

BP EXPLORATION OPERATING COMPANY LIMITED

(Registered No.00305943)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

Board of Directors: J S Burton
 K A H Butler
 I C Emembolu
 G R Gordon
 K MacLennan
 P J Mather
 D F Reiter



The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2020.

STRATEGIC REPORT**Results**

The loss for the year after taxation was \$13,448,156,000 which, when deducted from the retained profit brought forward at 1 January 2020 of \$16,866,190,000, adding a transfer of \$160,810,000 funding debt from BP Exploration (Nigeria Finance) Limited and BP Exploration (Nigeria) Limited prior to their liquidation, and deducting a \$49,034,000 reserve transfer from BP Brasil Ltda related to a cost of control correction between share capital and investment value gives a total retained profit carried forward at 31 December 2020 of \$3,529,810,000. This excludes exchange adjustments, other reserves and cash flow hedges movement taken directly to reserves.

Principal activities and review of the business

The company is engaged in the production and selling of petroleum products. It also provides services to other group undertakings within the bp group and holds investments in subsidiary undertakings and associated undertakings engaged in similar activities.

In June 2020, bp revised the investment appraisal related long-term oil and gas price assumptions used in tangible assets impairment testing, this was considered to be a trigger for all of the company's assets, which were tested for impairment and this resulted in an impairment charge of \$2,037 million. Following the downward revision of price assumptions due to the global pandemic situation the company also recognized material investment impairment charges of \$12,566 million reflecting the impairment of the subsidiaries producing assets.

The company also has branches in Ireland, Turkey, China, Trinidad and Tobago, Turkmenistan, Russian Federation and UAE where it is engaged in overseas exploration and production activities.

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

	2020	2019	Variance
	\$000	\$000	%
Turnover	1,303,943	1,925,564	(32)
Operating loss	(14,950,687)	(202,857)	7,270
(Loss) / profit for the financial year	(13,448,156)	3,175,068	(524)
Total equity	46,272,688	59,585,050	(22)

	2020	2019	Variance
	%	%	%
Quick ratio*	61	64	(3)
Return on average capital employed**	(23.14)	5.66	(28.80)
Gross Profit percentage***	(6.84)	18.37	(25.21)

*Quick ratio is defined as current assets (excluding stocks, debtors falling due after one year, derivatives and other financial instruments falling due after one year and deferred tax assets) divided by current liabilities.

**Return on average capital employed is defined as profit or loss for the year after adding back interest, divided by average capital employed. Capital employed is defined as total equity plus gross debt, excluding goodwill and cash.

***Gross Profit percentage is defined as gross profit/loss divided by turnover.

Turnover is generated mainly on Schiehallion field (Schiehallion, Loyal and Alligin, \$434 million), Clair area (Clair Phase 1 and Clair Ridge, \$359 million), ETAP field (Machar, Madoes, Marnock, Mirren, Monan, Mungo, \$270 million), Andrew field (Andrew, Cyrus, Farragon, Kinnoull, \$145 million), Vorlich field (\$27 million) and other oil and gas fields (\$19 million). Turnover decreased by \$622 million during the year driven by the decrease of \$656 million in oil and natural gas liquids (NGL) revenue and \$5 million in other operating revenue, partially offset by \$38 million increase in gas revenue and \$1 million increase in tariff income.

During the year, oil turnover decreased by \$640 million due to a significant decrease in oil price and lower production. The average realized price in 2020 was \$44.76/bbl (2019: \$65.39/bbl) and production decreased from 77 mb/d in 2019 to 70.2 mb/d in 2020. The above decrease includes a \$38 million adjustment related to ETAP historical mismeasurement in 2019. NGL revenue decreased by \$16 million due to lower prices partially offset by higher production. The average realized price in 2020 was \$223 per tonne (2019: \$460 per tonne).

The gas revenue increased by \$38 million in 2020 despite lower volume and prices in the year, as in 2019 the gas revenue included a one of settlement of \$63 million for Scottish Power regarding Andrew field.

The average realized price decreased to \$3.0/mmscf in 2020 from \$3.9/mmscf in 2019. Production decreased to 65.06 mmscf/d in 2020 from 68.02 mmscf/d in 2019.

During the year, cost of sales has decreased by \$179 million as a net result of several increasing and decreasing factors as detailed below.

Other operating expenditures overall decreased by \$154 million mainly due to the following factors

- change in decommissioning provision related to divested assets not posted against fixed assets but other operating expenditures following a policy change (\$72 million),
- higher recoveries from regions due to central activities charged to intercompany partners (\$47 million),
- decrease in contract services mainly related to McKinsey (\$47 million),
- no annual cash bonus in 2020 (\$32 million),
- lower centralised charges from other bp group companies (\$35 million),

partially offset by

- increase in restructuring accrual recognized and decrease of contracted staff and consultancy fees regarding reinvent bp programme (\$67 million) and other smaller movements.

Depreciation decreased by \$62 million primarily on Andrew area (\$123 million), ETAP (\$47 million) and Foinaven field (\$17 million) partially offset by increase on Schiehallion (\$104 million) and Vorlich fields (\$17 million) and in rest of the world operations due to increase in software assets (\$4 million). Lifting cost decreased by \$30 million due to lower production contract services.

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The above decrease has been partially offset by a \$33 million change in the over/underlift position, a \$20 million movement in foreign exchange currency translation and a \$15 million change in Petroleum Revenue Tax (PRT) impact related to divested assets. There has been other immaterial changes related to purchases, inventory and insurance.

Following the downward revision of price assumptions due to the global pandemic situation, which was considered to be a global trigger, the company recognized material impairment charges of \$2,037 million related to its producing assets. The main impacted areas are Schiehallion (\$1,089 million), ETAP (\$783 million) and Andrew (\$159 million), while in 2019, an impairment loss of \$93 million was recognized related to the immediate write-off and divested assets (Magnus, Bruce, Keith, Rhum, Miller and Viking) as a result of changes in the decommissioning provision.

Due to the above mentioned economic environment, the company recognized material impairment charges of \$12,566 million regarding its investment in various companies, reflecting the impairment of the subsidiaries producing assets (Please refer to Note 14 for further details).

The company received \$819 million income from group undertakings from BP Exploration (Epsilon) Limited (\$450 million), Arco British Limited (\$350 million) and BP Exploration (PSI) Limited (\$19 million) and \$128 million interest from associated undertakings (Aker BP ASA) in 2020, compared to \$3,396 million income from group undertakings and \$225 million interest from associated undertakings in 2019.

The loss for the year was reduced by a tax credit of \$704 million. This comprises a current tax charge of \$13 million and a deferred tax credit of \$717 million. The current tax charge mainly relates to an increase in the provision for additional current tax liabilities resulting from HRCF (High Risk Corporate Programme) discussions with HMRC, of \$11 million and a change to the RDEC repayment due of \$2 million.

The deferred tax credit of \$717 million arises as a consequence of a decrease in the deferred tax liability position from \$1,021 million at 31 December 2019 to \$304 million at 31 December 2020. This decrease has been caused mainly by a reduction in the deferred tax liability in relation to accelerated capital allowances.

The decrease in shareholders' equity during the year was due to the loss for the year of \$13,448 million partially offset by a reserve transfer of \$112 million related to funding debt transfer from BP Exploration (Nigeria Finance) Limited and BP Exploration (Nigeria) Limited (\$161 million) and a cost of control correction regarding BP Brasil Ltda (-\$49 million) between share capital and investment value, share-based payment contribution from the parent company of \$9 million, currency translation differences of \$4 million and the profit on cash flow hedges of \$11 million.

Section 172 (1) statement

This section of the strategic report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the statement required under section 414 C of the Companies Act 2006 (the "Act").

The role of the board of directors of the company plays an integral part in demonstrating how the directors have had regard to the matters set out in section 172(1). During the course of the year the following primary tasks were undertaken by the board of directors of the company:

- Defining and establishing purpose and strategy including, where relevant, having regard to the purpose, strategy, culture and values defined by BP p.l.c.;
- Monitoring the potential significant operational challenges presented by the COVID-19 pandemic, having regard to the company's safe and reliable operations; and
- Assessing principal and emerging risks relevant to the company

In light of the role of the board, and their primary tasks and considerations throughout the year (as described above), the directors have discharged their duties under section 172(1) in a way that they considered, in good faith, is most likely to promote the success of the company for the benefit of its members as a whole, having

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regard to the likely consequences of any decision in the long term and the broader interests of other stakeholders, as required by the Act. In doing so, the directors have considered, amongst other matters:

- a. The likely long-term consequences of the decision.
- b. The interests of the company's employees.
- c. The need to foster the company's business relationships with suppliers, customers and others.
- d. The impact of the company's operations on the community and the environment.
- e. The desire to maintain the company's reputation for high standards of business conduct.
- f. The need to act fairly between members of the company.

The directors also considered the interests of a wider set of stakeholders, including governments, customers, partners, suppliers and communities in the countries where it operates. Further information on the process behind how the BP p.l.c. board makes decisions that affect the stakeholders of its subsidiaries, including the company, can be found on pages 82 to 83 of BP p.l.c.'s Annual Report and Form 20-F 2020.

To support the directors in the discharge of their duties, and whilst making decisions on behalf of the company, the directors have access to bp central functions assurance support to identify matters which may have an impact on the proposed decision including, where relevant, the section 172 factors outlined above. To ensure the efficiency and effectiveness of engagement with key stakeholders identified by the company, certain stakeholder engagement is led by the bp group, particularly where the impact of a decision may impact the group's reputation. For example, during the financial period, the Region reviewed its leadership model to improve collaboration with suppliers, one of its key stakeholders.

Stakeholders

The directors believe that engagement with its shareholders and wider stakeholder groups plays a vital role throughout bp's business. During 2020, the directors reiterated their focus on engagement with key stakeholders, as well as an increased focus on environment, social and governance ("ESG") matters. The following outlines key stakeholders identified by the bp group and the company, where relevant, and how their interests were taken into consideration during the decision making process where appropriate.

Shareholders

The directors identify that engagement with shareholders is of key importance to the ongoing success of the company and, as such, when taking decisions, the directors had regard to the company's shareholders with regard to long-term value.

Employees

Employees are vital to the long-term success of the company. bp and its directors engage with employees and keep them informed on matters that concern them through bp's employee intranet and local sites, social media channels, annual 'Pulse' survey, town halls, site visits and webinars including topics such as quarterly results, strategy, the low carbon transition, and diversity. During 2020 restrictions associated with COVID-19, most engagements were conducted virtually. bp's 'Pulse' survey employee engagement score acts as a key performance indicator for bp.

bp, including the company, took the principal decision to undergo a reorganization, retiring the previous strategy and replacing it with a business model which is more focused, more integrated and faces the energy transition head on, 'Reinventing bp'. bp made the difficult decision to endorse the reinvention with associated job losses, which will ultimately see around 10,000 employees leave bp. bp's redundancy process and the directors engagement with employees was fair, transparent and objective with an environment of honesty, trust and co-operation that put the care and wellbeing of bp employees at the heart of the process. The reduction in the workforce was conducted in a manner which protected bp and the company's safe and reliable operations. Support was made available for the life transition associated with redundancy through the newly established myFuture programme and discretionary enhanced redundancy terms were offered, where relevant.

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Please refer to the employee engagement statement in the directors' report for further details on specific engagement with respect to the company.

Customers and suppliers

bp aims to put customers at the heart of everything it does. In 2020 bp considered its customers' interests by engaging in global customer brand tracking and collaborating with original equipment manufacturers on future technologies.

bp considered its suppliers' interests through hosting workshops, including sessions focused on net zero, people and planet. In addition, university collaborations, including the Carbon Mitigation Initiative, an independent academic research programme based at Princeton University.

Community and environment

bp consults with communities, NGOs, academics and industry associations about the future of bp, with regard to the environment and social matters and the issues facing the world, drawing on their external expertise, input and challenge. In 2020 this included providing input to the EU methane strategy and supported the UK government's planned phase out of internal combustion engines.

In 2020 bp developed its updated position on biodiversity and new measures to help restore, maintain and enhance nature with input and constructive challenge from international nature and conservation organizations and experts including Conservation International, Fauna & Flora International (FFI), UNESCO and IUCN.

bp also updated its business and human rights policy in 2020 to address emerging human rights issues relevant to our industry, clarify our human rights commitments and communicate how bp's approach to managing human rights impacts has advanced. The update was supported by consultations with a wide range of NGOs, subject matter experts and investors.

The following director engagement was noted during the year with respect to the company's community and environment:

- The company engages with the community, a key stakeholder, one example being the investment in the Aberdeen City Council's clean cities project.

Maintaining a reputation for high standards of business conduct

In 2020 bp launched its new sustainability frame, aims and objectives linked to the UN Sustainable Development Goals. bp's values of safety, respect, excellence, courage and one team define how the group, including the company and its board of directors, conduct business. Furthermore, bp's code of conduct is based upon its values and it sets clear expectations for how bp, the company and the relevant board of directors operate. The directors of the company continued to adhere, in good faith, to the bp code of conduct during the year, and oversee adherence to the bp code of conduct by the company's employees to ensure the board and the company maintained a reputation for high standards of business conduct.

bp's code of conduct includes prohibitions on engaging in bribery or corruption in any form, in accordance with bp's group-wide anti-bribery and corruption policy and procedures. During the year, bp continued to engage suppliers and communicate expectations for managing bribery and corruption risk on behalf of bp, where relevant, for example the customer & products business delivered a regional annual contractor forum digitally, providing awareness of bribery and corruption risks.

The following director engagement was noted during the year with respect to the company maintaining a reputation for high standards of business conduct:

- The company publishes its own statement to HSE (Health, Safety and Environment) executive on an annual basis showing its commitment to the environment and community, as key stakeholders.
- The company has a respectful and robust relationship with the UK's regulator, the Oil & Gas Authority (OGA), actively participating in initiatives to achieve the regulators aim of maximising economic recovery from the UK Continental Shelf (UKCS), whilst supporting its revised strategy to

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reach Net Zero. bp plays a significant role in the OGAs taskforces and taskgroups, providing expertise and data to ensure value is maximised from the industry's collaborative activities. bp is one of the largest players on the UKCS, being one of the top three producers, as well as the Operator of a number of key fields, including Schiehallion, ETAP, Clair and Clair Ridge.

Stakeholder considerations have been especially pertinent during the COVID-19 pandemic, whereby the bp group and the company, where relevant, has strived to keep its business viable for its shareholders and other stakeholders.

The company's principal decisions

The company has taken the view that a 'principal' decision is one which is material and strategic in nature and would affect the ability of the company to generate or preserve value over the long term. Principal decisions may typically fall into four categories, namely financial, operational, culture and/or people.

During the period, the following principal decisions were taken by the company whilst having regard to the company's stakeholders as outlined above, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly between members and the long-term consequences of the decision.

- The company entered into a series agreements in order to support the development of the Net Zero Teesside (NZT) Project (including the acquisition of OGCI Climate Investment LLP (OGCI CI) interests).
- The company entered into a non-binding four year Memorandum of Agreement ("MOA") with Aberdeen City Council ("ACC"), where it serves as ACC's strategic planning and technical adviser to help the city's energy transition from fossil-based to a climate positive city.

The relevant factors taken into account during the decision making process, in furtherance of the company's purpose, were:

- The likely long-term consequences of the decision.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desire to maintain the company's reputation for high standards of business conduct.

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 2020.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas, petrochemicals and refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook. Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply of oil and gas or alternative low carbon energy sources, technological change, global economic conditions, public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) and the influence of OPEC can impact supply and demand and prices for our products.

Access, renewal and reserves progression

The company's inability to access, renew and progress upstream resources in a timely manner could adversely affect its long-term replacement of reserves.

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Major project delivery

Failure to invest in the best opportunities or deliver major projects successfully could adversely affect the company's financial performance.

Geopolitical

The company is exposed to a range of political developments and consequent changes to the operating and regulatory environment could cause business disruption. These may in turn cause production to decline, limit the company's ability to pursue new opportunities, affect the recoverability of its assets or cause it to incur additional costs. Political instability, changes to the regulatory environment or taxation, international trade disputes and barriers to free trade, international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism, acts of war and public health situations (including the continued impact of the COVID-19 pandemic or a future epidemic or pandemic) may disrupt or curtail its operations or development activities.

The impact of the UK's exit from the EU

bp have been assessing the potential impact on the group of Brexit and the UK's future global relationships and have not identified any significant risk to the business.

Liquidity, financial capacity and financial, including credit, exposure

Failure to work within the financial framework set by the bp group could impact the company's ability to operate and result in financial loss.

The impact of coronavirus (COVID-19)

The spread of COVID-19 has caused significant volatility in the oil and gas prices and refining margins. bp's future financial performance will be impacted by the extent and duration of the current market conditions and the effectiveness of the actions that it and others take, including its financial interventions. bp's financial frame is designed to be robust to periods of low price, with flexibility to reduce cost and capital expenditure if required. We continue to assess the impact of COVID-19 on our staff and operations and have instigated appropriate mitigation plans.

Joint arrangements and contractors

The company may have varying levels of control over the standards, operations and compliance of its partners, contractors and sub-contractors which could result in legal liability and reputational damage.

Digital infrastructure and cybersecurity

Breach of the company's digital security or failure of its digital infrastructure could damage its operations and reputation.

Climate change and the transition to a lower carbon economy

Developments in policy, law, regulation, technology and markets including societal and investor sentiment, related to the issue of climate change could increase costs, constrain the company's operations and affect our business plans and financial performance.

Competition

Inability to remain efficient, maintain a high-quality portfolio of assets, innovate and retain an appropriately skilled workforce could negatively impact delivery of the company's strategy in a highly competitive market.

Crisis management and business continuity

Potential disruption to the company's business and operations could occur if it does not address an incident effectively.

Insurance

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

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Safety and operational risks

Process safety, personal safety and environmental risks

The company is exposed to a wide range of health, safety, security and environmental risks that could cause harm to people, the environment, the company's assets and result in regulatory action, legal liability, business interruption, increased costs, damage to its reputation and potentially denial of its licence to operate.

Drilling and production

Challenging operational environments and other uncertainties could impact drilling and production activities.

Security

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

Product quality

Supplying customers with off-specification products could damage the company's reputation, lead to regulatory action and legal liability, and potentially impact its financial performance.

Compliance and control risks

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.

Regulation

Changes in the regulatory and legislative environment could increase the cost of compliance, affect the company's provisions and limit its access to new exploration opportunities.

Treasury and trading activities

Ineffective oversight of treasury and trading activities could lead to business disruption, financial loss, regulatory intervention or damage to the company's reputation.

Reporting

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

The impact of reinventing bp on the organization

Last year it was announced that we are reinventing bp to help deliver our ambition. This significant reorganization includes a new structure, a new leadership team, new ways of working and a reduction in the size of bp's office based workforce. The risks associated with these changes have been identified, assessed and managed with the support of project management offices. As part of bp's three lines of defence, our businesses, integrators, enablers and internal audit are working to deliver clear accountabilities and the associated planned workload reduction. All individuals changing roles or leaving bp are required to complete a management of change.

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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 commodity prices, 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 2020.

Authorized for issue on behalf of the Board

K MacLennan
Director

DocuSigned by:
Karen MacLennan
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17. September 2021

Registered Office:

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United Kingdom

DIRECTORS' REPORT**BP EXPLORATION OPERATING COMPANY LIMITED****Directors**

The present directors are listed on page 1.

K MacLennan, P J Mather, G R Gordon and D F Reiter served as directors throughout the financial year with the changes since 1 January 2020 as follows:

	<u>Appointed</u>	<u>Resigned</u>
E L Delaney - McKnight	—	15 March 2020
N C Christie	15 March 2020	1 December 2020
A D Flores	—	2 July 2020
I C Emembolu	2 July 2020	—
S J MacRae	—	28 August 2020
J C Lyons	7 September 2020	6 April 2021
P W A Miller	—	9 October 2020
K A H Butler	23 February 2021	—
J S Burton	5 March 2021	—

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 (2019: \$3,055,000,000). The directors do not propose the payment of a final 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.

Post balance sheet events

After the balance sheet date, the company has issued guarantee to BP Energy do Brasil Ltda under which amounts outstanding are \$62 million in respect of liabilities of other third parties. These are contingent liabilities upon which no material losses are expected to arise.

Between 1 February 2021 and 1 August 2021, the company subscribed to 136,205,654 ordinary shares of \$1 each in BP Senegal Investments Limited for a total consideration of \$136,205,654.

On 16 February 2021, the company subscribed to 890,356,498 ordinary shares of \$1 each in BP Mauritania Investments Limited for a total consideration of \$890,356,498.

On 3 April 2021, the company subscribed to 100 ordinary shares of \$1 each in GTA FPSO Company Limited for a total consideration of \$100. On 4 August 2021, the company subscribed to a further 265,000,000 ordinary shares of \$1 each for a total consideration of \$265,000,000.

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On 16 April 2021, bp announced it suspended production from the Foinaven fields west of Shetland as it began preparations to remove the Petrojarl Foinaven floating production, storage and offloading (FPSO) vessel from operation. The FPSO, which has been in the Foinaven area since 1996, was approaching the end of its 25-year design life. Work had been under way to consider options to extend the life of the vessel, but due to its age and demanding environment, it was determined that the FPSO was not the right option to recover the fields' remaining resources. bp is now assessing other options to recover the remaining reserves of up to 200 million barrels of oil at the Foinaven fields in a more efficient and sustainable way. bp plans to take the FPSO unit offstation and hand it back to vessel owner Teekay Corporation in 2022. Consequently, a fixed asset impairment of \$105 million was recognized in the group accounts for the Foinaven fields CGU in the first half of year 2021 out of which \$4 million is allocated for BP Exploration Operating Company Limited. Since these circumstances arose subsequent to 31 December 2020, this impairment will be reflected in the financial statements of BP Exploration Operating Company Limited for the year ending 31 December 2021.

On 17 June 2021, the company subscribed to 100 ordinary shares of \$1 each in BP Holdings Iraq Limited for a total consideration of \$100.

In the second quarter of 2021, the company booked impairment reversals of \$666 million and impairment charges of \$1 million relating to producing assets. These principally arose as a result of changes to the bp group's oil and gas price assumptions. The price assumption for Brent oil up to 2030 was increased to reflect near-term supply constraints, whereas the long-term assumption was decreased reaching \$55 per barrel by 2040 and \$45 per barrel by 2050 (in real 2020 terms). The recoverable amounts of the cash generating units were based on value-in-use calculations. These revisions and impairment reversals and charges relate to events and circumstances arising since 31 December 2020 and therefore the impact on the company will be included in the financial statements for the year ended 31 December 2021.

Going concern

The directors have assessed the prospects of the company over a period of at least 12 months. The directors have considered expectations of the position and performance of the company over this period, taking account of its short-term and longer-range plans. Taking into account the company's current position and its principal risks on pages 6-8, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months.

Since 1 January 2020, there has been significant volatility in the oil and gas prices and refining margins, in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered.

As noted in the Strategic Report, the company holds interests in a number of producing fields in the UK continental shelf, as a result the company's cash-flows are impacted by changes in the commodity price. Following the assessment of non-committed exploration and development spend, there is no significant spend on those fields. The company holds limited cash directly and funding requirements are met through the central Treasury organisation, as a result the company is reliant on the overall group funding to continue in operation and meet its liabilities as they fall due in the going concern period. The company has mainly intercompany trading (95% of 2020 revenue) within the bp group and some third party trading, and also has net assets of \$46,273 million, while the loss for the year was \$13,448 million. From the annual loss, \$12,566 million is related to impairment of investments and \$2,037 million is related to impairment of tangible assets due to the global economic situation. In 2019, the company generated profit.

Liquidity and financing is managed within bp under pooled group-wide arrangements which include the company. As part of assuring the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has been taken into consideration. The bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity extending at least twelve months from the date of approval of these financial statements has been assessed at a group level under a number of scenarios and a reverse stress test performed to support the group's going concern assertion. In addition,

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group management of bp have confirmed that the existing intra-group funding and liquidity arrangements as currently constituted are expected to continue for the foreseeable future, being no less than twelve months from the approval of these financial statements.

In assessing the prospects of BP Exploration Operating Company Limited, the directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

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, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Future developments

The directors consider that, despite the uncertainties deriving from the current economic environment and the loss reported for the year, 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.

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

Research and development

Research and development costs relate to the company's share of group led research and development programmes and initiatives. The cost of these group projects is absorbed by the fields and locations and therefore the legal entities which are expected to benefit from those developments in the future.

Branches

The company has overseas branches established in the following member states of the European Union: Ireland. The company also has branches in Turkey, China, Trinidad and Tobago, Turkmenistan, Russian Federation and UAE.

Disabled employees

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Stakeholder statements

Employee engagement

Employees are informed of information on matters of concern to them as employees through bp's employee intranet and local sites, social media channels, town halls, site visits and webinars including topics such as quarterly results, strategy, the low carbon transition and diversity. The bp group has a number of employee-led forums and business resource groups (BRGs) and aim to build constructive relationships with labour unions formally representing some employees. On an ongoing basis bp, and the board of directors of the company, hears directly from employees on a range of topics, including bp's new purpose and strategy, employee sentiment – particularly during the reorganisation of bp – the impact of COVID-19 on operations and wellbeing, diversity and career progression. In light of the COVID-19 pandemic, and to ensure the

DIRECTORS' REPORT

safety of its employees, bp employees were told to work from home where able to which constituted a principal decision of bp including the company.

Employee share ownership is encouraged and there are a number of employee share plans in BP p.l.c. which are in place at bp group level. For example, the bp group operates a ShareMatch plan in more than 50 countries, matching BP p.l.c. shares purchased by employees. The bp group also operates a group-wide discretionary share plan, which allows employee participation at different levels globally and is linked to the bp group's performance.

Employees are consulted on a regular basis through regular team and one-to-one meetings, bp's annual 'Pulse' survey and 'Keeping Connected' firmwide webcasts where the bp CEO Bernard Looney and featured guests from across the organisation discuss a range of topics throughout the year. The 'Pulse' employee engagement score acts as a key performance indicator for bp. In response to the 'Pulse' survey feedback, and specifically the feedback related to increased anxiety in employees, bp's CEO Bernard Looney led a 'Keeping Connected' webcast focused on reducing mental health stigma and encouraging employees to ask for help. bp also increased the frequency of mental health awareness training for managers.

bp, including the company, took the principal decision to undergo a reorganization, retiring the previous strategy and replacing it with a business model which is more focused, more integrated and faces the energy transition head on, 'Reinventing bp'. bp made the difficult decision to endorse the reinvention with associated job losses, which will ultimately see around 10,000 employees leave bp. bp, the company and its board of directors, considered this to be the right decision and assurances were sought from executives across the bp business to ensure that the redundancy process was fair, transparent and objective with an environment of honesty, trust and cooperation. As a result of this engagement and transparency with its employees, bp and the company's board of directors put the care and wellbeing of employees at the heart of the process. The reduction in the workforce was conducted in a manner which protected bp and the company's safe and reliable operations. Support was made available for the life transition associated with redundancy through the newly established myFuture programme and discretionary enhanced redundancy terms were offered, where relevant.

A stakeholder review is conducted during the decision making process and employee's views are taken into account in decisions likely to affect their interests. Employee engagement is discussed and considered by the directors at board meetings on a regular basis. For example:

- Employee pulse surveys in the Region focussing on positivity, wellbeing, inclusivity and unlocking leadership potential to transform the Region.
- Diversity & Inclusion plans implemented across BP p.l.c. functions and regions. Participation in external industry recruitment initiative as strategic marketing campaign, promoting BP ways of working and increasing female recruits.
- Office based staff continued to work from home and North Sea operations continued as a safe passage for offshore workers.
- The leadership team were aware of the impact of bp reinvent on its employees and, as such, employee wellbeing remained a target area during the period of change.

Engagement with other stakeholders

The board of directors of the company aims to foster enduring relationships with governments, customers, partners, suppliers and communities in the countries where it operates. The directors work with business partners in an honest, respectful and responsible way and seek to work with others who share the company's commitments to safety and ethics and compliance.

The company's activities, and the decisions of its directors, affect a wide variety of individuals and organizations. The directors engage with these stakeholders and listen to their differing needs and priorities as an everyday part of business, utilising the input and feedback to inform the directors' decision making process on behalf of the company.

DIRECTORS' REPORT

As noted in the section 172 (1) statement, responsibility for decisions that impact the entire group is taken at BP p.l.c. level. On behalf of the company, the bp group is a member of industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the bp group works with governments on a range of issues that are relevant to its business, from regulatory compliance, to understanding tax liabilities, to collaborating on community initiatives.

On behalf of the company, the bp group also conducts supplier site visits to monitor how work is being carried out, ensuring that it meets the bp group's expectations. These site visits are intended to be mutually beneficial in terms of improvement and learning opportunities.

The bp group also seeks to engage with customers through forums such as social media, focus groups and in-depth interviews with customers to better understand customer's needs and seek their feedback.

The director's relationships on behalf of the company with respect to communities are important for all its activities, but particularly for major new projects where its presence may bring about changes in the local areas, such as jobs and support for community development, as well as increased road traffic, changes in the landscape and increased demands for fresh water. The directors engage with local communities through public consultations and meetings with local representatives and complete impact assessments where relevant. The directors also consult with NGOs, academics and industry associations, drawing on their external expertise, input and challenge.

In relation to the company's relationship and engagement with governments, regulators, community and environment, please refer to the company's section 172 (1) statement.

For further information on the process behind how the BP p.l.c. board makes decisions that affect the stakeholders of its subsidiaries, including the company, please refer to the section 172 (1) statement available in the BP p.l.c. Annual Report and Form 20-F 2020.

Please refer to the strategic report evidencing how the bp group and the company, where relevant, engages with its key stakeholders when taking principal decisions of the company, where applicable, which includes suppliers, customers, and other business relationships.

Streamlined Energy & Carbon Reporting (SECR)

As a UK subsidiary of a UK parent company which prepares a group directors' report, SECR reporting details are included in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2020.

Corporate Governance Statement

In 2020, the bp group redesigned its corporate governance framework to be more closely aligned with bp's new purpose – reimagining energy for people and our planet – as well as the new strategy. The framework defines the BP p.l.c. board's role, to promote the long-term sustainable success of the company, generating value for its shareholders while having regard to its other stakeholders, the impact of its operations on the communities within which it operates and the environment.

The company's ultimate parent BP p.l.c. has applied the 2018 UK Corporate Governance Code throughout the year. The review of the BP p.l.c. corporate governance framework had 3 main strands: the role and purpose of the board, committees and new ways of working, as defined on pages 88-89 in the BP p.l.c. 2020 Annual Report and Form 20-F. The new corporate governance framework also reinforces the effectiveness of the internal control framework. The system of internal control is reflected in the governance of the group's subsidiaries through the adoption by the Company of:

- (i) the System of Internal Control being the holistic set of management systems, organisational structures, processes, standards and behaviours that are employed to conduct the group's

DIRECTORS' REPORT

- business; and comprehensive policy regarding the Corporate Governance of Subsidiaries (the "Policy"); and
- (ii) a comprehensive Global Subsidiary Corporate Governance Policy regarding the Corporate Governance of Subsidiaries (the "Policy"); and
- (iii) the bp Code of Conduct based on bp's values, setting clear expectations for how we work at bp and which applies to all bp employees, including directors appointed to the company.

System of Internal Control

The System of Internal Control processes, which include functional assurance and internal group authorities, facilitate effective and efficient operations by enabling the company to respond appropriately to significant business, operational, financial, compliance and other risks aiding the company in achieving its objectives and fulfilling its purpose. This includes the safeguarding of assets from inappropriate use or loss and fraud and ensuring liabilities are identified and managed.

Further, the System of Internal Control helps to ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation. The System of Internal Control helps to ensure compliance with laws and regulations, in addition to internal policies with respect to the conduct of business.

This System of Internal Control has been especially important during 2020 in light of the challenging macro-economic environment facing the group and the significant operational challenges presented by the COVID-19 pandemic resulting in global restrictions on the movement of people. This has led to the majority of the company's employees working remotely to safeguard their, and others, wellbeing while maintaining safe and reliable operations and support of bp's customers.

The Policy

The Policy is a comprehensive set of rules and recommendations, reflective of best practice governance and the content of formal corporate governance codes for private companies, and is designed to improve subsidiary governance:

- (i) by mitigating legal and reputational risk and preserving the integrity of the Group's corporate structure;
- (ii) to select, train and assist competent and confident directors and officers who execute their duties in a manner that mitigates the risk of breaching legal requirements and fiduciary duties;
- (iii) to specify which of the group's businesses and functions are accountable for the various aspects of establishment, administration and corporate governance of subsidiaries;
- (iv) to provide a structure through which company objectives can be achieved and monitored, and
- (v) to support the System of Internal Control and the bp Code of Conduct

The company has therefore not considered it necessary to adopt a formal corporate governance code.

The Policy requires any decisions in respect of the formation and change of entity form, financing of intra-group activities, transfer of ownership and dissolution to be made pursuant to bp's System of Internal Control processes. Monitoring in respect of compliance with the Policy is completed on a regular basis, and any exceptions to the Policy are considered and agreed by the Company Secretary's Office of BP p.l.c.

The Policy sets out the responsibilities of all directors and officers of each of the group's subsidiaries and the primary tasks of the boards, including consideration and execution of long-term strategy, monitoring of the subsidiary's performance and ensuring that the principal risks to the subsidiary are identified and that appropriate systems of risk management and control are in place.

DIRECTORS' REPORT

The Policy requires directors to:

- (i) attend induction training upon appointment and are recommended to refresh their training annually
- (ii) not engage in any activity that is, or could reasonably be perceived to be, in conflict with the interests of the company and are further required to act in the best interests of the company, which may not necessarily coincide with the best interest of the group
- (iii) consult in advance of conflicts of duties in order to identify and implement steps to avoid or mitigate such conflicts
- (iv) retain responsibility for the approval of financial statements

Decision making rests with the directors of the Company and delegation of specific powers or decisions is documented in writing, setting out the reasons for and scope and limitation of such delegation, supported by a form of group authority. Delegations are monitored and reviewed by the board on a regular basis.

Application of the system of governance

The directors have applied this system of governance by:

- (a) Promoting the purpose of the company to reimagine energy for people and our planet, with an ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero. through the net zero company ambition by 2050 or sooner, help the world get to net zero.
- (b) Regularly reviewing the board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual directors have sufficient capacity to make valuable contributions. The board retains a minimum of three directors where appropriate, and where appropriate promotes independent and objective challenge through the appointment of a minimum of one director who is not directly or indirectly responsible for the management function of the company. In certain cases where appropriate, the board nominates a designated Chair to provide leadership of the board during board meetings.
- (c) Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making, directors consider the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the group's purpose, aims and ambitions, when acting in their capacity as a director of the company.
- (d) In accordance with the Policy, the board is supported by Systems of Internal Control to identify opportunities to create and preserve value and to manage its principal risks and uncertainties as set out in the strategic report.
- (e) Having regard to and fostering good stakeholder relationships. Please refer to the statement of engagement with key stakeholders in the directors' report for further information.

Auditors

Pursuant to section 487 of the Companies Act 2006, Deloitte LLP have expressed their willingness to continue in office as auditors and are therefore deemed reappointed as auditors.

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.

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

Authorized for issue on behalf of the Board

K MacLennan
Director

DocuSigned by:
Karen MacLennan
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17. September 2021

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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

BP EXPLORATION OPERATING COMPANY LIMITED

The directors are responsible for preparing the Annual 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. Details of the directors' assessment of going concern are provided in the directors' report.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP EXPLORATION OPERATING COMPANY LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BP Exploration Operating Company Limited (the company):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 30.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of whether material uncertainties existed that could cast significant doubt on the entity's ability to continue as a going concern for least 12 months after the date of approval of the financial statements;
- An assessment of the funds that can be made available to the company through bp group treasury channels;
- An assessment of the management's identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- An assessment of the disclosures made within the financial statements;

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

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

Other information

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

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

INDEPENDENT AUDITOR'S REPORT

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 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.

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

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

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

INDEPENDENT AUDITOR'S REPORT

- reading minutes of meetings of those charged with governance, and reviewing internal audit reports, and reviewing correspondence with HMRC / the licensing authority / name any other relevant regulatory authorities.

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:

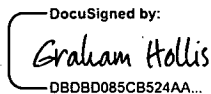
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law 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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17. September 2021

Graham Hollis ACA

for and on behalf of
Aberdeen, United Kingdom

Deloitte LLP

(Senior Statutory Auditor)

Statutory Auditor

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31 DECEMBER 2020****BP EXPLORATION OPERATING COMPANY LIMITED**

	Note	2020 \$000	2019 \$000
Turnover	3	1,303,943	1,925,564
Cost of sales		(1,393,078)	(1,571,873)
Gross (loss) / profit		(89,135)	353,691
Exploration expenses		(136,517)	(168,312)
Distribution and marketing expenses		(2,944)	(1,427)
Administrative expenses		(145,080)	(136,731)
Other operating income	3	76,189	70,454
Profit / (loss) on disposal of fixed assets	6	51,478	(228,023)
Impairment of tangible assets	13	(2,036,762)	(92,564)
Reversal of impairment of tangible assets	13	—	412
Impairment of fixed asset investments	14	(12,566,390)	(357)
Reorganisation / restructuring costs	6	(101,526)	—
Operating loss	4	(14,950,687)	(202,857)
Income from shares in group undertakings		819,090	3,395,931
Income from interests in associated undertakings		128,001	224,974
Interest receivable and similar income	7	42,695	167,338
Interest payable and similar expenses	8	(191,315)	(413,153)
(Loss) / profit before taxation		(14,152,216)	3,172,233
Tax on (loss) / profit	10	704,060	2,835
(Loss) / profit for the financial year		(13,448,156)	3,175,068

The loss of \$(13,448,156,000) for the year ended 31 December 2020 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<u>2020</u>	<u>2019</u>
	\$000	\$000
(Loss) / profit for the financial year	(13,448,156)	3,175,068
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	3,826	30,167
Cash flow hedges - gains arising during the year	<u>11,223</u>	<u>5,094</u>
Other comprehensive income for the year net of tax	15,049	35,261
Total comprehensive income for the year	<u><u>(13,433,107)</u></u>	<u><u>3,210,329</u></u>

BALANCE SHEET**AT 31 DECEMBER 2020****BP EXPLORATION OPERATING COMPANY LIMITED****(Registered No.00305943)**

	Note	2020 \$000	2019 \$000
Fixed assets			
Intangible assets	12	445,343	490,980
Tangible assets	13	6,298,635	9,214,349
Investments	14	43,525,163	56,377,348
		<u>50,269,141</u>	<u>66,082,677</u>
Current assets			
Stocks	15	88,324	101,867
Debtors – amounts falling due:			
within one year	16	3,135,400	2,118,360
after one year	16	531,685	559,202
Derivatives and other financial instruments - amounts falling due:			
within one year	20	147,758	116,448
after one year	20	439,378	425,898
Cash at bank and in hand		<u>13,609</u>	<u>16,432</u>
		<u>4,356,154</u>	<u>3,338,207</u>
Creditors: amounts falling due within one year	17	(5,159,947)	(3,273,002)
Derivatives and other financial instruments due within one year	20	(3,849)	(1,582)
Provision for liabilities and charges due within one year	21	(95,779)	(107,696)
Lease liabilities	18	(135,637)	(154,047)
Net current liabilities		<u>(1,039,058)</u>	<u>(198,120)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>49,230,083</u>	<u>65,884,557</u>
Creditors: amounts falling due after more than one year	17	(46,847)	(2,389,451)
Derivatives and other financial instruments due after more than one year	20	(16,885)	—
Lease liabilities	18	(163,294)	(282,462)
Provisions for liabilities and charges			
Deferred tax liability	10	(303,507)	(1,020,966)
Other provisions	21	(2,426,862)	(2,606,628)
NET ASSETS		<u><u>46,272,688</u></u>	<u><u>59,585,050</u></u>

BALANCE SHEET

		<u>2020</u>	<u>2019</u>
		<u>\$000</u>	<u>\$000</u>
Capital and reserves	Note		
Called up share capital	23	42,089,650	42,089,650
Other reserves	24	463,085	454,116
Foreign currency translation reserve	24	180,163	176,337
Cash flow hedge reserve	24	9,980	(1,243)
Profit and loss account	24	3,529,810	16,866,190
TOTAL EQUITY		<u><u>46,272,688</u></u>	<u><u>59,585,050</u></u>

Authorized for issue on behalf of the Board

K MacLennan
Director

DocuSigned by:

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17. September 2021

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
BP EXPLORATION OPERATING COMPANY LIMITED

	Called up share capital (Note 23)	Other reserves (Note 24)	Cash flow hedge reserve (Note 24)	Foreign currency translation reserve (Note 24)	Profit and loss account (Note 24)	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2019	65,822,267	451,125	(6,337)	146,170	(6,991,454)	59,421,771
Profit for the year	—	—	—	—	3,175,068	3,175,068
Currency translation differences	—	—	—	30,167	—	30,167
Gains arising during the year	—	—	5,094	—	—	5,094
Total comprehensive income for the year	—	—	5,094	30,167	3,175,068	3,210,329
Capital reduction	(23,732,617)	—	—	—	23,732,617	—
Reserve transfer	—	—	—	—	4,959	4,959
Capital contribution for equity-settled share-based payments	—	2,991	—	—	—	2,991
Dividends paid	—	—	—	—	(3,055,000)	(3,055,000)
Balance at 31 December 2019	42,089,650	454,116	(1,243)	176,337	16,866,190	59,585,050
Loss for the year	—	—	—	—	(13,448,156)	(13,448,156)
Currency translation differences	—	—	—	3,826	—	3,826
Gains arising during the year	—	—	11,223	—	—	11,223
Total comprehensive income for the year	—	—	11,223	3,826	(13,448,156)	(13,433,107)
Reserve transfer	—	—	—	—	111,776	111,776
Capital contribution for equity-settled share-based payments	—	8,969	—	—	—	8,969
Balance at 31 December 2020	42,089,650	463,085	9,980	180,163	3,529,810	46,272,688

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2020****BP EXPLORATION OPERATING COMPANY 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 Exploration Operating Company Limited for the year ended 31 December 2020 were approved by the board of directors on 09/09/2021 and the balance sheet was signed on the board's behalf by K MacLennan. BP Exploration Operating Company Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00305943). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom. 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, modified to include the revaluation of certain financial instruments. 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.

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 30 to the financial statements.

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 paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- (b) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (c) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- (d) 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;
- (e) 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;
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- (f) the requirements of IAS 7 Statement of Cash Flows;
- (g) 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;
- (h) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- (i) 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;

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- (j) 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;
- (k) 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,
- (l) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.,
- (m) The requirements of paragraph 58 of IFRS 16 Leases, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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 30.

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

Significant 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 accounting judgements and estimates that have a significant impact on the results of the company are set out within the boxed text below, and should be read in conjunction with the information provided in the Notes to the financial statements.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: exploration and appraisal intangible assets; the recoverability of asset carrying values, including the estimation of reserves; derivative financial instruments; provisions and contingencies; and pensions and other post-retirement benefits.

Judgements and estimates, not all of which are significant, made in assessing the impact of the COVID-19 pandemic, and climate change and the energy transition on the financial statements are also set out in boxed text below. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted within the boxed text.

Judgements and estimates made in assessing the impact of climate change and the energy transition

Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future.

Impairment of property, plant and equipment

The energy transition is likely to impact the future prices of commodities such as oil and natural gas which in turn may affect the recoverable amount of property, plant and equipment in the oil and gas industry. bp's best estimate oil and natural gas price assumptions for value-in-use impairment testing were revised downwards during 2020 and are broadly in line with a range of transition paths consistent with the Paris climate change agreement or other low oil price scenarios. See significant judgements and estimates: recoverability of asset carrying values for further information including sensitivity analysis in relation to reasonably possible changes in the price assumptions.

Impairments were recognized during 2020 on certain oil and gas properties as a result of the lower price assumptions. See note 4 for further information.

Management will continue to review price assumptions as the energy transition progresses and this may result in impairment charges or reversals in the future.

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Exploration and appraisal intangible assets

The energy transition may affect the future development or viability of exploration prospects. The lower price assumptions and bp's long-term net-zero strategy resulted in a review of the recoverability of exploration and appraisal intangible assets during 2020. Certain intangible assets were subsequently written-off. See significant judgement: exploration and appraisal intangible assets and note 9 for further information. The revised assumptions for investment appraisal (see page 31) seek to ensure that future capital expenditure on property plant and equipment, and exploration and appraisal intangibles, is aligned with bp's net-zero strategy.

Provisions: decommissioning

The energy transition may bring forward the decommissioning of oil and gas industry assets thereby increasing the present value of associated decommissioning provisions. The majority of the company's oil and gas properties are expected to start decommissioning within the next two decades and management does not expect a reasonable change in the expected timeframe to have a material effect on the decommissioning provisions, assuming cash flows remain unchanged. Decommissioning cost estimates are based on the known regulatory and external environment. These may change in the future as a result of the energy transition. See significant judgements and estimates: provisions for further information.

Judgements and estimates made in assessing the impact of the COVID-19 pandemic and the economic environment

In preparing the financial statements, the following areas involving judgement and estimates were identified as most relevant with regards to the impact of the COVID-19 pandemic and current economic environment.

Going concern

Forecast liquidity for the bp group has been assessed under a number of stressed scenarios and a reverse stress test was performed to support the going concern assertion. No material uncertainties over going concern or significant judgements or estimates in the assessment were identified.

Discount rate assumptions

The discount rates used for impairment testing and provisions were reviewed during the year. The post-tax impairment discount rate and nominal provisions discount rate were unchanged from 2019. Premiums for certain higher-risk countries were changed but this did not have a material impact. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

Oil and natural gas price assumptions

The price assumptions used in value-in-use impairment testing were significantly lowered during the year. Material impairment charges and exploration write-offs were recognized as a consequence of these price assumption changes. See significant judgements and estimates: recoverability of asset carrying values and exploration and appraisal intangible assets for further information.

Pensions and other post-retirement benefits

The volatility in the financial markets during 2020 impacted the assumptions used for determining the fair value of plan assets and the present value of defined benefit obligations in the group's defined benefit pension plans. See significant estimate: pensions and other post-retirement benefits and Note 29 for further information.

Restructuring provisions

The reinvent bp programme, expected to reduce headcount by around 10,000 positions, the majority of which occurred during 2020, has resulted in recognition of provisions where a detailed formal plan exists, and valid expectation of risk of redundancy has been made to those affected but where the specific outcomes remain uncertain. Where formal redundancy offers have been made, the obligations for those amounts are reported as payables and not as provisions if unpaid at the year-end.

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.

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For further detail on the directors' going concern assessment, please refer to the directors' report.

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.

Assets and liabilities of foreign currency branches are translated into US dollars at rates of exchange ruling at the balance sheet date. The profit and loss account is translated into US dollars using average rates of exchange. Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into US dollars are taken directly to reserves and reported in other comprehensive income. When a foreign currency branch is disposed of the cumulative amount of foreign currency differences included in other comprehensive income is reclassified to the profit and loss account.

Investments

Fixed asset investments in subsidiaries, joint ventures and associates are held at cost. The company assesses investments for an impairment indicator annually. If any such indication of possible impairment exists, the company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

Interests in joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The company recognizes, on a line-by-line basis, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the company's income from the sale of its share of the output and any liabilities and expenses that the company has incurred in relation to the joint operation.

Interests in associates

An associate is an entity over which the company has significant influence, through the power to participate in the financial and operating policy decisions of the investee, but which is not a subsidiary or a joint arrangement.

Significant judgement: interests in other entities

Judgement is required in assessing the level of control or influence over another entity in which the company holds an interest. Depending upon the facts and circumstances in each case, the company may obtain control, joint control or significant influence over the entity or arrangement. Transactions which give the company control of a business are business combinations. If the company obtains joint control of an arrangement, judgement is also required to assess whether the arrangement is a joint operation or a joint venture. If the company has neither control nor joint control, it may be in a position to exercise significant influence over the entity, which is then accounted for as an associate held at cost.

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Significant judgements and estimates: impairment of investments

Determination as to whether, and how much, an investment is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation on operating expenses, discount rates, production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products.

For value in use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The pre-tax discount rate is based upon the cost of funding the group derived from an established model, adjusted to a pre-tax basis. Fair value less costs of disposal calculations use the post-tax discount rate. The discount rates applied in impairment tests are reassessed each year.

See 'Significant judgements and estimates: recoverability of asset carrying values' below for details of assumptions used.

Intangible assets

Intangible assets, other than goodwill, are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

For information on accounting for expenditures on the exploration for and evaluation of oil and natural gas resources, see the accounting policy for oil and natural gas exploration, appraisal and development expenditure below.

Intangible assets are carried initially at cost unless acquired as part of a business combination. Any such asset is measured at fair value at the date of the business combination and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. For patents, licences and trademarks, expected useful life is the shorter of the duration of the legal agreement and economic useful life, and can range from three to fifteen years. Computer software costs generally have a useful life of three to five years.

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

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

Oil and natural gas exploration, appraisal and development expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting as described below.

Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are initially capitalized within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortized on a straight-line basis over the estimated period of exploration. Upon internal approval for development and recognition of proved reserves of oil and natural gas, the relevant expenditure is transferred to tangible assets.

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Exploration and appraisal expenditure

Geological and geophysical exploration costs are charged to the profit and loss account as incurred. Costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well costs are written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. If it is determined that development will not occur then the costs are expensed.

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. Upon internal approval for development and recognition of proved reserves, the relevant expenditure is transferred to tangible assets.

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g. an offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration or appraisal work in the area, remain capitalized on the balance sheet as long as such work is under way or firmly planned.

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalized within tangible assets and is depreciated from the commencement of production as described below in the accounting policy for tangible assets.

In accordance with section 844(3) of the Companies Act 2006 the directors have determined that it is appropriate not to treat capitalized development costs as a realized loss in determination of distributable reserves as these have been determined in accordance with the applicable accounting standards.

Significant judgement: exploration and appraisal intangible assets

Judgement is required to determine whether it is appropriate to continue to carry costs associated with exploration wells and exploratory type stratigraphic test wells on the balance sheet. This includes costs relating to exploration licences or leasehold property acquisitions. It is not unusual to have such costs remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. The costs are carried based on the current regulatory and political environment or any known changes to that environment. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed.

As a result of the revised price assumptions detailed in Significant judgements and estimates: recoverability of asset carrying values below and a review of bp's long-term strategic plan, management reviewed the company's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review resulted in revised judgements over management's expectations to extract value from certain prospects, thereby leading to material write-offs of the associated exploration and appraisal intangible assets in 2020.

The carrying amount of capitalized costs and further information on the write-offs are included in Note 12.

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Tangible assets

Tangible assets owned by the company 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.

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

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.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortized over total proved reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

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:

Land improvements	15 to 25 years
Plant and machinery	5 to 15 years
Fixtures and fittings	5 to 15 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.

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Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) 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, plans to dispose rather than retain assets, changes in commodity prices, low plant utilization, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. 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. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. 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.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, refinery throughputs, revenues, costs and capital expenditure. Carbon taxes and costs of emissions allowances are also included in estimates of future cash flows, based on the regulatory environment in each jurisdiction in which the group operates. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, natural gas prices, refining margins, refined product margins and cost inflation rates are set by senior management. These assumptions take account of existing prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. 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. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

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.

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Significant judgements and estimates: recoverability of asset carrying values

Determination as to whether, and how much, an asset is impaired involves management estimates on highly uncertain matters such as the effects of inflation on operating expenses, discount rates, production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products. Judgement is required when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. Fair value less costs of disposal may be determined based on expected sales proceeds or similar recent market transaction data.

Details of impairment charges and reversals recognized in the profit and loss account are provided in Note 4 and details of the carrying amounts of assets are shown in Note 12, Note 13 and Note 14.

The estimates for assumptions made in impairment tests in 2020 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

Discount rates

For discounted cash flow calculations, future cash flows are adjusted for risks specific to the CGU. Value-in-use calculations are typically discounted using a pre-tax discount rate based upon the cost of funding the bp group derived from an established model, adjusted to a pre-tax basis and incorporating a market participant capital structure and country risk premiums. Fair value less costs of disposal calculations use the post-tax discount rate.

The discount rates applied in impairment tests are reassessed each year and in 2020 the post-tax discount rate used was 6% (2019: 6%). Where the CGU is located in a country that was judged to be higher risk an additional premium of 1% to 3% was reflected in the discount rate (2019: 1% to 4%). The judgement of classifying a country as higher risk and the applicable premium takes into account various economic and geopolitical factors. The pre-tax discount rate typically ranged from 7% to 15% (2019: 7% to 13%) depending on the applicable tax rate in the geographic location of the CGU.

Oil and natural gas properties

For oil and natural gas properties, expected future cash flows are estimated using management's best estimate of future oil and natural gas prices, and production and reserves volumes. The estimated future level of production is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

In 2020, the company identified no oil and gas properties where the headroom, as at the dates of the last impairment test performed on those assets, was less than or equal to 20% of the carrying value (2019: \$3,797 million), other than the properties where impairment charge was booked. A change in the discount rate, reserves, resources or the oil and gas price assumptions in the next financial year may result in a recoverable amount of one or more of these assets above or below the current carrying amount and therefore there is a significant risk of impairment reversals or charges in that period.

The recoverability of intangible exploration and appraisal expenditure is covered under Oil and natural gas exploration, appraisal and development expenditure above.

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 13.

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Oil and natural gas prices

The price assumptions used for value in use impairment testing are based on those used for investment appraisal. The investment appraisal price assumptions are recommended by the bp group senior vice president economic & energy insights after considering a range of external price, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met.

bp sees the prospect of an enduring impact on the global economy as a result of the COVID-19 pandemic, with the potential for weaker demand for energy for a sustained period. bp's management also expects that the aftermath of the pandemic will accelerate the pace of transition to a lower carbon economy and energy system as countries seek to 'build back better' so that their economies will be more resilient in the future. As a result of all the above, bp revised its price assumptions for value-in-use impairment testing, lowering them compared to those used in 2019 and extending the period covered to 2050. These price assumptions are derived from bp's central case investment appraisal assumptions. A summary of the company's revised price assumptions, in real 2020 terms, is provided below. The assumptions represent management's best estimate of future prices, which sit within the range of external forecasts considered as appropriate for the purpose. They are considered by bp to be broadly in line with a range of transition paths consistent with the Paris climate goals. However, they do not correspond to any specific Paris-consistent scenario. An inflation rate of 2% (2019: 2%) is applied to determine the price assumptions in nominal terms:

	2021	2025	2030	2040	2050
Brent oil (\$/bbl)	50	50	60	60	50
Henry Hub gas (\$/mmBtu)	3.00	3.00	3.00	3.00	2.75

Material impairment charges were recognized in 2020 following the downward revision of the price assumptions. See Note 4 for further information.

The long-term price assumptions used to determine recoverable amount based on value-in-use impairments tests in 2019 were \$70 per barrel for Brent and \$4 per mmBtu for Henry Hub gas, both in 2015 prices. These long-term prices were applied from 2025 and 2032 respectively inflated for the remaining life of the asset.

The price assumptions used in 2019 over the periods to 2025 and 2032 were set such that there was a linear progression from bp's best estimate of 2020 prices to the long-term assumptions.

The majority of bp's reserves and resources that support the carrying value of the group's existing oil and gas properties are expected to be produced over the next 10 years.

Oil prices fell 35% in 2020 from 2019 due to trade tensions, a macroeconomic downturn, and a slight slowdown in oil demand. OPEC+ production restraint, unplanned outages, and sanctions on Venezuela and Iran kept prices from falling further. bp's long-term assumption for oil prices is higher than the 2020 price average, based on the judgement that current price levels would not encourage sufficient investment to meet global oil demand sustainably in the longer term, especially given the financial requirements of key low-cost oil producing economies.

US gas prices dropped by around 20% in 2020 compared to 2019. Henry Hub gas prices were already low in early 2020 due to mild weather. The drop in demand from the second quarter onward as well as significant US LNG shut-ins contributed to prices remaining below \$2/mmBtu during the second and third quarters, despite a record consumption in the power sector and the drop in natural gas production. Prices recovered in the fourth quarter due to the seasonal gas demand increase and the strong recovery in US LNG exports. bp's long-term price assumption for US gas reflects the fact that over the coming decades US gas production increases with an increasing proportion of production being used as feedstock to supply expanding LNG

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exports, while in the longer-term falling gas consumption and declining demand for global LNG exports leads to increasing competitive pressure on US gas production.

Oil and natural gas reserves

In addition to oil and natural gas prices, significant technical and commercial assessments are required to determine the group's estimated oil and natural gas reserves. Reserves estimates are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the company's estimates of its oil and natural gas reserves. bp bases its reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

Reserves assumptions for value-in-use tests reflect the reserves and resources that management currently intend to develop. The recoverable amount of oil and gas properties is determined using a combination of inputs including reserves, resources and production volumes. Risk factors may be applied to reserves and resources which do not meet the criteria to be treated as proved.

Sensitivity analyses

A change in revenue from Upstream oil and gas properties can arise either due to changes in oil and natural gas prices, changes in oil and natural gas production, or a combination of the two.

Management tested the impact of a change in revenue cash flows in value-in-use impairment testing arising from changes in price assumptions and/or production volumes up to a combined effect on revenue of 10%.

Revenue reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of the company's Upstream oil and gas properties in the range of \$723 million, which is approximately 12% of the net book value of tangible assets as at 31 December 2020.

Revenue increases of this magnitude in isolation could indicatively lead to an increase in the carrying amount of the company's Upstream oil and gas properties in the range of \$710 million, which is approximately 12% of the net book value of tangible assets as at 31 December 2020. This potential increase in the carrying amount would arise due to reversals of previously recognized impairments.

These sensitivity analyses do not, however, represent management's best estimate of any impairment charges or reversals that might be recognized as they do not fully incorporate consequential changes that may arise, such as changes in costs and business plans and phasing of development. For example, costs across the industry are more likely to decrease as oil and natural gas prices fall. The above sensitivity analyses therefore also do not reflect a linear relationship between revenue and value that can be extrapolated. The interdependency of these inputs and risk factors plus the diverse characteristics of our Upstream oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to the price assumptions or production volumes.

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of Upstream oil and gas properties. If the discount rate was one percentage point higher across the tests performed, the impairment charge recognized in 2020 would have been approximately \$167 million higher. If the discount rate was one percentage point lower, the impairment charge recognized would have been approximately \$184 million lower.

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Stock

Stocks, other than stocks held for trading purposes, are stated at the lower of cost and net realizable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

Stocks held for short-term trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the profit and loss account.

Supplies are valued at the lower of cost on a weighted average basis and net realizable value.

Leases

Agreements that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases. The right to control is conveyed if bp has both the right to obtain substantially all of the economic benefits from, and the right to direct the use of, the identified asset throughout the period of use. An asset is identified if it is explicitly or implicitly specified by the agreement and any substitution rights held by the lessor over the asset are not considered substantive.

Agreements that convey the right to control the use of an intangible asset including rights to explore for or use hydrocarbons are not accounted for as leases. See significant accounting policy: intangible assets.

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. The incremental borrowing rate is determined based on factors such as the group's cost of borrowing, lessee legal entity credit risk, currency and lease term. The lease term is the non-cancellable period of a lease together with any periods covered by an extension option that bp is reasonably certain to exercise, or periods covered by a termination option that bp is reasonably certain not to exercise. The future lease payments included in the present value calculation are any fixed payments, payments that vary depending on an index or rate, payments due for the reasonably certain exercise of options and expected residual value guarantee payments.

Payments that vary based on factors other than an index or a rate such as usage, sales volumes or revenues are not included in the present value calculation and are recognized in the income statement. The lease liability is recognized on an amortized cost basis with interest expense recognized in the income statement over the lease term, except where capitalized as exploration, appraisal or development expenditure.

The right-of-use asset is recognized on the balance sheet as property, plant and equipment at a value equivalent to the initial measurement of the lease liability adjusted for lease prepayments, lease incentives, initial direct costs and any restoration obligations. The right-of-use asset is depreciated typically on a straight-line basis, over the lease term. The depreciation charge is recognized in the income statement, except where capitalized as exploration, appraisal or development expenditure. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, intangible assets, and goodwill.

Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis except for leases of retail service stations where the group has elected not to separate non-lease payments from the calculation of the lease liability and right-of-use asset.

If the lease term at commencement of the agreement is less than 12 months, a lease liability and right-of-use asset are not recognized, and a lease expense is recognized in the income statement on a straight-line basis.

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If a significant event or change in circumstances, within the control of bp, arises that affects the reasonably certain lease term or there are changes to the lease payments, the present value of the lease liability is remeasured using the revised term and payments, with the right-of-use asset adjusted by an equivalent amount.

Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right-of-use asset. Any gain or loss on modification is recognized in the income statement. Modifications that increase the scope of the lease at a price commensurate with the stand-alone selling price are accounted for as a separate new lease.

The company recognizes the full lease liability, rather than its working interest share, for leases entered into on behalf of a joint operation if the company has the primary responsibility for making the lease payments. In such cases, the company's working interest share of the right-of-use asset is recognized if it is jointly controlled by the company and the other joint operators, and a receivable is recognized for the share of the asset transferred to the other joint operators. If the company is a non-operator, a payable to the operator is recognized if they have the primary responsibility for making the lease payments and the company has joint control over the right-of-use asset, otherwise no balances are recognized.

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 rights to receive cash flows have been transferred to a third party along with either substantially all of the risks and rewards or control of the asset. This includes the derecognition of receivables for which discounting arrangements are entered into.

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 using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

Financial assets measured at fair value through profit or loss

Financial assets are classified as measured at fair value through profit or loss when the asset does not meet the criteria to be measured at amortized cost. Such assets are carried on the balance sheet at fair value with gains or losses recognized in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are included in this category.

Derivatives designated as hedging instruments in an effective hedge

Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

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. As lifetime

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expected credit losses are recognized for trade receivables and the tenor of substantially all other in-scope financial assets is less than 12 months there is no significant difference between the measurement of 12-month and lifetime expected credit losses for the company. 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 fair value through profit or loss

Financial liabilities that meet the definition of held for trading are classified as measured at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses recognized in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are included in this category.

Derivatives designated as hedging instruments in an effective hedge

Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs. 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 using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in interest receivable and similar income and interest payable and similar expenses respectively. This category of financial liabilities includes trade and other payables and finance debt.

Derivative financial instruments and hedging activities

The company is exempt from the disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair value measurement" as the company is included in the consolidated financial statements of the ultimate parent undertaking, BP p.l.c., which include the disclosures on a group basis that comply with these standards.

The company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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Contracts to buy or sell a non-financial item (for example oil, oil products, gas and power) that can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the company's expected purchase, sale or usage requirements, are accounted for as financial instruments. Contracts to buy or sell equity investments, including investments in associates, are also financial instruments. Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the profit and loss account.

If, at inception of a contract, the valuation cannot be supported by observable market data, any gain or loss determined by the valuation methodology is not recognized in the profit and loss account but is deferred on the balance sheet and is commonly known as 'day-one profit or loss'. This deferred gain or loss is recognized in the profit and loss account over the life of the contract until substantially all the remaining contract term can be valued using observable market data at which point any remaining deferred gain or loss is recognized in the profit and loss account. Changes in valuation from the initial valuation at inception of a contract are recognized immediately through the profit and loss account.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging exposure to changes in the fair value of a recognized asset or liability.
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the existence at inception of an economic relationship and subsequent measurement of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk, the hedge ratio and sources of hedge ineffectiveness. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is reported in other comprehensive income, while the ineffective portion is recognized in profit or loss. Amounts reported in other comprehensive income are reclassified to the profit and loss account when the hedged transaction affects the profit or loss.

Where the hedged item is a highly probable forecast transaction that results in the recognition of a non-financial asset or liability, such as a forecast foreign currency transaction for the purchase of tangible assets, the amounts recognized within other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. Where the hedged item is an equity investment, the amounts recognized in other comprehensive income remain in the separate component of equity until the hedged cash flows affect profit or loss. Where the hedged item is recognized directly in profit or loss, the amounts recognized in other comprehensive income are reclassified to production and manufacturing expenses or other operating revenues as appropriate.

Cash flow hedge accounting is discontinued only when the hedging relationship or a part thereof ceases to meet the qualifying criteria. This includes when the designated hedged forecast transaction or part thereof is no longer considered to be highly probable to occur, or when the hedging instrument is sold, terminated or exercised without replacement or rollover. When cash flow hedge accounting is discontinued, amounts previously recognized within other comprehensive income remain in equity until the forecast transaction occurs and are reclassified to profit or loss or transferred to the initial carrying amount of a non-financial asset or liability as above. If the forecast transaction is no longer expected to occur, amounts previously recognized within other comprehensive income will be immediately reclassified to profit or loss.

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Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The company categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or bp's assumptions about pricing by market participants.

Significant estimate and judgement: derivative financial instruments

In some cases the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This primarily applies to the company's longer-term derivative contracts. The majority of these contracts are valued using models with inputs that include price curves for each of the different products that are built up from available active market pricing data (including volatility and correlation) and modelled using the maximum available external information. Additionally, where limited data exists for certain products, prices are determined using historical and long-term pricing relationships. The use of alternative assumptions or valuation methodologies may result in significantly different values for these derivatives. A reasonably possible change in the price assumptions used in the models relating to index price would not have a material impact on net assets and the profit and loss account primarily as a result of offsetting movements between derivative assets and liabilities. For more information, including the carrying amounts of level 3 derivatives, see Note 20.

In some cases, judgement is required to determine whether contracts to buy or sell commodities meet the definition of a derivative. In particular, longer-term contracts to buy and sell Liquefied Natural Gas ("LNG") are not considered to meet the definition as they are not considered capable of being net settled due to a lack of liquidity in the LNG market and so are accounted for on an accruals basis, rather than as a derivative.

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 and contingent liabilities

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. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

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 2.5% (2019 2.5%).

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

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Decommissioning

Liabilities for decommissioning costs are recognized when the company has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognized on construction or installation. Similarly, where obligation exists for a well, this liability is recognized when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognized is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using the nominal discount rate.

An amount equivalent to the decommissioning provision is recognized as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits.

Significant judgements and estimates: provisions

The company holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the company relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines. Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. The timing and amounts of future cash flows are subject to significant uncertainty and estimation if required in determining the amounts of provisions to be recognized. Any changes in the expected future costs are reflected in both the provision and the asset.

If oil and natural gas production facilities and pipelines are sold to third parties, judgement is required to assess whether the new owner will be unable to meet their decommissioning obligations, whether the company would then be responsible for decommissioning, and if so the extent of that responsibility. The company has assessed that no material decommissioning provisions should be recognized as at 31 December 2020 (2019 no material provisions) for assets sold to third parties where the sale transferred the decommissioning obligation to the new owner. For more information, see Note 21.

The provision for environmental liabilities is estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from current estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually, together with the rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligations at the end of 2020 was a nominal rate of 2.5% (2019: 2.5%), which was based on long-dated US government bonds. The weighted average period over which decommissioning and environmental costs are generally expected to be incurred is estimated to be approximately 18 years (2019: 18 years) and 6 years (2019: 6 years) respectively.

Further information about the company's provisions is provided in Note 24. Changes in assumptions in relation to the company's provisions are could result in a material change in their carrying amounts within

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the next financial year. A 0.5 percentage point change in the nominal discount rate could have an impact of approximately \$203 million (2019: \$229 million) on the value of the company's provisions.

The discounting impact on the company's Upstream decommissioning provisions of a two-year change in the timing of expected future decommissioning expenditures would not be material. Management currently does not consider a change of greater than two years to be reasonably possible in the next financial year.

If all expected future decommissioning expenditures were 10% higher, the company's Upstream decommissioning provisions would increase by approximately \$244 million and a pre-tax charge of approximately \$89 million would be recognized.

The bp group is subject to claims and actions for which no provisions have been recognized. The facts and circumstances relating to particular cases are evaluated regularly in determining whether a provision relating to a specific litigation should be recognized or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict.

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. The accounting policies for share-based payments and for pensions and other post-retirement benefits are described below.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees of the company is measured by reference to the fair value at the date at which equity instruments are granted and is recognized as an expense over the vesting period, which ends on the date on which the employees become fully entitled to the award. A corresponding credit is recognized within equity. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value, and failure to meet a non-vesting condition, where this is within the control of the employee, is treated as a cancellation and any remaining unrecognized cost is expensed.

For other equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured at the fair value of the goods and services received unless their fair value cannot be reliably estimated. If the fair value of the goods and services received cannot be reliably estimated, the transaction is measured by reference to the fair value of the equity instruments granted.

Cash-settled transactions

The cost of cash-settled transactions is recognized as an expense over the vesting period, measured by reference to the fair value of the corresponding liability which is recognized on the balance sheet. The liability is re-measured at fair value at each balance sheet date until settlement, with changes in fair value recognized in the profit and loss account.

Pensions

The sponsoring employer for the BP Pension Fund is BP p.l.c. The directors have assessed in accordance with IAS 19 Employee Benefits that BP p.l.c. applies defined benefit pension accounting for this defined benefit plan that shares risks between entities under common control. There is no contractual agreement or stated policy in place for charging to individual group entities. The net defined benefit cost for the plan as a whole is measured in accordance with IAS 19 and as a result, the Company recognizes only a cost equal to the contribution payable for the period as if they were contributions to a defined contribution scheme. Relevant disclosures in relation to the plan are included in the accounts of BP p.l.c.

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In the BP p.l.c. accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. Actuarial gains and losses are recognized in full in this company's statement of total recognized gains and losses in the period in which they occur.

Significant estimate: pensions and other post-retirement benefits

The defined benefit pension scheme is a scheme that shares risks between entities under common control and is administered by the ultimate parent company BP p.l.c. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so the scheme has been accounted for as a defined contribution scheme as allowed by FRS 101. Contributions to the scheme are charged through the company's profit and loss account in the year in which they become payable. Detailed disclosures have been made in the financial statements of the ultimate parent company.

Accounting for defined benefit pensions and other post-retirement benefits involves making significant estimates when measuring the company's pension plan surpluses and deficits. These estimates require assumptions to be made about many uncertainties.

Pension and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the surpluses and deficits recorded on the company's balance sheet, and pension and other post-retirement benefit expense for the following year.

The assumptions that are the most significant to the amounts reported are the discount rate, inflation rate, salary growth and mortality levels. Assumptions about these variables are based on the environment in each country. The assumptions used vary from year to year, with resultant effects on future net income and net assets. Changes to some of these assumptions, in particular the discount rate and inflation rate, could result in material changes to the carrying amounts of the company's pension and other post-retirement benefit obligations within the next financial year. Any differences between these assumptions and the actual outcome will also affect future net income and net assets. The pension and other post-retirement benefit assumptions at 31 December 2020 and 2019 are provided in Note 29.

The values ascribed to these assumptions and a sensitivity analysis of the impact of changes in the assumptions on the benefit expense and obligation is provided in the group financial statements of BP p.l.c.

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;

NOTES TO THE FINANCIAL STATEMENTS

- 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.

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 within the carrying amount of the applicable tax asset or liability using either the most likely amount or an expected value, depending on which method better predicts the resolution of the uncertainty.

Judgement is required when determining whether a particular tax is an income tax or another type of tax (for example a production tax). Accounting for deferred tax is applied to income taxes as described above, but is not applied to other types of taxes; rather such taxes are recognized in the profit and loss account in accordance with the applicable accounting policy such as Provisions and contingent liabilities.

Petroleum revenue tax

Deferred Petroleum Revenue Tax (PRT) assets are recognized where PRT relief on future decommissioning costs is virtually certain.

Customs duties and sales taxes

Customs duties and sales taxes that are passed on or charged to customers are excluded from turnover and expenses. Assets and liabilities are recognized net of the amount of customs duties or sales tax except:

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- Customs duties or sales taxes incurred on the purchase of goods and services which are not recoverable from the taxation authority are recognized as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil, natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. 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.

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.

Contracts for the sale of commodities are typically priced by reference to quoted prices. Revenue from term commodity contracts is recognized based on the contractual pricing provisions for each delivery. Certain of these contracts have pricing terms based on prices at a point in time after delivery has been made. Revenue from such contracts is initially recognized based on relevant prices at the time of delivery and subsequently adjusted as appropriate. All revenue from these contracts, both that recognized at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

Certain forward contracts entered into by the company that result in physical delivery of products such as crude oil, natural gas and refined products are required by IFRS 9 to be accounted for as derivative financial instruments. Revenue recognized relating to such contracts when physical delivery occurs is measured at the contractual transaction price plus the carrying amount of the related derivative at the date of settlement and presented as other operating revenue. Changes in the fair value of derivative assets and liabilities prior to physical delivery are also classified as other operating revenues.

Where forward sale and purchase contracts for oil, natural gas or power have been determined to be for short-term trading purposes, the associated sales and purchases are reported net within sales and other operating revenues whether or not physical delivery has occurred.

Physical exchanges with counterparties in the same line of business and to facilitate sales to customers are reported net, as are sales and purchases made with a common counterparty, as part of an arrangement similar to a physical exchange.

Where the company acts as agent on behalf of a third party to procure or market energy commodities, any associated fee income is recognized but no purchase or sale is recorded.

Revenue associated with the sale of oil, natural gas liquids, petroleum and chemical products, oil and natural gas forward sales / purchase contracts and sales / purchases of trading stock is included on a net basis in turnover.

Tariff income is recognized as the underlying commodity is shipped through the pipeline network based on established tariff rates.

NOTES TO THE FINANCIAL STATEMENTS

Interest income

Interest income is recognized as the interest accrues using the effective interest rate – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

Dividend income from investments is recognized when the shareholders' right to receive the payment is established.

Research costs

Research costs are expensed as incurred.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the profit and loss account in the period in which they are incurred.

Dividends payable

Final dividends are recorded in the financial statements in the year in which they are approved by the company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

Exceptional items

The company discloses as exceptional items those material items impacting the profit and loss account which, because of the nature and expected infrequency of the events giving rise to them, merit separate disclosure to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Impact of new International Financial Reporting Standards

bp adopted 'Interest Rate Benchmark Reform – Phase I – Amendments to IFRS 9 'Financial instruments' and IFRS 7 'Financial instruments: Disclosures' with effect from 1 January 2020. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the company's financial statements.

The adoption of 'Interest Rate Benchmark Reform – Phase I – Amendments to IFRS 9 'Financial instruments' and IFRS 7 'Financial instruments: Disclosures' has had no material impact on the company's financial statements.

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

Sales of goods, which is stated net of value added tax, represents amounts where the performance obligation of a contract has been met with third parties and group companies. Turnover is realised entirely in the upstream business.

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

	2020	2019
	\$000	\$000
Revenue from contracts with customers	1,254,591	1,872,186
Tariff income	29,894	28,443
Other operating revenue	19,458	24,935
	<u>1,303,943</u>	<u>1,925,564</u>
Other operating income	76,189	70,454
Interest receivable and similar income (Note 7)	42,695	167,338
Income from shares in group undertakings	819,089	3,395,931
Income from interests in associated undertakings	128,001	224,974
	<u>2,369,917</u>	<u>5,784,261</u>

The country of origin is the UK geographic area and destination is the UK and North-West Europe geographic areas.

Turnover is attributable to one continuing activity, the production and sale of hydrocarbon products with other income relating mostly to lease partner recovery and RDEC claim (Research and Development Expenditure Credit). Turnover is recognized at the performance obligation of delivery to the end buyer, being the point risk and reward has transferred in accordance with the sales contract.

For details of turnover change in comparison to previous year please refer to Strategic Report.

4. Operating (loss) / profit

This is stated after charging / (crediting):

	2020	2019
	\$000	\$000
Net foreign exchange losses / (gains)	13,744	(5,697)
Research and development costs expensed	4,591	8,778
Amortisation of intangible assets (Note 12)	17,979	16,763
Depreciation of tangible assets (Note 13)	815,608	930,120
Depreciation of right-of-use assets ^a	127,702	76,901
Impairment of intangible assets (Note 12)	64,144	79,828
Impairment of tangible assets (Note 13)	2,028,726	92,564
Impairment of right-of-use assets ^a	8,036	—
Reversal of impairment of tangible assets (Note 13)	—	(412)
Impairment of investments (Note 14)	12,566,390	357
Reversal of impairment of investments (Note 14)	—	(346,630)
Cost of stock recognized as an expense ^b	<u>38,005</u>	<u>13,877</u>

^a The line indicated is in respect of the application of IFRS 16.

^b Amount is included in Cost of sales.

NOTES TO THE FINANCIAL STATEMENTS**5. Auditor's remuneration**

	2020	2019
	\$000	\$000
Fees for the audit of the company	506	734

Fees paid to the company's auditor, Deloitte 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 Exploration Operating Company Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

6. Exceptional items

Exceptional items comprise the loss on disposal of fixed assets as follows:

	2020	2019
	\$000	\$000
Profit / (loss) on disposal of fixed assets	51,478	(228,023)
Fundamental reorganisation / restructuring costs	(101,526)	—
Exceptional items	(50,048)	(228,023)
Taxation credit	14,444	51,880
Exceptional items (net of tax)	(35,604)	(176,143)

The net gain on disposal of fixed assets of \$51 million in 2020 primarily relates to an adjustment on fair value measurement of deferred consideration of major prior period at North Sea (Magnus, BKR (Bruce, Keith and Rhum), FPS (Forties Pipeline System), Devenick Revenue Sharing Agreement (RSA)). The balance of other financial instruments is related to future cash flows to which the company is entitled and have been recognized in these accounts as other financial instruments at fair value through profit and loss account. The balances are fair valued quarterly based on an estimate of future oil and gas prices and applying a 6% discount rate to the cash flows. Magnus and Devenick, BKR cash flows are linked to the underlying field cash flow generation and FPS is linked to the achievement of specified future throughput targets.

The fundamental restructuring cost is related to the reinvent bp programme, \$19 million relates to UK operations and \$83 million relates to rest of the world operation (ORF).

7. Interest receivable and similar income

	2020	2019
	\$000	\$000
Interest income from amounts owed by group undertakings	30,894	151,918
Other interest income	11,801	15,420
Total interest receivable and similar income	42,695	167,338

The decrease in interest income is mainly due to decrease on interest received on IFA accounts following change in LIBOR rate during the year.

NOTES TO THE FINANCIAL STATEMENTS**8. Interest payable and similar expenses**

	2020	2019
	\$000	\$000
Interest expense on:		
Lease liabilities	12,547	17,229
Overdrafts from group undertakings	112,739	266,492
PRT	878	1,162
Other loans	10,869	14,765
Finance fee	64	54,652
Total interest expense	137,097	354,300
Interest capitalized in relation to qualifying assets at 2.75% (2019: 3.50%)	(7,659)	(4,333)
	129,438	349,967
Unwinding of discount on provisions (Note 21)	61,877	63,186
Total interest payable and similar charges	191,315	413,153

9. Exploration for and evaluation of oil and natural gas resources

The following financial information represents the amounts relating to activity associated with the exploration for and evaluation of oil and natural gas resources.

For information on significant judgements made in relation to oil and natural gas accounting see Intangible assets in Note 2.

	2020	2019
	\$000	\$000
Exploration and evaluation costs		
Exploration expenditure written off	64,144	79,828
Other exploration costs	72,752	88,392
Exploration expense for the year	136,896	168,220
Intangible assets – exploration and appraisal expenditure	371,861	417,417
Liabilities	(10,232)	(27,427)
Net assets	361,629	389,990
Cash used in operating activities	72,752	88,392
Cash used in investing activities	16,908	93,859

As a result of the revised price assumptions detailed in Note 2 and a review of bp's long-term strategic plan, management reviewed the company's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review resulted in revised judgements over management's expectations to extract value from certain prospects, leading to no write-offs of the associated exploration and appraisal intangible assets in 2020. Exploration expenditure written off includes \$64 million in Canada region.

10. Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

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

	2020	2019
<u>Current tax</u>	<u>\$000</u>	<u>\$000</u>
UK corporation tax on income for the year	1,614	2,828
UK tax underprovided / (overprovided) in prior years	11,176	(22,581)
Overseas tax on income for the year	609	(24)
Total current tax charged / (credited)	13,399	(19,777)
<u>Deferred tax</u>		
Origination and reversal of temporary differences	(686,500)	(118,717)
Effect of decreased tax rate on opening liability	5,109	—
Adjustments in prior year temporary differences	(36,068)	135,659
Total deferred tax (credited) / charged	(717,459)	16,942
Tax credited on profit	(704,060)	(2,835)

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% for the year ended 31 December 2020 (2019: 19%). The differences are reconciled below:

	2020	2019
	UK	UK
	\$000	\$000
(Loss) / profit before tax	(14,152,216)	3,172,233
Taxation	(704,060)	(2,835)
Effective tax rate	4.97 %	— %
	2020	2019
	UK	UK
	%	%
UK corporation tax rate:	19	19
Increase / (decrease) resulting from:		
Non-taxable (expenditure) / income	(18)	3
Free group relief	—	1
UK Supplementary tax on North Sea profits	1	—
Ring Fence Tax rate differences	1	—
Amounts provided for settlement of HRCP liabilities	—	(3)
Adjustments to tax charge in respect of previous years	—	4
Dividends not subject to UK tax	1	(22)
Ring Fence Expenditure Supplement	1	(2)
Effective tax rate	5	—

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

NOTES TO THE FINANCIAL STATEMENTS**Change in corporation tax rate**

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023 and this was substantively enacted on 24 May 2021.

The above changes to the rate of UK corporation tax do not apply to profits arising from the company's oil and gas exploration and extraction operations in the UK and the UK Continental shelf (the Ring Fence trade), where the rate of UK corporation tax remains 30%, and the supplementary tax charge remains 10%. Deferred tax on assets/liabilities arising in the Ring Fence trade continue to be provided for at the combined rate of 40%.

The UK deferred tax liability outside the ring-fence as at 31 December 2020 was calculated at 19% (2019: 17%). An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly and would increase the deferred tax liability disclosed above by \$10,300,000.

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
<u>Deferred tax asset</u>	2020	2019	2020	2019
	\$000	\$000	\$000	\$000
Decommissioning and other provisions	73,392	(150,426)	979,376	1,052,767
Derivative financial instruments	—	—	—	—
Tax losses carried forward	12,746	273,852	823,905	836,652
Other deductible temporary differences	(624)	(3,649)	42,193	41,569
Net credit for deferred tax assets	85,514	119,777	1,845,474	1,930,988
	Profit and loss account		Balance sheet	
<u>Deferred tax liability</u>	2020	2019	2020	2019
	\$000	\$000	\$000	\$000
Accelerated capital allowances	(817,065)	(17,550)	(2,018,132)	(2,835,197)
Other taxable temporary differences	14,092	(85,285)	(130,849)	(116,757)
Net charge for deferred tax liabilities	(802,973)	(102,835)	(2,148,981)	(2,951,954)
Net deferred tax charge and net deferred tax liability	(717,459)	16,942	(303,507)	(1,020,966)

Analysis of movements during the year

	2020
	\$000
At 1 January 2020	1,020,966
Deferred tax credit in the profit and loss account	(717,459)
At 31 December 2020	303,507

NOTES TO THE FINANCIAL STATEMENTS**(c) Factors that may affect future tax charges**

In 2019, deferred tax was not been recognized in relation to the following deductible temporary differences:

Depreciation in excess of capital allowances \$214,951,000

Decommissioning and other provisions \$25,282,000

as they were not expected to give rise to any future tax benefit.

In 2020, there is no unrecognized deferred tax.

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

A number of directors are senior executives of the BP p.l.c. Group and received no remuneration for qualifying services to this company or its subsidiary undertakings.

The following details relate to the directors who received remuneration for their qualifying services to the company and so are in scope for this disclosure.

The total remuneration for these qualifying directors for their period of directorship to the company amounted to \$519,000 (2019: \$839,000). None of these directors received non-cash benefits in relation to qualifying services (2019: None).

Three of these qualifying directors were members of the defined benefit section of the BP Pension Fund at 31 December 2020 (2019: Two).

Of these qualifying directors, the highest paid director received \$269,000 (2019: \$354,000). The accrued pension of the highest paid director at 31 December 2020 was \$45,000 (2019: \$Nil). The highest paid director received no contributions to a money purchase pension scheme during the year.

None of the qualifying directors exercised share options over BP p.l.c. shares during the year (2019: Two).

(b) Employee costs

	2020	2019
	\$000	\$000
Wages and salaries	564,375	425,175
Social security costs	24,393	56,903
Other pension costs	77,925	51,320
Share-based payment charge (Note 22)	60,098	55,404
	<u>726,791</u>	<u>588,802</u>

(c) The average monthly number of employees during the year was 2,814 (2019: 2,986)

	2020	2019
	No.	No.
UK	2,561	2,627
Non-UK	253	359
	<u>2,814</u>	<u>2,986</u>

NOTES TO THE FINANCIAL STATEMENTS**12. Intangible assets**

	Exploration expenditure	Other intangibles	Total
Cost	\$000	\$000	\$000
At 1 January 2020	425,293	131,889	557,182
Additions	16,908	17,898	34,806
Disposals	(8,301)	(1,201)	(9,502)
Transfers	551	—	551
Change in decommissioning	1,129	—	1,129
At 31 December 2020	<u>435,580</u>	<u>148,586</u>	<u>584,166</u>
Amortisation and impairment			
At 1 January 2020	(7,876)	(58,326)	(66,202)
Disposals	8,301	1,201	9,502
Charge for the year	—	(17,979)	(17,979)
Impairment	(64,144)	—	(64,144)
At 31 December 2020	<u>(63,719)</u>	<u>(75,104)</u>	<u>(138,823)</u>
Net book value			
At 31 December 2020	<u>371,861</u>	<u>73,482</u>	<u>445,343</u>
At 31 December 2019	<u>417,417</u>	<u>73,563</u>	<u>490,980</u>

Impairment of \$64 million is related to exploration write-off mainly on Beaufort Sea license assets in Canada region as bp no longer has an intent to proceed to development. In 2019, disposals and impairment were \$79 million.

NOTES TO THE FINANCIAL STATEMENTS**13. Tangible assets**

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Total	Of which AUC ^a
	\$000	\$000	\$000	\$000	\$000	\$000
Cost - owned tangible assets						
At 1 January 2020	2,626	43,480	17,685,599	61,744	17,793,449	592,545
Additions	—	1,012	210,016	619	211,647	113,648
Disposals	—	(107)	—	—	(107)	—
Transfers	—	(222)	(329)	—	(551)	(448,687)
Change in decommissioning provision (Note 21)	—	—	(182,213)	—	(182,213)	(14,335)
At 31 December 2020	2,626	44,163	17,713,073	62,363	17,822,225	243,171
Depreciation - owned tangible						
At 1 January 2020	—	(31,508)	(8,763,308)	(40,726)	(8,835,542)	—
Charge for the year	—	(3,782)	(806,351)	(5,475)	(815,608)	—
Impairment	—	—	(2,028,726)	—	(2,028,726)	(88,390)
Reversal of impairment	—	—	—	—	—	—
Disposals	—	107	—	—	107	—
Transfers	—	184	(184)	—	—	—
At 31 December 2020	—	(34,999)	(11,598,569)	(46,201)	(11,679,769)	(88,390)
Owned tangible assets - net book value						
At 31 December 2020	2,626	9,164	6,114,504	16,162	6,142,456	154,781
Right-of-use assets - net book value						
At 31 December 2020	9,725	—	37,332	109,122	156,179	—
Total tangible assets net book value						
At 31 December 2020	12,351	9,164	6,151,836	125,284	6,298,635	154,781
Total net book value						
At 31 December 2019	15,640	11,972	9,040,683	146,054	9,214,349	592,545
Depreciation charge for the year on right-of-use assets						
2020	(3,383)	—	(94,771)	(29,548)	(127,702)	—
2019	(3,663)	—	(44,041)	(29,197)	(76,901)	—

^aAUC = assets under construction. Assets under construction are not depreciated.

Additions are mainly related to ETAP (\$74 million), Vorlich (\$50 million), Schiehallion (\$34 million), Clair Ridge (\$31 million) and Clair (\$16 million) areas.

NOTES TO THE FINANCIAL STATEMENTS

Capitalized interest included above is as follows:

	Net book value
Capitalized interest	\$000
At 31 December 2020	245,128
At 31 December 2019	306,365

During the year the company has recognized impairment charges of \$2,029m relating to producing oil & gas assets. This arose as a result of changes to the group's oil and gas price assumptions and from management's re-assessment of expectations to extract value from certain properties as a result of a review of the group's long-term strategic plan.

Management's best estimate oil and natural gas price assumptions for value-in-use impairment testing were revised downwards during 2020 and the period covered extended to 2050. Management also undertook a re-assessment of expectations to extract value from certain exploration prospects as a result of a review of the bp group's long-term strategic plan. As a result, management performed a review of the carrying value of the company's oil and gas properties to identify potential impairment triggers, in line with the requirements of IAS 36 Impairment of Assets. Potential indicators of impairment were identified, requiring further tests to be performed. The cash generating units assessed were considered to be the smallest identifiable group of assets from the company's perspective that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A recoverable amount for each CGU was calculated based on the value in use cash flows. The value in use tests used the present value of pre-tax cash flows discounted using a pre-tax rate which varies depending on the country of operation of the underlying assets. The value in use is based on the cash flows expected to be generated by the projected oil or natural gas production profiles up to the expected dates of cessation of production of each producing field, based on current estimates of reserves and resources, appropriately risked.

As the production profile and related cash flows can be estimated from bp's past experience, management believes that the cash flows generated over the estimated life of field is the appropriate basis upon which to assess assets for impairment. The estimated date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, production costs, the contractual duration of the production concession and the selling price of the hydrocarbons produced. As each producing field has specific reservoir characteristics and economic circumstances, the cash flows of each field is computed using appropriate individual economic models and key assumptions agreed by bp management. Estimated production volumes and cash flows up to the date of cessation of production on a field-by-field basis, including operating and capital expenditure, are derived from the business segment plan. The production profiles used are consistent with the reserve and resource volumes approved as part of bp's centrally controlled process for the estimation of proved and probable reserves and total resources.

The key assumptions used in the value-in-use calculation are oil and natural gas prices, production volumes and the discount rate. Oil and gas price assumptions and discount rate assumptions used were as disclosed in Note 2. Due to economic developments, regulatory change and emissions reduction activity arising from climate concern and other factors, future commodity prices and other assumptions may differ from the forecasts used in the calculations.

These revenue sensitivity analyses do not, however, represent management's best estimate of any impairment charges or reversals that might be recognized as they do not fully incorporate consequential changes that may arise, such as changes in costs and business plans and phasing of development. For example, costs across the industry are more likely to decrease as oil and natural gas prices fall. The above sensitivity analyses therefore do not reflect a linear relationship between revenue and value that can be extrapolated. The interdependency of these inputs and risk factors plus the diverse characteristics of oil and

NOTES TO THE FINANCIAL STATEMENTS

gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to the price assumptions or production volumes.

As a result of this review, the company has recognized total impairment charges of \$2,029 million (2019: \$93 million). Impairments were calculated on a value in use basis, applying a discount rate of 10%. The residual value of the CGU's which have recognized impairment charges during the year was \$3,331 million. The main impacted areas are Schiehallion (\$1,089 million), ETAP (\$783 million) and Andrew (\$159 million).

14. Investments

	Investment in subsidiaries	Investment in associates	Loans to joint ventures	Total
Cost	\$000	\$000	\$000	\$000
At 1 January 2019	71,567,425	1,781,051	38,616	73,387,092
Valuation adjustments	—	2,111	—	2,111
Additions	1,374,597	—	357	1,374,954
Disposals	(404,410)	—	—	(404,410)
At 31 December 2019	<u>72,537,612</u>	<u>1,783,162</u>	<u>38,973</u>	<u>74,359,747</u>
At 1 January 2020	72,537,612	1,783,162	38,973	74,359,747
Valuation adjustments	—	(2,137)	—	(2,137)
Additions	194,537	—	—	194,537
Disposals	(696,515)	—	—	(696,515)
At 31 December 2020	<u>72,035,634</u>	<u>1,781,025</u>	<u>38,973</u>	<u>73,855,632</u>
Impairment losses				
At 1 January 2019	(18,290,057)	—	(38,616)	(18,328,673)
Charge for the year	—	—	(357)	(357)
Disposals	346,631	—	—	346,631
At 31 December 2019	<u>(17,943,426)</u>	<u>—</u>	<u>(38,973)</u>	<u>(17,982,399)</u>
At 1 January 2020	(17,943,426)	—	(38,973)	(17,982,399)
Charge for the year	(12,566,390)	—	—	(12,566,390)
Disposals	218,320	—	—	218,320
At 31 December 2020	<u>(30,291,496)</u>	<u>—</u>	<u>(38,973)</u>	<u>(30,330,469)</u>
Net book amount				
At 31 December 2020	<u>41,744,138</u>	<u>1,781,025</u>	<u>—</u>	<u>43,525,163</u>
At 31 December 2019	<u>54,594,186</u>	<u>1,783,162</u>	<u>—</u>	<u>56,377,348</u>
			2020	2019
			\$000	\$000
Listed			1,752,843	1,752,843
Unlisted			<u>41,772,320</u>	<u>54,624,505</u>

The investments in subsidiaries, associates and joint ventures are all stated at cost less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS

The subsidiary and associated undertakings of the company at 31 December 2020 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

All voting rights are equal to percentage of share capital owned unless otherwise noted below.

Subsidiary undertakings

Company name	Class of share held	%	Registered address	Principal activity
ARCO British Limited, LLC	Ordinary	100	1209 Orange Street, Wilmington DE 19801, United States	Exploration / Production
Atlantic 2/3 UK Holdings Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP (GTA Mauritania) Finance Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP (GTA Senegal) Finance Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Absheron Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Alternative Energy Trinidad and Tobago Limited	Ordinary	100	5-5A Queen's Park West Port-of-Spain Trinidad and Tobago	Sales Marketing and Distribution
BP Amoco Exploration (Faroes) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Amoco Exploration (In Amenas) Limited	Ordinary	100	1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB, United Kingdom	Exploration / Production
BP Andaman II Ltd	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Brasil Limitada	Ordinary	99	Avenida das Américas 3434, Bloco 7, Sala 301 a 308 (parte), Barra da Tijuca, Rio de Janeiro, RJ, 22640-102 Brazil	Exploration / Production
BP Brazil Tracking L.L.C.	Ordinary	100	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Exploration / Production
BP CCUS UK LTD	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Containment Response Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP D230 Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities

NOTES TO THE FINANCIAL STATEMENTS

Company name	Class of share held	%	Registered address	Principal activity
BP East Kalimantan CBM Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Energy Colombia Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Exploration (Absheron) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Algeria) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Alpha) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Angola) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Azerbaijan) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Canada) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Caspian Sea) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (D230) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Delta) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Epsilon) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Gambia) Limited	Ordinary	100	3 Kairaba Avenue, 3rd Floor Centenary Serekunda West Kanifing Municipality Gambia	Exploration / Production
BP Exploration (Greenland) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Madagascar) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Morocco) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Namibia) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production

NOTES TO THE FINANCIAL STATEMENTS

Company name	Class of share held	%	Registered address	Principal activity
BP Exploration (Nigeria Finance) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Dormant
BP Exploration (Nigeria) Limited	Ordinary	100	Landmark Towers - 5B, Water Corporation Road, Victoria Island, Lagos, Nigeria	Exploration / Production
BP Exploration (Psi) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Shah Deniz) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (South Atlantic) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (STP) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Angola (Kwanza Benguela) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Argentina Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Beta Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration China Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Exploration Indonesia Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Libya Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Mexico, S.A. DE C.V.	Ordinary-A	100	Av. Santa Fe No. 505 Piso 10, Col. Cruz Manca Santa Fe Deleg., CuajimalpaC.P., 05349 México D.F., Mexico	Exploration / Production
BP Exploration North Africa Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Peru Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Gas Marketing Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Energy Trading
BP Iran Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities

NOTES TO THE FINANCIAL STATEMENTS

Company name	Class of share held	%	Registered address	Principal activity
BP Iraq N.V.	Ordinary	100	Amocolaan 2 2440 Geel, Belgium	Exploration / Production
BP Kuwait Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Mauritania Investments Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Netherlands Upstream B.V.	Ordinary	100	d'Arcyweg 76, 3198 NA Europoort, Rotterdam, Netherlands	Exploration / Production
BP Pipelines (TANAP) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Dormant
BP Pipelines TAP Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Senegal Investments Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Shafag-Asiman Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Subsea Well Response (Brazil) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Subsea Well Response Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP West Aru I Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP West Aru II Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP West Papua I Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP West Papua III Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
Britoil Limited	Ordinary	100	1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB, United Kingdom	Exploration / Production
Exploration (Luderitz Basin) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
Iraq Petroleum Company Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production

NOTES TO THE FINANCIAL STATEMENTS

Company name	Class of share held	%	Registered address	Principal activity
Net Zero North Sea Storage Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
Net Zero Teesside Power Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Production of electricity
Wiriagar Overseas Ltd	Ordinary	100	Estera Corporate Services (BVI) Limited, Jayla Place, Wickhams Cay 1 PO Box 3190, Road Town, Tortola, VG1110, Virgin Islands, British	Exploration / Production

Associated undertakings

Company name	Class of share held	%	Registered address	Principal activity
Aker BP ASA	Ordinary	30	Oksenoyveien 10, 1366 Lysaker, Norway	Exploration / Production
VIC CBM Limited	Ordinary	50	Eni House, 10 Ebury Bridge Road, London, SW1W 8PZ, United Kingdom	Exploration / Production
Virginia Indonesia Co. CBM Limited	Ordinary	50	Eni House, 10 Ebury Bridge Road, London, SW1W 8PZ, United Kingdom	Exploration / Production

Significant holdings in undertakings other than subsidiary undertakings

In accordance with Section 409 of the Companies Act 2006, disclosed below is a full list of related undertakings in which the company holds an interest of 20% or greater not already disclosed above.

Related undertaking	Class of share held	%	Registered address	Direct / Indirect
Amoco (Fiddich) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Amoco (U.K.) Exploration Company LLC	Ordinary	100	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Indirect
Amoco U.K. Petroleum Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect

NOTES TO THE FINANCIAL STATEMENTS

Related undertaking	Class of share held	%	Registered address	Direct / Indirect
Atlantic 2/3 Holdings LLC	Ordinary	43	RL&F Service Corp, 920 North King Street, 2nd Floor, Wilmington DE 19801, United States	Indirect
Atlantic LNG 2/3 Company of Trinidad and Tobago Unlimited	Ordinary	43	Princes Court, Cor. Pembroke & Keate Street, Port-of-Spain, Trinidad and Tobago	Indirect
Azerbaijan Gas Supply Company Limited	Ordinary-A	23	Maples & Calder, P.O. Box 309, Ugland House, 113 South Church Street, George Town, Grand Cayman, Cayman Islands	Indirect
Azerbaijan International Operating Company	Unlimited redeemable	30	190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands	Indirect
Bahia de Bizkaia Electricidad, S.L.	Ordinary	75	Atraque Punta Lucero, Explanada Punta Ceballos s/n, Zierbena (Vizcaya), Spain	Indirect
Blue Marble Holdings Limited	Ordinary-C	24	Desk Lodge - 5th Floor, 1 Temple Way, Bristol, BS2 0BY, United Kingdom	Indirect
BP Angola (Block 18) B.V.	Ordinary	100	d'Arcyweg 76, 3198 NA Europoort, Rotterdam, Netherlands	Indirect
BP Egypt West Mediterranean (Block B) B.V.	Ordinary	61	d'Arcyweg 76, 3198 NA Europoort, Rotterdam, Netherlands	Indirect
BP Energy do Brasil Limitada	Ordinary	100	Avenida das Américas, no. 3434, Salas 301 a 308, Barra da Tijuca, Rio de Janeiro, RJ, 22640-102, Brazil	Indirect
BP Exploration (El Djazair) Limited	Common	60	PricewaterhouseCoopers (Bahamas) Limited, Providence House, East Hill Street, P.O. Box N-3910, Nassau, Bahamas	Indirect
BP Exploration (Shafag-Asiman) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
BP Exploration (Xazar) PTE. Limited	Ordinary	100	1 Harbourfront Avenue, #02-01, Keppel Bay Tower, Singapore, 098632, Singapore	Indirect
BP Train 2/3 Holding SRL	Common	100	Erin Court, Bishop's Court Hill, St. Michael, Barbados	Indirect
BP-AIOC Exploration (TISA) LLC	Member interest	66	153 Neftchilar Avenue, Baku, AZ1010, Azerbaijan	Indirect

NOTES TO THE FINANCIAL STATEMENTS

Related undertaking	Class of share held	%	Registered address	Direct / Indirect
Castrol Brasil Limitada	Common	55	Avenida das Americas, nº 3434, bloco 07, salas 301 a 308, Parte, Barra da Tijuca, Rio de Janeiro, 022.640-102, Brazil	Indirect
Castrol Servicos Limitada	Common	55	Avenida Tamboré, 448, Barueri, Sao Paulo, Brazil	Indirect
Georgian Pipeline Company	Unlimited redeemable	30	190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands	Indirect
Phoenix Petroleum Services LLC	Ordinary	100	Baghdad International Airport, Al-Burhan Commercial Complex, First floor, Baghdad, Iraq	Indirect
Rahamat Petroleum Company	Ordinary	50	70/72 Road 200, Maadi, Cairo, Egypt	Indirect
TISA Education Complex LLC	Member interest	66	153 Neftchilar Avenue, Baku, AZ1010, Azerbaijan	Indirect
Trans Adriatic Pipeline AG	Ordinary	20	Lindenstrasse 2, 6340 Baar, Switzerland	Indirect

In 2020 and 2019, the company was required to perform an impairment review of its investments in subsidiaries. In 2020, as a result of this review the company recognized an impairment write-off of \$12,566 million related to the companies listed below. In 2019 no impairment charge was recognized.

	2020 \$ million
BP Exploration (Alpha) Limited	2,222
BP Exploration (Delta) Limited	1,751
BP Brazil Tracking L.L.C.	1,638
BP Exploration (Azerbaijan) Limited	1,512
BP Netherlands Upstream B.V.	1,488
BP Exploration (Caspian Sea) Limited	1,184
BP Senegal Investments Limited	1,015
Britoil Limited	680
BP Mauritania Investments Limited	600
Arco British Limited	194
BP Exploration Mexico, S.A. DE C.V.	177
BP Exploration (STP) Limited	55
BP Brasil Ltda.	32
BP East Kalimantan CBM Limited	18
	<u>12,566</u>

NOTES TO THE FINANCIAL STATEMENTS

The net disposal entry of \$478 million during 2020 is related to BP Exploration (PSI) Limited, the \$218 million amount offsetting between cost and impairment losses relates to BP Exploration (Nigeria Finance) Limited and BP Exploration (Nigeria) Limited, following the decision of liquidation.

The disposal entries during 2019 were related to BP Exploration (Vietnam) Limited. The company held an interest in the Kimmeridge oil field, which was disposed of in 2011 and since then has been inactive. The company has been retained whilst a tax issue and in 2017 the matter is now considered closed and in 2019 it could be liquidated.

The material capital injections during the year are listed below:

	\$ million
BP Senegal Investment Ltd	133
BP Exploration Mexico, S.A. De C.V.	57
BP Brazil Tracking L.L.C	30
BP Pipelines TAP Limited	16
BP Exploration (Madagascar) Limited	5
BP Exploration Peru Limited	3
BP Brasil Ltda. ^a	-49
	<u>195</u>

^a Result of investigating a historic cost of control difference between share capital and investment value.

The capital injections for 2019 were \$1,375 million. Material capital injections were made to Britoil Limited (\$1,000 million), BP Brazil Tracking L.L.C. (\$296 million), BP Pipelines (TANAP) Limited (\$7 million), BP Pipelines TAP Limited (\$26 million), BP Exploration Mexico, S.A. DE C.V. (\$40 million), BP Exploration Argentina Limited (\$6 million).

15. Stocks

	2020	2019
	\$000	\$000
Raw materials and consumables	56,437	57,460
Crude oil	31,887	44,407
	<u>88,324</u>	<u>101,867</u>

The difference between the carrying value of stocks and their replacement cost is not material.

NOTES TO THE FINANCIAL STATEMENTS**16. Debtors**

Amounts falling due within one year:

	2020	2019
	\$000	\$000
Trade debtors	80,786	121,328
Amounts owed from parent undertakings	1,569,456	565,087
Amounts owed from fellow subsidiaries	1,162,058	991,864
Amounts owed from associates	4,777	11,367
Other debtors	275,958	310,877
Prepayments and accrued income	21,032	14,972
Taxation	20,820	89,423
Petroleum Revenue Tax	513	13,442
	<u>3,135,400</u>	<u>2,118,360</u>

Amounts falling due after one year:

	2020	2019
	\$000	\$000
Other debtors	105,721	105,284
Loans to group undertakings	—	201
Prepayments and accrued income	4,797	7,103
Petroleum Revenue Tax	327,123	291,892
Joint venture lease receivable	94,044	154,722
	<u>531,685</u>	<u>559,202</u>
Total debtors	<u>3,667,085</u>	<u>2,677,562</u>

The amounts owed from parent undertakings comprise funding accounts of \$1,383 million (2019: \$446 million). The increase is mainly due to transfers received on main operational IFA regarding BP Exploration (PSI) Limited investment (\$497 million) and interim dividend from Arco British Limited (\$350 million). Interest is accrued on a monthly basis based on LIBOR. The interest rate at year end was 0.004% (2019: 1.65%). Whilst IFA balances are legally repayable on demand, in practice they have no termination date. The remaining amount owed to parent undertakings, fellow subsidiaries and associates are trading balances with payment terms of 30 days.

Trade and other receivables are predominantly non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS**17. Creditors**

Amounts falling due within one year:

	2020	2019
	\$000	\$000
Trade creditors	154,733	124,699
Amounts owed to parent undertakings	3,686,029	1,643,905
Amounts owed to fellow subsidiaries	621,829	603,240
Amounts owed to associates	42,430	27,716
Other creditors	350,840	432,276
Taxation	—	56,438
Petroleum Revenue Tax	23	5,728
Accruals and deferred income	303,829	376,876
Cash-settled share-based payment (Note 22)	234	2,124
	<u>5,159,947</u>	<u>3,273,002</u>

Amounts falling after one year:

	2020	2019
	\$000	\$000
Amounts owed to parent undertakings	1,714	2,278,857
Other creditors	23,721	42,449
Accruals and deferred income	450	68,145
Joint venture lease payable	20,962	—
	<u>46,847</u>	<u>2,389,451</u>
Total creditors	<u>5,206,794</u>	<u>5,662,453</u>

Materially all of the company's trade payables have payment terms in the range of 30 to 60 days and give rise to operating cash flows.

Included within current amounts owed to parent undertakings are three interest-bearing loan account in total amount of \$2,277 million (2019: \$2,277 million as non-current amount) with BP International Limited, with interest being charged and a maturity dates as detailed below, callable on demand. The total amount has been settled in 2021. The remaining payable amounts to parent undertakings, fellow subsidiaries and associates consists of intercompany trade payable balances related to the operation of the company. Intercompany payable balances also have payment terms in the range of 30 to 60 days, with no interest being charged.

Maturity date	Interest charged	\$000
January 2021	3-month USD LIBOR plus 1.25 basis points	459,000
January 2021	3-month USD LIBOR plus 1.62 basis points	726,265
January 2022	3-month USD LIBOR plus 1.19 basis points	1,092,000
		<u>2,277,265</u>

NOTES TO THE FINANCIAL STATEMENTS**18. Loans and obligations under leases**

Lease liabilities are analysed as follows:

Within 5 years

	2020	2019
	\$000	\$000
Wholly repayable	—	—
Not wholly repayable	260,711	384,746
	<u>260,711</u>	<u>384,746</u>

After 5 years

	2020	2019
	\$000	\$000
Wholly repayable	—	—
Not wholly repayable	38,219	51,763
	<u>38,219</u>	<u>51,763</u>

Lease liabilities due within one year is \$135,637,000 and due after more than one year is \$163,294,000.

Interest rates on borrowings repayable wholly or partly more than five years from 31 December 2020 range from 3.63% to 4.10% with a weighted average of 4.10%.

19. Leases

The company leases a number of assets as part of its activities. The weighted average remaining lease term for the total lease portfolio is around 1 year (2019: around 2 years). Some leases will have payments that vary with market interest or inflation rates. Certain leases contain residual value guarantees, these may be triggered in certain circumstances such as if market values have significantly declined at the conclusion of the lease.

	2020
	\$000
Short-term lease expense ^a	6,491
Additions to right-of-use assets in the period	35,553
Total cash outflow for amounts included in lease liabilities ^b	<u>154,064</u>

^a A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less.

^b The cash outflows for amounts not included in lease liabilities approximate the income statement expense disclosed above.

An analysis of right-of-use assets and depreciation is provided in Note 13. An analysis of lease interest expense is provided in Note 8.

20. Derivatives and other financial instruments

In the normal course of business the company enters into derivative financial instruments (derivatives), to manage its normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt consistent with risk management policies and objectives.

NOTES TO THE FINANCIAL STATEMENTS

For information on significant estimates and judgements made in relation to the application of hedge accounting and the valuation of derivatives, see Derivative financial instruments and hedging activities within Note 2.

The fair values of derivative financial instruments at 31 December are set out below:

	2020	2020	2019	2019
	Fair value asset \$000	Fair value liability \$000	Fair value asset \$000	Fair value liability \$000
Cash flow hedges				
- Currency forwards, futures and cylinders	10,119	—	100	(1,582)
Other financial assets	577,017	(20,734)	542,246	—
	<u>587,136</u>	<u>(20,734)</u>	<u>542,346</u>	<u>(1,582)</u>
Of which:				
- current derivatives with third parties	141,999	(3,849)	116,448	—
- current intercompany derivatives with parent undertaking	5,759	—	—	(1,582)
- non-current derivatives with third parties	435,018	(16,885)	425,898	—
- non-current intercompany derivatives with parent undertaking	4,360	—	—	—
	<u>587,136</u>	<u>(20,734)</u>	<u>542,346</u>	<u>(1,582)</u>
2020	Less than 1 year \$000	1-2 years \$000	2-3 years \$000	Total \$000
Fair value of derivative assets - Level 2	5,759	3,953	407	10,119
Fair value of derivative liabilities - Level 2	—	—	—	—
Net fair value	<u>5,759</u>	<u>3,953</u>	<u>407</u>	<u>10,119</u>
2019	Less than 1 year \$000	1-2 years \$000	2-3 years \$000	Total \$000
Fair value of derivative assets - Level 2	100	—	—	100
Fair value of derivative liabilities - Level 2	(1,582)	—	—	(1,582)
Net fair value	<u>(1,482)</u>	<u>—</u>	<u>—</u>	<u>(1,482)</u>

Cash flow hedges

At 31 December 2019, the company held currency forwards designated as hedging instruments in cash flow hedge relationships of highly probable forecast non-US dollar capital expenditure. Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2020 outlines the group's approach to foreign currency exchange risk management. When the highly probable forecast capital expenditure designated as a hedged item occurs, a non-financial asset is recognized and is presented within the fixed asset section of the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

The company claims hedge accounting only for the spot value of the currency exposure in line with the strategy to fix the volatility in the spot exchange rate element. The fair value on the instrument attributable to forward points is taken immediately to the income statement.

The company applies hedge accounting where there is an economic relationship between the hedged item and hedging instrument. The existence of an economic relationship is determined at inception and prospectively by comparing the critical terms of the hedging instrument and those of the hedged item. The company enters into hedging derivatives that match the currency and notional of the hedged items on a 1:1 hedge ratio basis. The hedge ratio is determined by comparing the notional amount of the derivative with the notional designated on the forecast transaction. The company determines the extent to which it hedges highly probable forecast capital expenditures on a project by project basis.

The company has identified the following sources of ineffectiveness, which are not expected to be material:

- counterparty's credit risk, the company mitigates counterparty credit risk by entering into derivative transactions with high credit quality counterparties; and
- differences in settlement timing between the derivative and hedged items. The latter impacts the discount factor used in the calculation of the hedge ineffectiveness. The company mitigates differences in timing between the derivatives and hedged items by applying a rolling strategy and by hedging currency pairs from stable economies (i.e. sterling/US dollar, Euro/US dollar). The company's cash flow hedge designations are highly effective as the sources of ineffectiveness identified are expected to result in minimal hedge ineffectiveness.

The company has not designated any net positions as hedged items in cash flow hedges of foreign currency risk.

The table below summarizes the change in the fair value of hedging instruments and the hedged item used to calculate ineffectiveness in the period.

	Change in fair value of hedging instruments used to calculate ineffectiveness	Change in fair value of hedged item used to calculate ineffectiveness	Hedge ineffectiveness recognized in profit or loss
At 31 December 2020	\$000	\$000	\$000
Cash flow hedges			
Foreign exchange risk			
Highly probable forecast capital expenditure	10,139	10,139	—

The table below summarizes the carrying amount and nominal amount of the derivatives designated as hedging instruments in cash flow hedge relationships at 31 December 2020.

	Carrying amount of hedging instrument		Nominal amount of hedging instruments
	Assets	Liabilities	
At 31 December 2020	\$000	\$000	\$000
Cash flow hedges			
Foreign exchange risk			
Highly probable forecast capital expenditure	10,119	—	129,144

All hedging instruments are presented within derivative financial instruments on the company balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

Of the nominal amount of hedging instruments relating to highly probable forecast capital expenditure \$6 million matures in 2021 and \$4 million matures in 2022.

The table below summarizes the weighted average exchange rates in relation to the derivatives designated as hedging instruments in cash flow hedge relationships at 31 December 2020.

At 31 December 2020	Weighted average price/rate	
	Forecast Capital Expenditure	Forecast Sales
GBP/USD	1.26	—

Movement in reserves related to hedge accounting

The table below provides a reconciliation of the cash flow hedge and costs of hedging reserves on a pre-tax basis by risk category. The signage convention of this table is consistent with that presented in the Statement of Changes in Equity.

	\$000	
	Cash flow hedge reserves	
	Highly probable forecast future sales	Total
As at 1 January 2020	(1,334)	(1,334)
Recognized in other comprehensive income		
Cash flow hedges marked to market	11,223	11,223
As at 31 December 2020	9,889	9,889

The amount of \$9,980,000 represented in Statement of Changes in Equity includes an additional \$90,000 adjustment regarding tax on other comprehensive income.

Substantially all of the cash flow hedge reserve balances and all of the amounts reclassified into profit or loss during the year relate to continuing hedge relationships. Amounts deferred in the cash flow hedge reserve that have been reclassified to profit or loss are presented in sales and other operating revenues in the income statement.

Costs of hedging relates to the foreign currency basis spreads of hedging instruments used to hedge the company's interest rate and foreign currency risk on debt which is a time-period related item.

Another group company, BP International Ltd, has entered into a foreign exchange hedging programme on behalf of the company. This is to manage foreign exchange risk in relation to non US\$ highly probable forecast capital expenditure on the Seagull project. The hedging instrument is an intercompany derivative between the company and BP International Ltd.

For cash flow hedges the company only claims hedge accounting on the intrinsic value on the currency, with any fair value attributable to forward points taken immediately to the income statement. The amount recognized in the profit and loss account was a gain of \$739,000 (2019: gain of \$121,000).

The balance held in other financial instruments includes amounts relating to the FPS, Magnus, Bruce, Keith and Rhum disposals (\$534 million), with the balance related to the Thistle financial deed agreement (\$43 million) and the Devenick Revenue Sharing Agreement (-\$21 million). These balances are all related to future cash flows to which the company is entitled and have been recognized in these accounts as other financial instruments at fair value through profit and loss account. The balances are fair valued quarterly based on an estimate of future oil and gas prices and applying a 6% discount rate to the cash flows. Magnus

NOTES TO THE FINANCIAL STATEMENTS

and Devenick, Bruce, Keith and Rhum cash flows are linked to the underlying field cash flow generation and FPS is linked to the achievement of specified future throughput targets.

21. Other provisions

	Decom- missioning	Other	Total
	\$000	\$000	\$000
At 1 January 2020	2,616,297	98,027	2,714,324
Exchange adjustments	—	3,182	3,182
New or increased provision:			
Charged to profit and loss account	(54,784)	6,777	(48,007)
Recognized within tangible and intangible assets (Note 12 and Note 13)	(180,504)	—	(180,504)
Utilization	(15,597)	(12,566)	(28,163)
Unwinding of discount (Note 8)	61,877	—	61,877
Write-back of unused provisions	—	(68)	(68)
At 31 December 2020	<u>2,427,289</u>	<u>95,352</u>	<u>2,522,641</u>
At 31 December 2020			
Current	18,185	77,594	95,779
Non-current	2,409,104	17,758	2,426,862
	<u>2,427,289</u>	<u>95,352</u>	<u>2,522,641</u>
At 31 December 2019			
Current	27,427	80,269	107,696
Non-current	2,588,870	17,758	2,606,628
	<u>2,616,297</u>	<u>98,027</u>	<u>2,714,324</u>

For information on significant judgements and estimates made in relation to provisions, see Provisions within Note 2.

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis upon installation of those facilities. For details of decrease of \$181 million recognized through tangible and intangible assets please refer to Note 12 and Note 13. The total balance contains \$181.1 million decrease in decommissioning movement connected to owned assets and \$0.6 million increase in decommissioning movement relates to right-of-use assets.

Utilization of provision is mainly related to Magnus and Capercaillie.

The other provision balance represents contractual disputes.

Utilisation of other provision is mainly related to Erskine settlement on FPS (\$10 million).

NOTES TO THE FINANCIAL STATEMENTS**22. Share-based payments**

Effect of share-based payment transactions on the company's result and financial position:

	2020	2019
	\$000	\$000
	62,378	55,645
Total credit recognized for cash-settled share-based payment transactions	(2,280)	(241)
Total expense recognized for share-based payment transactions	60,098	55,404
Closing balance of liability for cash-settled share-based payment transactions	234	2,124
Total intrinsic value for vested cash-settled share-based payments	—	2,707

All share-based payments transactions relate to employee compensation.

For ease of presentation, option and share holdings detailed in the tables within this note are stated as UK ordinary share equivalents in US dollars. US employees are granted American Depositary Shares (ADSs) or options over the company's ADSs (one ADS is equivalent to six ordinary shares).

The share-based payment plans that operated during the year are detailed below:

Share Value Plan (SVP)

The number of units granted is related to the level of seniority of employees and country of operation. The number of units converted to shares is determined by reference to performance measures over the three-year performance period. Performance measures used include bp's total shareholder return (TSR) compared with the other oil majors, balanced scorecard and individual rating. The relative weighting of these different measures is related to the level of seniority of the employee.

Restricted share unit plans (RSP)

Share unit grants under the Restricted Share Plan (RSP) are used in special circumstances such as recruitment and retention of senior employees and normally have no performance conditions.

Share unit grants under bp's other restricted share plans typically take into account the employee's performance in either the current or the prior year, track record of delivery, business and leadership skills and potential. Plans included in this category are the Restricted Share Plan (RSP), Restricted Share Plan II (RSP II), the Lower 48 Long Term Incentive Plan (L48 LTI), Annual Cash Bonus Deferral's matching element (ACBD Matching), and the Deferred Annual Bonus Plan (DAB) including IST DAB.

Savings and matching plans:**BP ShareMatch Plan**

These matching share plans give employees the opportunity to buy ordinary shares in BP p.l.c. and receive free matching shares in BP p.l.c., up to a predetermined limit. The plans are run in the UK and in more than 50 other countries. They are known as ShareMatch UK in the UK, and as ShareMatch Global in other countries.

BP ShareSave Plans

This plan is open to all eligible UK employees. Participants can contribute up to a maximum of £250 per month from their net salary to a savings account over a three- or five-year contractual savings period. At the end of the savings period, they are entitled to purchase shares in BP p.l.c. at a preset price determined on the date when the invitations are sent to eligible employees. This price is usually set at a discount to the market price of a share of up to 20%. The plan is shareholder approved and is settled using Treasury shares.

NOTES TO THE FINANCIAL STATEMENTS**Share option transactions**

Share option transactions for the year were as follows:

	2020	2020	2019	2019
Share options transactions in the year	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding at 1 January	8,638,682	\$5.03	8,520,508	\$4.47
Transferred in during the year	767,497	\$4.96	3,922,317	\$4.95
Transferred out during the year	(332,353)	\$5.03	(1,229,147)	\$4.66
Granted during the year	7,290,114	\$3.39	1,589,802	\$5.72
Exercised during the year	(511,269)	\$4.32	(3,715,551)	\$4.54
Expired/lapsed/cancelled during the year	(3,357,965)	\$5.18	(449,247)	\$4.69
Outstanding at 31 December	12,494,706	\$4.06	8,638,682	\$4.85
Exercisable at 31 December	3,493,519	\$5.05	3,096,957	\$4.76

The weighted average share price at the date of exercise was \$4.32 per ordinary share (2019: \$4.54).

Exercise price ranges and weighted average remaining contractual lives for options outstanding at 31 December 2020 are shown below:

	2020	2020	2020	2019	2019	2019
Share options outstanding - Exercise price ranges	Number of Options	Weighted average remaining life (years)	Weighted average exercise price	Number of Options	Weighted average remaining life (years)	Weighted average exercise price
\$2.51 - \$3.50	6,917,189	4.27	\$3.39	—	—	—
\$3.51 - \$4.50	1,321,771	1.17	\$3.95	2,121,894	1.84	\$3.80
\$4.51 - \$5.50	3,694,895	0.68	\$5.05	4,332,433	1.82	4.87
\$5.51 - \$6.50	560,851	2.33	\$6.08	2,184,355	3.29	\$5.82
	12,494,706	2.79	\$4.06	8,638,682	2.2	\$4.85

Fair values and associated details for restricted share units granted

Fair values and associated details share units granted	2020	2019
Share Value Plan (SVP)		
Number of share units granted	10,643,573	7,331,759
Weighted average fair value	\$3.52	\$7.24
Fair value measurement basis	Market value	Market value
Restricted Share Plan (RSP)		
Number of share units granted	560,600	538,662
Weighted average fair value	\$3.96	\$6.72
Fair value measurement basis	Market value	Market value
International Supply and Trading Deferred Annual Bonus Plan (IST DAB)		
Number of share units granted	42,841	17,460
Weighted average fair value	\$4.01	\$7.24
Fair value measurement basis	Market value	Market value

NOTES TO THE FINANCIAL STATEMENTS**23. Called up share capital**

	2020	2019
	\$000	\$000
Issued and fully paid:		
42,089,650,267 Ordinary shares of \$1 each for a total nominal value of \$42,089,650,267	42,089,650	42,089,650
	<u>42,089,650</u>	<u>42,089,650</u>

In 2019, 42,089,650,267 ordinary shares (including A and B shares) was redenominated from a par value of £1 per share to \$1.2903 per share, and reduced from \$1.2903 to \$1 per share. Consequently \$23,732,617,000 was transferred from share capital to distributable reserves. Three different classes of shares are consolidated to ordinary capital, 'A' and 'B' shares converted on a 1:1 basis with regular ordinary shares.

24. 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.

Cash flow hedge reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. For further information on the accounting for cash flow hedges see Note 2 - Derivative financial instruments and hedging activities.

Foreign currency translation reserve

The foreign currency translation reserve is used to record the currency fluctuations in relation to the foreign currency branches.

Other reserves

The balance held on this reserve represents the share-based payment contribution from the parent company.

Profit and loss account

The balance held on this reserve is the retained profit of the company and a reserve transfer of \$111,776,000 related to funding debt transfer from BP Exploration (Nigeria Finance) Limited and BP Exploration (Nigeria) Limited (\$161 million) and a cost of control correction regarding BP Brasil Ltda (-\$49 million).

In 2020, the company paid ordinary interim dividends of \$Nil (2019: \$3,055,000,000). The dividend per share was \$Nil (2019: \$0.07).

25. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2020 is estimated at \$14 million (2019: \$189 million).

NOTES TO THE FINANCIAL STATEMENTS**26. Guarantees and other financial commitments**

The company has issued guarantees under which amounts outstanding at 31 December 2020 were \$12,438 million (2019: \$11,638 million) in respect of liabilities of other third parties. No material losses are likely to arise from these guarantees.

27. 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.

28. Post balance sheet events

After the balance sheet date, the company has issued guarantee to BP Energy do Brasil Ltda under which amounts outstanding are \$62 million in respect of liabilities of other third parties. These are contingent liabilities upon which no material losses are expected to arise.

Between 1 February 2021 and 1 August 2021, the company subscribed to 136,205,654 ordinary shares of \$1 each in BP Senegal Investments Limited for a total consideration of \$136,205,654.

On 16 February 2021, the company subscribed to 890,356,498 ordinary shares of \$1 each in BP Mauritania Investments Limited for a total consideration of \$890,356,498.

On 3 April 2021, the company subscribed to 100 ordinary shares of \$1 each in GTA FPSO Company Limited for a total consideration of \$100. On 4 August 2021, the company subscribed to a further 265,000,000 ordinary shares of \$1 each for a total consideration of \$265,000,000.

On 16 April 2021 bp announced it suspended production from the Foinaven fields west of Shetland as it began preparations to remove the Petrojarl Foinaven floating production, storage and offloading (FPSO) vessel from operation. The FPSO, which has been in the Foinaven area since 1996, was approaching the end of its 25-year design life. Work had been under way to consider options to extend the life of the vessel, but due to its age and demanding environment, it was determined that the FPSO was not the right option to recover the fields' remaining resources. bp is now assessing other options to recover the remaining reserves of up to 200 million barrels of oil at the Foinaven fields in a more efficient and sustainable way. bp plans to take the FPSO unit offstation and hand it back to vessel owner Teekay Corporation in 2022. Consequently, a fixed asset impairment of \$105 million was recognized in the group accounts for the Foinaven fields CGU in the first half of year 2021 out of which \$4 million is allocated for BP Exploration Operating Company Limited. Since these circumstances arose subsequent to 31 December 2020, this impairment will be reflected in the financial statements of BP Exploration Operating Company Limited for the year ending 31 December 2021.

On 17 June 2021, the company subscribed to 100 ordinary shares of \$1 each in BP Holdings Iraq Limited for a total consideration of \$100.

In the second quarter of 2021 the company booked impairment reversals of \$666 million and impairment charges of \$1 million relating to producing assets. These principally arose as a result of changes to the bp group's oil and gas price assumptions. The price assumption for Brent oil up to 2030 was increased to reflect near-term supply constraints, whereas the long-term assumption was decreased reaching \$55 per barrel by 2040 and \$45 per barrel by 2050 (in real 2020 terms). The recoverable amounts of the cash generating units were based on value-in-use calculations. These revisions and impairment reversals and charges relate to events and circumstances arising since 31 December and therefore the impact on the company will be included in the financial statements for the year ended 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS**29. Pensions**

The company is a participating employer in the BP Pension Fund. The BP Pension Fund is separately funded and provides benefits that are computed based on an employee's years of service and final pensionable salary. The level of contributions made to the BP Pension Fund is the amount needed to provide adequate funds to meet pension obligations as they fall due, and are based on pension costs in respect of all members of the fund.

The obligation and the cost of providing pensions are assessed annually using the projected unit credit method. The date of the latest formal actuarial valuation for the BP Pension Fund was 31 December 2017, and a valuation as at 31 December 2020 is currently underway. The date of the most recent actuarial review was 31 December 2020. During 2020, employer contributions of \$176,333,000 (2019: \$216,769,000) and member contributions of \$5,334,000 (2019: \$5,835,000) were made to the BP Pension Fund.

The BP Pension Fund is operated in a way that does not allow the individual participating employing companies in the Pension Fund to identify their share of the underlying assets and liabilities of the fund. Therefore the company's payments in respect of pension current service cost have been accounted for as an expense as if they were contributions to a defined contribution scheme and no further FRS 101 disclosures made in these accounts.

The results of the most recent actuarial valuation of the BP Pension Fund as at 31 December 2017, have been reflected into the disclosures required by FRS 101 for the year ended 31 December 2020, and are included within the accounts of the ultimate parent undertaking BP p.l.c.

The BP Pension Fund also includes a number of defined contribution schemes and the company is a participating employer in one of these, the BP Retailing Pension and Life Assurance Scheme. The assets of these schemes are held separately from those of the Company in an independently administered fund.

In the BP p.l.c. accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest) are recognized within this company's statement of total recognized gains and losses in the period in which they occur.

30. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Company Limited, a company registered in Scotland. 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.