

BP KUWAIT LIMITED
(Registered No.00284323)

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ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Board of Directors: J Myers
A J A McAuslan
D A Rider

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

STRATEGIC REPORT

Results

The profit for the year after taxation was \$45,028,000 which, when added to the retained profit brought forward at 1 January 2018 of \$39,957,000, gives a total retained profit carried forward at 31 December 2018 of \$84,985,000.

Principal activity and review of the business

The company provides technical and managerial advice and assistance to Kuwait Oil Company (KOC) and Kuwait Integrated Petroleum Industries Company (KIPIC) through a technical services agreement.

The key financial and other performance indicators during the year were as follows:

	2018	2017	Variance
	\$000	\$000	%
Turnover	72,919	53,748	36
Operating profit	51,549	40,735	27
Profit for the year	45,028	35,694	26
Total equity	98,795	52,816	87

The significant increase in turnover is primarily due to higher monthly Extended Technical Service Agreement (ETSA) fee received and additional turnover from subcontracting work performed for Kuwait Oil Company (KOC) in 2018. In addition, the company had also entered into a new Downstream technical service agreement with Kuwait Integrated Petroleum Industries Company (KIPIC) in July 2018.

Principal risks and uncertainties

The company aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management for the BP group.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the BP group Annual Report and Form 20-F for the year ended 31 December 2018.

Strategic and commercial risks

Geopolitical

The company is exposed to a range of political developments and consequent changes to the operating and regulatory environment.

STRATEGIC REPORT

Strategic and commercial risks (continued)

The impact of the UK's exit from the EU

Following the referendum in 2016, BP has been assessing the potential impact of Brexit on group companies. BP has been preparing for different scenarios for the UK's exit from the EU but does not believe any of these scenarios will pose a significant risk to the business. The BP board's geopolitical committee discussed this, most recently in May 2019. BP continues to monitor developments in this area in line with group risk management processes and procedures.

Insurance

The BP group's insurance strategy could expose the BP group to material uninsured losses which in turn could adversely affect the company.

Safety and operational risk

Security

Hostile acts against the company's staff and activities could cause harm to people and disrupt its operations.

Compliance and control risks

Regulation

Changes in the regulatory and legislative environment could increase the cost of compliance and affect the company's provisions.

Ethical misconduct and non-compliance

Ethical misconduct or breaches of applicable laws by the company's businesses or its employees could be damaging to its reputation, and could result in litigation, regulatory action and penalties.

Reporting

Failure to accurately report the company's data could lead to regulatory action, legal liability and reputational damage.

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to foreign currency exchange rates and interest rates; and credit risk. Further details on these financial risks are included within Note 29 of the BP group Annual Report and Form 20-F for the year ended 31 December 2018.

Authorized for issue by Order of the Board

DocuSigned by:

C Thomas

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For and on behalf of

Sunbury Secretaries Limited

Company Secretary

September 24, 2019

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

DIRECTORS' REPORT

BP KUWAIT LIMITED

Directors

The present directors are listed on page 1.

There have been no director appointments or resignations since 1 January 2018.

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

Dividends

The company has not declared any dividends during the year (2017 \$Nil). The directors do not propose the payment of a dividend.

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the strategic report under Financial risk management.

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years. They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the company will continue for the foreseeable future.

DIRECTORS' REPORT

Directors' statement as to the disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of the auditor's report of which the company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

Authorized for issue by Order of the Board

DocuSigned by:

C Thomas

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For and on behalf of

Sunbury Secretaries Limited

Company Secretary

September 24, 2019

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT
OF THE FINANCIAL STATEMENTS**

BP KUWAIT LIMITED

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 the profit or loss for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, continue to adopt the going concern basis in preparing the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP KUWAIT LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BP Kuwait Limited (the company):

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

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 18.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

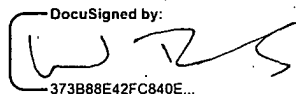
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.

DocuSigned by:

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September 24, 2019

William Brooks FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP Statutory Auditor
London, United Kingdom

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31 DECEMBER 2018****BP KUWAIT LIMITED**

		2018	2017
	Note	\$000	\$000
Turnover	3	72,919	53,748
Cost of sales		(18,614)	(11,353)
Gross profit		54,305	42,395
Administrative expenses		(10,124)	(6,915)
Other operating income		7,368	5,255
Operating profit	4	51,549	40,735
Interest receivable and similar income	6	923	191
Profit before taxation		52,472	40,926
Tax on profit	7	(7,444)	(5,232)
Profit for the year		<u>45,028</u>	<u>35,694</u>

The profit of \$45,028,000 for the year ended 31 December 2018 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2018**

There is no comprehensive income attributable to the shareholders of the company other than the profit for the year.

BALANCE SHEET**AS AT 31 DECEMBER 2018****BP KUWAIT LIMITED****(Registered No.00284323)**

		2018	2017
	Note	\$000	\$000
Fixed assets			
Tangible assets	9	59	88
Deferred tax assets	7	284	162
		343	250
Current assets			
Debtors: amounts falling due within one year	10	114,009	62,774
Cash at bank and in hand		740	530
		114,749	63,304
Creditors: amounts falling due within one year	11	(15,012)	(10,142)
Net current assets		99,737	53,162
TOTAL ASSETS LESS CURRENT LIABILITIES		100,080	53,412
Provisions for liabilities and charges			
Other provisions	13	(1,285)	(596)
NET ASSETS		98,795	52,816
Capital and reserves			
Called up share capital	14	9,062	9,062
Other reserves	15	4,748	3,797
Profit and loss account	15	84,985	39,957
TOTAL EQUITY		98,795	52,816

Authorized for issue on behalf of the Board

DocuSigned by:

David Rider

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D A Rider

Director

September 24, 2019

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

BP KUWAIT LIMITED

	Called up share capital (Note 14)	Other reserves (Note 15)	Profit and loss account (Note 15)	Total
	\$000	\$000	\$000	\$000
Balance at 1 January 2017	9,062	3,410	4,263	16,735
Profit for the year, representing total comprehensive income	—	—	35,694	35,694
Capital contribution for equity-settled share- based payments	—	387	—	387
Balance at 31 December 2017	9,062	3,797	39,957	52,816
Profit for the year, representing total comprehensive income	—	—	45,028	45,028
Capital contribution for equity-settled share- based payments	—	951	—	951
Balance at 31 December 2018	9,062	4,748	84,985	98,795

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2018****BP KUWAIT LIMITED****1. Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)**

The financial statements of BP Kuwait Limited for the year ended 31 December 2018 were approved by the board of directors on 24 September 2019 and the balance sheet was signed on the board's behalf by D A Rider. BP Kuwait Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00284323). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

The significant accounting policies and critical accounting judgements, estimates and assumptions of the company are set out below.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies that follow have been consistently applied to all years presented, except where otherwise indicated.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures
- (b) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement
- (c) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- (d) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of
 - (i) paragraph 79(a)(iv) of IAS 1
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment
- (e) the requirements of IAS 7 Statement of Cash Flows
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective
- (g) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- (h) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- (i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets
- (j) the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 18.

NOTES TO THE FINANCIAL STATEMENTS**2. Significant accounting policies, judgements, estimates and assumptions (continued)****Basis of preparation (continued)**

The financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (\$000), except where otherwise indicated.

Critical accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used. The critical judgements and estimates that could have a significant impact on the results of the company are set out below and should be read in conjunction with the information provided in the Notes to the financial statements.

Significant judgement: deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. Details of deferred tax balances are provided in Note 7.

Significant accounting policies**Going concern**

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved and the financial statements have therefore been prepared under the going concern basis.

Foreign currency

The functional and presentation currency of the financial statements is US dollars. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Where this is not practical and exchange rates do not fluctuate materially the average rate has been used. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot exchange on the balance sheet date. Any resulting exchange differences are included in the profit and loss account, unless hedge accounting is applied. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

Tangible assets

Tangible assets are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, directly-attributable finance costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within tangible assets.

NOTES TO THE FINANCIAL STATEMENTS**2. Significant accounting policies, judgements, estimates and assumptions (continued)****Tangible assets (continued)**

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Tangible assets are depreciated on a straight-line basis over their expected useful lives. The typical useful lives of the company's tangible assets are as follows:

Corporate and other

Motor vehicles 4 years

Office equipment 4 years

Fixtures and fittings

Fixtures and fittings 4 years

The expected useful lives and depreciation method of tangible assets are reviewed on an annual basis and, if necessary, changes in useful lives or the depreciation method are accounted for prospectively.

The carrying amounts of tangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of tangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the period in which the item is derecognized.

Impairment of tangible assets

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans or evidence of physical damage. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

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NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of tangible assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Leases

Agreements under which payments are made to owners in return for the right to use a specific asset are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership are recognized as finance leases. All other leases are accounted for as operating leases. Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

For all leases, contingent rents are recognized in the profit and loss account in the period in which they are incurred.

Financial assets

Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included.

The subsequent measurement of financial assets depends on their classification, as set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the financial asset is transferred to a third party. This includes the derecognition of receivables for which discounting arrangements are entered into.

From 1 January 2018, the company classifies its financial assets as measured at amortized cost or fair value through profit or loss. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost. This category of financial assets includes trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of financial assets measured at amortized cost

The company assesses on a forward looking basis the expected credit losses associated with financial assets classified as measured at amortized cost at each balance sheet date. Expected credit losses are measured based on the maximum contractual period over which the company is exposed to credit risk. Since this is typically less than 12 months, there is no significant difference between the measurement of 12-month and lifetime expected credit losses for the company's in-scope financial assets. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. The expected credit loss is estimated as the difference between the asset's carrying amount and the present value of the future cash flows the company expects to receive, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is adjusted, with the amount of the impairment gain or loss recognized in the profit and loss account.

A financial asset or group of financial assets classified as measured at amortized cost is considered to be credit-impaired if there is reasonable and supportable evidence that one or more events that have a detrimental impact on the estimated future cash flows of the financial asset (or group of financial assets) have occurred. Financial assets are written off where the company has no reasonable expectation of recovering amounts due.

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at amortized cost

Financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is typically equivalent to the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, these financial liabilities are subsequently measured at amortized cost. This category of financial liabilities includes trade and other payables and finance debt.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the company currently has a legally enforceable right to set off the recognized amounts; and the company intends to either settle on a net basis or realize the asset and settle the liability simultaneously. If both of the criteria are met, the amounts are set off and presented net. A right of set off is the company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 3.0% (2017 2.5%).

Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company. Deferred bonus arrangements that have a vesting date more than 12 months after the balance sheet date are valued on an actuarial basis using the projected unit credit method and amortized on a straight-line basis over the service period until the award vests.

Taxation

Income tax expense represents the sum of current tax and deferred tax.

Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises on the initial recognition of goodwill
- Where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss or
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, where the company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. An exception is where the deferred tax asset relates to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable or increased to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

NOTES TO THE FINANCIAL STATEMENTS**2. Significant accounting policies, judgements, estimates and assumptions (continued)****Taxation (continued)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Where tax treatments are uncertain, if it is considered probable that a taxation authority will accept the company's proposed tax treatment, income taxes are recognized consistent with the company's income tax filings. If it is not considered probable, the uncertainty is reflected using either the most likely amount or an expected value, depending on which method better predicts the resolution of the uncertainty.

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation of a promised service to a customer. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Revenue is recognized when the service is performed, in accordance with the terms of the contractual arrangements and in the accounting period in which the services are rendered.

When, or as, a performance obligation is satisfied, the company recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.

Interest income

Interest income is recognized as the interest accrues.

Impact of new International Financial Reporting Standards

The company adopted two new accounting standards issued by the IASB with effect from 1 January 2018, IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

The adoption of IFRS 9 and IFRS 15 has had no material impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS**3. Turnover**

An analysis of the company's turnover is as follows:

	2018	2017
	\$000	\$000
Revenue from contracts with customers		
Rendering of services	72,919	53,748
	72,919	53,748
Other operating income		
Interest receivable and similar income	923	191
	73,842	53,939

An analysis of turnover by class of business is set out below:

	2018	2017
	\$000	\$000
Class of business:		
Upstream	71,592	53,748
Downstream	1,327	—
Total	72,919	53,748

The country of origin and destination is substantially the Kuwait geographic area.

4. Operating profit

This is stated after charging:

	2018	2017
	\$000	\$000
Operating lease payments (building)	151	151
Net foreign exchange losses	7	7
Depreciation of tangible assets	29	29

5. Auditor's remuneration

	2018	2017
	\$000	\$000
Fees for the audit of the company	15	17

Fees paid to the company's auditor, Deloitte LLP (2017 Ernst & Young LLP), and its associates for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of BP Kuwait Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

6. Interest receivable and similar income

	2018	2017
	\$000	\$000
Interest income from amounts owed by group undertakings	923	191

NOTES TO THE FINANCIAL STATEMENTS**7. Taxation**

The company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010.

The taxation charge in the profit and loss account is made up as follows:

	2018	2017
	\$000	\$000
<u>Current tax</u>		
Overseas tax on income for the year	8,965	5,314
Overseas tax overprovided in prior years	(1,399)	(53)
Total current tax charged	7,566	5,261
<u>Deferred tax</u>		
Origination and reversal of temporary differences	(122)	(29)
Total deferred tax credited	(122)	(29)
Tax charged on profit	7,444	5,232

(a) Reconciliation of the effective tax rate

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% for the year ended 31 December 2018 (2017 19.25%). The differences are reconciled below:

	2018	2017
	\$000	\$000
Profit before tax	52,472	40,926
Tax charge	7,444	5,232
Effective tax rate	14%	12.78%
	2018	2017
	%	%
UK corporation tax rate:	19	19.25
Overseas corporation tax rate:	—	—
Increase / (decrease) resulting from:		
Non-deductible expenditure	—	0.22
Double tax relief	—	(4.55)
Overseas tax	—	12.85
Free group relief	(5)	(15.00)
Deferred tax provided at lower rates	—	0.01
Effective tax rate	14	12.78

The reconciling items shown above are those that arise for UK corporation tax purposes, rather than overseas tax purposes.

Change in corporation tax rate

The UK corporation tax rate reduced to 19% with effect from 1 April 2017, and will further reduce to 17% from 1 April 2020. Deferred tax has been measured using these rates, which have been substantively enacted at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS**7. Taxation (continued)****(b) Provision for deferred tax**

The deferred-tax included in the profit and loss account and balance sheet is as follows:

<u>Deferred tax asset</u>	<u>Profit and loss account</u>		<u>Balance sheet</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Decommissioning and other provisions	(5)	(9)	217	101
Depreciation in excess of capital allowance	(117)	(20)	67	61
Net credit for deferred tax assets	<u>(122)</u>	<u>(29)</u>	<u>284</u>	<u>162</u>
Net deferred tax credits and net deferred tax asset	<u>(122)</u>	<u>(29)</u>	<u>284</u>	<u>162</u>

Analysis of movements during the year

	<u>2018</u>
	<u>\$000</u>
At 1 January 2018	162
Deferred tax charge in the profit and loss account	122
At 31 December 2018	<u>284</u>

8. Directors and employees**(a) Remuneration of directors**

None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2017: \$Nil).

(b) Employee costs

	<u>2018</u>	<u>2017</u>
	<u>\$000</u>	<u>\$000</u>
Wages and salaries	16,961	11,661
Social security costs	42	27
Share-based payment charge	990	422
Other employee cost - relocation	617	484
	<u>18,610</u>	<u>12,594</u>

(c) The average monthly number of employees during the year was 50 (2017: 31).

NOTES TO THE FINANCIAL STATEMENTS**9. Tangible assets**

	Fixtures & fittings	Motor Vehicles	Office Equipment	Total
Cost	\$000	\$000	\$000	\$000
At 1 January 2018	364	103	144	611
At 31 December 2018	364	103	144	611
Depreciation				
At 1 January 2018	276	103	144	523
Charge for the year	29	—	—	29
At 31 December 2018	305	103	144	552
Net book value				
At 31 December 2018	59	—	—	59
At 31 December 2017	88	—	—	88

10. Debtors

Amounts falling due within one year:

	2018	2017
	\$000	\$000
Trade debtors	31,352	29,826
Amounts owed from parent undertakings	70,472	25,845
Amounts owed from fellow subsidiaries	139	1,095
Other debtors	481	302
Prepayments and accrued income	791	392
Taxation	10,774	5,314
	114,009	62,774

11. Creditors

Amounts falling due within one year:

	2018	2017
	\$000	\$000
Trade creditors	120	220
Amounts owed to parent undertakings	328	539
Amounts owed to fellow subsidiaries	1,819	2,598
Taxation	10,941	5,314
Accruals and deferred income	1,804	1,471
	15,012	10,142

NOTES TO THE FINANCIAL STATEMENTS**12. Obligations under leases***Operating leases*

Operating lease payments represent rentals payable by the company for certain of its building. Leases are negotiated for an average term of 1 year and rentals are fixed for an average of 1 year with an option to extend for a further 1 year at the then prevailing market rate. Leases of buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	Buildings	Buildings
	\$000	\$000
Operating leases which expire:		
Within 1 year	113	114
	<u>113</u>	<u>114</u>

13. Other provisions

	Total
	\$000
At 1 January 2018	596
Charged to profit and loss account	689
At 31 December 2018	<u>1,285</u>

The company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

14. Called up share capital

	2018	2017
	\$000	\$000
Issued and fully paid:		
5,485,107 ordinary shares of £1 each for a total nominal value of £5,485,107	<u>9,062</u>	<u>9,062</u>

15. Reserves*Called up share capital*

The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

Other reserves

The balance held on this reserve represents the equity-settled employee share plans granted to the company's employees by BP p.l.c., at no cost to the company.

Profit and loss account

The balance held on this reserve is the retained profits of the company.

NOTES TO THE FINANCIAL STATEMENTS

16. Guarantees and other financial commitments

The company has issued guarantees under which amounts outstanding at 31 December 2018 were \$49,375 (2017 \$45,263) in respect of liabilities of other third parties. No material losses are likely to arise from these guarantees.

17. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions in the year.

18. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Operating Company Ltd, a company registered in England and Wales. The ultimate controlling parent undertaking is BP p.l.c., a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP p.l.c. can be obtained from its registered address: 1 St James's Square, London, SW1Y 4PD.