

BP EASTERN MEDITERRANEAN LIMITED

(Registered No.02239062)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

Board of Directors: A S Ibrahim
S Photiou
M A Thomsen

The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2019.

STRATEGIC REPORT**Results**

The profit for the year after taxation was €3,130,000 which, when added to the retained profit brought forward at 1 January 2019 of €13,510,000 together with an actuarial loss taken directly to reserves of €153,000, gives a total retained profit carried forward at 31 December 2019 of €16,487,000.

Principal activities and review of the business

The company is engaged in the purchasing and selling of petroleum products in Cyprus. It also provides services to other group undertakings within the BP group. The company has a branch operating in Cyprus.

The company is also in a 50:50 joint operating agreement with RAM Oil Cyprus Ltd, (a subsidiary company of Hellenic Petroleum Cyprus Ltd) at the Paphos International airport for the receipt, storage and distribution of aviation fuel into the JV Facilities and the provision of into-plane services to each partner's customers. The scope of the Joint Operation will include, but not be restricted to the organisation, operation, maintenance and management of the Facilities.

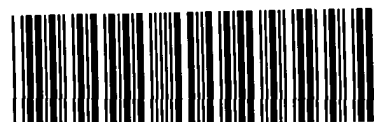
The key financial and other performance indicators during the year were as follows:

	2019	2018	Variance
	€000	€000	%
Turnover	83,846	93,387	(10)
Operating profit	3,045	1,890	61
Profit for the year	3,130	2,114	48
Total equity	23,013	19,888	16

	2019	2018	Variance
	%	%	
Quick ratio*	364	278	86

*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.

Turnover had decreased during the year driven by a decrease in both selling price and sales volume in 2019. The Platts average price had decreased by 6% in 2019. The volume had decreased in 2019 contributed by the cessation of operations from the company's largest local customer as well as other key customers. The company has recorded a higher profit for the year as there were no redundancy costs incurred in 2019 as compared to €782,000 recognised in 2018.



STRATEGIC REPORT

Section 172 (1) statement

In governing the company on behalf of its shareholders and discharging their duties under section 172, the board has had regard to the factors set out in section 172 (see below) and other factors which the board considers appropriate.

Matters identified that may affect the company's performance in the long term are set out in the principal risks disclosed in the strategic report below.

The company has engaged with key stakeholders and the outcome from such engagement has been considered by the directors during the decision making process where appropriate. Refer to the directors report on stakeholder engagement.

Section 172 factors

Section 172 requires directors to have regard to the following in performing their duties, and as part of the process are required to consider, where relevant:

- 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.

To support the directors in the discharge of their duties, and whilst making a decision on behalf of the company, the directors have access to functional assurance support to identify matters which may have an impact on the proposed decision including, where relevant, section 172 factors as outlined above.

During the year the directors continued to monitor progress against the company's strategy, as highlighted in the principal activities section of the strategic report of the company, and decisions made by the directors were in respect of operational matters, in furtherance of the BP group's purpose.

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 2019.

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. Political developments, increased supply of oil and gas or low carbon energy sources, technological change, global economic conditions, public health situations and the influence of OPEC can impact supply and demand and prices for our products.

Major project delivery

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

STRATEGIC REPORT

Strategic and commercial risks (continued)

Geopolitical

The company is exposed to a range of political developments and consequent changes to the operating and regulatory environment may disrupt or curtail the company's operations or development activities. These may in turn cause production to decline, limit the company's ability to pursue new opportunities, affect the recoverability of our assets or cause us to incur additional costs. Political developments may include international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism or war and public health situations (including an outbreak of an epidemic or pandemic).

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. BP have been considering different outcomes but do not believe any of these outcomes pose a significant risk to the business. The BP board's geopolitical committee continues to monitor these developments.

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.

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 or failure of the company's or third parties' digital infrastructure or cyber security, including loss or misuse of sensitive information could damage its operations and reputation or increase costs.

Climate change and the transition to a lower carbon economy

Policy, legal, regulatory, technology and market developments related to the issue of climate change could increase costs, reduce demand for our products, reduce revenue and limit certain growth opportunities.

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.

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.

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.

STRATEGIC REPORT

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 and affect the company's provisions.

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

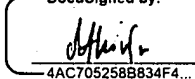
Failure to accurately report the company's data could lead to regulatory action, legal liability and reputational damage.

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; credit risk; and liquidity 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 2019.

Authorized for issue by Order of the Board

DocuSigned by:



For and on behalf of

Sunbury Secretaries Limited

Company Secretary

29 September 2020

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

DIRECTORS' REPORT**BP EASTERN MEDITERRANEAN LIMITED****Directors**

The present directors are listed on page 1.

A S Ibrahim and S Photiou served as directors throughout the financial year. Changes since 1 January 2019 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
M A Thomsen	1 July 2020	—
J P Platt	—	1 July 2020

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 (2018 €Nil). The directors do not propose the payment of a dividend.

Financial instruments

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

Post balance sheet events

Since 31 December 2019, oil and gas prices have fallen sharply 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. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided under Going Concern below. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

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 1-4, 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.

DIRECTORS' REPORT

Going concern (continued)

Since 31 December 2019, the oil price has fallen sharply 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.

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, 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.

The company has ongoing funding arrangements with BP International Limited to manage its working capital as well as investing activities. The directors' assessment has taken into account the ability of both the company and BP group to ensure availability of funds at least twelve months from the date of approval of these financial statements.

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

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

Branches

The company has overseas branches established in the following member states of the European Union: Cyprus.

Stakeholder statement

Engagement with other stakeholders

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

The company's activities affect a wide variety of individuals and organizations. The company engages with these stakeholders and listens to their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making process.

DIRECTORS' REPORT

Stakeholder statement (continued)

Engagement with other stakeholders (continued)

On behalf of the company, the BP group participates in 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.

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

Feedback from such engagement has been considered by the directors during the decision making process where relevant.


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 s418 of the Companies Act 2006.

Authorized for issue by Order of the Board

DocuSigned by:

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For and on behalf of
Sunbury Secretaries Limited
Company Secretary

29 September 2020

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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

BP EASTERN MEDITERRANEAN 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 EASTERN MEDITERRANEAN LIMITED****Report on the audit of the financial statements****Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

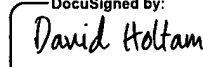
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

DocuSigned by:

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David Holtam FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP Statutory Auditor
London, United Kingdom
29 September 2020

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31 DECEMBER 2019****BP EASTERN MEDITERRANEAN LIMITED**

		2019	2018
	Note	€000	€000
Turnover	3	83,846	93,387
Cost of sales		(73,410)	(83,071)
Gross profit		<u>10,436</u>	<u>10,316</u>
Distribution and marketing expenses		(7,391)	(8,426)
Operating profit	4	<u>3,045</u>	<u>1,890</u>
Interest receivable and similar income	6	623	379
Interest payable and similar expenses	7	(127)	(78)
Other finance expenses	8	(50)	(45)
Profit before taxation		<u>3,491</u>	<u>2,146</u>
Tax on profit	9	(361)	(32)
Profit for the year		<u><u>3,130</u></u>	<u><u>2,114</u></u>

The profit of €3,130,000 for the year ended 31 December 2019 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2019****BP EASTERN MEDITERRANEAN LIMITED**

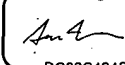
	<u>2019</u>	<u>2018</u>
	€000	€000
Profit for the year	3,130	2,114
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of the net pension and other post-retirement benefit liability or asset	(184)	(553)
Income tax relating to items that will not be reclassified	<u>31</u>	<u>94</u>
Other comprehensive income for the year net of tax	<u>(153)</u>	<u>(459)</u>
Total comprehensive income for the year	<u><u>2,977</u></u>	<u><u>1,655</u></u>

BALANCE SHEET**AS AT 31 DECEMBER 2019****BP EASTERN MEDITERRANEAN LIMITED****(Registered No.02239062)**

	Note	2019 €000	2018 €000
Fixed assets			
Tangible assets	11	4,128	1,106
Current assets			
Stocks	12	5,851	6,064
Debtors - amounts falling due:			
within one year	13	23,111	23,560
after one year	13	81	136
Deferred tax assets	9	710	681
Cash at bank and in hand		989	299
		30,742	30,740
Creditors: amounts falling due within one year	14	(6,095)	(8,839)
Lease liabilities	15	(718)	—
Net current assets		23,929	21,901
TOTAL ASSETS LESS CURRENT LIABILITIES		28,057	23,007
Lease liabilities	15	(1,966)	—
Provisions for liabilities and charges			
Other provisions	17	(35)	(38)
Defined benefit pension plans deficit	24	(412)	(640)
Other post-retirement benefits plan deficit	25	(2,631)	(2,441)
NET ASSETS		23,013	19,888
Capital and reserves			
Called up share capital	19	6,378	6,378
Other reserves	20	148	—
Profit and loss account	20	16,487	13,510
TOTAL EQUITY		23,013	19,888

Authorized for issue on behalf of the Board

DocuSigned by:



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A S Ibrahim

Director

29 September 2020

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2019****BP EASTERN MEDITERRANEAN LIMITED**

	Called up share capital (Note 19)	Other reserves (Note 20)	Profit and loss account (Note 20)	Total
	€000	€000	€000	€000
Balance at 1 January 2018	6,378	€000	11,855	18,233
Profit for the year	—	—	2,114	2,114
Other comprehensive income for the year	—	—	(459)	(459)
Balance at 31 December 2018	6,378	—	13,510	19,888
Profit for the year	—	—	3,130	3,130
Other comprehensive income for the year	—	—	(153)	(153)
Total comprehensive income for the year	—	—	2,977	2,977
Capital contribution for equity-settled share-based payments	—	148	—	148
Balance at 31 December 2019	<u>6,378</u>	<u>148</u>	<u>16,487</u>	<u>23,013</u>

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2019****BP EASTERN MEDITERRANEAN 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 Eastern Mediterranean Limited for the year ended 31 December 2019 were approved by the board of directors on 29/09/20 and the balance sheet was signed on the board's behalf by A S Ibrahim. BP Eastern Mediterranean Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 02239062). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

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

Basis of preparation

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

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

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

- (a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- (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
- (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
- (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.

NOTES TO THE FINANCIAL STATEMENTS

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

Basis of preparation (continued)

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

- (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 26.

The financial statements are presented in Euro and all values are rounded to the nearest thousand Euros (€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.

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.

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 Euro. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

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

Investments

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Investments (continued)

Interests in joint arrangements (continued)

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.

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.

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

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

Buildings on leasehold land	10 years
Computer hardware	4 years
Computer software	3 years
Plant and machinery	10 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

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, 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. 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.

Stocks

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Leases (continued)

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.

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Leases (continued)

As noted in 'Impact of new International Financial Reporting Standards - IFRS 16 'Leases'', the company elected to apply the 'modified retrospective' transition approach on adoption of IFRS 16. Under this approach, comparative periods' financial information is not restated. The accounting policy applicable for leases in the comparative periods only is disclosed in the following paragraphs.

Agreements under which payments are made to owners in return for the right to use a specific asset are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership are recognized as finance leases. All other leases are accounted for as operating leases.

Finance leases are capitalized at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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 amortised cost. This category of financial assets includes trade and other receivables.

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 expected credit losses are recognized for trade receivables and the tenor of substantially all of 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Impairment of financial assets measured at amortized cost (continued)

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

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at amortized cost

Financial liabilities are initially 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. This category of financial liabilities includes trade and other payables and finance debt.

Offsetting of financial assets and liabilities

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

Provisions 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% (2018 3.0%).

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Provisions and contingent liabilities (continued)

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.

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.

Environmental expenditures and liabilities

Environmental expenditures that are required in order for the company to obtain future economic benefits from its assets are capitalized as part of those assets. Expenditures that relate to an existing condition caused by past operations and that do not contribute to future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required to settle the obligation. Provisions for environmental liabilities have been estimated using existing technology, at future prices and discounted using a nominal discount rate.

Significant judgements and estimates: provisions

Decommissioning provisions associated with downstream refineries and petrochemicals facilities are generally not recognized, as such potential obligations cannot be measured, given their indeterminate settlement dates. The company performs periodic reviews of its downstream refineries and petrochemicals long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Provisions and contingent liabilities (continued)

Significant judgements and estimates: provisions (continued)

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 2019 was a nominal rate of 2.5% (2018 a nominal rate of 3.0%), 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 (2018 18 years) and 6 years (2018 6 years) respectively.

Employee benefits

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

Pensions

Contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period to determine current service cost and to the current and prior periods to determine the present value of the defined benefit obligation. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognized immediately when the company becomes committed to a change.

Net interest expense relating to pensions and other post-retirement benefits, which is recognized in the profit and loss account, represents the net change in present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year, and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year.

Remeasurements of the net defined benefit liability or asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest described above) are recognized within other comprehensive income in the period in which they occur and not subsequently reclassified to profit and loss.

The defined benefit pension plan surplus or deficit in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), and the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. Defined benefit pension plan surpluses are only recognized to the extent they are recoverable, either by way of a refund from the plan or reductions in future contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Pensions (continued)

Significant estimate: pensions and other post-retirement benefits

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 2019 and 2018 are provided in Notes 24 and 25.

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.
- 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

Taxation (continued)

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.

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:

- 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

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 and other items 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.

Revenue is recognized when the service is performed, in accordance with the terms of the contractual arrangements and in the accounting period in which the services are rendered.

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

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.

Revenue associated with the sale of oil is included on a net basis in turnover.

Interest income

Interest income is recognized as the interest accrues.

Finance costs

All finance costs are recognized in the profit and loss account in the period in which they are incurred.

Impact of new International Financial Reporting Standards

The company adopted IFRS 16 'Leases', which replaced IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease', with effect from 1 January 2019. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

IFRS 16 'Leases'

IFRS 16 'Leases' provides a new model for lessee accounting in which the majority of leases will be accounted for by the recognition on the balance sheet of a right-of-use asset and a lease liability. The subsequent amortization of the right-of-use asset and the interest expense related to the lease liability is recognized in profit or loss over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

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

Impact of new International Financial Reporting Standards (continued)

IFRS 16 'Leases' (continued)

The company elected to apply the modified retrospective transition approach in which the cumulative effect of initial application is recognized in opening retained earnings at the date of initial application with no restatement of comparative periods' financial information. Comparative information in the balance sheet has, however, been re-presented to align with current year presentation, showing lease liabilities and lease liability payments as separate line items. These were previously included within finance debt and repayments of long-term financing line items respectively. Amounts presented in these line items for the comparative periods relate to leases accounted for as finance leases under IAS 17. We do not consider any of the judgements or estimates made on transition to IFRS 16 to be significant.

IFRS 16 introduces a revised definition of a lease. As permitted by the standard, the company elected not to reassess the existing population of leases under the new definition and only applies the new definition for the assessment of contracts entered into after the transition date. On transition the standard permitted, on a lease-by-lease basis, the right-of-use asset to be measured either at an amount equal to the lease liability (as adjusted for prepaid or accrued lease payments), or on a historical basis as if the standard had always applied. BP has elected to use the historical asset measurement for its more material leases and used the asset equals liability approach for the remainder of the population. In measuring the right-of-use asset the company applied the transition practical expedient to exclude initial direct costs. The company also elected to adjust the carrying amounts of the right-of-use assets as at 1 January 2019 for onerous lease provisions that had been recognized on the company balance sheet as at 31 December 2018, rather than performing impairment tests on transition.

The effect on the company's balance sheet is set out further below. The presentation and timing of recognition of charges in the profit and loss account has changed following the adoption of IFRS 16. The operating lease expense previously reported under IAS 17, typically on a straight-line basis, has been replaced by depreciation of the right-of-use asset and interest on the lease liability.

The following table provides a reconciliation of the operating lease commitments disclosed as at 31 December 2018 to the total lease liability recognized on the balance sheet in accordance with IFRS 16 as at 1 January 2019, with explanations below.

	€000
Operating lease commitments at 31 December 2018	3,486
Effect of discounting	(147)
Other	(3)
Total additional lease liabilities recognized on adoption of IFRS 16	3,336
Total lease liabilities at 1 January 2019	3,336
Of which - current	743
- non-current	2,593

Effect of discounting

The amount of the lease liability recognized in accordance with IFRS 16 is on a discounted basis whereas the operating lease commitments information as at 31 December 2018 is presented on an undiscounted basis. The discount rates used on transition were incremental borrowing rates as appropriate for each lease based on factors such as the lessee legal entity, lease term and currency. The weighted average discount rate used on transition was around 3.5%, with a weighted average remaining lease term of around nine years. For new leases commencing after 1 January 2019 the discount rate used will be the interest rate implicit in the lease, if this is readily determinable, or the incremental borrowing rate if the implicit rate cannot be readily determined.

NOTES TO THE FINANCIAL STATEMENTS

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

Impact of new International Financial Reporting Standards (continued)

IFRS 16 'Leases' (continued)

Effect of discounting

The amount of the lease liability recognized in accordance with IFRS 16 is on a discounted basis whereas the operating lease commitments information as at 31 December 2018 is presented on an undiscounted basis. The discount rates used on transition were incremental borrowing rates as appropriate for each lease based on factors such as the lessee legal entity, lease term and currency. The weighted average discount rate used on transition was around 3.5%, with a weighted average remaining lease term of around nine years. For new leases commencing after 1 January 2019 the discount rate used will be the interest rate implicit in the lease, if this is readily determinable, or the incremental borrowing rate if the implicit rate cannot be readily determined.

Impact on leases in joint operations

The operating lease commitments for leases within joint operations as at 31 December 2018 were included on the basis of the company's net working interest, irrespective of whether the company is the operator and whether the lease has been co-signed by the joint operators or not. However, for transition to IFRS 16, the facts and circumstances of each lease in a joint operation were assessed to determine the company's rights and obligations and to recognize assets and liabilities on the company balance sheet accordingly. Where all parties to a joint operation jointly have the right to control the use of the identified asset and all parties have a legal obligation to make lease payments to the lessor, the company's share of the right-of-use asset and its share of the lease liability will be recognized on the company balance sheet. This may arise in cases where the lease is signed by all parties to the joint operation. However, in cases where the company is the only party with the legal obligation to make lease payments to the lessor, the full lease liability will be recognized on the company balance sheet. This may be the case if for example the company, as operator of the joint operation, is the sole signatory to the lease. If, however, the underlying asset is jointly controlled by all parties to the joint operation the company will recognize its net share of the right-of-use asset on the company balance sheet along with a receivable representing the amounts to be recovered from the other parties. If the company is not legally obliged to make lease payments to the lessor but jointly controls the asset, the net share of the right-of-use asset will be recognized on the balance sheet along with a payable representing amounts to be paid to the other parties.

In addition to the lease liability, other line item on the balance sheet adjusted on transition to IFRS 16 includes tangible assets for the right-of-use assets, as set out below.

	€000		
	31 December 2018	1 January 2019	Adjustment on adoption of IFRS 16
Fixed assets			
Tangible assets	1,106	4,442	3,336
Creditors: amounts falling due within one year			
Lease liabilities	—	(743)	(743)
Creditors: amounts falling due after more than one year			
Lease liabilities	—	(2,593)	(2,593)
Net assets*	19,888	19,888	—

* Net assets also includes the line items not affected by the transition to IFRS 16 that are not presented separately in the table.

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

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

	2019	2018
	€000	€000
Sales of goods	83,222	92,799
Rendering of services	624	588
	83,846	93,387
Interest receivable and similar income (Note 6)	623	379
	<u>84,469</u>	<u>93,766</u>

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

	2019	2018
	€000	€000
Class of business:		
Downstream	<u>83,846</u>	<u>93,387</u>

An analysis of turnover by geographical market is set out below:

	2019	2018
	€000	€000
By geographical area:		
Rest of Europe	73,920	83,816
Rest of World	9,926	9,571
Total	<u>83,846</u>	<u>93,387</u>

4. Operating profit / (loss)

This is stated after charging / (crediting):

	2019	2018
	€000	€000
Operating lease payments:		
Plant & machinery ^b	8	13
Land & buildings ^b	—	697
Net foreign exchange gains	(411)	(887)
Depreciation of tangible assets	166	145
Depreciation of right-of-use assets ^a	741	—
Loss / (profit) on disposal of fixed assets	<u>1</u>	<u>(11)</u>

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

^b The amount shown for the comparative period relates to leases previously classified as operating leases under IAS 17.

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

	2019	2018
	€000	€000
Fees for the audit of the company	48	49

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 Eastern Mediterranean Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

A portion of the fees were borne by another group company.

6. Interest receivable and similar income

	2019	2018
	€000	€000
Interest income from amounts owed by group undertakings	623	379

7. Interest payable and similar expenses

	2019	2018
	€000	€000
Interest expense on:		
Bank loans and overdrafts	73	67
Lease liabilities	54	—
Overdrafts from group undertakings	—	11
Total interest payable and similar expenses	127	78

8. Other finance expenses

	2019	2018
	€000	€000
Net interest on pension and other post-retirement benefit plan liabilities	50	45

9. Taxation

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

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

	2019	2018
	€000	€000
<u>Current tax</u>		
Overseas tax on income for the year	359	11
<u>Deferred tax</u>		
Origination and reversal of temporary differences	10	24
Adjustments in prior year temporary differences	(8)	(3)
Total deferred tax charged	2	21
Tax charged on profit	361	32

In 2019 the total tax credit recognised within other comprehensive income was €31,000 (2018 tax credit of €94,000). This tax credit is in relation to the remeasurements of the net pension and other post-retirement benefit liability or asset.

NOTES TO THE FINANCIAL STATEMENTS**9. Taxation (continued)****(a) Reconciliation of the effective tax rate**

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% for the year ended 31 December 2019 (2018 19%). The differences are reconciled below:

	2019	2018
	UK	UK
	€000	€000
Profit before tax	3,491	2,146
Tax charge	361	32
Effective tax rate	10%	2%

	2019	2018
	UK	UK
	%	%
UK corporation tax rate:	19	19
Overseas corporation tax rate:	—	—
Increase / (decrease) resulting from:		
Non-deductible expenditure	1	—
Free group relief	(9)	(17)
Adjustments to tax charge in respect of previous years	(1)	—
Effective tax rate	10	2

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

Change in corporation tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

(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>	2019	2018	2019	2018
	€000	€000	€000	€000
Capital allowances in excess of depreciation	(37)	(3)	187	151
Short term temporary differences	38	24	523	530
Other deductible temporary differences	—	—	—	—
Net credit for deferred tax assets	1	21	710	681

NOTES TO THE FINANCIAL STATEMENTS**9. Taxation (continued)****(b) Provision for deferred tax**

Analysis of movements during the year:

	2019
	€000
At 31 December 2018	681
Deferred tax credit in the profit and loss account	(2)
Deferred tax credit in other comprehensive income	31
At 31 December 2019	710

Deferred tax has been recognised on all the fixed assets and short term timing differences on the basis that they are expected to give rise to future profit.

10. 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.

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 €123,685 (2018: €148,840). There is only one qualifying director and he received non-cash benefits of €331 in relation to qualifying services.

This director is a member of the defined benefit section of the BP Pensioenfonds OFP at 31 December 2019 (2018: One).

The accrued pension of the highest paid director at 31 December 2019 was €20,002 (2018 €36,872). The highest paid director received contributions to a money purchase pension scheme during the year.

The qualifying director did not exercise share options over BP p.l.c. shares during the year (2018 Nil).

(b) Employee costs

	2019	2018
	€000	€000
Wages and salaries	1,708	1,894
Social security costs	237	211
Other pension costs	230	240
Share-based payment charge (Note 18)	63	62
Other benefits and contributions	88	56
Redundancies	—	782
	<u>2,326</u>	<u>3,245</u>

NOTES TO THE FINANCIAL STATEMENTS**10. Directors and employees (continued)**

(c) The average monthly number of downstream and non-UK employees during the year was 31 (2018 31).

Included in other pension costs are €177,097 (2018 €184,992) in respect of defined benefit schemes and €53,373 (2018 €55,457) in respect of defined contribution schemes.

11. Tangible assets

	Buildings on leasehold land		Computer software & hardware	Plant & machinery		Total	Of which AUC*
	Owned tangible assets	Right-of- use assets		Owned tangible assets	Right-of- use assets		
	€000	€000	€000	€000	€000	€000	€000
At Cost							
At 1 January 2019	62	38	885	5,432	3,297	9,714	294
Additions	—	40	16	542	—	598	211
Disposals	—	—	—	(38)	(3)	(41)	—
31 December 2019	62	78	901	5,936	3,294	10,271	505
Depreciation							
1 January 2019	62	—	874	4,337	—	5,273	—
Charge for the year	—	39	5	161	702	907	—
Disposals	—	—	—	(37)	—	(37)	—
At 31 December 2019	62	39	879	4,461	702	6,143	—
Total net book value							
At 31 December 2019	—	39	22	1,475	2,592	4,128	505
Total net book value							
At 31 December 2018	11	—	1,095	—	—	1,106	294

*AUC = assets under construction. Assets under construction are not depreciated.

NOTES TO THE FINANCIAL STATEMENTS**12. Stocks**

	2019	2018
	€000	€000
Refined petroleum and petrochemical products	5,851	6,064

13. Debtors

Amounts falling due within one year:

	2019	2018
	€000	€000
Trade debtors	3,587	3,886
Amounts owed from fellow subsidiaries	18,933	18,694
Prepayments and accrued income	139	372
Taxation	61	212
VAT recoverable	391	396
	23,111	23,560

Amounts falling due after one year:

	2019	2018
	€000	€000
Prepayments and accrued income	81	136
Total debtors	23,192	23,696

The amounts owed from fellow subsidiaries comprise a variable rate funding account of \$26,212,000 (2018 \$19,553,000), which is repayable on demand. Interest is accrued on a monthly basis based on USD daily overnight LIBOR. The interest rate at year end was LIBOR minus 11 basis points (2018 LIBOR minus 11 basis points). Included within amounts owed from fellow subsidiaries is an interest-bearing loan of \$8,620,000 (2018 \$2,165,000) with BP International Limited, with interest being charged based on 1-month EUR LIBOR plus 25 basis points and callable on demand. These amounts are presented net as the company has met the offsetting criteria.

14. Creditors

Amounts falling due within one year:

	2019	2018
	€000	€000
Trade creditors	156	62
Amounts owed to fellow subsidiaries	4,635	6,805
Other creditors	843	975
Accruals and deferred income	461	997
	6,095	8,839

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.

NOTES TO THE FINANCIAL STATEMENTS**15. Obligations under leases**

Obligations under leases are analysed as follows:

Within 5 years

Not wholly repayable

2019	2018
Lease liabilities	Lease liabilities
€000	€000
2,684	—

The amounts presented for 2019 relate to the maturity of lease liabilities under IFRS 16.

16. Leases

The company leases a number of assets as part of its activities. This primarily includes oil depots and storage tanks in the Downstream segment as well as office accommodation. The weighted average remaining lease term for the total lease portfolio is around 4 years. Some leases will have payments that vary with market interest or inflation rates.

Certain leases, in particular for office accommodation, contain options to extend the lease period at the company's discretion. The payments for these future periods are only included in the measurement of the lease liability and right-of-use asset if the company is reasonably certain to exercise the option. The total undiscounted amounts payable for periods subject to extension options not currently reasonably certain to be exercised and therefore not in the reported lease liability at 31 December 2019 is €39,000.

The company may enter into lease arrangements a number of years before taking control of the underlying asset due to construction lead times or to secure future operational requirements. The total undiscounted amount for future commitments for leases not yet commenced as at 31 December 2019 is Nil.

Additions to right-of-use assets in the period

Total cash outflow for amounts included in lease liabilities

2019
€000
40
743

An analysis of right-of-use assets and depreciation is provided in Note 11. An analysis of lease interest expense is provided in Note 7.

17. Other provisions

At 1 January 2019

Utilization

At 31 December 2019

Environmental
€000
38
(3)
35

Following the transfer of aviation operations from the old Larnaca airport fuel terminal to the new fuel depot operated by Larnaca Fuelling System Ltd (LAFS) in October 2017, the old terminal site has been under demolition and all the terminal assets will be demolished and decommissioned. An environmental provision of €40,000 was originally recognized, which related to a possible groundwater and/or soil contamination at the old Larnaca airport site. The exact amount of the environmental remediation cost will be determined towards the end of year 2020 when the demolition and decommissioning of the terminal assets will be completed and an Environmental Impact Assessment study will be conducted by an independent surveyor.

18. Share-based payments**Effect of share-based payment transactions on the company's result and financial position:**

	2019	2018
	€000	€000
Total expense recognised for equity-settled share-based payment transactions	63	62
Total expense / (credit) recognised for cash-settled share-based payment transactions	—	—
Total expense recognised for share-based payment transactions	63	62
Closing balance of liability for cash-settled share-based payment transactions	—	—
Total intrinsic value for vested cash-settled share-based payments	—	—

All share-based payments transactions relate to employee compensation.

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.

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.

19. Called up share capital

	2019	2018
	€000	€000
Issued and fully paid:		
5,220,002 ordinary shares of £1 each for a total nominal value of £5,220,002	6,378	6,378

NOTES TO THE FINANCIAL STATEMENTS

20. 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.

Profit and loss account

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

Other reserves

This reserve records share-based payment transactions.

21. Guarantees and other financial commitments

(i) Legal cases against the company

(a) Customs case

In 2007, the company received a claim by Customs & Excise Department for the amount of €869,049 plus penalty of €86,905 and interest at a rate of 9% p.a., regarding the supply of Jet-A1 fuel to Joannou & Paraskevaides (Overseas) Limited, on which no VAT and Excise duty was charged during the period from 1 May 2004 to 30 September 2007.

On 25 October 2010, the Court decided that VAT should be charged but Excise Duty should not be charged. Both the Customs & Excise Department and the customer appealed to this decision. On 12 September 2016, on recourse 197/2010 the appeal court decided against the customer and the customer had agreed to a repayment schedule of the claim.

On 7 February 2019, the company was notified by the Liquidator (Grant Thornton) that Joannou & Paraskevaides (Aviation) Limited (the holding company of Joannou & Paraskevaides (Overseas) Limited) entered into compulsory winding up and the company declared again all outstanding balances, justifying and verifying these with the relevant evidence, as requested by the Liquidator.

(ii) Guarantees

The company is contingently liable in respect of guarantees and indemnities provided to third parties of €1,463,051 (2018 €1,534,115) entered into as part of the ordinary course of the company's business.

(iii) Other contingent liabilities

(a) Relocation to Vassiliko Industrial Area (continued)

The Minister of Interior on 30 January 2014 ratified a decree issued by the Larnaca Municipality to end the use of oil and gas terminals in the city of Larnaca (where the bulk of the company's stock is stored) and transfer these to the Vassiliko area, for reasons such as health and safety of citizens and for creating the conditions for the economic growth of the city. The termination of usage of the terminals and the decommissioning of assets (removal of all buildings and installations) had to be completed in a period of 3 years from the above date, that was, by 30 January 2017. On 17 February 2017, the Ministry of Interior issued a new decree extending the previous deadline for the fuel's terminals to 1 March 2018.

NOTES TO THE FINANCIAL STATEMENTS**21. Guarantees and other financial commitments (continued)****(iii) Other contingent liabilities (continued)****(a) Relocation to Vassiliko Industrial Area (continued)**

During 2018, there were a number of meetings at ministerial and presidential level, in an effort to have an agreement between all stakeholders for the relocation to Vassiliko. On 19 June 2018 a non-binding Memorandum of Understanding (MoU) with actions to be done by Government and oil companies together with a timeline for relocation was signed. In the MoU the Government proposes to the oil companies two options: either to enter into a transitional agreement with one of the two companies already having a terminal at Vassilikos, or take all necessary actions to develop their own terminal within the specified timeline. Either way, the oil companies are requested to terminate operations at the Larnaca coastal area by 31 December 2019, a date which has been extended to 31 October 2020, following a request by the company in consideration of the special circumstances created by the Covid-19 pandemic and the impact this had on the branch's operations.

The Government has provided to the company a piece of land at the Vassiliko industrial area, on which the company will have the option to build its new storage and distribution terminal. Currently, the company has commissioned a design of its own storage and handling terminal and has also filed this together with all necessary studies and licenses applications for building and operating its own terminal at the Vassiliko area within the land that has been provided by the Government on a long-term lease. However, at the moment, the company has not taken its final decision whether it will going to invest in building and operating its own terminal. This decision is expected to be taken towards the end of 2020 or during the year 2021.

On 19 December 2018, further to the above and as required by the MOU, the company has proceeded to a transitional solution by entering into an agreement with PPT Aviation Services Limited for the storage of aviation fuel at PPT's storage terminal at Vassilikos industrial area as well as to receive certain storage and handling services.

(a) Demolishment and decommissioning of Larnaca terminal

The demolishment and decommissioning of all the Larnaca terminal assets will most probably be executed by the operator of the terminal, Hellenic Petroleum (Cyprus) Limited (HPC), in an effort to keep the cost at the minimum due to economies of scale. The split of the cost will be discussed and agreed between the two parties, namely the company and HPC, based on the assets that each party owns at the terminal. Although the works are expected to be completed in the second half of the year 2020, at this stage it is not possible to accurately and reliably estimate this cost, as the entire work will be executed by Hellenic Petroleum and the company will only be charged for works relating to the BP assets.

Furthermore, it should be noted that the land on which the Larnaca terminal is built is owned by HPC, with whom the company has entered into a long-term lease agreement for part of the land in order to perform its operations. The company owns part of terminal assets related to its operations. According to the lease and other divestment agreements, any environmental liabilities that could potentially arise during the contractual lease period of 20 years and any associated remediation cost arising directly as a result of any act or omission of the company after (but not before) the start of the lease period, will be borne by the company. Again, at this stage, it is not possible to accurately and reliably estimate the cost that could possibly arise for the remediation of the land on which the Larnaca terminal is built. This is something that is expected to be more reliably estimated towards the end of 2020, when both the move to Vassilikos and the relevant environmental study will be completed.

NOTES TO THE FINANCIAL STATEMENTS**21. Guarantees and other financial commitments (continued)****(iii) Other contingent liabilities (continued)****(b) Customs claims for private flights excise duty not charged**

On 3 January 2017, the company received seven claims by Customs & Excise Department for the total amount of €6,531,687 plus penalty of €653,169 and interest at the prevailing interest rate during the period of reference, regarding the supply of Jet-A1 fuel to its General Aviation customers executing private business flights for the period from 2 January 2011 to 31 August 2016, without charging Excise Duty.

Following a Supreme Court decision on 12 September 2016, in the appeal case No. 197/2010 Republic of Cyprus via the Customs Department vs Joannou & Paraskevaides (Overseas) Limited (the Decision) referred to in Note 21(i)(a) above, the Customs Department of the Republic of Cyprus issued a revised tax circular on 4 November 2016 essentially clarifying that only outbound flights conducted for the purposes of the State Authorities or involving the “for consideration” transfer of persons or merchandise or provision of services, may be exempted from Excise Duty, whereas prior to the Decision those outbound flights conducted for the purposes of the State Authorities or not constituting private pleasure flights were considered as meriting the exemption.

In the Decision, the Supreme Court, based its ruling inter alia on the judgment of the Court of Justice of the European Union (CJEU) in the case C-79/10 Systeme Helmholtz GmbH against Hauptzollamt Nurnberg. In this case the ECJ ruled that air transportation activities made by a company for the transfer of its own staff to clients or to trade fairs using its own aircraft for the purpose of performing its own business activities, cannot be equated with the use of aircraft for commercial purposes within the meaning and for the purposes of Article 14 (1) (b) of the Directive 2003/96 and are not, therefore, included within the specific provision of the tax exemption for aviation fuel, since they relate to air navigation activities not directly serving the provision of air navigation services for a consideration.

Prima facie, Cypriot Customs are allowed by statute to go back 6 years and claim due taxes. In view of this and the Decision, Cypriot Customs have made claims for Excise Duty (plus VAT thereon) in connection with the refuelling of aircraft which took place at Larnaca and Paphos airports from 1 January 2011 onwards.

It should be noted that this is an industry wide issue in Cyprus and all fuel suppliers operating at the airports, face the same issue. Total exposure for the period 2 January 2011 - 31 August 2016 for the industry is estimated around €12m excluding penalties and interest. Accordingly, legal and other steps were undertaken by the affected fuel companies to meet the challenge facing them. At this early stage, it is difficult to make an assessment of the outcome of this case, but management believes that it is more likely than not to succeed in setting aside this claim in its entirety.

On 28 February 2017, the company objected to the Director of Customs & Excise Department for all seven claims, providing all legal and tax argumentations supporting its case and requesting the Customs & Excise Department to re-examine and withdraw the claims.

On 16 March 2017, the company filed seven recourses, one for each claim, before the District Court of Cyprus.

On 15 January 2018, the Customs & Excise Department replied negatively to the company's objections by rejecting almost all of its argumentations.

On 20 March 2018, the company has filed seven new recourses, one for each claim, in response to the negative reply received from Customs & Excise Department. At a later stage, following the Court's instructions, the older recourses filed in 2017 were withdrawn, whereas the new recourses filed in 2018 were maintained. The cases are still pending and after a few postponements they have been set for instructions in late 2020.

NOTES TO THE FINANCIAL STATEMENTS**21. Guarantees and other financial commitments (continued)****(iii) Other contingent liabilities (continued)****(c) Other**

Further to the above, there are a number of claims made against the company arising from the ordinary course of its business from which no material losses are likely to arise.

22. 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.

23. Post balance sheet events

Since 31 December 2019, oil and gas prices have fallen sharply 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. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the Directors' Report under Going Concern. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

24. Pensions**(i) Description of the retirement benefits plans**

The retirement benefit plans comprise of one plan of a defined contribution type and three plans of an overall defined benefit type. All plans are operated under the BP Pensioenfond OFP plan, a BP Pan-European Cross Border plan registered and domiciled in Belgium.

The charge to the profit and loss account during the year for the defined contribution plan amounted to €53,000 (2018 €55,000).

"The Non Contributory Pension Fund" is the main retirement defined benefit plan and provides benefits based on final pensionable pay. The assets of the plan are held separately from those of the company, the majority of which are being invested with financial institutions.

NOTES TO THE FINANCIAL STATEMENTS**24. Pensions (continued)****(ii) Actuarial valuation assumptions**

The company has commissioned an actuary valuation of its plan liabilities as at 31 December 2019. The valuation was carried out by a qualified independent actuary on an on-going valuation basis using the projected unit credit valuation method.

The pension assumptions are set out below. The assumptions used to evaluate accrued pension benefits at 31 December are used to determine pension expense for the following year, that is, the assumptions at 31 December 2019 are used to determine the pension liabilities at that date and the pension cost for 2020.

	2019	2018
	% p.a.	% p.a.
Price inflation	1.7	1.7
Total salary increases	4.0	4.0
Discount rate	1.0	1.7
Expected return on assets	1.0	1.7
Pension increases	0.85	0.85
SIS Pension increases	0.85	0.85
Increase in insurable earning	2.7	2.7
Normal Retirement Age	61	61
Average future working life	13.2	13.1

Under the current plan rules, there is no obligation to grant increases to pensions. Although the company had previously decided to provide for the pension increases based on the discretionary practice for previous years, due to a 2013 legislation voted in by the Parliament, in order to comply with the Cyprus 'bail-out' programme signed by the Government and the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) - the so called 'Troika' - which put into suspension any Cost of Living Allowance (COLA) increases on salaries and pensions in the public sector and the broader public sector for the years 2013-2016, the company had also decided not to provide any pension increases for the years 2013-2016, in line with the above mentioned legislation and the Social Insurance Department decision on state pensions.

According to the terms of the Memorandum agreed between the Cyprus Government and the Troika, from 2017 onwards, increases to the Social Insurance Supplementary State pensions will be assumed to be in line with 50% of the prevailing inflation rate. Therefore, for years 2019 and 2018, a 50% of the assumed inflation rate of 1.70% was assumed for the purpose of 2019 and 2018 valuations, that is, a pension increase of 0.85% for both years.

On 28 July 2017, a transitional agreement was endorsed and signed between the Government and the social partners that would enable the reactivation of COLA as from 1 January 2018. The transitional agreement provides for the following:

- the calculation and disbursement of COLA once a year (on 1 January);
- the disbursement of COLA at a reduced rate of 50%;
- the incorporation of the accumulative COLA rate into basic salaries on 31 December 2017 and a new start of COLA rate accumulation from zero; and
- the suspension of COLA in the event of economic contraction in both the second and third quarters of the preceding year.

The agreement is due to apply for a transitional period of 3 years, covering the years 2018, 2019 and 2020. The transitional period will be used to negotiate an agreement for a permanent reform of COLA and the social partners are committed to engage in social dialogue towards this end. The agreement applies only in the private sector. However, a similar agreement is also in place for the public sector.

NOTES TO THE FINANCIAL STATEMENTS**24. Pensions (continued)****(ii) Actuarial valuation assumptions (continued)**

From 1 January 2019, in compliance to what has been agreed between the Government and the social partners in the transitional agreement as referred to above, the company provided pension increases of 0.76% (2018 0.28%).

(iii) Actuarial valuation results

The valuation showed that the value of the company's plan liabilities as at 31 December 2019 was €8,685,000 (2018 €8,513,000). The deficit in the company's plan as at 31 December 2019, recognised in the balance sheet, as measured in accordance with requirements of FRS101, is estimated at €412,000 (2018 €640,000), as follows:

	2019	2018
	€000	€000
<i>Amounts recognised in the balance sheet</i>		
Total market value of assets	8,273	7,873
Present value of plan liabilities	(8,685)	(8,513)
Gross liability recognised in the balance sheet	(412)	(640)
Related deferred tax asset	52	80
Liability net of deferred tax asset	(360)	(560)

The various categories of plan assets are:

	2019	2018
	€000	€000
Property	835	835
Equities	4,136	4,199
Bonds	3,300	2,838
Cash	2	1
	8,273	7,873

According to the 2019 actuarial valuation the total funding contribution rate for the future years is estimated at 14.5% of pensionable pay (2018 16.2%), assuming that discretionary pension increases of 0.85% (2018 0.85%) will be payable.

During 2019, the company paid an additional funding contribution to the defined benefit plan of €234,000 (2018 €242,000), being additional deficit funding contribution of €143,000 (2018 €152,000) and death and disability reinsurance costs contribution of €91,000 (2018 €90,000). This has been a requirement of the Financial Services and Markets Authority (FSMA) in Belgium, which is the Belgian Regulatory Authority for Occupational Retirement Plans.

The additional funding represents the funding deficit as calculated by an independent actuary, AON Hewitt Cyprus, using previous year's data (for 2019 funding valuation used 31 December 2018 data and for 2018 funding valuation used 31 December 2017 data) and applying FSMA required assumptions. This was calculated based on an Long-Term Provision/Short Term Provisions (LTP/STP) methodology using a discount rate of 0.73% (2018 1.42%), as required by FSMA. The difference between LTP/STP methodology to the Projected Benefit Obligation (PBO) methodology used for IFRS purposes is that LTP/STP does not allow any future salary increases.

NOTES TO THE FINANCIAL STATEMENTS**24. Pensions (continued)****(iii) Actuarial valuation results (continued)**

	2019	2018
	€000	€000
<i>Amounts recognised in the profit and loss account</i>		
Current service cost	176	189
Net interest charge	10	7
Total profit and loss charge	186	196

Amounts recognised in statement of comprehensive income (CI)

Return on plan assets (below)/above the amount included in the income statement	848	(442)
Actuarial loss arising from experience adjustments	(276)	(20)
Actuarial (loss) / gain arising from changes in assumptions	(570)	62
Actuarial gain / (loss) recognised in the statement of CI	2	(400)

Movement in the fair value of plan assets during the year

Fair value of plan assets at 1 January	7,873	8,616
Expected return on plan assets	129	141
Regular contributions by employer	178	185
Deficit contributions by employer	143	152
Death and disability reinsurance costs contributions by employer	91	90
Benefit payments	(989)	(869)
Actuarial gain / (loss) on plan assets	848	(442)
Fair value of plan assets at 31 December	8,273	7,873

Movement in defined benefit plan liabilities during the year

Benefit obligation at 1 January	(8,513)	(9,087)
Current service cost	(176)	(189)
Interest charge	(139)	(148)
Benefit payments	989	869
Actuarial (loss) / gain on benefit obligation - financial assumptions	(570)	62
Actuarial loss on benefit obligation - experience adjustments	(276)	(20)
Defined benefit obligation at 31 December	(8,685)	(8,513)

Movement in gross liability in the balance sheet

Gross liability at 1 January	(640)	(471)
Actual contributions paid by employer	412	427
Total expense recognised in the income statement	(186)	(196)
Gross liability in the balance sheet before adjustment	(414)	(240)
Amount recognised in the statement of CI	2	(400)
Gross liability at 31 December	(412)	(640)

NOTES TO THE FINANCIAL STATEMENTS**24. Pensions (continued)****(iv) Sensitivity analysis**

The discount rate and inflation rate have a significant effect on the amounts reported. A sensitivity analysis of the impact of changes in these assumptions on the benefit expense and obligation, is provided below.

	Central Assumptions	Discount rate + 0.5%	Salary inflation rate + 0.5%
	€000	€000	€000
<i>Amounts recognised in the profit and loss for 2020</i>			
Current service cost	186	170	210
Net interest charge	3	(2)	6
Total profit and loss charge	189	168	216
<i>Impact %</i>	<i>—</i>	<i>-11.2%</i>	<i>+14.4%</i>
<i>Amounts recognised in the balance sheet</i>			
Present value of plan liabilities	8,685	8,270	8,972
<i>Impact %</i>	<i>—</i>	<i>-4.8%</i>	<i>+3.3%</i>

25. Other post-retirement benefits**(i) Actuarial valuation assumptions**

The company provides post-retirement medical benefits to its retired employees and dependants. The cost of providing post-retirement benefits is assessed by independent actuaries using the projected unit method. The date of the latest actuarial valuation was 31 December 2019.

The key financial assumptions used for the medical fund are set out below. The assumptions used to evaluate medical fund benefits at 31 December in the year are used to determine medical fund expense for the following year, that is, the assumptions at 31 December 2019 are used to determine the medical fund liabilities at that date and the medical fund cost for 2020.

	2019	2018
	% p.a.	% p.a.
Discount rate	1.0	1.7
Medical inflation rate	2.8	3.2
Medical incidence claim increase	1.5	1.5
Price inflation	1.7	1.7

NOTES TO THE FINANCIAL STATEMENTS**25. Other post-retirement benefits (continued)****(ii) Actuarial valuation results**

The valuation showed that the value of the company's plan liabilities as at 31 December 2019 was €2,631,000 (2018 €2,441,000). The deficit in the company's plan as at 31 December 2019, recognised in the balance sheet, as measured in accordance with requirements of FRS 101, is estimated at €2,631,000 (2018 €2,441,000), as follows:

	2019	2018
	€000	€000
<i>Amounts recognised in the balance sheet</i>		
Present value of plan liabilities	(2,631)	(2,441)
Gross liability recognised in the balance sheet	(2,631)	(2,441)
Related deferred tax asset	329	305
Liability net of deferred tax asset	(2,302)	(2,136)
<i>Amounts recognised in the profit and loss</i>		
Current service cost	47	49
Net interest cost	41	38
Total operating charge	88	87
<i>Amounts recognised in statement of comprehensive income (CI)</i>		
Experience gains arising on the scheme liabilities	23	59
Changes in assumptions underlying the present value of scheme liabilities	(209)	(211)
Actuarial (loss) / gain recognised in the statement of CI	(186)	(152)
<i>Movement in defined benefit plan liabilities during the year</i>		
Benefit obligation at 1 January	(2,441)	(2,288)
Current service cost	(47)	(49)
Benefit payments	84	86
Net interest charge	(41)	(38)
Actuarial (loss) / gain on obligation	(186)	(152)
Defined benefit plan liability at 31 December	(2,631)	(2,441)
<i>Movement in gross liability in the balance sheet</i>		
Gross liability at 1 January	(2,441)	(2,288)
Actual contributions paid by employer	84	86
Total expense recognised in the income statement	(88)	(87)
Gross liability in the balance sheet before adjustment	(2,445)	(2,289)
Amount recognised in the statement of CI	(186)	(152)
Gross liability at 31 December	(2,631)	(2,441)

NOTES TO THE FINANCIAL STATEMENTS**25. Other post-retirement benefits (continued)****(iii) Sensitivity analysis**

The discount rate and inflation rate have a significant effect on the amounts reported. A sensitivity analysis of the impact of changes in these assumptions on the benefit expense and obligation, is provided below.

	Central Assumptions	Discount rate + 0.5%	Medical inflation rate + 0.5% *
	€000	€000	€000
<i>Amounts recognised in the profit and loss for 2020</i>			
Current service cost	47	41	55
Net interest charge	26	36	28
Total profit and loss charge	73	77	83
Impact %	—	+5.8%	+13.4%
<i>Amounts recognised in the balance sheet</i>			
Present value of plan liabilities	2,631	2,436	2,844
Impact %	—	-7.4%	+8.1%

* the healthcare cost trend rate is embedded in the medical inflation rate

26. Immediate and ultimate controlling parent undertaking

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