

BP EASTERN MEDITERRANEAN LIMITED

(Registered No.02239062)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

Board of Directors: J P Platt

The directors present the strategic report, their report and the financial statements for the year ended 31 December 2017.

STRATEGIC REPORT

Results

The loss for the year after taxation was €825,042 which, when deducted from the retained profit brought forward at 1 January 2017 of €12,375,899 together with an actuarial gain taken directly to reserves of €304,004, gives a total retained profit carried forward at 31 December 2017 of €11,854,861.

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

	2017	2016	Variance
	€	€	%
Turnover	75,832,531	60,365,552	26
Operating (loss) / profit	(492,749)	5,741,093	(109)
(Loss) / profit for the year	(825,042)	5,070,744	(116)
Total equity	18,232,659	18,753,697	(3)

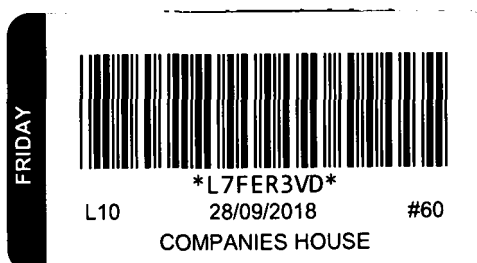
	2017	2016	Variance
	%	%	
Quick ratio	246	429	(183)

Turnover has increased during the year driven by both the increase in selling price and sales volume. Despite the increase in turnover, the company incurred loss in 2017 primarily contributed by increase in cost of sales and distribution expenses in 2017. Higher cost of sales is attributable to the increase in purchases which is primarily driven by higher oil and Platts prices coupled with the foreign exchange loss reported in 2017 as compared to foreign exchange gain recognised in 2016.

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 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 2017.



STRATEGIC REPORT

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas and refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook.

Major project delivery

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

Geopolitical

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

Liquidity, financial capacity and financial, including credit, exposure

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

Joint arrangements and contractors

The company may have limited control over the standards, operations and compliance of its partners, contractors and sub-contractors.

Digital infrastructure and cybersecurity

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

Climate change and carbon pricing

Public policies could increase costs and reduce future turnover and strategic growth opportunities.

Competition

Inability to remain efficient, 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 result in regulatory action, legal liability, 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

Regulation

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

Ethical misconduct and non-compliance

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

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 27 of the BP Group Annual Report and Form 20-F for the year ended 31 December 2017.

By Order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

24 September 2018

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.

C Lambrou served as a director throughout the financial year. Changes since 1 January 2017 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
C Lambrou	—	20 September 2018
P I W Turner	—	1 November 2017
D I Gilmour	—	17 August 2017
J P Platt	15 September 2017	—

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 (2016: €Nil). The directors do not propose the payment of a dividend.

Financial instruments

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

Future developments

The directors consider that, despite the uncertainties deriving from the current economic environment and the loss reported for the year, the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved.

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

Branches

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

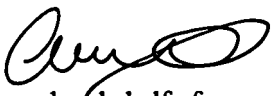
DIRECTORS' REPORT

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

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

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

By Order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

24 September 2018

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 Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing these financial statements, the directors are required to:

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

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP EASTERN MEDITERRANEAN LIMITED

Opinion

We have audited the financial statements of BP Eastern Mediterranean Limited for the year ended 31 December 2017 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 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. 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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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 authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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 Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

Ernst & Young LLP

Oxana Dorrington (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 September 2018

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

BP EASTERN MEDITERRANEAN LIMITED

		2017	2017	2017
		Continuing	Discontinued	Total
	Note	€	€	€
Turnover	3	75,832,531	—	75,832,531
Cost of sales		(69,530,929)	—	(69,530,929)
Gross profit		6,301,602	—	6,301,602
Distribution and marketing expenses		(6,796,351)	—	(6,796,351)
Profit on disposal of fixed assets	6	2,000	—	2,000
Operating loss	4	(492,749)	—	(492,749)
Interest receivable and similar income	7	268,583	—	268,583
Interest payable and similar charges	8	(271,538)	—	(271,538)
Other finance expenses	9	(45,413)	—	(45,413)
Loss before taxation		(541,117)	—	(541,117)
Taxation	10	(283,925)	—	(283,925)
Loss for the year		(825,042)	—	(825,042)

FOR THE YEAR ENDED 31 DECEMBER 2016

		2016	2016	2016
		Continuing	Discontinued	Total
	Note	€	€	€
Turnover	3	59,384,185	981,367	60,365,552
Cost of sales		(48,274,137)	(635,293)	(48,909,430)
Gross profit		11,110,048	346,074	11,456,122
Distribution and marketing expenses		(5,485,903)	(438,578)	(5,924,481)
Loss on disposal of fixed assets	6	—	(5,548)	(5,548)
Profit on sale or termination of operations	6	—	215,000	215,000
Operating profit	4	5,624,145	116,948	5,741,093
Interest receivable and similar income	7	87,268	—	87,268
Interest payable and similar charges	8	(182,451)	(2,800)	(185,251)
Other finance expenses	9	(50,283)	—	(50,283)
Profit before tax		5,478,679	114,148	5,592,827
Taxation	10	(507,815)	(14,268)	(522,083)
Profit for the year		4,970,864	99,880	5,070,744

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

BP EASTERN MEDITERRANEAN LIMITED

	<u>2017</u>	<u>2016</u>
	€	€
(Loss) / profit for the year	(825,042)	5,070,744
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Re-measurements of the net pension and other post-retirement benefit liability or asset	366,270	(241,538)
Income tax relating to items that will not be reclassified	<u>(62,266)</u>	<u>41,061</u>
Other comprehensive income for the year net of tax	<u>304,004</u>	<u>(200,477)</u>
Total comprehensive income for the year	<u><u>(521,038)</u></u>	<u><u>4,870,267</u></u>

BALANCE SHEET**AT 31 DECEMBER 2017****BP EASTERN MEDITERRANEAN LIMITED****(Registered No.02239062)**

	Note	2017 €	2016 €
Fixed assets			
Tangible assets	13	971,507	838,603
Current assets			
Stocks	14	6,050,156	3,001,874
Debtors – amounts falling due:			
within one year	15	21,854,077	21,282,659
after one year	15	150,913	150,913
Deferred tax assets	10	608,722	675,036
Cash at bank and in hand		460,052	1,439,923
		29,123,920	26,550,405
Creditors: amounts falling due within one year	16	(9,013,317)	(5,269,606)
Net current assets		20,110,603	21,280,799
TOTAL ASSETS LESS CURRENT LIABILITIES		21,082,110	22,119,402
Provisions for liabilities and charges			
Other provisions	18	(90,410)	—
Defined benefit pension plans deficit	24	(470,820)	(941,617)
Other post-retirement benefits plan deficit	25	(2,288,221)	(2,424,088)
NET ASSETS		18,232,659	18,753,697
Capital and reserves			
Called up share capital	20	6,377,798	6,377,798
Profit and loss account	21	11,854,861	12,375,899
TOTAL EQUITY		18,232,659	18,753,697

On behalf of the Board


 J P Platt
 Director

24 September 2018

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
BP EASTERN MEDITERRANEAN LIMITED

	Called up share capital (Note 20)	Profit and loss account (Note 21)	Total
	€	€	€
Balance at 1 January 2016	6,377,798	7,505,632	13,883,430
Profit for the year	—	5,070,744	5,070,744
Other comprehensive income for the year	—	(200,477)	(200,477)
Total comprehensive income for the year	—	4,870,267	4,870,267
Balance at 31 December 2016	6,377,798	12,375,899	18,753,697
Loss for the year	—	(825,042)	(825,042)
Other comprehensive income for the year	—	304,004	304,004
Total comprehensive income for the year	—	(521,038)	(521,038)
Balance at 31 December 2017	6,377,798	11,854,861	18,232,659

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 were approved by the board of directors on 24 September 2018 and the balance sheet was signed on the board's behalf by J P Platt. 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.

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 paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- (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; and
- (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.

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 27.

The financial statements are presented in Euro and all values are rounded to the nearest whole number in Euros (€), except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

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

Critical accounting policies: use of judgements, estimates and assumptions

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

Significant judgements and estimates: recoverability of asset carrying values

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

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. Fair value less costs of disposal may be determined based on similar recent market transaction data or, where recent market transactions for the asset are not available for reference, using discounted cash flow techniques. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, judgements are made about the assumptions market participants would use when pricing the asset containing goodwill and the test is performed on a post-tax basis.

For value-in-use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The pre-tax discount rate is based upon the cost of funding the group derived from an established model, adjusted to a pre-tax basis, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. In cases where fair value less costs to sell is used to determine the recoverable amount of an asset, where recent market transactions for the asset are not available for reference, accounting judgements are made about the assumptions market participants would use when pricing the asset. Fair value less costs to sell may be determined based on similar recent market transaction data or using discounted cash flow techniques. Where discounted cash flow analyses are used to calculate fair value less costs to sell, the discount rate used is the BP group's post-tax weighted average cost of capital.

Details of the carrying amounts of assets are shown in Note 13.

Impairment of financial assets

Judgements are required in assessing the recoverability of overdue trade debtors and determining whether a provision against the future recoverability of those debtors is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

Significant judgements and estimates: provisions

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

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually, together with the interest rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligations at the end of 2017 was a real rate of 0.5% (2016: 0.5%), which was based on long-dated government bonds.

NOTES TO THE FINANCIAL STATEMENTS

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

Critical accounting policies: use of judgements, estimates and assumptions (continued)

Significant judgements and estimates: provisions (continued)

Further information on the company's provisions is provided in Note 18. Changes in assumptions in relation to the company's provisions could result in a material change in their carrying amounts within the next financial year.

Significant estimate or judgement: deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. Details of deferred tax balances are provided in Note 10.

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 2017 and 2016 are provided in Note 24 and Note 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.

Significant accounting policies

Going concern

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

Foreign currency

The functional and presentation currency of the financial statements is 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Foreign currency (continued)

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.

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.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale, and actions required to complete the plan of sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Tangible assets and intangible assets are not depreciated once classified as held for sale. If a non-current asset or disposal group has been classified as held for sale, but subsequently ceases to meet the criteria to be classified as held for sale, the company ceases to classify the asset or disposal group as held for sale. Non-current assets and disposal groups that cease to be classified as held for sale are measured at the lower of the carrying amount before the asset or disposal group was classified as held for sale (adjusted for any depreciation, amortisation or revaluation that would have been recognized had the asset or disposal group not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount is recognized in profit or loss in the period in which the asset ceases to be classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

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

Tangible assets

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

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

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortised 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
Office equipment	10 years
Fixtures and fittings	10 years

The expected useful lives of tangible assets are reviewed on an annual basis and, if necessary, changes in useful lives 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)

Impairment of intangible and tangible assets

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, 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. 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 and are discounted to their present value 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.

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.

Stock

Stock, other than stock held for trading purposes, is 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

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

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

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

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

Financial assets (continued)

The subsequent measurement of financial assets depends on their classification, as set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the financial asset is transferred to a third party.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost. This category of financial assets includes trade and other receivables.

Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in the profit and loss account.

Significant judgement: recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at amortised cost

Financial liabilities are initially recognized at fair value, net of transaction costs. For interest-bearing loans and borrowings this is 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 amortised cost. This category of financial liabilities includes trade and other payables and finance debt, except finance debt designated in a fair value hedge relationship.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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. A provision is discounted using either a nominal discount rate of 2.5% (2016: 2%) or a real discount rate of 0.5% (2016: 0.5%), as appropriate. Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

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.

Decommissioning

Liabilities for decommissioning costs are recognized when the company has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognized on construction or installation. Similarly, where obligation exists for a well, this liability is recognized when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognized is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using the real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately 2 years.

Environmental 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 current prices and discounted using a real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately five years.

NOTES TO THE FINANCIAL STATEMENTS

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

Employee benefits

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

Share-based payments

Equity-settled transactions

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

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.

Re-measurements 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), less 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, typically by way of refund.

NOTES TO THE FINANCIAL STATEMENTS

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

Taxation

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Taxation (continued)

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

Customs duties and sales taxes

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

- Where the customs duty or sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognized as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

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

Turnover

Turnover arising from the sale of goods is recognized when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the turnover can be reliably measured.

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, customs duties and sales taxes.

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

Turnover arising from rendering of services is recognized by reference to the stage of completion of the transaction, when the turnover, costs and stage of completion can be reliably measured.

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.

Exceptional items

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

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover

An analysis of the company's turnover for the year ended 31 December 2017 is as follows:

	2017	2017	2017
	Continuing	Discontinued	Total
	€	€	€
Sales of goods	75,300,956	—	75,300,956
Rendering of services	531,575	—	531,575
	75,832,531	—	75,832,531
Interest receivable and similar income (Note 7)	268,583	—	268,583
	<u>76,101,114</u>	<u>—</u>	<u>76,101,114</u>

An analysis of the company's turnover for the year ended 31 December 2016 is as follows:

	2016	2016	2016
	Continuing	Discontinued	Total
	€	€	€
Sales of goods	58,898,587	981,367	59,879,954
Rendering of services	485,598	—	485,598
	59,384,185	981,367	60,365,552
Interest receivable and similar income (Note 7)	87,268	—	87,268
	<u>59,471,453</u>	<u>981,367</u>	<u>60,452,820</u>

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

	2017	2016
	€	€
By class of business:		
Downstream	75,832,531	60,365,552
Total	<u>75,832,531</u>	<u>60,365,552</u>

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

	2017	2016
	€	€
By geographical area:		
Rest of Europe	65,486,247	49,669,307
Rest of World	10,346,284	10,696,245
Total	<u>75,832,531</u>	<u>60,365,552</u>

4. Operating profit / (loss)

This is stated after charging / (crediting):

	2017	2016
	€	€
Operating lease payments:		
Plant & machinery	7,742	7,242
Land & buildings	347,716	235,278
Net foreign exchange losses / (gains)	3,339,112	(1,538,914)
Depreciation of tangible assets	<u>126,168</u>	<u>132,184</u>

NOTES TO THE FINANCIAL STATEMENTS

5. Auditor's remuneration

	2017	2016
	€	€
Fees for the audit of the company	50,466	50,229

Fees paid to the company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of BP 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. Exceptional items

Exceptional items comprise the profit / (loss) on disposal of fixed assets and the profit on sale or termination of operations as follows:

	2017	2016
	€	€
Profit / (loss) on disposal of fixed assets	2,000	(5,548)
Profit on sale or termination of operations (Note 11)	—	215,000
Exceptional items	2,000	209,452
Taxation charge	(250)	(26,182)
Exceptional items (net of tax)	1,750	183,270

The profit on disposal of tangible assets of €2,000 for the year ended 31 December 2017, relates to the sale of two micro loads of the fuels loading gantry to Hellenic Petroleum (Cyprus) Limited.

The loss on disposal of tangible assets of €5,548 for the year ended 31 December 2016, relates to the disposal of lubricants tangible assets with cost value of €156,050, accumulated depreciation of €147,502 and net book value of €8,548. These were disposed to one for the two national distributors for the amount of €3,000.

The profit on sale or termination of operations of €215,000 for the year ended 31 December 2016 arose due to the company's decision to exit from the Automotive & Industrial and Marine Lubricants businesses in Cyprus and the sale of the Automotive & Industrial Lubricants operations (Note 11).

7. Interest receivable and similar income

	2017	2016
	€	€
Bank interest receivable	18	21
Interest income from amounts owed by group undertakings	268,565	87,247
	268,583	87,268

8. Interest payable and similar charges

	2017	2016
	€	€
Interest expense on:		
Bank loans and overdrafts	65,083	58,954
Overdrafts from group undertakings	206,455	126,297
	271,538	185,251

NOTES TO THE FINANCIAL STATEMENTS

9. Other finance expenses

	2017	2016
	€	€
Net interest on pension and other post-retirement benefit plan liabilities	45,413	50,283

10. 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:

	2017	2016
	€	€
Current tax		
Overseas tax on income for the year	272,598	473,810
Overseas tax underprovided in prior years	7,279	—
Total current tax charged	279,877	473,810
Deferred tax		
Origination and reversal of temporary differences	4,048	10,370
Effect of increased tax rate on opening liability	—	37,903
Total deferred tax charged	4,048	48,273
Tax charged on profit	283,925	522,083

In 2017 the total tax charge recognised within other comprehensive income was €62,266 (2016: tax credit of €41,061).

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower than the standard rate of corporation tax in the UK of 19.25% for the year ended 31 December 2017 (2016: 20%). The differences are reconciled below:

	2017	2016
	UK	UK
	€	€
(Loss) / profit before tax	(541,117)	5,592,827
Tax charge	(283,925)	(522,083)
Effective tax rate	(52.47)%	9%
	2017	2016
	UK	UK
	%	%
UK corporation tax rate:	19.25	20
Overseas corporation tax rate:	-	-
Increase / (decrease) resulting from:		
Non-deductible expenditure	(4.68)	(1)
Double tax relief	51.72	(8)
Overseas tax	(51.72)	8
Free group relief	(67.21)	(9)
Deferred tax provided at lower rates	0.17	—
Adjustments to tax charge in respect of previous years	—	1
Movements in unrecognised deferred tax	—	(2)
Effective tax rate	(52.47)	9

NOTES TO THE FINANCIAL STATEMENTS

10. Taxation (continued)

(a) Reconciliation of the effective tax rate (continued)

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

Change in corporation tax rate

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

(b) Provision for deferred tax

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

<u>Deferred tax asset</u>	<u>Profit and loss account</u>		<u>Balance sheet</u>	
	2017	2016	2017	2016
	€	€	€	€
Decommissioning and other provisions	(15,370)	—	15,370	—
Capital allowances in excess of depreciation	(21,449)	(18,580)	124,316	102,867
Pension plan and other post-retirement benefit plan deficits	40,867	66,853	469,036	572,169
Net credit for deferred tax assets	<u>4,048</u>	<u>48,273</u>	<u>608,722</u>	<u>675,036</u>

Analysis of movements during the year:

	2017
	€
At 1 January 2017	675,036
Deferred tax credit in the profit and loss account	(4,048)
Deferred tax credit in other comprehensive income	(62,266)
At 31 December 2017	<u>608,722</u>

11. Discontinued operations

There were no discontinued operations for the year ended 31 December 2017. Discontinued operations for the year ended 31 December 2016 concerned the Cyprus Automotive & Industrial (A&I) Lubricants and Marine Lubricants businesses, which management decided to terminate on 31 December 2015.

(a) A&I Lubricants business

There were no amounts to be reported for the discontinued operations of A&I Lubricants business for the year ended 31 December 2017.

On 2 June 2016 the company entered into a sale agreement with BP Oil Hellenic A.E. to dispose of A&I Lubricants operations, the principal activity of which was wholesale of automotive and industrial lubricants via resellers and franchised workshops. The disposal was effected due to a change of its route to market strategy in Europe which is to do business via national distributors instead of having direct representative in the country. The new national distributors are Hellenic Petroleum (Cyprus) Limited and Chr. Kapodistrias & Sons Ltd. The disposal was completed on 29 February 2016, on which date control of A&I Lubricants operations passed to the acquirer, BP Oil Hellenic A.E.

NOTES TO THE FINANCIAL STATEMENTS

11. Discontinued operations (continued)

A gain of €215,000 arose on the disposal of A&L Lubricants operations for the year ended 31 December 2016, being the proceeds of disposal less the carrying amount of the operation's net assets acquired. The net assets of A&L Lubricants operations acquired at the date of disposal were €Nil.

	2017	2016
	€	€
Net assets	—	—
Profit on disposal	—	215,000
Total consideration	—	215,000
Satisfied by cash and cash equivalents	—	215,000

All the redundancy costs were recognised in 2015 and no further cost was required to be recognised in 2016 and 2017.

(b) Marine Lubricants business

Due to the termination of the A&I Lubricants operations, the Marine Lubricants business management decided to close its operations in Cyprus due to the loss of synergies with A&I Lubricants business in regards to supply and logistics. The business considered it uneconomical to continue serving such a low volume of business from Cyprus and transferred this international business operations to other locations.

All the sales activities for Marine Lubricants business were terminated on or before 31 December 2015. No Marine Lubricants employees were made redundant, therefore no redundancy costs had to be recognised for the Marine Lubricants business.

There were no amounts to be reported for the discontinued operations of Marine Lubricants business in Cyprus for the year ended 31 December 2017 and 2016.

(c) Both businesses

There were no separately identifiable assets or liabilities concerning the discontinued operations, which have not been absorbed by the continuing operations.

All the tangible assets and obsolete or slow moving stocks that were unusable had been fully impaired in 2015. No further impairment was required in 2016 and 2017.

All the debtors were considered recoverable as at 31 December 2017. An amount of €36,194 was written off as non-recoverable in 2016. Included in this amount written off in 2016 was an amount of trade loans to customers of €17,044. Additionally, no equipment loans to trade were provided for in 2016 and 2017.

The impact of the A&I Lubricants and Marine Lubricants businesses on the company's results in the current and prior period is shown on the face of the profit and loss account.

12. Directors and employees

(a) Remuneration of directors

The total remuneration for all serving directors for their period of directorship to the company for the year 2017 amounted to €144,280 (2016: €142,815), which are included in employee costs below. A number of directors are senior executives of the BP p.l.c. Group and receive no remuneration for services to this company.

NOTES TO THE FINANCIAL STATEMENTS

12. Directors and employees (continued)

(b) Employee costs

	2017	2016
	€	€
Wages and salaries	1,873,150	1,745,608
Social security costs	212,516	204,479
Other pension costs	229,120	194,567
Share-based payment charge (Note 19)	50,453	63,803
Other benefits and contributions	60,977	55,850
Special contribution	—	18,659
Redundancies	129,200	—
	<u>2,555,416</u>	<u>2,282,966</u>

(c) The average monthly number of employees during the year was 33 (2016: 32).

Included in other pension costs are €171,070 (2016: €138,761) in respect of defined benefit schemes and €58,050 (2016: €55,806) in respect of defined contribution schemes.

13. Tangible assets

	Buildings on leasehold land	Computer software & hardware	Plant & machinery	Total	Of which AUC*
Cost	€	€	€	€	€
At 1 January 2017	62,107	873,980	5,008,789	5,944,876	429,972
Additions	—	3,929	255,143	259,072	144,919
Transfers	—	—	—	—	(426,955)
At 31 December 2017	<u>62,107</u>	<u>877,909</u>	<u>5,263,932</u>	<u>6,203,948</u>	<u>147,936</u>
Depreciation					
At 1 January 2017	62,107	859,591	4,184,575	5,106,273	—
Charge for the year	—	9,048	117,120	126,168	—
At 31 December 2017	<u>62,107</u>	<u>868,639</u>	<u>4,301,695</u>	<u>5,232,441</u>	<u>—</u>
Net book value					
At 31 December 2017	<u>—</u>	<u>9,270</u>	<u>962,237</u>	<u>971,507</u>	<u>147,936</u>
At 31 December 2016	<u>—</u>	<u>14,389</u>	<u>824,214</u>	<u>838,603</u>	<u>429,972</u>

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

14. Stocks

	2017	2016
	€	€
Refined petroleum and petrochemical products	<u>6,050,156</u>	<u>3,001,874</u>

NOTES TO THE FINANCIAL STATEMENTS

15. Debtors

Amounts falling due within one year:

	2017	2016
	€	€
Trade debtors	4,271,743	3,327,735
Amounts owed from fellow subsidiaries	16,816,777	17,414,416
Other debtors	—	16,445
Prepayments and accrued income	161,399	127,407
Taxation	84,681	52,057
VAT recoverable	519,477	344,599
	<u>21,854,077</u>	<u>21,282,659</u>

Amounts falling due after one year:

	2017	2016
	€	€
Prepayments and accrued income	150,913	150,913
	<u>150,913</u>	<u>150,913</u>
Total debtors	<u>22,004,990</u>	<u>21,433,572</u>

16. Creditors

Amounts falling due within one year:

	2017	2016
	€	€
Trade creditors	585,917	292,404
Amounts owed to fellow subsidiaries	7,139,023	3,627,566
Other creditors	817,319	837,368
Accruals and deferred income	471,058	512,268
	<u>9,013,317</u>	<u>5,269,606</u>

17. Obligations under leases

Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS

17. Obligations under leases (continued)

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

	2017		2016	
	Land & buildings	Other	Land & buildings	Other
	€	€	€	€
Operating leases which expire:				
Within 1 year	718,121	2,106	217,506	2,316
In 1 to 5 years	3,186,379	4,035	—	3,945
	<u>3,904,500</u>	<u>6,141</u>	<u>217,506</u>	<u>6,261</u>

18. Other provisions

	Decommissioning	Environmental	Total
	€	€	€
At 1 January 2017	—	—	—
New or increased provisions:			
Charged to profit and loss account	50,410	40,000	90,410
At 31 December 2017	<u>50,410</u>	<u>40,000</u>	<u>90,410</u>

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 was under demolition and all the terminal assets will be decommissioned. An environmental provision of €40,000 was made for 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 2018 when the demolition and decommissioning of the terminal assets is completed and an Environmental Impact Assessment study is conducted by an independent surveyor.

In addition, a provision of €50,410 was made for the estimated decommissioning cost that is expected to be incurred for the initial phase of the decommissioning project. The exact decommissioning cost for the entire decommissioning work cannot be reliably estimated at this early stage. As such, provision was made based on the quotations received from third party contractors that will execute most of the work for the initial phase of the decommissioning project.

19. Share-based payments

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

	2017	2016
	€	€
Total expense recognised for equity-settled share-based payment transactions	50,453	63,803
Total expense / (credit) recognised for cash-settled share-based payment transactions	—	—
Total expense recognised for share-based payment transactions	<u>50,453</u>	<u>63,803</u>
Closing balance of liability for cash-settled share-based payment transactions	—	—
Total intrinsic value for vested cash-settled share-based payments	—	—

NOTES TO THE FINANCIAL STATEMENTS

19. Share-based payments (continued)

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 Plans

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.

Share option transactions

Share option transactions for the year were as follows:

	2017	2017	2016	2016
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Share options transactions in the year				
Outstanding at 1 January	—	—	3,500	€7.13
Granted during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired/lapsed/cancelled during the year	—	—	(3,500)	€7.13
Transferred in during the year	—	—	—	—
Transferred out during the year	—	—	—	—
Outstanding at 31 December	—	—	—	—
Exercisable at 31 December	—	—	—	—

Fair values and associated details for restricted share units granted

	2017	2016
Share Value Plan (SVP)		
Number of share units granted	8,345	6,135
Weighted average fair value	€5.04	€4.86
Fair value measurement basis	Market value	Market value

20. Called up share capital

	2017	2016
	€	€
Issued and fully paid:		
5,220,002 ordinary shares of £1 each for a total nominal value of £5,220,002	6,377,798	6,377,798

NOTES TO THE FINANCIAL STATEMENTS

21. 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.

22. 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. The directors of the company believe that no outflow of resources embodying economic benefits are expected in respect of this claim and accordingly no provision for any liability has been made in these financial statements.

(b) Parnas case

In 2012 the company received a claim by Parnas Ltd for the amount of €1,725,940 (NIS 8,521,068) plus court expenses and legal fees due to breach of agreement by the company regarding distribution rights of Parnas Ltd for the sale of company's products in Israel. The company rejects the allegations of Parnas Ltd since the company did not sign an exclusivity agreement with Parnas Ltd.

On 28 December 2017, the court issued its decision, which overall was favourable for BP. The court accepted BP's claims regarding Parnas' debt towards it, and ordered that Parnas is obliged to pay BP the amount of €110,812 (NIS 468,613), plus linkage differentials and interest, as per the law, from the date of submission of the claim until the date of actual payment.

The court also rejected almost all of Parnas' claims, except one claim regarding the last two orders that was not delivered to it, and ordered that BP is obliged to pay Parnas the amount of €59,945 (NIS 253,505), plus linkage differentials and interest, as per the law, from the date of submission of the claim until the date of actual payment.

The two parties had the right to appeal until 7 February 2018, but none of them had done so. On 9 March 2018, Parnas paid the net amount of €53,798.78 (NIS 227,512), including linkage differentials and interest, to BP and the case was closed.

(ii) Guarantees

The company is contingently liable in respect of guarantees and indemnities provided to third parties of €1,513,403 (2016: €916,637) entered into as part of the ordinary course of the company's business.

NOTES TO THE FINANCIAL STATEMENTS

22. Guarantees and other financial commitments (continued)

(iii) Other contingent liabilities

(a) Relocation to Vassiliko Industrial Area

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 has issued a new decree extending the previous deadline for the fuel's terminals to 1 March 2018.

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. The company is currently examining its options, which is either an own or joint investment for building and operating its own or joint terminal at Vassiliko area within the land that has been provided by the Government on a long-term lease or a storage and throughput agreement with a third party terminal.

During 2018, there have been 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 MoU with actions to be done by the 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.

The final decision of the company for the relocation of its terminal from Larnaca to Vassiliko will be taken once all options are examined and evaluated. It is expected that the relocation decision will be taken towards the end of 2018.

The demolition and decommissioning of all the 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 company and HPC, based on the assets that each party owns at the terminal. An option under consideration is the demolition of company's unused assets (Marine Fuels Blending plant and pipeline to port) as an action that will help the company in negotiating with the Government for the relocation to Vassiliko. At this early stage, it is not possible to accurately and reliably estimate this cost, as it will greatly depend on the final relocation decision, time plan and the option chosen.

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 the 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. At this early 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. It is expected that it may be more reliably estimated towards the end of 2019, when the relevant study will be completed.

NOTES TO THE FINANCIAL STATEMENTS

22. Guarantees and other financial commitments (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 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 CJEU 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 from 2 January 2011 to 31 August 2016 for the industry is estimated around €12million. Accordingly, legal and other steps are being considered and/or have been 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. The cases are still pending and after a few postponements they have been set for instructions towards the end of 2018.

(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.

NOTES TO THE FINANCIAL STATEMENTS

23. 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.

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.

The charge to the profit and loss account during the year for the defined contribution plan amounted to €58,050 (2016: €55,806).

“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.

(ii) Actuarial valuation assumptions

The company has commissioned an actuary valuation of its plan liabilities as at 31 December 2017. 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 2017 are used to determine the pension liabilities at that date and the pension cost for 2018.

	2017	2016
	% p.a.	% p.a.
Price inflation	1.6	1.6
Total salary increases	4.0	3.5
Discount rate	1.7	1.4
Expected return on assets	1.7	1.4
Pension increases	0.8	0.8
SIS Pension increases	0.8	0.8
Increase in insurable earning	2.6	2.6
Average future working life	12.5	13.3

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, from 2017 onwards a 50% of the assumed inflation rate of 1.60% was assumed for the purpose of 2016 and 2017 valuations, that is a pension increase of 0.80%.

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

(ii) Actuarial valuation assumptions (continued)

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;
- 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 covering 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.

As from 1 January 2018, the company's intention is to comply to what has been agreed between the Government and the social partners in the transitional agreement and continue to provide the discretionary practice pension increases. For 2017, this was estimated at 0.28%.

(iii) Dissolution of the plans and transfer to BP Cross Border plan

On 30 October 2015, the Administration Committees of all the retirement plans unanimously resolved to transfer all of the plan's assets and liabilities, less an amount equivalent to an estimate of the expenses of dissolving the plans (if any) and less any fees, taxes or levies payable associated with the said transfer (if any), to the Cross Border Plan with the name «BP Pensioenfondsfonds OFP» with registration number 50.521 that is domiciled in Belgium. The transfer was effected on 4 January 2016 (the "Transfer Date"). The Administration Committees made all necessary arrangements for the admission / registration and participation of the members in the Belgian Plan. The Administration Committees acted as the liquidators of the plans and the plans were under liquidation until all assets and liabilities of the plans as well as the Administration Committees' functions were transferred to the BP Pensioenfondsfonds OFP.

Following receipt of the Fund's Administration Committee decision, on 26 November 2015 the company, BP Eastern Mediterranean Limited, being the Founding Company of the retirement plans, also gave its consent to transfer all of the assets and liabilities of the plans together with the functions of the Administration Committee to the BP Pensioenfondsfonds OFP as at 4 January 2016 or as soon as reasonably practicable thereafter. The company agreed to continue to make the same contributions to the BP Pensioenfondsfonds OFP under this cross-border activity with the said plan as it made to the four separate retirement plans prior to their transfer to the BP Pensioenfondsfonds OFP.

It should be noted that, all the plan investments held with Blackrock were transferred on 4 January 2016, whereas all cash at bank balances were transferred by 31 March 2016 and accounts were closed. Only the two property plots owned by the Non Contributory Pension Fund were not transferred up to 31 March 2016, due to several administrative difficulties facing with the Department of Land and Surveys as well as Tax Department requirements. On 5 November 2016, the plan managed to receive an exemption from any Capital Gains Taxes and Transfer fees on the basis of reorganisation, under the Companies Law provisions.

On 22 November 2016, Ipsonas property plot was sold for the price of €865,000 and was transferred to the buyer on 14 December 2016, whereas on 15 May 2017, the Strovolos property plot was transferred to the OFP at the estimated market value of €800,000. As at 31 May 2017, both the Provident Fund and Non Contributory Pension Fund of BP Eastern Mediterranean Limited were dissolved.

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

(iii) Dissolution of the plans and transfer to BP Cross Border plan (continued)

During the year 2016, the company has obtained a tax ruling allowing funding contributions of €1,508,148 for 2015 as a tax deductible expense over the next 5 years and this has been accounted for within the 2016 tax computation. In addition, according to the tax ruling, all future funding contributions have been allowed as tax deductible expenses.

During 2017, the company paid an additional funding contribution to the defined benefit plan of €271,087 (2016: €242,419), being additional deficit funding contributions of €185,863 (2016: €242,419) and death and disability reinsurance costs contributions of €85,224 (2016: €Nil). 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 2017 funding valuation used 31/12/2016 data and for 2016 funding valuation used 31/12/2015 data) and applying FSMA required assumptions. This was calculated based on LTP/STP (Long-Term Provision/Short Term Provisions) methodology using a discount rate of 1.21% (2016: 1.90%), as required by FSMA. The difference between LTP/STP methodology to the PBO (Projected Benefit Obligation) methodology used for IFRS purposes is that LTP/STP allows for Nil future salary increases.

(iv) Actuarial valuation results

The valuation showed that the value of the company's plan liabilities as at 31 December 2017 was €9,086,765 (2016: €9,521,271). The deficit in the company's plan as at 31 December 2017, recognised in the balance sheet, as measured in accordance with requirements of FRS101, is estimated at €470,820 (2016: €941,617), as follows:

	2017	2016
	€	€
<i>Amounts recognised in the balance sheet</i>		
Total market value of assets	8,615,945	8,579,654
Present value of plan liabilities	(9,086,765)	(9,521,271)
Gross liability recognised in the balance sheet	(470,820)	(941,617)
Related deferred tax asset	58,852	117,702
Liability net of deferred tax asset	(411,968)	(823,915)

The various categories of plan assets are:

	2017	2016
	€	€
Property	800,000	800,000
Equities	3,222,363	3,102,403
Bonds	4,507,422	4,475,148
Bank accounts	86,160	202,103
	8,615,945	8,579,654

According to the 2017 actuarial valuation the total funding contribution rate for the future years is estimated at 16.90% of pensionable pay (2016: 12.40%), assuming that discretionary pension increases of 0.8% (2016: 0.8%) will be payable.

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

(iv) Actuarial valuation results (continued)

	2017	2016
	€	€
<i>Amounts recognised in the profit and loss account</i>		
Current service cost	185,908	171,044
Net interest charge	12,177	6,085
Total profit and loss charge	198,085	177,129
<i>Amounts recognised in statement of comprehensive income (CI)</i>		
Return on plan assets below the amount included in the income statement	218,566	134,468
Actuarial loss arising from experience adjustments	(8,915)	(68,038)
Actuarial gain/(loss) arising from changes in assumptions	17,074	(42,548)
Actuarial gain recognised in the statement of CI	226,725	23,882
<i>Movement in the fair value of plan assets during the year</i>		
Fair value of plan assets at 1 January	8,579,654	8,696,294
Expected return on plan assets	115,929	193,208
Regular contributions by employer	171,070	138,761
Deficit contributions by employer	185,863	242,419
Death and disability reinsurance costs contributions by employer	85,224	—
Benefit payments	(740,361)	(825,496)
Actuarial gain on plan assets	218,566	134,468
Fair value of plan assets at 31 December	8,615,945	8,579,654
<i>Movement in defined benefit plan liabilities during the year</i>		
Benefit obligation at 1 January	(9,521,271)	(9,865,844)
Current service cost	(185,908)	(171,044)
Net interest charge	(128,106)	(199,293)
Benefit payments	740,361	825,496
Actuarial gain/(loss) on benefit obligation	8,159	(110,586)
Defined benefit obligation at 31 December	(9,086,765)	(9,521,271)
<i>Movement in gross liability in the balance sheet</i>		
Gross liability at 1 January	(941,617)	(1,169,550)
Actual contributions paid by employer	442,157	381,180
Total expense recognised in the income statement	(198,085)	(177,129)
Gross liability in the balance sheet before adjustment	(697,545)	(965,499)
Amount recognised in the statement of CI	226,725	23,882
Gross liability at 31 December	(470,820)	(941,617)

NOTES TO THE FINANCIAL STATEMENTS

24. Pensions (continued)

(v) 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% €	Inflation rate + 0.5% €
<i>Amounts recognised in the profit and loss for 2018</i>			
Current service cost	189,339	173,690	210,610
Net interest charge	6,492	(540)	10,764
Total profit and loss charge	195,831	173,150	221,374
<i>Impact %</i>	—	-11.6%	+13.0%
<i>Amounts recognised in the balance sheet</i>			
Present value of plan liabilities	9,086,765	8,680,343	9,338,505
<i>Impact %</i>	—	-4.5%	+2.8%

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 2017.

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 2017 are used to determine the medical fund liabilities at that date and the medical fund cost for 2018.

	2017 % p.a.	2016 % p.a.
Discount rate	1.7	1.4
Medical inflation rate	3.1	3.1
Medical incidence claim increase	1.5	1.5
Price inflation	1.6	1.6

(ii) Actuarial valuation results

The valuation showed that the value of the company's plan liabilities as at 31 December 2017 was €2,288,221 (2016: €2,424,088). The deficit in the company's plan as at 31 December 2017, recognised in the balance sheet, as measured in accordance with requirements of FRS 101, is estimated at €2,288,221 (2016: €2,424,088), as follows:

NOTES TO THE FINANCIAL STATEMENTS

25. Other post-retirement benefits (continued)

(ii) Actuarial valuation results (continued)

	2017	2016
	€	€
<i>Amounts recognised in the balance sheet</i>		
Present value of plan liabilities	(2,288,221)	(2,424,088)
Gross liability recognised in the balance sheet	(2,288,221)	(2,424,088)
Related deferred tax asset	286,028	303,011
Liability net of deferred tax asset	(2,002,193)	(2,121,077)
<i>Amounts recognised in the profit and loss</i>		
Current service cost	51,355	43,030
Net interest cost	33,236	44,198
Total operating charge	84,591	87,228
<i>Amounts recognised in statement of comprehensive income (CI)</i>		
Experience gains arising on the scheme liabilities	130,853	37,392
Changes in assumptions underlying the present value of scheme liabilities	8,692	(302,812)
Actuarial gain/(loss) recognised in the CI	139,545	(265,420)
<i>Movement in defined benefit plan liabilities during the year</i>		
Benefit obligation at 1 January	(2,424,088)	(2,152,454)
Current service cost	(51,355)	(43,030)
Benefit payments	80,913	81,014
Net interest charge	(33,236)	(44,198)
Actuarial gain/(loss) on obligation	139,545	(265,420)
Defined benefit plan liability at 31 December	(2,288,221)	(2,424,088)
<i>Movement in gross liability in the balance sheet</i>		
Gross liability at 1 January	(2,424,088)	(2,152,454)
Actual contributions paid by employer	80,913	81,014
Total expense recognised in the income statement	(84,591)	(87,228)
Gross liability in the balance sheet before adjustment	(2,427,766)	(2,158,668)
Amount recognised in the statement of CI	139,545	(265,420)
Gross liability at 31 December	(2,288,221)	(2,424,088)

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% *
	€	€	€
<i>Amounts recognised in the profit and loss for 2018</i>			
Current service cost	48,511	41,968	56,305
Net interest charge	38,010	45,512	41,117
Total profit and loss charge	86,521	87,480	97,422
<i>Impact %</i>	—	+1.1%	+12.6%
<i>Amounts recognised in the balance sheet</i>			
Present value of plan liabilities	2,288,221	2,121,082	2,471,015
<i>Impact %</i>	—	-7.3%	+8.0%

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

26. Comparative figures

Certain prior year figures have been reclassified to conform to the 2017 presentation. This had no impact on the profit and loss for the year or net assets.

27. 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.