

BP AMOCO EXPLORATION (FAROEES) LIMITED

(Registered No.00856444)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Board of Directors: A D Flores

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

STRATEGIC REPORT**Results**

The profit for the year after taxation was \$12,149,000 which, when added to the retained profit brought forward at 1 January 2018 of \$29,860,000, gives a total retained profit carried forward at 31 December 2018 of \$42,009,000.

Principal activity and review of the business

The company is engaged in the exploration for, and the production of oil and gas in the United Kingdom from its interest in the Foinaven field.

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

	2018	2017	Variance
	\$000	\$000	%
Turnover	22,628	15,984	42
Operating profit	9,848	2,242	339
Profit for the year	12,149	1,982	513
Total equity	102,201	90,052	13

	2018	2017	Variance
	%	%	
Quick ratio	915	1,182	77%

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Turnover has increased primarily as a result of higher average oil price and higher production. Oil and gas production increased to 311 mboe during 2018 from 310 mboe in 2017. The average realised price for oil was \$73.27/bbl in 2018, while in 2017 it was \$55.47/bbl.

During 2018, the company made an operating profit of \$9,848,000 compared to an operating profit of \$2,242,000 in 2017. This was mainly driven by the increase in turnover (2018: \$22,628,000 and 2017: \$15,984,000) and the company received the proceeds from the settlement of insurance claim amounting to \$854,000 regarding the dropped riser in 2016.

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

Principal risks and uncertainties

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

STRATEGIC REPORT

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

Strategic and commercial risks

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.

Access, renewal and reserves progression

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

The impact of the UK's exit from the EU

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

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 the transition to a lower carbon economy

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

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.

Drilling and production

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

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, affect the company's provisions and limit its access to new exploration opportunities.

Ethical misconduct and non-compliance

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

Reporting

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

Financial risk management

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

Authorized for issue by Order of the Board

DocuSigned by:

C Thomas

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For and on behalf of

Sunbury Secretaries Limited

Company Secretary

September 26, 2019

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

DIRECTORS' REPORT**BP AMOCO EXPLORATION (FAROE) LIMITED****Directors**

The present directors are listed on page 1.

A D Flores was appointed as a director during the financial year. Changes since 1 January 2018 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
A D Flores	9 April 2018	—
D J Lynch	—	31 December 2018
M J Thomas	—	15 March 2018

Directors' indemnity

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

Dividends

The company has not declared any dividends during the year (2017: \$3,000,000). The directors do not propose the payment of a dividend.

Financial instruments

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

Future developments

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

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

Research and development

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

DIRECTORS' REPORT

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

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

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

Authorized for issue by Order of the Board

DocuSigned by:

C Thomas

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For and on behalf of
Sunbury Secretaries Limited
Company Secretary

September 26, 2019

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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

BP AMOCO EXPLORATION (FAROES) 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 AMOCO EXPLORATION (FAROES) LIMITED

Opinion

In our opinion the financial statements of BP Amoco Exploration (Faroes) Limited (the company):

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

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the

INDEPENDENT AUDITOR'S REPORT

directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

DocuSigned by:

Graham Hollis

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September 26, 2019

Graham Hollis ACA
for and on behalf of
Aberdeen, United Kingdom

Deloitte LLP

(Senior Statutory Auditor)
Statutory Auditor

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31 DECEMBER 2018****BP AMOCO EXPLORATION (FAROES) LIMITED**

		2018	2017
	Note	\$000	\$000
Turnover	3	22,628	15,984
Cost of sales		(13,464)	(13,644)
Gross profit		9,164	2,340
Distribution and marketing expenses		(17)	(17)
Administrative expenses		(153)	(81)
Other operating income		854	—
Operating profit	4	9,848	2,242
Interest receivable and similar income	6	2,118	1,087
Interest payable and similar expenses	7	(259)	(180)
Profit before taxation		11,707	3,149
Tax on profit	8	442	(1,167)
Profit for the year		12,149	1,982

The profit of \$12,149,000 for the year ended 31 December 2018 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2018****BP AMOCO EXPLORATION (FAROES) LIMITED**

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

BALANCE SHEET**AT 31 DECEMBER 2018****BP AMOCO EXPLORATION (FAROE) LIMITED****(Registered No.00856444)**

	Note	2018 \$000	2017 \$000
Fixed assets			
Tangible assets,	11	32,323	33,234
		<u>32,323</u>	<u>33,234</u>
Current assets			
Stocks	12	915	700
Debtors - amounts falling due: within one year	13	118,144	100,132
Deferred tax assets	8	1,128	—
		<u>120,187</u>	<u>100,832</u>
Creditors: amounts falling due within one year	14	<u>(12,844)</u>	<u>(8,469)</u>
Net current assets		<u>107,343</u>	<u>92,363</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>139,666</u>	<u>125,597</u>
Provisions for liabilities and charges			
Deferred tax liability	8	—	(314)
Other provisions	16	(37,465)	(35,231)
NET ASSETS		<u>102,201</u>	<u>90,052</u>
Capital and reserves			
Called up share capital	17	60,192	60,192
Profit and loss account	18	42,009	29,860
TOTAL EQUITY		<u>102,201</u>	<u>90,052</u>

Authorized for issue on behalf of the Board

DocuSigned by:

Anil Flores

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A D Flores

Director

September 26, 2019

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 31 DECEMBER 2018****BP AMOCO EXPLORATION (FAROE) LIMITED**

	Called up share capital (Note 17) \$000	Profit and loss account (Note 18) \$000	Total \$000
Balance at 1 January 2017	60,192	30,878	91,070
Profit for the year, representing total comprehensive income	—	1,982	1,982
Dividends paid	—	(3,000)	(3,000)
Balance at 31 December 2017	60,192	29,860	90,052
Profit for the year, representing total comprehensive income	—	12,149	12,149
Balance at 31 December 2018	<u>60,192</u>	<u>42,009</u>	<u>102,201</u>

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2018****BP AMOCO EXPLORATION (FAROE) 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 Amoco Exploration (Faroes) Limited for the year ended 31 December 2018 were approved by the board of directors on ~~26 September 2019~~ and the balance sheet was signed on the board's behalf by A D Flores. BP Amoco Exploration (Faroes) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00856444). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

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

Basis of preparation

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

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

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

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

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

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

Critical accounting policies: use of judgements, estimates and assumptions

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

Significant judgement: oil and natural gas accounting

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

It is not unusual to have exploration wells and exploratory-type stratigraphic test wells remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed.

In accordance with section 844(3) of the Companies Act 2006 development costs that have been capitalized are not treated as realized losses in determination of distributable reserves as these costs are capitalized in accordance with applicable accounting standards.

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 expected sales proceeds or similar recent market transaction data or, where recent market transactions 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, estimates 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.

Details of the carrying amounts of assets are shown in Note 10 and Note 11.

The estimates for assumptions made in impairment tests in 2018 relating to discount rates, oil and gas properties and oil and gas prices are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

Discount rates

For discounted cash flow calculations, future cash flows are adjusted for risks specific to the cash-generating unit. Value-in-use calculations are typically discounted using a pre-tax discount rate based upon the cost of funding the BP group derived from an established model, adjusted to a pre-tax basis. Fair value less costs of disposal calculations use the post-tax discount rate.

The discount rates applied in impairment tests are reassessed each year. In 2018 the post-tax discount rate used was 6% (2017 6%) and the pre-tax discount rate was 9% (2017 9%). Where the asset is located in a country which is judged to be higher risk an additional 2% premium was added to the discount rate (2017 2%). The judgement of classifying a country as higher risk takes into account various economic and geopolitical factors.

Oil and natural gas properties

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

Reserves assumptions for value-in-use tests reflect the reserves and resources that management currently intend to develop. See also Significant estimate: estimation of oil and natural gas reserves.

When estimating the fair value of Upstream assets, assumptions reflect all reserves and resources that management believe a market participant would consider when valuing the asset, which in some cases are broader in scope than the reserves used in a value-in-use test.

The recoverable amount of oil and gas properties is determined using a combination of inputs including reserves and production volumes. Risk factors may be applied to reserves and resources which do not meet the criteria to be treated as proved. The interdependency of these inputs, risk factors and the wide diversity of our oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to one or more of the underlying assumptions.

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

Oil and gas prices

The long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests from 2024 onwards are derived from \$75 per barrel for Brent and \$4/mmBtu for Henry Hub, both in 2015 prices, inflated for the remaining life of the asset (2017 \$75 per barrel and \$4/mmBtu, both in 2015 prices, from 2023 onwards). The price assumptions used for the five-year period to 2023 have been set such that there is a gradual transition from current market prices to the long-term price assumptions as noted above, with the rate of increase reducing in the later years.

Oil prices rebounded in 2018 in the face of cooperative production restraint from OPEC and some non-OPEC producers, but weakened late in the year as production restraint eased and US supply recorded record growth. BP's long-term assumption for oil prices is higher than recent market prices, reflecting the judgement that recent prices are not consistent with the market being able to produce sufficient oil to meet global demand sustainably in the longer term, especially given the financial requirements of key low-cost oil producing economies.

US gas prices remained relatively low for much of 2018, before increasing temporarily in the final quarter due to a combination of low storage and cold weather. Strong growth of low-cost supply helped to moderate prices through much of the year. BP's long-term price assumption for US gas is higher than recent market prices as US gas demand is expected to grow strongly, both domestic demand as well as exports of liquefied natural gas, absorbing the lowest cost resources from the sweet spots, and forcing producers to go to more expensive/drier gas, as well as requiring increased investment in infrastructure.

NOTES TO THE FINANCIAL STATEMENTS

Oil and natural gas reserves

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

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

The interdependency of these inputs, risk factors and the wide diversity of BP's oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to one or more of the underlying assumptions. The recoverable amount of oil and gas properties is primarily sensitive to changes in the long-term oil and gas price assumptions. Management do not expect a change in these long-term price assumptions within the next financial year that would result in a material impairment charge. However, sensitivity analysis may be performed if a specific oil and gas property is identified to have low headroom above its carrying amount.

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 11.

Significant judgements and estimates: provisions

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

If oil and natural gas production facilities and pipelines are sold to third parties, judgement is required to assess whether the new owner will be unable to meet their decommissioning obligations, whether the company would then be responsible for decommissioning, and if so the extent of that responsibility.

The 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.

Change in significant estimate - decommissioning provision

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually, together with the rate used in discounting the cash flows. The discount rate used to determine the balance sheet obligations at the end of 2018 was a nominal rate of 3.0% (2017: 2.5%), which was based on long-dated government bonds.

NOTES TO THE FINANCIAL STATEMENTS

Significant judgement: deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. Details of deferred tax balances are provided in Note 8.

Significant accounting policies

Going concern

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

Foreign currency

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

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

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 venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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.

Intangible assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Oil and natural gas exploration, appraisal and development expenditure

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

Licence and property acquisition costs

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

Exploration and appraisal expenditure

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

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to tangible assets.

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

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation

NOTES TO THE FINANCIAL STATEMENTS

wells, is capitalized within tangible assets and is depreciated from the commencement of production as described below in the accounting policy for tangible assets.

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.

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

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

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

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

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

Impairment of 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 that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Leases

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

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

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

Financial assets

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

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

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

Financial assets measured at amortized cost

Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortised cost using the effective interest method if the time value of

NOTES TO THE FINANCIAL STATEMENTS

money is significant. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Financial assets measured at fair value through profit or loss

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

Impairment of financial assets measured at amortized cost

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

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at fair value through profit or loss

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

Financial liabilities measured at amortized cost

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

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest receivable and similar income and interest payable and similar charges. 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

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.

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

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

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 future prices, depending on the expected timing of the activity, and discounted using the nominal discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately 10 years.

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

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

NOTES TO THE FINANCIAL STATEMENTS

periods as well as items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

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

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

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

Customs duties and sales taxes

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil and natural gas usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

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

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

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

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

Interest income

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

Research costs

Research costs are expensed as incurred.

Finance costs

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

Impact of new International Financial Reporting Standards

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

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

NOTES TO THE FINANCIAL STATEMENTS

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and replaced IAS 18 'Revenue' and certain other standards and interpretations. IFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations. The company adopted IFRS 15 from 1 January 2018 and applied the 'modified retrospective' transition approach to implementation.

The company's revised accounting policy in relation to revenue is provided above. A disaggregation of revenue is provided in note 3.

The company identified certain minor changes in accounting relating to its revenue from contracts with customers but the new standard had no material effect on the company's net assets as at 1 January 2018 and so no transition adjustment is presented.

The most significant change identified is the accounting for revenues relating to oil and natural gas properties in which the company has an interest with joint operation partners. From 1 January 2018, the company ceased using the entitlement method of accounting under which revenue was recognized in relation to the company's entitlement to the production from oil and gas properties based on its working interest, irrespective of whether the production was taken and sold to customers. In its 2018 financial statements the company has recognized revenue when sales are made to customers; production costs have been accrued or deferred to reflect differences between volumes taken and sold to customers and the company's ownership interest in total production volumes. Compared to the company's previous accounting policy this may result in timing differences in respect of revenues and profits recognized in each period, but there will be no change in the total revenues and profits over the duration of the joint operation. The impact on the financial statements for the year ended 31 December 2018 was not material.

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

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

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

	2018	2017
	\$000	\$000
Revenue from contracts with customers	22,628	—
Sales of goods	—	16,697
Overlift	—	(713)
	22,628	15,984
Other operating income	854	—
Interest receivable and similar income (Note 6)	2,118	1,087
	<u>25,600</u>	<u>17,071</u>

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

Turnover is attributable to one continuing activity, the production and sale of hydrocarbon products. Turnover is recognised at the performance obligation of delivery to the end buyer, being the point risk and reward has transferred in accordance with the sales contract.

4. Operating profit

This is stated after charging / (crediting):

	2018	2017
	\$000	\$000
Operating lease payments:		
Plant & machinery	2,704	4,366
Net foreign exchange (gains) / losses	(24)	108
Research and development costs expensed	64	140
Depreciation of tangible assets (Note 11)	<u>4,917</u>	<u>4,261</u>

5. Auditor's remuneration

	2018	2017
	\$000	\$000
Fees for the audit of the company	<u>5</u>	<u>6</u>

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

The fees were borne by another group company.

6. Interest receivable and similar income

	2018	2017
	\$000	\$000
Interest income from amounts owed by group undertakings	<u>2,118</u>	<u>1,087</u>

NOTES TO THE FINANCIAL STATEMENTS**7. Interest payable and similar expenses**

	2018	2017
	\$000	\$000
Unwinding of discount on provisions (Note 16)	259	180

8. Taxation

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

The taxation charge / (credit) in the profit and loss account is made up as follows:

	2018	2017
	\$000	\$000
<u>Current tax</u>		
UK tax underprovided in prior years	1,000	1,470
Total current tax charged	1,000	1,470
<u>Deferred tax</u>		
Origination and reversal of temporary differences	(1,421)	(1,472)
Adjustments in prior year temporary differences	(21)	1,169
Total deferred tax credited	(1,442)	(303)
Tax (credited) / charged on profit	(442)	1,167

(a) Reconciliation of the effective tax rate

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

	2018	2017
	\$000	\$000
Profit before taxation	11,707	3,149
Tax (credit) / charge	(442)	1,167
Effective tax rate	(4)%	37%
	2018	2017
	%	%
UK statutory corporation tax rate:	19.00	19.25
Increase / (decrease) resulting from:		
Non-deductible expenditure	—	1
Free group relief	(25)	(42)
UK Supplementary tax on North Sea profits	(3)	(12)
Ring Fence Tax rate differences	(3)	(13)
Adjustments to tax charge in respect of previous years	8	84
Effective tax rate	(4)	37

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

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

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
	2018	2017	2018	2017
<u>Deferred tax asset</u>	\$000	\$000	\$000	\$000
Decommissioning and other provisions	(1,079)	200	14,986	13,907
Tax losses carried forward	(26)	—	32	7
Net credit for deferred tax assets	<u>(1,105)</u>	<u>200</u>	<u>15,018</u>	<u>13,914</u>
	Profit and loss account		Balance sheet	
	2018	2017	2018	2017
<u>Deferred tax liability</u>	\$000	\$000	\$000	\$000
Accelerated capital allowances	(337)	(1,503)	(12,890)	(13,228)
Other taxable temporary differences	—	1,000	(1,000)	(1,000)
Net provision for deferred tax liabilities	<u>(337)</u>	<u>(503)</u>	<u>(13,890)</u>	<u>(14,228)</u>
Net deferred tax (credit) and net deferred tax asset / (liability)	<u>(1,442)</u>	<u>(303)</u>	<u>1,128</u>	<u>(314)</u>

Analysis of movements during the year:

	2018
At 1 January 2018	\$000
Deferred tax credited in the profit and loss account	(314)
At 31 December 2018	<u>1,442</u>
	<u>1,128</u>

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

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

D J Lynch, who served as a director during the year, was also a director of BP Exploration Operating Company Limited in whose accounts information required by the Companies Act 2006 as regards to emoluments is given.

(b) Employee costs

The company had no employees during the year (2017: None).

NOTES TO THE FINANCIAL STATEMENTS**10. Intangible assets**

	Exploration expenditure
Cost	\$000
At 1 January 2018	1,471
At 31 December 2018	<u>1,471</u>
Amortisation	
At 1 January 2018	(1,471)
At 31 December 2018	<u>(1,471)</u>
Net book value	
At 31 December 2018	<u>—</u>
At 31 December 2017	<u>—</u>

11. Tangible assets

	Oil & gas properties
Cost	\$000
At 1 January 2018	215,430
Additions	1,567
Changes in decommissioning provision	2,439
At 31 December 2018	<u>219,436</u>
Depreciation	
At 1 January 2018	(182,196)
Charge for the year	(4,917)
At 31 December 2018	<u>(187,113)</u>
Net book value	
At 31 December 2018	<u>32,323</u>
At 31 December 2017	<u>33,234</u>

Capitalised interest included above are as follows:

	Net book value
Capitalised interest	\$000
At 31 December 2018	37
At 31 December 2017	<u>43</u>

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

	2018	2017
	\$000	\$000
Raw materials and consumables	96	95
Crude oil	819	605
	<u>915</u>	<u>700</u>

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

13. Debtors

Amounts falling due within one year:

	2018	2017
	\$000	\$000
Trade debtors	327	62
Amounts owed from parent undertakings	117,815	100,070
Other debtors	2	—
Total debtors	<u>118,144</u>	<u>100,132</u>

14. Creditors

Amounts falling due within one year:

	2018	2017
	\$000	\$000
Trade creditors	—	992
Amounts owed to parent undertakings	2,632	2,181
Amounts owed to fellow subsidiaries	6,442	2,435
Other creditors	217	308
Taxation	3,553	2,553
Total creditors	<u>12,844</u>	<u>8,469</u>

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

Operating lease payments represent rentals payable by the company for certain of its plant and machinery. Leases are negotiated for an average term of two years and rentals are reviewed annually with an option to extend for a further two years at the then prevailing market rate.

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

	2018	2017
	Plant & machinery	Plant & machinery
	\$000	\$000
Operating leases which expire:		
Within 1 year	1,247	3,064
In 1 to 5 years	4,212	11,685
After 5 years	2,192	9,395
	<u>7,651</u>	<u>24,144</u>

Lower future minimum lease payments are due to the decrease in rates in 2018.

In the case of an operating lease entered into by the company as the operator of a joint operation; the amounts included in the totals disclosed represent the net operating lease expense and net future minimum lease payments. These net amounts are after deducting amounts reimbursed, or to be reimbursed, by joint operators, whether the joint operators have co-signed the lease or not.

Where the company is not the operator of a joint operation, the company's share of the lease expense and future minimum lease payments is included in the amounts shown, whether the company has co-signed the lease or not.

NOTES TO THE FINANCIAL STATEMENTS**16. Other provisions**

	Decom- missioning	Other	Total
	\$000	\$000	\$000
At 1 January 2018	34,767	464	35,231
Exchange adjustments	—	(10)	(10)
New or increased provisions:			
Charged to profit and loss account	—	(454)	(454)
Recognized within tangible assets	2,439	—	2,439
Unwinding of discount	259	—	259
At 31 December 2018	<u>37,465</u>	<u>—</u>	<u>37,465</u>
At 31 December 2018			
Current	67	—	67
Non-current	<u>37,398</u>	<u>—</u>	<u>37,398</u>
	<u>37,465</u>	<u>—</u>	<u>37,465</u>
At 31 December 2017			
Current	—	464	464
Non-current	<u>34,767</u>	<u>—</u>	<u>34,767</u>
	<u>34,767</u>	<u>464</u>	<u>35,231</u>

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

Decommissioning provision cost estimates are reviewed regularly and a review was undertaken in the second quarter of 2019. The timing and amount of estimated future expenditures were re-assessed and discounted to determine the present value. The impact of the review was an increase in the provision of \$7.7 million, with a similar increase in the carrying amount of tangible assets. The decommissioning provision as at 31 December 2018 has been updated to reflect the impact of the latest review performed.

The other provision of \$464,000 in 2017 relates to subsea power restoring project which was settled in 2018 as new Processing and Operating Services Agreement was signed in December 2018.

17. Called up share capital

	2018	2017
	\$000	\$000
Issued and fully paid:		
37,346,259 Ordinary shares of £1 each for a total nominal value of £37,346,259	<u>60,192</u>	<u>60,192</u>

NOTES TO THE FINANCIAL STATEMENTS

18. 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.

In 2018, the company did not pay any ordinary dividends (2017: \$3,000,000). The dividend per share was \$0.00 (2017 dividend per share: \$0.08).

19. 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.

20. Off-balance sheet arrangements

The company enters into operating lease arrangements for the rental of buildings and plant and equipment as these arrangements are a cost efficient way of obtaining the short-term benefits of these assets. The operating lease charges for the year are disclosed in Note 4 and the whole obligation under these arrangements is disclosed in Note 15. There are no other material off-balance sheet arrangements.

21. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Operating Company 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.