		55	(104)
Taxation on exceptional items ^(vi)	8	(42)	81
Net exceptional items after taxation		13	(23)

- (i) Write-back/(impairment) of exploration and production assets relate to the net changes in value of certain UK, Dutch and Norwegian gas and oil fields. The total pre-tax write-back of £782 million (2020: £570 million) post-tax write-back of £446 million (2020: £301 million), is predominantly due to changes in long-term price forecasts.
- (ii) The divestment of the Norway Business and Statfjord Fields and change in strategy around exploration spend resulted in a pre-tax and post-tax impairment of goodwill of £187 million (2020: £45 million), and a write-off of the remaining exploration and evaluation assets of £32 million pre-tax (£20 million post-tax).
- (iii) The reversal of decommissioning provisions pre-tax £40 million (2020: £8 million) post-tax £24 million (2020: £5 million) relates to assets previously impaired through exceptional items.
- (iv) Business change and restructuring costs include onerous contract costs of £4 million and £3 million of various costs associated with the Norway and Statfjord Fields disposal.
- (v) Spirit Energy sold its Danish subsidiaries to INEOS E&P AS. Due to updated information, the Group recognised a further net loss in 2021 of £6 million pre-tax (£6 million post-tax), representing additional losses for indemnities on Fredericia and Gorm E offset by a marginal reduction in the decommissioning indemnity. A pre-tax loss of £24 million (£16 million post-tax) was also recognised in respect of the Pegasus farm-down to Neptune.
- (vi) In addition to the tax noted above, in 2021, Spirit Energy recognised £143 million (2020: derecognised £80 million) of deferred tax assets in relation to tax losses, recognised an additional £38 million (2020: £13 million) of deferred tax assets in relation to decommissioning provisions mainly due to increased commodity prices and long-term forecast profitability, and derecognised £77 million (2020: £2 million) of net deferred PRT assets.
- (vii) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.

(b) Certain re-measurements of energy contracts

Year ended 31 December	Note	2021 £m	2020 £m
Certain re-measurements recognised in relation to energy contracts:			
Net loss arising on market price movements and new contracts	16	(1,162)	(105)
Net gain/(loss) arising on delivery of contracts		50	(149)
Net loss from certain re-measurements of energy contracts included within Group operating loss⁽ⁱ⁾	2, 5b	(1,112)	(254)
Taxation on certain re-measurements	8	445	102
Net re-measurements after taxation		(667)	(152)

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

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

CONTINUED

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill; PP&E; and intangible assets (with the exception of exploration assets – see note S1) annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Consolidated Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Oil and gas hubs are the smallest discrete set of assets that individually generate cash flows, largely independent of other assets. If the recoverable amount is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount. When recognising an impairment charge on oil and gas assets, impairment losses are allocated first to reduce fair value and subsequently to reduce carrying value.

For goodwill, impairment is considered at an enterprise level as a single CGU. A FVLCD calculation has been used to determine recoverable amounts to support goodwill. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets.

FVLCD discount rate and cash-flow assumptions

A net write-back/(impairment) of £822 million (2020: £(562) million) has been recorded within exceptional items for the Group's exploration and production assets, including £40 million (2020: £8 million) of reductions to decommissioning provisions. For those assets subject to net write-back, the associated recoverable amounts (net of decommissioning costs) are £848 million (2020: £209 million). In addition, a net impairment of £187 million has been recorded within exceptional items for the Group's goodwill due to the sale of the Norwegian assets and Statford Fields (2020: £45 million impairment due to the adverse impact of commodity prices). Finally, the remaining exploration and evaluation assets of £32 million have been written off to exceptional items during the year. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first five years are based on business plans submitted to the Spirit Energy Board and thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10% (2020: 10%) to determine the FVLCD. The discount rate reflects the current market assessments of the time value of money and is based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Inflation rates used in the five-year business plan were based on a blend of a number of publicly-available inflation forecasts for the UK. Inflation rates used were 2.4% (2020: 2%).



6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

CONTINUED

The valuation of exploration and production assets and goodwill are particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/-10%. Changes in price generate different production profiles and, in some cases, the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For production assets, an increase in gas and oil prices of 10% would not reverse any additional (2020: £69 million) previous post-tax impairment charges of the underlying production assets due to being written back to their maximum values after adjusting for depreciation. A reduction of 10% would give rise to a reduction in net write-backs of £7 million in the underlying production assets (2020: £30 million). Given the increases in commodity prices during 2021, a further sensitivity has been calculated based on a 50% fall in liquid and blend-period commodity prices only, this would result in a reduction in post-tax write-backs of £291 million.

Exposure to climate-related matters does not currently present an indicator of impairment within the Group's gas and oil assets. However, recognising the uncertainty around climate change and international governmental intervention to reduce CO₂ emissions on forecast prices, a sensitivity analysis has been performed based on forecast prices aligned to the International Energy Agency's ('IEA') Sustainable Development Scenarios, which assumes governmental policies are put in place to align with temperature goals under the Paris Agreement.

The sensitivity retains the prices for the liquid period (4 years) but replaces the longer term with IEA's forecast prices for Sustainable Development. Based on these price assumptions, a further impairment charge of £2 million (2020: £8 million) would have been recognised on the Group's portfolio of assets excluding assets held for sale.

Fair value hierarchy

The fair value of exceptional items and re-measurements of energy contracts measured and held at fair value has been determined using level 2 of the fair value hierarchy (see note S3 for further details).

Significant inputs in determining the CGU fair value are oil and gas reserves and production profiles, forward commodity prices and foreign exchange curves, future capital expenditure, decommissioning and direct cost estimates. Cash flows are discounted using a post-tax nominal discount rate of 10% (2020: 10%).

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



7. NET FINANCE COSTS

Year ended 31 December	2021			2020 (restated) ⁽ⁱ⁾		
	Financing costs £m	Investment income £m	Total £m	Financing costs £m	Investment income £m	Total £m
Continuing operations						
Interest income	-	4	4	-	4	4
Interest cost and financing fees	(10)	-	(10)	(9)	-	(9)
Interest cost on leases	(1)	-	(1)	(2)	-	(2)
	(11)	4	(7)	(11)	4	(7)
Net gains/(losses) on revaluation	2	-	2	(1)	-	(1)
Notional interest arising from discounting	(2)	-	(2)	(13)	-	(13)
Net finance costs	(11)	4	(7)	(25)	4	(21)
Discontinued operations						
Net gains on revaluation	1	-	1	2	-	2
Notional interest arising from discounting	-	-	-	(7)	-	(7)
Net finance costs	1	-	1	(5)	-	(5)

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.



8. TAXATION

(a) Analysis of tax charge

Year ended 31 December	2021			(Restated) ⁽ⁱ⁾ 2020		
	Business performance £m	Exceptional items and certain re-measurements of energy contracts £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements of energy contracts £m	Results for the year £m
Continuing operations						
Current tax						
UK corporation tax	39	-	39	19	-	19
UK petroleum revenue tax	24	-	24	71	-	71
Non-UK tax	-	-	-	6	-	6
Adjustments in respect of prior years – UK	(10)	-	(10)	20	-	20
Adjustments in respect of prior years – non-UK	(1)	-	(1)	2	-	2
Total current tax	52	-	52	118	-	118
Deferred tax						
Origination and reversal of temporary differences – UK	(49)	393	344	(29)	222	193
UK petroleum revenue tax	(10)	(128)	(138)	(22)	1	(21)
Origination and reversal of temporary differences – non-UK	1	-	1	(1)	-	(1)
Adjustments in respect of prior years – UK	11	-	11	(14)	-	(14)
Adjustments in respect of prior years – non-UK	-	-	-	-	-	-
Total deferred tax	(47)	265	218	(66)	223	157
Total taxation on profit/(loss)	5	265	270	52	223	275
Discontinued operations						
Current tax- non UK	(361)	3	(358)	37	4	41
Current tax- UK	(35)	-	(35)	(6)	-	(6)
Deferred tax- origination and reversal of temporary differences- non UK	(68)	(46)	(114)	(36)	78	42
Deferred tax- origination and reversal of temporary differences- UK	(5)	1	(4)	5	(1)	4
Total taxation of profit/(loss) from discontinued operations	(469)	(42)	(511)	-	81	81
Total taxation on profit/(loss) for the year	(464)	223	(241)	52	304	356

(i) Prior year results have been restated to remove the Staffjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information



8. TAXATION

CONTINUED

Tax on items taken directly to equity is disclosed in the Consolidated Statement of Comprehensive Loss and the Consolidated Statement of Changes in Equity. The Group earns the majority of its profits in Norway. UK exploration and production activities are taxed at a corporation tax rate of 30% (2020: 30%) plus a supplementary charge of 10% (2020: 10%) to give an overall rate of tax on upstream activities of 40% (2020: 40%). Petroleum revenue tax (PRT) is now set at nil% (2020: nil%) but may still give rise to refunds from the carry-back of excess reliefs (for example, from decommissioning) against historical profits taxed at 50%. Norwegian exploration and production profits are taxed at the standard rate of 22% (2020: 22%) plus a special tax of 56% (2020: 56%) resulting in an aggregate tax rate of 78% (2020: 78%).

Within current tax liabilities are amounts totalling £nil (2020: £nil) that are to be settled with the ultimate parent group companies. Uncertain tax provisions of £116 million (2020: £118 million) were recognised as at 31 December 2021 which transferred to Sval upon completion of the Norway sale. A material portion of the uncertain tax provision arising before completion of the transaction to combine Centrica plc's existing exploration and production business with that of Bayerngas Norge AS on 8 December 2017 may be recoverable from Shareholders to the extent it was not funded at completion. Refer to note 20 (b) for further details.

The Group's non-upstream UK profits are taxed at the standard rate of 19% (2020: 19%).

(b) Factors affecting the tax charge

The difference between the total tax shown above and the amount calculated by applying the upstream rate of UK corporation tax to the (loss)/profit before taxation is as follows:

Year ended 31 December	2021			2020		
	Business performance £m	Exceptional items and certain re-measurements of energy contracts £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements of energy contracts £m	Results for the year £m
Continuing operations						
Group (loss)/profit before tax	27	(601)	(574)	(12)	(770)	(782)
Tax on (loss)/profit at UK corporation tax rate of 40% (2020: 40%)	(11)	240	229	5	308	313
Effects of:						
Depreciation/impairment on non-qualifying assets (including write-backs)	(1)	-	(1)	-	(5)	(5)
Movement in tax rates	2	35	37	-	12	12
Non-taxable disposals	-	-	-	-	7	7
Other non-allowable/non-taxable items	4	(3)	1	(8)	(19)	(27)
Upstream investment incentives	5	-	5	8	-	8
UK petroleum revenue tax rates	11	(77)	(66)	30	1	31
Non-UK tax rates	(2)	-	(2)	(28)	(8)	(36)
Goodwill and investment impairments	-	(74)	(74)	27	5	32
Movement in uncertain tax provisions	(1)	-	(1)	12	-	12
Movement in unrecognised deferred tax assets	(2)	144	142	(2)	(78)	(80)
Adjustments in respect of prior years	-	-	-	8	-	8
Taxation on (loss)/profit for the year	5	265	270	52	223	275
Movement in deferred tax	47	(265)	(218)	66	(223)	(157)
Current tax from continuing operations	52	-	52	118	-	118
Current tax from discontinued operations	(396)	3	(393)	31	4	35
Total current tax on profit/(loss) for the year	(344)	3	(341)	149	4	153



8. TAXATION

CONTINUED

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved.

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes.

2021 UK operations are subject to a higher effective tax rate than the current UK upstream tax rate. Income earned in territories outside the UK, notably in Norway, is generally subject to higher effective rates of tax than the current UK upstream rate. The Group's effective tax rate of 47% (2020: 35%) is expected to remain above the UK upstream rate.

9. DIVIDENDS

Year ended 31 December	2021 £m	2021 Pence per share	2021 Date of payment	2020 £m	2020 Pence per share	2020 Date of payment
Prior year final dividend						
Ordinary shares	-	-	-	-	-	-
Preference shares	-	-	-	-	-	-
	-	-	-	-	-	-

The final dividend of 39.27 pence per ordinary share and nil pence per preference share, totalling £375 million, for the year ended 31 December 2021 was approved by the Board on 31 May 2022 and will be paid in June 2022. Notwithstanding the provisions of the Articles, the Shareholders have agreed to disapply certain provisions of the Articles in order to pay dividends on the ordinary shares following the sale of the Norwegian business, despite not having redeemed all of the preference shares first.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Spirit Energy Limited, currently has adequate levels of realised profits within its retained earnings to support dividend payments. Refer to the Spirit Energy Limited Company Balance Sheet on page 80.

10. ACQUISITIONS AND DISPOSALS

(a) Acquisitions

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

(b) Disposals

Disposal of Danish companies

In 2020, the Group signed a sale and purchase agreement for the divestment of the 100% owned Danish companies Spirit Energy Danmark ApS and Spirit Energy Petroleum Danmark AS to INEOS E&P AS. The sale completed in 2020 and proceeds of £7 million were received from INEOS in November 2021 in respect of tax refunds on the sale.

Due to updated information, the Group recognised a further net liability in 2021 of £6 million, representing additional losses for indemnities on Fredericia and Gorm E offset by a marginal reduction in the decommissioning indemnity. This has been booked as an exceptional loss on disposal in line with the original treatment of the loss in 2020.

Farm down of Pegasus

On 30 April 2021, the Group signed a farm-in agreement for the divestment of 38.75% equity in the Greater Pegasus Area. Under the agreement, Neptune will farm-in to the Pegasus West discovery and surrounding acreage with a 38.75% interest, with Spirit Energy holding the remaining 61.25% stake and operatorship, for nil consideration. The loss on disposal recognised of £16 million post-tax (£24 million pre-tax) was booked as an exceptional item.

(c) Discontinued operations and assets and liabilities of disposal groups held for sale

On 8 December 2021, the Group announced that it had agreed to sell its interests in the Statfjord fields to Equinor and the full portfolio of Norwegian oil and gas assets to Sval Energi for a headline consideration of approximately £800 million. The sale has a commercial effective date of 1 January 2021 and completed on 31 May 2022.

There are two disposal groups included within the transaction: the Statfjord fields and the remaining Norwegian business. In line with IFRS 5, the assets and liabilities of the disposal groups have been classified as held for sale and presented separately on the Group Balance Sheet from 8 December 2021. This is the date at which the disposal groups satisfied the criteria of being readily available for immediate sale and considered highly probable to complete. The Group received a deposit of £37 million from Sval Energi in 2021 which has been presented as proceeds on disposal in the cash flow statement.

Included within the Group's foreign currency translation reserve is £125 million of losses in respect of the disposal group. These amounts have previously been recognised in the Group Statement of Comprehensive Income and will be recycled to the Group Income Statement on disposal.



10. ACQUISITIONS AND DISPOSALS

CONTINUED

Details of the assets and liabilities of the disposal groups at 31 December 2021 are shown below.

As at 31 December	Note	Statfjord Fields £m	Norway Business £m	Total £m
Non-current assets				
Goodwill	12	-	244	244
Other intangible assets	12	-	60	60
Property, plant and equipment	11	255	863	1,118
Deferred tax assets	13	(6)	74	68
Trade and other receivables		-	8	8
Total non-current assets		249	1,249	1,498
Current assets				
Inventories		18	16	34
Trade and other receivables		43	64	107
Current tax assets		(1)	2	1
Cash and cash equivalents		-	18	18
Foreign exchange relating to assets held for sale		-	7	7
Total current assets		60	107	167
Assets held for sale		309	1,356	1,665
Current liabilities				
Trade and other payables		(47)	(93)	(140)
Current tax liabilities		-	(116)	(116)
Lease liabilities		-	(2)	(2)
Provisions for other liabilities and charges	18	-	(5)	(5)
Foreign exchange relating to liabilities held for sale		-	(6)	(6)
Total current liabilities		(47)	(222)	(269)
Non-current liabilities				
Deferred tax liabilities	13	251	(449)	(198)
Provisions for other liabilities and charges	18	(522)	(240)	(762)
Lease liabilities		-	(3)	(3)
Total non-current liabilities		(271)	(692)	(963)
Total liabilities held for sale		(318)	(914)	(1,232)
Net assets		(9)	442	433

The disposal groups represent a separate major geographical area of operations, therefore, their results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Loss and Group Cash Flow Statement.



10. ACQUISITIONS AND DISPOSALS

CONTINUED

The results of the Statfjord fields and remaining Norwegian business for 2021 and 2020 are shown below.

Year ended 31 December	Notes	2021 €m	2020 €m
Revenue	4	1,136	603
Cost of sales	5a	(411)	(500)
Gross profit		725	103
Operating costs	5a	(70)	(68)
Exceptional items	6a	55	(104)
Total operating costs		(15)	(172)
Operating profit/(loss)		710	(69)
Financing costs	7	1	(5)
Profit/(loss) before taxation		711	(74)
Taxation on profit/(loss)	8	(511)	81
Profit after taxation for the year		200	7

The cash flows arising from discontinued operations, which are presented net within the Group Consolidated Cash Flow Statement, are shown below.

Year ended 31 December	Notes	2021 €m	2020 €m
Operating profit/(loss)		710	(69)
Add back/(deduct):			
Depreciation, amortisation, write-downs, (write-backs) and impairments of fixed assets	11a, 12a	178	405
Profit on disposals		-	(2)
Increase in provisions		(7)	(7)
Exceptional charges reflected directly in operating profit	6a	4	3
Operating cash before movements in working capital and exceptional payments		885	330
Increase in inventories		-	(2)
(Increase)/decrease in trade and other receivables		(90)	28
Increase/(decrease) in trade and other payables		18	(34)
Cash generated by operations		813	322
Taxes received		(36)	(39)
Payments relating to exceptional charges		(6)	-
Net cash from operating activities		771	283
Proceeds from the sale of assets		-	-
Sale of business		-	3
Purchase of property, plant and equipment and intangible assets		(203)	(189)
Net cash used in investing activities		(203)	(186)
Capital element of finance leases	21e	(3)	(3)
Realised net foreign exchange loss on cash settlement of derivative contracts		-	(1)
Net cash used in financing activities		(3)	(4)
Net increase in cash and cash equivalents		565	93



11. PROPERTY, PLANT AND EQUIPMENT

(a) Carrying amounts

	Note	2021			2020				
		Land and buildings £m	Plant and equipment £m	Gas and oil production £m	Total £m	Land and buildings £m	Plant and equipment £m	Gas and oil production £m	Total £m
Cost									
1 January		33	11	14,034	14,078	34	10	13,721	13,765
Additions		-	-	238	238	-	1	244	245
Transfer from other intangible assets		-	-	10	10	-	-	3	3
Transfer to disposal groups held for sale	10	(11)	(6)	(3,865)	(3,882)	-	-	-	-
Disposals		-	-	(7)	(7)	(1)	-	(257)	(258)
Decommissioning liability revisions and additions	18	-	-	(14)	(14)	-	-	231	231
Exchange adjustments		-	(1)	(166)	(167)	-	-	92	92
31 December		22	4	10,230	10,256	33	11	14,034	14,078
Accumulated depreciation and impairment									
1 January		(12)	(10)	(12,095)	(12,117)	(8)	(9)	(11,320)	(11,337)
Charge for the year		(4)	(1)	(441)	(446)	(4)	(1)	(490)	(495)
Transfer to disposal groups held for sale	10	5	6	2,753	2,764	-	-	-	-
Write-back/(impairment charge) ⁽ⁱ⁾		-	-	781	781	-	-	(451)	(451)
Disposals		-	-	5	5	-	-	255	255
Exchange adjustments		-	1	131	132	-	-	(89)	(89)
31 December		(11)	(4)	(8,866)	(8,881)	(12)	(10)	(12,085)	(12,117)
Net book value at 31 December		11	-	1,364	1,375	21	1	1,939	1,961

(i) £1 million of the impairment charge has been recognised within operating costs (2020: £2 million) and a £782 million write-back has been recognised within exceptional items (2020: impairment of £449 million).

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

As at 31 December	2021 £m	2020 £m
Gas and oil production	24	171

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

	2021		2020	
	Land and Buildings £m	Gas and oil Production £m	Total £m	Total £m
Net book value 1 January	18	47	65	80
Additions	-	4	4	12
Depreciation charge for the year	(4)	(21)	(25)	(27)
Transfer to disposal groups held for sale	(5)	-	(5)	-
Disposals	-	(2)	(2)	-
Net book value at 31 December	9	28	37	65



12. OTHER INTANGIBLE ASSETS AND GOODWILL

(a) Carrying amounts

	2021				2020			
	Goodwill £m	Exploration and evaluation expenditure £m	Other Intangibles £m	Total £m	Goodwill £m	Exploration and evaluation expenditure £m	Other intangibles £m	Total £m
Cost								
1 January	991	104	7	1,102	990	198	11	1,199
Additions	-	51	-	51	-	55	-	55
Write-downs ⁽ⁱ⁾	-	(57)	-	(57)	-	(145)	-	(145)
Transfers to property, plant and equipment	-	(10)	-	(10)	-	(3)	-	(3)
Held for sale	(986)	(60)	-	(1,046)	-	-	-	-
Disposals	-	(26)	-	(26)	-	(2)	(3)	(5)
Exchange adjustments	(5)	(2)	-	(7)	1	1	(1)	1
31 December	-	-	7	7	991	104	7	1,102
Accumulated amortisation								
1 January	(555)	-	(7)	(562)	(510)	-	(9)	(519)
Impairment	(187)	-	-	(187)	(45)	-	-	(45)
Amortisation	-	-	-	-	-	-	(1)	(1)
Held for sale	742	-	-	742	-	-	-	-
Disposal	-	-	-	-	-	-	3	3
31 December	-	-	(7)	(7)	(555)	-	(7)	(562)
Net book value as at 31 December	-	-	-	-	436	104	-	540

(i) Within operating costs, write-downs of £25 million (2020: £24 million) were recognised in respect of drilling expenditure and £32 million were recognised within exceptional items (2020: £121 million).

(b) Impairment reviews – summary of results

During the year, goodwill was impaired by £187 million (2020: £45 million) (see note 6 for further details). Details of the impairment test methodologies and assumptions used are provided in note 6.



13. DEFERRED TAX LIABILITIES AND ASSETS

	Note	Accelerated tax depreciation (corporation tax) £m	Net decommissioning £m	Losses carried forward £m	Other timing differences £m	Marked-to-market positions £m	Net deferred petroleum revenue tax £m	Total (restated) ⁽ⁱ⁾ £m
As at 1 January 2020		(867)	809	245	25	(69)	138	281
(Charge)/credit to income	8	215	11	(112)	-	102	(12)	204
Disposal of business		3	-	-	-	-	-	3
Exchange and other adjustments		-	-	1	1	1	(1)	2
As at 31 December 2020		(649)	820	134	26	34	125	490
(Charge)/credit to income		(357)	60	49	(14)	445	(83)	100
Transfer of deferred tax liabilities to group classified as held for sale		576	(437)	-	(9)	-	-	130
Exchange and other adjustments		4	1	-	-	-	-	5
As at 31 December 2021		(426)	444	183	3	479	42	725

(i) The 2020 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

As at 31 December	Assets £m	2021 Liabilities £m	Assets £m	2020 Liabilities £m
Gross deferred tax balances	1,241	(516)	1,477	(987)
Offsetting deferred tax balances	(516)	516	(908)	908
Net deferred tax balances (after offsetting for financial reporting purposes)	725	-	569	(79)

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward and PRT. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to oil and gas production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date, the Group had certain unrecognised deductible temporary differences of £1,435 million (2020: £1,776 million), of which £1,380 million (2020: £1,721 million) are carried forward tax losses and allowances available for utilisation against future taxable profits. None of these losses and allowances will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the lack certainty over future profit streams.



14. TRADE AND OTHER RECEIVABLES

As at 31 December	Current £m	2021 Non-current £m	Current £m	2020 Non-current £m
Financial assets:				
Trade receivables	19	-	34	-
Other accrued income	11	-	53	-
Related-party receivables	454	57	141	90
Other receivables (including loans)	-	2	62	3
	484	59	290	93
Less: provision for credit losses	(1)	-	(1)	-
	483	59	289	93
Non-financial assets: prepayments and other receivables	13	1	29	10
	496	60	318	103

Receivables are generally considered to be credit impaired when the payment is past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt.

Current financial assets within trade and other receivables, net of provision for credit losses:

As at 31 December	2021 £m	2020 £m
Balances that are not past due	482	287
Balances that are past due but not considered to be individually impaired	1	2
	483	289

The provision for credit losses for trade and other receivables is based on the expected credit loss (ECL) model that calculates the expected loss applicable to the receivable balance over its lifetime, in line with the IFRS 9 impairment model requirements using a simplified model. The ECL provision in the current year was £1 million (2020: £1 million).

15. INVENTORIES

As at 31 December	2021 £m	2020 £m
Oil in storage and transportation	6	2
Other raw materials and consumables	37	68
	43	70

The Group accumulated £11 million (2020: less than £1 million) of inventories during the year. Write-downs amounting to £7 million (2020: £5 million) were charged to the Consolidated Income Statement in the year. Write-downs reversed in the year were immaterial (2020: £nil).



16. DERIVATIVE FINANCIAL INSTRUMENTS

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. The fair value of the Group's derivatives in hedge accounting relationships as at 31 December 2021 was not material.

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

As at 31 December	Assets £m	2021 Liabilities £m	Assets £m	2020 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives	4	(1,201)	10	(105)
Foreign exchange derivatives	3	(2)	12	–
Derivative financial instruments in hedge accounting relationships:				
Foreign exchange derivatives	–	–	–	–
Total derivative financial instruments	7	(1,203)	22	(105)
Included within:				
Derivative financial instruments – current	4	(886)	18	(65)
Derivative financial instruments – non-current	3	(317)	4	(40)

The contracts included within energy derivatives are £(1,140) million (2020: £(87) million) of gas and £(57) million (2020: £(8) million) of oil financial swaps used to hedge the price at which the Group sells its gas and oil production.

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

As at 31 December	Income Statement £m	2021 Equity £m	Income Statement £m	2020 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading under IFRS 9	(10)	–	6	–
Derivative financial instruments in hedge accounting relationships	–	–	–	1
	(10)	–	6	1



17. TRADE AND OTHER PAYABLES

Trade and other payables include accruals and amounts owed to suppliers. Related-party payables relate to amounts due to the Group's Shareholders and their subsidiaries. Further details can be found in note S5.

As at 31 December	Current £m	2021 Non-current £m	Current £m	2020 Non-current £m
Financial liabilities:				
Trade payables	(12)	-	(29)	-
Capital payables	(14)	-	(34)	-
Other payables	(35)	(69)	(96)	(69)
Related-party payables	(195)	-	(14)	-
Accruals	(92)	-	(53)	-
	(348)	(69)	(226)	(69)
Non-financial liabilities:				
Other payables and accruals	(5)	-	(15)	-
Deferred income	(1)	-	(4)	-
	(354)	(69)	(245)	(69)

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

As at 31 December	2021 £m	2020 £m
Less than 90 days	(307)	(216)
91 to 182 days	(41)	(10)
183 to 365 days	-	-
	(348)	(226)

18. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	1 January 2021 £m	Charged £m	Utilised £m	Disposals £m	Revisions and additions £m	Transfers ⁽ⁱ⁾ £m	Held for sale (note 10) £m	31 December 2021 £m	
Current provisions									
Decommissioning costs ⁽ⁱⁱ⁾	(63)	-	55	-	-	(105)	5	(108)	
Other ⁽ⁱⁱⁱ⁾	(1)	(5)	-	1	-	(9)	-	(14)	
	(64)	(5)	55	1	-	(114)	5	(122)	
Non-current provisions									
	1 January 2021 (restated) ^(iv) £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers ⁽ⁱ⁾ £m	Held for sale (note 10) £m	Foreign exchange £m	31 December 2021 £m
Decommissioning costs ⁽ⁱⁱ⁾	(2,004)	(15)	-	53	14	105	762	22	(1,063)
Other	(9)	-	(2)	-	-	9	-	1	(1)
	(2,013)	(15)	(2)	53	14	114	762	23	(1,064)

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

(ii) Provision has been made for the estimated net present cost of decommissioning gas and oil production facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timings of decommissioning payments are dependent on the production life of the respective field but are currently anticipated to be incurred until 2038 (2020: 2041). During the year, of the £53 million (2020: £15 million) credit to operating loss for provisions which were unused and reversed, £40 million (2020: £8 million) has been included as an exceptional item (see note 6(a)). Refer to note S1 for a summary of the Group's decommissioning accounting policy and the discount rates used.

(iii) The other provision relates to production tariffs and onerous contract costs which are expected to be paid within a year.

(iv) The 2020 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.

19. POST-RETIREMENT BENEFITS

Defined contribution pension scheme contributions

The cost charged to the Consolidated Income Statement of £7 million (2020: £9 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.



20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at 31 December	2021 ⁽ⁱ⁾ £m	2020 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Nova oil and gas field	42	37
Development of West of Shetland Lincoln and Warwick oil field	–	5
Development of Statfjord area oil and gas assets	–	31
Development of Ivar Aasen oil and gas field	–	15
Development of Norwegian Oda oil and gas field	3	–
Exploration and Production capital expenditure	131	–
Other capital expenditure	41	27
Commitments in relation to the acquisition of intangible assets:		
Exploration activity	5	33
Other commitments:		
Transportation capacity	107	118
Other contracts	77	19

(i) Commitments relating to discontinued operations are included above as follows: £198 million within exploration and production capital expenditure, £101 million within transportation capacity and £16 million within other contracts.

The carrying amount of the ROU assets, additions and depreciation charges as result of the application of IFRS 16 are disclosed in note 11. The total cash outflow in the year for lease arrangements was £29 million (2020: £25 million) and the maturity analysis of cash flows associated with the Group's lease liability at the reporting date is shown in note 21.

Lease amounts which have not been included in the lease liabilities and charged to the Consolidated Income Statement are presented below:

As at 31 December	2021 £m	2020 £m
Short-term leases	–	3

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

20. COMMITMENTS AND CONTINGENCIES

CONTINUED

(b) Guarantees and indemnities

The Group has provided a number of guarantees and letters of credit to third parties in relation to its exploration and production activities, covering liabilities in respect of obligations relating to decommissioning, historic asset acquisitions/disposals, licences and operational agreements and office leases. The guarantees are provided by members of the Group and a number of Centrica group entities. The letters of credit are issued by various financial institutions and are supported by Centrica group entities. The Group pays a charge set on an arms-length basis for the guarantees issued by the Centrica group entities and letters of credit. Spirit Energy has given a counter indemnity for any guarantees and letters of credit issued or supported by entities in the Centrica group.

Most of the guarantees and letters of credit relate to future decommissioning liabilities of E&P assets owned or partly owned by the Group. They are provided to fellow partners and previous owners of these fields, who may be liable for the Group's share of the decommissioning costs in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2021, £528 million (2020: £640 million) of letters of credit have been issued in respect of decommissioning obligations included in the Consolidated Balance Sheet.

Spirit Energy Limited has provided security in favour of Ineos E&P A/S for the Hejre field in Denmark, in the event that the disposed asset will not be developed by the new owner. In addition, there are a number of capped and uncapped guarantees provided by Centrica plc relating to decommissioning security agreements.

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

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

Centrica plc has provided a guarantee to Gassco guaranteeing payment obligations in connection with the booking of capacity in the Gassled system (infrastructure on the Norwegian Continental Shelf). The liability is capped at NOK 400 million.

Spirit Energy Limited has provided security in favour of the Oil and Gas Authority (OGA), guaranteeing that its licence-holding subsidiaries will each meet their respective licence obligations. This includes providing a guarantee for any sums that may become due from such licensees to OGA. The liability is uncapped.

In relation to the sale of the Norway Business, Spirit Energy Limited has agreed to indemnify, and hold harmless, Sval from and against all any costs, expenses and liabilities related to certain legacy notified tax claims. The amount recognised in the Group's consolidated balance sheet as at 31 December 2021 in respect of the uncertain tax provision related to such notified tax claims was £116 million, offset by a corresponding indemnity from Centrica GBGH covering any tax liability in excess of £60 million related to the notified claims. As security for the notified tax claims, the Group will issue a letter of credit to Sval for an amount of \$200 million, supported by Centrica group entities.

Following the close of the sale the Group and Centrica will not retain any decommissioning liabilities associated with the sold interests beyond the secondary or residual statutory liabilities (including the PCG to the Norwegian state reference above which is likely to remain in place), which are mitigated by decommissioning security agreement and indemnities provided by Sval, Equinor Energy AS and Equinor UK Limited.

21. SOURCES OF FINANCE

(a) Capital management

The Group seeks to maintain an efficient capital structure with a combination of cash and cash equivalents, borrowings and equity, as shown in the table below.

	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Cash and cash equivalents	1,233	444
Borrowings	(41)	(70)
Equity	1,255	1,369

(i) The 2020 comparatives have been restated following the recognition of a decommissioning liability for a pipeline, refer to note 1 for further details.

Capital is managed in order to provide returns for Shareholders and to safeguard the Group's ability to continue as a going concern. Spirit Energy is not subject to any externally-imposed capital requirements. To maintain or adjust the capital structure, the Group may put in place new debt facilities or adjust the dividend payment to Shareholders.

(b) Liquidity risk and going concern

The Consolidated Financial Statements have been prepared on a going concern basis as the Group is well funded, with flexibility within its financial framework to be sustainable and maintain liquidity in the long term, as described in the basis of preparation in note 1.

The Group has treasury and hedging policies and prepares an annual budget and periodic cash flow forecasts. This enables the Group to monitor and manage liquidity risk. The Group's latest approved forecast underpins management's base case and uses gas price assumptions of 249p/th and 177p/th, in 2022 and 2023, respectively and oil price assumptions of \$104/bbl and \$95/bbl, in 2022 and 2023, respectively. The Group's capital structure means that it is capable of being self-financing through operating cash flows in a range of commodity price environments, for the foreseeable future, being the period until 31 December 2023. The Group aims to maintain a cash working capital buffer of at least £150 million.

The Group had cash and cash equivalents of £1,233 million (2020: £444 million) at 31 December 2021. This includes restricted cash and cash equivalents of £41 million (2020: £14 million).

In addition, the Group may request, but is not guaranteed to receive, an amount to cover any emergency or shortfall from its Shareholders. Furthermore, aside from distributions relating to the sale of the Norwegian Business, further distributions to Spirit Energy's shareholders will only be available provided the cash and cash equivalents balances held by Spirit Energy exceed 1.5x the estimated future pre-tax decommissioning liabilities of the remaining Spirit Energy portfolio.

The principal risks & uncertainties are set out in the Strategic Report on page 7. The Group remains committed to stay free cash flow positive in 2022 and 2023 and the Board meet regularly to review the Group's cash flow projections.

The Board has considered the principal risks to these cash flow projections in a sensitivity analysis, the most significant of which is a further sustained decline in commodity prices. In previous years a 30% reduction to the base forecast has been used, but to reflect the particularly high price curve in 2022 and 2023, we have modelled a 60% stress to both years (which equates to gas at 133p/th and oil at \$57/bbl in 2022, and gas at 71p/th and oil at \$38/bbl oil in 2023). This sensitivity analysis also includes production outage scenarios and carbon price impacts in respect of carbon costs. The Board has also considered the implications on the Group's collateral requirement in the event that its immediate parent company does not continue to provide credit support in relation to certain obligations. The Board considers these risks are mitigated by the significant cash and cash equivalents balance noted above. Consequently, the Board is satisfied that the Group can continue as a going concern.



21. SOURCES OF FINANCE

CONTINUED

(c) Lease liabilities

	2021 Current £m	2021 Non-current £m	2020 Current £m	2020 Non-current £m
As at 31 December				
Lease liabilities	(24)	(17)	(28)	(42)
	(24)	(17)	(28)	(42)

(d) Maturity analysis for non-current borrowings

	2021 £m	2020 £m
As at 31 December		
1-2 years	(7)	(22)
2-5 years	(6)	(20)
>5 years	(4)	-
	(17)	(42)

(e) Net debt summary

	Other leases and financing costs accrual £m	Related-party borrowings ⁽ⁱ⁾ £m	Gross debt £m	Cash, overdrafts and cash equivalents ⁽ⁱⁱ⁾ £m	Net debt £m
1 January 2020	(86)	(38)	(124)	361	237
New lease commitments	(10)	-	(10)	-	(10)
Cash outflow from payment of capital element of finance leases	25	-	25	(25)	-
Financing interest and fees paid	-	-	-	(12)	(12)
Repayment of borrowings ⁽ⁱⁱⁱ⁾	-	38	38	(38)	-
Remaining cash inflow	-	-	-	162	162
Exchange adjustments	1	-	1	(4)	(3)
31 December 2020	(70)	-	(70)	444	374
New lease commitments	(6)	-	(6)	-	(6)
Cash outflow from payment of capital element of finance leases	29	-	29	(29)	-
Financing interest and fees paid	-	-	-	(10)	(10)
Remaining cash inflow	-	-	-	849	849
Exchange adjustments	-	-	-	(3)	(3)
Net debt at 31 December 2021	(47)	-	(47)	1,251	1,204
Less: assets and liabilities held for sale ^(iv)	6	-	6	(18)	(12)
Net debt excluding disposal groups held for sale at 31 December 2021	(41)	-	(41)	1,233	1,192

(i) Cash and cash equivalents include restricted cash of £41 million (2020: £14 million).

(ii) Cash and cash equivalents include £1,161 million (2020: £419 million) which is due from a related-party and classified as a cash equivalent. Refer to note S5 for the terms and conditions.

(iii) Included in the 31 December 2021 closing balance is £13 million relating to the Statfjord and Norway disposal groups and this is presented within assets and liabilities held for sale, refer to note 10 for further details.

(iv) The repayment of £38 million was net settled with a related-party receivable from Centrica plc of £24 million in relation to group relief, resulting in £14 million cash payment in the Consolidated Cash Flow Statement in the prior year.



22. SHARE CAPITAL

Allotted and fully paid share capital of the Company:

As at 31 December	2021 £m	2020 £m
296,056,457 A class ordinary shares of 1 pence each (2020: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2020: 658,964,372)	6	6
1 deferred share of £1 (2020: 1)	-	-
955,020,829 preference shares of 1 pence each (2020: 955,020,829)	10	10
	19	19

The A and B class ordinary shares have attached to them full voting, dividend (including the right to special dividends in the case of B class ordinary shares) and capital distribution (including winding up) rights. They do not confer any rights of redemption.

Special dividends are required to be declared in certain circumstances, subject to the availability of sufficient distributable reserves. The special dividends are therefore not discretionary and as such, are accounted for as a financial liability when the event triggering the special dividend occurs.

The deferred share does not have any right to a dividend or distribution of profits of the Company on winding up. The holder is entitled to repayment of the amount paid up after repayment of the capital paid up on the A ordinary and B ordinary shares. The deferred share does not attach any rights to receive notice of, attend, speak or vote at a general meeting or on any written resolution of the Company.

The preference shares have attached to them voting (only in respect of variation or abrogation of the rights attaching to them), and capital distribution (including on winding up and in such case in priority to ordinary Shareholders) rights. Each preference share shall confer the right to redemption (if the Directors resolve to make a redemption) in priority (other than any special dividend declared, paid or made at any time on the B Ordinary Shares only in accordance with Article 44(2)) to the payment of any dividend to the holders of Ordinary Shares).

The Shareholders' agreement governs further rights to redeem the preference shares and also circumstances when conversion of preference shares can occur, but these are all at the discretion of the Company.

As detailed in note 3, the preference shares are deemed to be equity instruments.



23. SHARE PREMIUM

	2021 £m	2020 £m
As at 1 January	1,094	1,094
Reduction in share premium	(1,094)	-
As at 31 December	-	1,094

In December 2021, by special resolution of the Board of Directors and in accordance with section 291 of the Companies Act 2006, the Company reduced its share premium account by £1,094 million (2020: nil) and transferred the resulting distributable reserves to retained earnings.

24. PARENT AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking and controlling party is GB Gas Holdings Limited, a company registered in England and Wales, which holds a 69% voting interest in the Company. The registered office address is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

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

25. EVENTS AFTER THE BALANCE SHEET DATE

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

In June 2022 a preference share redemption of 85 pence for 440,860,643 shares will be proposed, totalling £375 million.

The sale of the Norway business completed on 31 May 2022 in addition, to a new shareholder agreement to reflect updates to the Group's strategy and shareholder arrangements.

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

SI. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income statement presentation

The Consolidated Income Statement separately identifies the effects of re-measurement of certain financial instruments, and items that are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described in note 2.

Basis of consolidation

See note 1 for further details.

Revenue

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

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

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

Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when the customer obtains control of the goods. For oil and natural gas, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Tariff revenue from

the use of the Group's platform and pipeline facilities is recognised at a point in time, when products are physically transferred into a vessel, pipe or other delivery mechanism as the customer gains control of the use of the pipeline facilities when the goods (oil and gas) are transferred into the vessel, pipe or other delivery mechanism.

Cost of sales

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

Re-measurement and settlement of energy contracts

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

Investment income

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

Borrowing costs

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

SI. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Foreign currencies

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

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

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

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

Exchange rate per pound sterling (£)

As at 31 December	Closing rate		Average rate	
	2021	2020	2021	2020
Euro	1.19	1.12	1.16	1.13
US dollar	1.35	1.37	1.37	1.29
Norwegian krone	11.93	11.72	11.85	12.13
Danish krone	8.85	8.31	8.62	8.42

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve included in other equity. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Consolidated Income Statement on disposal.

In circumstances where a branch of a reporting entity has a different functional currency to that of the entity and it is materially autonomous to the entity, exchange differences on consolidation with the entity can be taken to other comprehensive income rather than the income statement. This is consistent with the rules under financial reporting standard IAS21 'The effects of changes in foreign exchange rates'.

Unit arrangements

Where the Group has entered into unit arrangements with partner licences, the share of ownership is reviewed on a regular basis in accordance with the unit agreement based on updated estimates of reserves contributed by each partner in the unit. In the event a review results in a decreased share in the unit, where excess volumes received in the past are redelivered by the partner with the reduced ownership share according to an agreed schedule, these volumes are accounted for at the time of redelivery and not accrued for in advance. Similarly, where the review results in an increased share, the volumes are accounted for at the time of receipt.

Business combinations and goodwill

Businesses within the Group that have been acquired as part of historic business combinations have been included in the Consolidated Financial Statements on the same basis that they are included within the Centrica plc group financial statements. The acquisitions of these entities are accounted for using the acquisition method (at the point the Group or, as explained above, the Centrica plc group, gains control over a business as defined by IFRS 3: 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at FVLCD.



S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Goodwill arising on a business combination represents the excess of the consideration transferred and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Consolidated Income Statement.

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

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

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include application software, emissions trading schemes and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software cost includes directly attributable labour, contractors' charges and materials. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition.

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

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. The useful life of intangible assets can be assessed as finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic life on a straight-line basis. Assessments for impairment take place annually or when there is an impairment indicator. The amortisation period and method of intangible assets are also reviewed annually. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised. Instead they are tested for impairments annually and when there is an impairment indicator. This may be either individually or at a CGU level. The indefinite life assessment is reviewed annually. Any change from indefinite life to finite life is applied on a prospective basis.

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

The useful life for other intangibles is up to 15 years.

UK Emissions Trading Scheme

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

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

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Exploration, evaluation, development and production assets

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

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

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

Interests in joint arrangements

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

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

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



SI. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Property, plant and equipment (PP&E)

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

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

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

Freehold and leasehold buildings	Up to 50 years
Plant and equipment	3 to 20 years

Assets held under leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and, if necessary, changes are accounted for prospectively.

Held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale when the Directors are committed to the sale, the sale is highly probable to be completed within a year of its classification and the asset, or disposal group, is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified as held for sale at the lower of their carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Disposal groups are classified as discontinued operations where it represents a major line of business or geographical operation.

Impairment assumptions

Details of the approach taken to impairment are included in note 6(c).

Overlift and underlift

Off-take arrangements for oil and gas produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables, or trade and other receivables, respectively, and measured at market value, with movements in the period recognised within cost of sales.

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Leases

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

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

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

Lease Liabilities

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

Lease payments included in the initial measurement of the lease liability comprise of fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

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

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

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

Extensions and terminations – Leases

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

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

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

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

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

If an extension or termination option is 'reasonably certain' to be exercised, the termination period or extended period will be included or excluded from the lease term when calculating the lease liability.

The Group will reassess the 'reasonably certain' criteria upon the occurrence of significant event. An event is considered significant if it affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

Joint arrangements – Leases

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

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

Right-of-use (ROU) assets – Leases

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

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

Inventories

Oil inventory is measured at market value, being the spot rate at the balance sheet date less transportation costs. Other inventories are valued on a weighted-average-cost basis (total value divided by the number of units), at the lower of cost or estimated net realisable value after allowance for redundant and slow-moving items. The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Decommissioning costs

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

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary, if there is insufficient economic 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 discount rate used in calculating the decommissioning provisions was reduced from 1.2% to 0% (Real) in 2020 as discussed in note 3. The unwinding of the discount on the provision is included in the Consolidated Income Statement within interest expense.



SI. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Pensions and other post-employment benefits

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

Provisions

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

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

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice. Each item is considered separately and on a basis that provides the better prediction of the outcome.

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

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

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

Trade receivables

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest rate method less an allowance for any uncollectible amounts. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

S1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Trade payables

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate method. If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Other instruments are classified as equity where they are judged to meet the definition of equity if, for example, the issuer has the ability to avoid repayment and any coupon is discretionary.

Cash and cash equivalents

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

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

Interest-bearing loans and other borrowings

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

Related-party receivables and payables

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

Derivative financial instruments

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

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

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

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

SI. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

Hedge accounting

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

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Consolidated Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve in the Consolidated Statement of Comprehensive Loss are transferred to the Consolidated Income Statement in the same period in which the highly probable forecast transaction affects income.

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

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

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

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

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

Impairment of financial assets

In accordance with IFRS 9, the Group has applied the expected credit loss model to financial assets measured at amortised cost. For trade receivables, contract assets and finance lease receivables, the simplified approach is taken, and the lifetime expected credit loss provided for.

For all other in-scope financial assets at the balance sheet date either the lifetime expected credit loss or a twelve-month expected credit loss is provided for, depending on the Group's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition. As the Group's financial assets are predominantly short term (less than twelve months), the impairment loss recognised is not materially different using either approach.

S2 FINANCIAL RISK MANAGEMENT

(a) Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices and foreign exchange rates). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates and commodity prices. It is the Group's policy and practice to use derivative financial instruments to manage these exposures.

Commodity price risk management

The Group is exposed to commodity price risk on its future revenues from crude oil and natural gas. A change in these prices may alter the gross margin of the Group. Accordingly, it may enter into commodity futures and forward contracts to manage fluctuations in prices of anticipated revenues.

Currency risk management

The Group is exposed to currency risk on the following:

- (i) foreign currency denominated forecast transactions and firm commitments (transactional currency risk); and
- (ii) its net investments in foreign operations and foreign currency monetary assets and liabilities (translational currency risk).

(i) Transactional currency risk

The Group is exposed to transactional currency risk on revenues and costs denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Norwegian kroner in Norway and euros in the Netherlands. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. The Group manages this risk by hedging certain material transactional exposures using derivatives to fix the functional currency value of non-functional currency cash flows.

(ii) Translational currency risk

The Group is exposed to the effect of exchange rate fluctuations on the pound sterling value of foreign operations and of foreign currency monetary assets and liabilities, of which the primary exposure arises from NOK and EUR. The Group selectively manages this risk by replicating foreign debt using derivatives that pay cash flows in the currency of the respective exposure.

S2. FINANCIAL RISK MANAGEMENT

CONTINUED

Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices and foreign exchange rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2021, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2021 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates.

(i) Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on a sensitivity analysis are as follows:

	Base price ⁽ⁱ⁾	2021 Reasonably possible change in variable % ⁽ⁱⁱ⁾	Base price ⁽ⁱ⁾	2020 Reasonably possible change in variable % ⁽ⁱⁱ⁾
Energy prices				
UK gas (pence/therm)	105	+/-58	44	+/-22
UK oil (US\$/bbl)	71	+/-7	50	+/-14
			2021 Impact on loss⁽ⁱⁱ⁾ £m	2020 Impact on loss⁽ⁱⁱ⁾ £m
Incremental (loss)/profit				
UK energy prices (combined) – (decrease)/increase			(750)/749	(99)/99

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.

(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

(ii) Transactional currency risk

The majority of the Group's transactional currency exposure derives from US dollar revenues. To cover these exposures an amount of \$744 million (2020: \$681 million) was sold or matured with spot and forward contracts during the year.

A 10% increase on the average exchange rate for the year of GBP to USD on the USD value of those contracts would have resulted in a reduction to revenue of £49 million (2020: £48 million) and a 10% decrease in the value of GBP to USD on the USD value would have resulted in an increase to gross (loss)/profit of £60 million (2020: £59 million).



S2. FINANCIAL RISK MANAGEMENT

CONTINUED

(b) Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group is exposed to credit risk on derivative financial instruments, cash and deposits with banks and Centrica group companies, as well as credit exposures to customers in its trading and energy sales activities.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2021		2020	
	Derivative financial instruments with positive fair values £m	Cash and cash equivalents £m	Derivative financial instruments with positive fair values £m	Cash and cash equivalents £m
AA- to A- ⁽ⁱ⁾	-	72	-	25
BBB+ to BBB- ⁽ⁱⁱ⁾	3	1,161	12	419
Un-rated related parties	4	-	10	-
	7	1,233	22	444

(i) Includes restricted cash.

(ii) BBB+ to BBB- and the unrated counterparty financial assets comprise amounts due from related parties.

Credit risk is managed by periodically assessing the financial reliability of financial counterparties.

Non-treasury credit risk

The Group's major customers are typically large companies which have strong credit ratings assigned by international credit rating agencies. The creditworthiness of counterparties are assessed in line with policy.

(c) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. To mitigate this risk, the Group holds adequate cash and cash equivalents. Liquidity risk has remained unaffected by COVID-19. See note 21(b) for more information.

S2. FINANCIAL RISK MANAGEMENT

CONTINUED

Maturity profiles

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

2021	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Due for payment						
Energy derivatives in a loss position that will be settled on a net basis	(885)	(316)	-	-	-	-
Foreign exchange derivatives in a loss position that will be settled on a net basis	(1)	(1)	-	-	-	-
Lease liabilities	(24)	(7)	(3)	(3)	-	(4)
2020						
Due for payment						
Energy derivatives in a loss position that will be settled on a net basis	(65)	(40)	-	-	-	-
Lease liabilities	(28)	(22)	(10)	(6)	(4)	-

S3. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally-developed methodologies that result in management's best estimate of fair value.

31 December	Level 1 £m	Level 2 £m	Level 3 £m	2021 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2020 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	-	4	-	4	-	10	-	10
Foreign exchange derivatives	-	3	-	3	-	12	-	12
Total financial assets at fair value	-	7	-	7	-	22	-	22
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	-	(1,201)	-	(1,201)	-	(105)	-	(105)
Foreign exchange derivatives	-	(2)	-	(2)	-	-	-	-
Total financial liabilities at fair value	-	(1,203)	-	(1,203)	-	(105)	-	(105)

S3. FAIR VALUE OF FINANCIAL INSTRUMENTS

CONTINUED

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

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

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2021 was 1% (2020: 1%) per annum.

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of the contractual terms. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices.

Active period of markets

	Gas	Oil
UK (years)	4	3

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IFRS 9. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Consolidated Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S1 for further detail). There are no amounts that have yet to be recognised in the Consolidated Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition.

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value.

Other financial instruments

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

S4. OTHER EQUITY

	Note	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Share-based payment reserve £m	Merger reserve £m	Total £m
As at 1 January 2020		1	(126)	9	1,741	1,625
Other comprehensive loss for the year:						
Exchange adjustments		-	(17)	-	-	(17)
Exchange differences recycled on disposal of business	10	-	12	-	-	12
Net gains on cash flow hedges		1	-	-	-	1
Taxation on cash flow hedges		(1)	-	-	-	(1)
Other comprehensive loss for the year, net of taxation		-	(5)	-	-	(5)
Share-based payment transactions		-	-	(5)	-	(5)
As at 31 December 2020		1	(131)	4	1,741	1,615
Other comprehensive loss for the year:						
Exchange adjustments		-	(10)	-	-	(10)
Other comprehensive loss for the year, net of taxation		-	(10)	-	-	(10)
As at 31 December 2021		1	(141)	4	1,741	1,605

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Consolidated Income Statement or Consolidated Balance Sheet as and when the hedged item affects the Consolidated Income Statement or Consolidated Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. Notes 16 and S1 provide further detail on cash flow hedging.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange adjustments on the translation of the Group's foreign operations.

Included within the balance are £125 million of losses in respect of the disposal group. These amounts have previously been recognised in the Group Statement of Comprehensive Income and will be recycled to the Group Income Statement on disposal.

Share-based payment reserve

During the year ended 31 December 2021, the Group did not operate employee share schemes. Centrica plc, the Group's ultimate parent undertaking, operates a number of employee share schemes and in 2017, prior to Centrica plc's contribution of its exploration and production business to the Group, Centrica plc made awards under these schemes to certain employees of the Group. The share-based payment reserve reflects the Group's obligation to deliver Centrica plc shares to employees in return for services provided.

Merger reserve

On 8 December 2017, the Group completed the transaction to combine Centrica plc's existing exploration and production business with that of Bayerngas Norge AS. The merger reserve represents the difference between the fair value and carrying value of assets.

S5. RELATED-PARTY TRANSACTIONS

During the year, the Group entered into the following arm's length transactions with related parties (who are not members of the Group, but which were related parties since they are fellow subsidiaries of the Shareholders of the Group), and had the following associated balances:

	Sale of goods and services ⁽ⁱ⁾ £m	Purchase of goods and services ⁽ⁱⁱ⁾ £m	Other-net interest £m	Amounts owed from ⁽ⁱⁱⁱ⁾ £m	2021 Amounts owed to ^(iv) £m
Centrica plc	-	(10)	(10)	1,168	(3)
GB Gas Holdings Limited	-	1	(8)	142	(2)
British Gas Trading Limited ^(iv)	1,722	(36)	-	368	(11)
Centrica Energy Limited	-	(1,046)	-	1	(1,382)
Centrica Services Limited	-	-	-	-	-
Centrica Storage Limited	-	(2)	-	-	-
	1,722	(1,093)	(18)	1,679	(1,398)

	Sale of goods and services ⁽ⁱ⁾ £m	Purchase of goods and services ⁽ⁱⁱ⁾ £m	Other-net interest £m	Loan repayments £m	Amounts owed from ⁽ⁱⁱⁱ⁾ £m	2020 Amounts owed to ^(iv) £m
Centrica plc	6	(1)	2	-	442	(10)
GB Gas Holdings Limited	-	(7)	(9)	-	154	(3)
British Gas Trading Limited ^(iv)	399	(30)	-	(38)	70	(11)
Centrica Energy Limited	-	(8)	-	-	6	(95)
Centrica Storage Limited	-	(2)	-	-	-	-
	405	(48)	(7)	(38)	672	(119)

- (i) Sale of goods and services includes recharges made to entities outside of the Group and purchase of goods and services includes recharges made by entities outside of the Group.
(ii) Amounts owed from related parties includes £1,181 million (2020: £419 million) classified as cash equivalents; £7 million (2020: £22 million) classified as derivative financial assets.
(iii) Amounts owed to related parties includes £1,203 million (2020: £105 million) classified as derivative financial liabilities.
(iv) Sales to British Gas Trading Limited included £575 million (2020: £147 million) related to discontinued operations

All amounts owed from/(owed to) related parties are unsecured. No provision against amounts receivable from related parties was recognised during the year through the Consolidated Income Statement. The balance of the provision at 31 December 2021 was £nil (2020: £nil).

Interest rate	Maturity date	£m
Floating (cash equivalent) ⁽ⁱ⁾	On demand	1,101
Fixed 0.22% (cash equivalent)	17 January 2022	20
Fixed 0.25% (cash equivalent)	24 January 2022	40
Non-interest bearing ⁽ⁱⁱ⁾	31 March 2023	93
Non-interest bearing	On demand	(1,017)
Non-interest bearing ⁽ⁱⁱⁱ⁾	Legal Trigger	44
		281

- (i) The daily average of the published rates achieved by the main AAA rated market funds of HSBC Bank plc, J.P. Morgan Asset Management and Blackrock.
(ii) Repayable quarterly through to 31 March 2023, and subject to annual revision of instalments. Quarterly instalments are fixed within each financial year but vary for each calendar year over the term of repayment. The balance represents the discounted amount at 1.2% from a fair value of £144 million (2020: £154 million) projected net spend of identified assets as set out in the contribution agreement for the transaction on 8 December 2017 which combined the exploration and production businesses of Centrica plc and Bayerngas Norge A/S.
(iii) The contribution agreement contains a mechanism whereby GBGH has the right to require that the Group transfer all or part of its interests in the Bowland licences to GBGH. In such circumstances, the Group is able to recover costs incurred after 1 January 2017 in connection with the Bowland licences from GBGH. Should GBGH not exercise such right or should GBGH require the sale of the Bowland licences to a third party, the contribution agreement contains a mechanism through which the Group also has the ability to recover costs incurred after 1 January 2017 in connection with the Bowland licences, save in limited circumstances. Also contained in these amounts are indemnities owed from GBGH which are outlined in the Shareholders' Agreement.



S5. RELATED-PARTY TRANSACTIONS

CONTINUED

Key management personnel comprise members of the Board and Executive Committee. Two Board members resigned and were replaced during the year. A total of 14 individuals were considered key management personnel at 31 December 2021 (2020: 14).

Compensation paid to key management personnel is as follows:

Year ended 31 December	2021 £000	2020 £000
Short-term employee benefits	3,696	5,135
	3,696	5,135

Compensation for one executive Director and seven members of the Executive Committee was borne by the Group. Compensation for two Directors was borne by Statwerke Munchen Group. Compensation for four Directors has been borne by Centrica plc.

Remuneration of the highest paid Director is as follows:

Year ended 31 December	2021 £000	2020 £000
Short-term employee benefits	982	1,342
	982	1,342

The highest paid Director was not in a money purchase pension scheme and did not exercise share options or receive shares in the year (2020: £nil).

S6. AUDITOR'S REMUNERATION

Year ended 31 December	2021 £000	2020 £000
Audit fee payable for the Company's individual and Consolidated Financial Statements	505	560
Audit of the Company's subsidiaries	699	520
Total fees related to the audit of the Company and subsidiary entities	1,204	1,080
Fees payable to the Company's auditor and its associates for other services:		
Other assurance services	42	44
	1,246	1,124

S7. RELATED UNDERTAKINGS

(a) Subsidiary undertakings

Below is a list of Spirit Energy Limited's subsidiary undertakings at 31 December 2021. Spirit Energy Limited holds directly or indirectly 100% of the ordinary shares of each subsidiary undertaking. Subsidiary undertakings which are held directly by Spirit Energy Limited are designated by *.

<u>Name of undertaking and registered address</u>	<u>Principal activity</u>	<u>Country or territory of Incorporation</u>
Bayerngas Norge AS* Veritasveien 29, 4007 Stavanger, Norway	Holding company	Norway
Bowland Resources (No.2) Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Bowland Resources Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Elswick Energy Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Hedging Holding Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Dormant company	UK
Spirit Energy Hedging Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Dormant company	UK
Spirit Energy Nederland BV* Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Gas and/or oil exploration and production	Netherlands
Spirit Energy Norway AS Veritasveien 29, 4007 Stavanger, Norway	Gas and/or oil exploration and production	Norway
Spirit Energy North Sea Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy North Sea Oil Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Energy Production UK Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Resources Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK



S7. RELATED UNDERTAKINGS

CONTINUED

Name of undertaking and registered address	Principal activity	Country or territory of incorporation
Spirit Energy Southern North Sea Limited 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK
Spirit Energy Treasury Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Finance company	UK
Spirit Europe Limited 1st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Holding company	UK
Spirit Infrastructure BV Polarisavenue 39, 2132 JH Hoofddorp, Netherlands	Construction, ownership and exploitation of infrastructure	Netherlands
Spirit North Sea Gas Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Gas and/or oil exploration and production	UK
Spirit Norway Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Investment holding company	UK
Spirit Production (Services) Limited* IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom	Business services	UK
Spirit Resources (Armada) Limited* 1 st Floor, 20 Kingston Road, Staines-upon-Thames, United Kingdom, TW18 4LG	Gas and/or oil exploration and production	UK

(b) Joint arrangements

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

Joint operations – fields/assets

As at 31 December 2021	Nature of relationship	Location	Percentage holding in ordinary shares and net assets
Cygnus	Non-operated	UK North Sea	61.25

**COMPANY BALANCE SHEET**

As at 31 December	Notes	2021 £m	2020 £m
Non-current assets			
Investments	C	2,354	2,083
Trade and other receivables	D	57	90
		2,411	2,173
Current assets			
Trade and other receivables	D	85	62
Cash and cash equivalents		-	-
		85	62
Total assets		2,496	2,235
Current liabilities			
Bank overdrafts, loans and other borrowings		(846)	(838)
		(846)	(838)
Net assets		1,650	1,397
Equity			
Share capital	E	19	19
Share premium	F	-	1,094
Retained earnings		1,589	242
Other equity	G	42	42
Shareholders' equity		1,650	1,397

The Company reported a profit for the financial year ended 31 December 2021 of £253 million (2020: loss of £710 million).

The Financial Statements on pages 80 to 87, of which the notes on pages 82 to 87 form part, were approved and authorised by the Board of Directors on 31 May 2022 and were signed below on its behalf by:

Neil McCulloch
Director and Chief Executive Officer

**COMPANY STATEMENT
OF CHANGES IN EQUITY**

	Note	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m
1 January 2020		19	1,094	952	42	2,107
Loss and total comprehensive loss for the year		-	-	(710)	-	(710)
31 December 2020		19	1,094	242	42	1,397
Profit and total comprehensive income for the year		-	-	253	-	253
Reduction in share premium and transfer to retained earnings	F	-	(1,094)	1,094	-	-
31 December 2021		19	-	1,589	42	1,650

As permitted by section 408(3) of the Companies Act 2006, no Income Statement or Statement of Comprehensive Income is presented.

The final dividend of 39.27 pence per ordinary share and nil pence per preference share, totalling £375 million, for the year ended 31 December 2021 (2020: nil) was approved by the Board on 31 May 2022 and will be paid in June 2022.

The notes on pages 82 to 87 form part of these Financial Statements.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

A. General information and principal accounting policies of the Company

General information

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

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

Basis of preparation

The Company Financial Statements are prepared and presented for the year ended 31 December 2021. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC.

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

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

- the requirements of IAS 7: 'Statement of cash flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- the prior year reconciliation in the number of shares outstanding at the beginning and at the end of the year for share capital; and
- disclosures in respect of capital management.

Standards, amendments and interpretations effective or adopted in 2021 have been disclosed in note 1 of the Consolidated Financial Statements.

Measurement convention

The Company Financial Statements have been prepared on the historical cost basis. The carrying costs are approximately equal to their fair value.

Going concern

The Company Financial Statements have been prepared on a going concern basis, as described in the Directors' Report and note 1 of the Consolidated Financial Statements.

Critical accounting judgements

The critical accounting judgements are set out in note 3 of the Consolidated Financial Statements.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are set out in note 3 of the Consolidated Financial Statements. The area applicable to the Company is the impairment of investments. The key source of estimation uncertainty of the Company is the carrying value of its investments in subsidiary undertakings and receivables from these undertakings. During the year, the Company reviewed the carrying value of its investments through its impairment review process as described below and recorded a net impairment reversal of £271 million (2020: impairment of £664 million) as described in note C below. An increase in prices of 10% would reverse an additional £33 million of impairment charges on investments. A reduction of 10% would give rise to a reduction in net impairment reversals of £75 million in the underlying investments.

Principal accounting policies

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

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the Income Statement.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

Investments

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

Impairment

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

The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Receivables from related parties are compared to their recoverable amount, which is also assessed using the same estimated discounted future cash flow for each undertaking as described above.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

B. Employees and Directors

Key management personnel are considered to be the Directors and the Secretary of the Company. The Company had no employees during the year (2020: none). None of the key management personnel received any remuneration for their services as key management personnel of the Company and are not employed by the Company (2020: none).

**NOTES TO THE COMPANY
FINANCIAL STATEMENTS**

CONTINUED

C. Investment in subsidiaries

	2021 £m	2020 £m
Cost		
At 1 January	3,874	3,796
Additions	–	78
At 31 December	3,874	3,874
	2021 £m	2020 £m
Accumulated impairment		
At 1 January	(1,791)	(1,127)
Write-back/(impairment) provision	271	(664)
At 31 December	(1,520)	(1,791)
	2021 £m	2020 £m
Net book value		
At 1 January	2,083	2,669
At 31 December	2,354	2,083

On 29 September and 31 October 2017, GB Gas Holdings Limited (GBGH), a fellow subsidiary of Centrica plc, contributed the entire share capital of the following entities to the Company in exchange for Class A ordinary shares with a value of £633 million and Class B ordinary shares with a value of £1,482 million: Spirit Energy North Sea Limited, Spirit Energy North Sea Oil Limited, Spirit Energy Production UK Limited, Spirit Energy Resources Limited, Spirit Energy Treasury Limited, Spirit North Sea Gas Limited, Spirit Production (Services) Limited, Spirit Energy Nederland B.V., Spirit Resources (Armada) Limited, Spirit Energy Norge AS and Spirit Norway Limited then trading as Spirit Energy NUF.

Immediately following the above contribution, SWM Bayerische E&P Beteiligungsgesellschaft mbH contributed the entire share capital of Bayerngas Norge AS, together with certain other receivables, to the Company in exchange for a promissory note valued at £796 million, of which £541 million was attributable to the value of Bayerngas Norge AS.

On 11 December 2017, the Company subscribed for a further 2.7 billion ordinary shares in Spirit Norway Limited for cash consideration of £242 million.

On 12 December 2017, the Company subscribed for further shares in Bayerngas Norge AS for cash consideration of £31 million, bringing its total investment in Bayerngas Norge AS to £572 million.

In the 2019 financial year, the Company made cash investments of £132 million in North Sea Gas Limited, £6 million in Spirit Energy Nederland BV, £655 million in Spirit Energy Resources Limited and £74 million in Spirit Production Services Limited.

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



NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

Impairment provision

In December, the Company made the following adjustments to the provision against its following subsidiary investments:

- Spirit Energy Production UK Limited: write back of £100 million (2020: £56 million impairment);
- Spirit North Sea Gas Limited: write back of £48 million (2020: £nil);
- Spirit Resources (Armada) Limited: write-back of £8 million (2020: £nil);
- Spirit Norway Limited: impairment of £28 million (2020: £46 million impairment);
- Bayerngas Norge AS: write-back of £305 million (2020: £77 million impairment);
- Spirit Production (Services) Limited: write-back of £6 million (2020: £nil);
- Spirit Energy Resources Limited: impairment of £170 million (2020: £485 million impairment); and
- Spirit Production Netherlands BV: write-back of £2 million (2020: £nil).

The impairments were recognised to align the carrying value of the investment to its estimated recoverable amount. The net impairment reversal was recognised to align the carrying value of the investment to its estimated recoverable amount. The principal driver for investment impairments was the Norway and Statfjord disposal. Investment impairment reversals were driven by asset impairments write-backs due primarily to improved commodity prices.

D. Trade and other receivables

As at 31 December	Note	Current £m	2021 Non-current £m	Current £m	2020 Non-current £m
Financial assets:					
Related-party receivables	H	81	57	62	90
Current tax asset		4	–	–	–
		85	57	62	90



NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

E. Share capital

Allotted and fully paid share capital of the Company:

As at 31 December	2021 £m	2020 £m
296,056,457 A class ordinary shares of 1 pence each (2020: 296,056,457)	3	3
658,964,372 B class ordinary shares of 1 pence each (2020: 658,964,372)	6	6
1 deferred share of £1 (2020: 1)	-	-
955,020,829 preference shares of 1 pence each (2020: 955,020,829)	10	10
	19	19

The A and B class ordinary shares have attached to them full voting, dividend (including the right to special dividends in the case of B class ordinary shares) and capital distribution (including winding up) rights. They do not confer any rights of redemption.

Special dividends are required to be declared in certain circumstances, subject to the availability of sufficient distributable reserves. The special dividends are therefore not discretionary and as such, are accounted for as a financial liability when the event triggering the special dividend occurs.

The deferred share does not have any right to a dividend or distribution of profits of the Company on winding up. The holder is entitled to repayment of the amount paid up after repayment of the capital paid up on the A ordinary and B ordinary shares. The deferred share does not attach any rights to receive notice of, attend, speak or vote at a general meeting or on any written resolution of the Company.

The preference shares have attached to them voting (only in respect of variation or abrogation of the rights attaching to them), and capital distribution (including on winding up and in such case in priority to ordinary Shareholders) rights. Each preference share shall confer the right to redemption (if the Directors resolve to make a redemption) in priority (other than any special dividend declared, paid or made at any time on the B Ordinary Shares only in accordance with Article 44(2)) to the payment of any dividend to the holders of Ordinary Shares).

The Shareholder Agreements govern further rights to redeem the preference shares and also circumstances when conversion of preference shares can occur, but these are all at the discretion of the Company.

The overall dividend is only payable at the discretion of the Directors of the Company and subject to having sufficient distributable reserves. The preference shares are deemed to be equity instruments.

F. Share premium

	2021 £m	2020 £m
As at 1 January	1,094	1,094
Reduction in share premium	(1,094)	-
As at 31 December	-	1,094

In December 2021, by special resolution of the Board of Directors and in accordance with section 291 of the Companies Act 2006, the Company reduced its share premium account by £1,094 million (2020: nil) and transferred the resulting distributable reserves to retained earnings.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

G. Other equity

During the period ended 31 December 2018, a redetermination was made in respect of the provisional fair values of certain assets and liabilities which had been acquired from Bayerngas Norge AS. The finalised acquisition discussions with Centrica and Bayerngas Norge AS resulted in an increase in the amounts due from Centrica of £25 million and amounts payable to Bayerngas Norge AS of £2 million. The balance sheet also included a provision for uncertain tax provisions from the acquired Bayerngas Group business; the Company has been able to claim indemnities under the tax deed of £4 million in respect of this uncertain tax provision which is due from Bayerngas Norge AS. Additionally, the Company has been indemnified by Centrica and Bayerngas Norge AS in respect of legal claims which have been settled during the period ended 31 December 2018 in the value of £15 million. The cumulative impact of the redetermination was recognised in other equity in the prior period; no further adjustments have been recognised in other equity during 31 December 2021.

H. Related-party transactions

During the year, the Company entered into the arm's length transactions set out below with related parties who are fellow subsidiaries of the ultimate parent undertaking and had the following associated balances:

As at 31 December	Amounts owed from £m	2021 Amounts owed to £m	Amounts owed from £m	2020 Amounts owed to £m
GB Gas Holdings Limited	138	–	152	–
Spirit Energy Treasury Limited ⁽ⁱ⁾	–	(846)	–	(838)
	138	(846)	152	(838)

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

All amounts owed from related parties are non-interest bearing, not past due and no provisions for credit losses have been taken. Terms relating to the amount receivable from GB Gas Holdings Limited of £138 million are described in note S5 to the Consolidated Financial Statements, in footnotes (ii) and (iii), respectively. The amounts owed to related parties are payable on demand. An interest rate of LIBOR plus 3% was applied to amounts owing to Spirit Energy Treasury Limited, however, the Group transitioned to a synthetic LIBOR plus 3% rate during the year. Once synthetic LIBOR is discontinued, the Group will transition the loan contracts to SONIA.

During the year, the Company recognised in its Income Statement income of £4 million (2020: £5 million expense) for an increase in deferred consideration and income of £1 million (2020: £6 million) for transactions with GB Gas Holdings Limited.



GAS AND LIQUID RESERVES (UNAUDITED)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full-year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Spirit Energy operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by Gaffney, Cline & Associates for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe, excluding the Norway and Statfjord disposal groups.

The principal fields in Europe are GMA and Cygnus. The reserves estimates are reported according to the guidelines set by the Petroleum Resources Management System, which is sponsored by the following organisations:

- Society of Petroleum Engineers;
- American Association of Petroleum Geologists;
- World Petroleum Council;
- Society of Petroleum Evaluation Engineers; and
- Society of Exploration Geophysicists.

Estimated net 2P reserves of gas	Billion cubic feet
1 January 2021	511
Revisions of previous estimates ⁽ⁱ⁾	9
Extensions, discoveries and other additions ⁽ⁱⁱ⁾	1
Production ⁽ⁱⁱⁱ⁾	(93)
31 December 2021	428

Estimated net 2P reserves of liquids^(iv)	Million barrels
1 January 2021	8
Revisions of previous estimates ⁽ⁱ⁾	(3)
Production ⁽ⁱⁱⁱ⁾	(3)
31 December 2021	2

Estimated net 2P reserves	Million barrels of oil equivalent
31 December 2021^(iv)	73

- (i) Revision of previous estimates include those associated with York.
- (ii) As a result of the increase in equity share for Brae.
- (iii) Represents total sales volumes of gas and oil produced from the Group's reserves.
- (iv) Includes the total of estimated gas and liquids reserves as at 31 December 2021 in mmbboe.
- (v) Liquid reserves include oil, condensate and natural gas liquids.

DEFINITIONS AND RECONCILIATIONS OF ADJUSTED PERFORMANCE MEASURES (UNAUDITED)

These Consolidated Financial Statements include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not, however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Consolidated Income Statement (I/S), Consolidated Cash Flow Statement (C/F)) or the notes to the Financial Statements.

(a) Adjusted operating profit

Year ended 31 December	Note	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Adjusted operating profit		34	8
Exceptional items	I/S	511	(516)
Certain re-measurements of energy contracts	B(b)	(1,112)	(254)
Operating loss	I/S	(567)	(762)

(b) Adjusted profit after tax

Year ended 31 December	Note	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Adjusted profit after tax		32	39
Exceptional items	I/S	511	(516)
Certain re-measurements of energy contracts	B(b)	(1,112)	(254)
Tax on exceptional items and certain re-measurements of energy contracts	B(a)	265	223
Loss after taxation for the year from continuing operations	I/S	(304)	(508)

(c) Adjusted operating cash flow

Year ended 31 December	Note	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Adjusted operating cash flow		294	246
Payments relating to exceptional charges	C/F	(2)	(1)
Adjustment for non-cash settlement of group relief	21(e)	-	(24)
Net cash from continuing operating activities	C/F	292	221

(d) Free cash flow

Year ended 31 December	Note	2021 £m	2020 (restated) ⁽ⁱ⁾ £m
Adjusted operating cash flow		294	246
Proceeds from the sale of assets	C/F	-	6
Sale of business	C/F	44	(66)
Purchase of property, plant and equipment and intangible assets	C/F	(76)	(124)
Free cash flow		262	62

(i) Prior year results have been restated to remove the Statfjord and Norway disposal groups from continuing operations as these have been classified as a discontinued operation, refer to note 10 for further information.



Skattedirektoratet

Saksbehandler Jan Hoelstad	Deres dato 19.10.2010	Vår dato 29.10.2010
Telefon 22077325	Deres referanse Bjarn Lund	Vår referanse 2010/1085947

PricewaterhouseCoopers AS
Postboks 748 Sentrum
0106 OSLO

Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk

Det vises til deres brev av 19. oktober 2010 samt e-poster av 19. og 28. oktober 2010, hvor det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende selskaper:

- Bayerngas Norge AS Org. nr: 989 490 168

samt for følgende heleide datterselskaper:

- Bayerngas Produksjon Norge AS Org. nr: 987 469 781
- Bayerngas Petroleum Danmark AS Org. nr: 979 932 545
- Genesis Exploration & Production NUF Org. nr: 987 317 647

Bakgrunn:

Bayerngas Norge AS er 100 % eid av de utenlandske selskapene; Bayerngas GmbH, Stadtwerke München GmbH, SWM Gasbeteiligungs GmbH, Swissgas Schenzerische AG og Tigas-Erregas Tirol GmbH. Det norske konsernet driver innen olje og gas bransjen. Selskapenes styre er i stor grad besatt av ikke norsk språklige personer. All kommunikasjon inkludert utarbeidelse av årsregnskap og årsberetning skjer derfor på engelsk som også er generelt arbeidsspråk i selskapene og i bransjen generelt. Informasjonsutveksling med andre parter som kunder, leverandører, långivere og ansatte skjer allcndre i det vesentligste på engelsk.

Da det er den engelske versjonen av årsregnskapet og -beretningen som vil bli benyttet for alle praktiske formål, og den norske kun utarbeides for å tilfredsstille regnskapslovens krav, anses nytten i forhold til kostnaden ved å utarbeide et norsk årsregnskap og -beretning som liten. Det søkes derfor om dispensasjon.

Skattedirektoratets vurdering og konklusjon

Fitter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels inntøstorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Postadresse Postboks 9200 Grønland 0134 Oslo	Besøksadresse Fredrik Selmers vei 4 Org. nr: 974761076	Sentrallbord 800 80 000 Telefaks 22 17 08 60
skattedirektoratet@skatteetaten.no		



Det framgår således at et av hovedformålene med regnskapsloven er å bidra til "informative regnskaper for ulike grupper av regnskapsbrukere". Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet. Offentlige myndigheter må også anses som en sentral regnskapsbruker, idet ulike myndigheter, som lignings- og tilsynsmyndigheter, henvytter regnskapene som et verktøy i sin kontrollvirksomhet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir negativt berørt ved en eventuell dispensasjon.

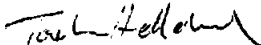
Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonsøknad. Det framgår av søknaden at det norske konsernet er 100 % eid fra utlandet. Selskapenes styrer i gjenspeiler dette forholdet. Selskapene opererer innen en bransje med sterk internasjonal karakter og arbeidsspråket er engelsk. Alle sentrale aktører innen de bransjer selskapene driver, antas å måtte beherske og benytte engelsk språk.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering de ovenfor nevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at engelsk språk benyttes i stedet ved utarbeidelsen, og at øvrige opplysninger som vedtaket baserer seg på, heller ikke endres vesentlig.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen


Torstein Kinden Helleland
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet


Jan Hjelstad



Skatteetaten

Vår dato 10.08.2022	Din/Deres dato 04.08.2022	Saksbehandler Lars Waalorp
800 80 000 Skatteetaten.no	Din/Deres referanse AR500901683	Telefon 90833418
Org.nr 974761076	Vår referanse 2022/5663481	Postadresse Postboks 9200 Grønland 0134 OSLO

SPIRIT NORWAY HOLDING AS
Veritasveien 29
4007 STAVANGER

Att. Elisabeth Skeie

Fritak for konsernregnskapsplikt for Spirit Norway Holding AS, org.nr. 989 490 168

Vi viser til deres brev av 4. august 2022 hvor dere søker om fritak fra plikten til å utarbeide konsernregnskap for Spirit Norway Holding AS. Søknaden ble sendt til Skattedirektoratet. Skattedirektoratets myndighet til å treffe enkeltvedtak etter regnskapsloven § 3-7 fjerde ledd ble delegert til skattekontoret med virkning fra 1. juni 2019.

Skattekontoret finner med hjemmel i regnskapsloven § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for Spirit Norway Holding AS. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet mv. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Spirit Norway Holding AS er morselskap i et underkonsern, hvor Spirit Energy Limited er det ultimate morselskapet og er hjemmehørende i Storbritannia. Konsernregnskap utarbeides av Spirit Energy Limited på engelsk språk etter IFRS, hvor Spirit Norway Holding AS med datterselskaper er omfattet.

Skattekontorets vurdering

Det forutsettes at Spirit Energy Limited utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskaper. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med IFRS og at kravene i regnskapsloven § 3-7 med forskrifter for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet.

Når det gjelder hvilket språk morselskapet skal utarbeide konsernregnskapet på, vises det til forskrift av 7. september 2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven. Det følger av § 3-7-1 at konsernregnskapet foruten å være på norsk, kan være på svensk, dansk eller engelsk.

Skattekontoret gir etter en konkret helhetsvurdering tillatelse til at det gjøres unntak for konsernregnskapsplikten.



Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Lars Waalorp
seniorrådgiver
Brukerdialog, brukerkontakt
Skatteetaten

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.