BP EXPLORATION (EPSILON) LIMITED
(Registered No.01004984)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

Board of Directors: Y M S Al Ojaili
I C Emembolu
T A Khan

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

STRATEGIC REPORT

Results

The profit for the year after taxation was $447,056,000 which, when added to the accumulated profit brought forward at 1 January 2020 of $881,082,000 and after deducting total paid interim and final dividends to ordinary shareholders of $450,000,000, gives a total accumulated profit carried forward at 31 December 2020 of $878,138,000.

Principal activity and review of the business

The company is engaged in the exploration and production of oil and gas in the United Kingdom from its 5% interest in the Foinaven field. The company also operates a branch office in the Sultanate of Oman under a production sharing agreement signed in 2007 for the exploration, appraisal and development within Oman's Block 61 concession area. BP is continuing with development activity on the BP operated Khazzan field in Block 61 (BP interest is 40%). In April 2018 BP announced that, together with its partner the Oman Oil Company Exploration & Production (OOCEP), it had approved the development of Ghazeer, the second phase of the Khazzan gas field in Oman. The Ghazeer project is expected to increase gas production by 50% from 1 billion to 1.5 billion cubic feet a day and will involve construction of a third gas processing train to handle this. The project is currently on track to deliver first gas as planned in 2021.

In January 2019 BP announced that together with Eni, they had signed a heads of agreement (HoA) with the Ministry of Oil and Gas of the Sultanate of Oman to work jointly towards a significant new exploration opportunity in Oman for the exploration and production rights of Block 77.

On 31 July 2019, BP and Eni signed an exploration and production sharing agreement for Block 77 (BP 50%) in central Oman with the Ministry of Oil and Gas of the Sultanate of Oman. A Royal Decree was issued on 25 March 2020, which approved exploration activities in Block 77, including seismic data processing, geological and geophysical studies ($1 million BP net) and the drilling of one exploration well ($10 million BP net) within the next three years.

In 1Q 2021, BP Oman divested 20% of its participating interest in Oman's Block 61 to PTT Exploration and Production Public Company Limited (PTTEP) of Thailand. Divestment transaction was completed in 2021, SPA sign off was highly probable at 31st December 2020, therefore 2020 accounts were amended to report the participating interest to be divested as an asset held for sale. Following completion of the sale, bp will remain operator of the block, holding a 40% interest.

STRATEGIC REPORT

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

	2020	2019	Variance
	$000	$000	%
Turnover	1,127,031	1,303,058	(14)
Operating profit	591,454	738,749	(20)
Profit for the year	447,056	656,400	(32)
Total equity	4,103,180	4,106,560	—

	2020	2019	Variance
	%	%	
Quick ratio*	318	262	56
Return on average capital employed**	11	17	(6)
Gross profit percentage***	55	57	(2)

*Quick ratio is defined as current assets (excluding stocks, debtors falling due after one year, deferred tax assets and assets classified as held for sale) divided by current liabilities.

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

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

During 2020, the company made an operating profit of $591,454,000 compared to an operating profit of $738,749,000 in 2019. This was mainly driven by the decrease in turnover (2020: $1,127,031,000 and 2019: $1,303,058,000). Turnover has decreased primarily due to decreased production on Khazzan field (2020: 42,429 mboe and 2019: 44,671 mboe). During 2020 the average realised price for gas was $3.085/MMBtu (2019: $3.045/MMBtul) and the average realised price for oil was $41.82/bbl (2019: $71.89/bbl).

During the year, the tax charge has increased by $52,605,000 due to an increase in the deferred tax charge of $77,602,000 and a decrease in the current tax charge of $24,997,000.

The increase in the deferred tax charge of $77,602,000 mainly arose due to a slower year-on-year reduction of the taxable temporary differences relating to accelerated capital allowances.

The increase in quick ratio was mainly due to a decrease of $68,207,000 on capex accruals of Oman branch leading to a year-on-year decrease in current liabilities.

STRATEGIC REPORT

Section 172 (1) statement

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

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

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

In light of the role of the board, and their primary tasks and considerations throughout the year (as described above), the directors have discharged their duties under section 172(1) in a way that they considered, in good faith, is most likely to promote the success of the company for the benefit of its members as a whole, having regard to the likely consequences of any decision in the long term and the broader interests of other stakeholders, as required by the Act. In doing so, the directors have considered, amongst other matters:

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

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

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

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

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

During the year, the directors considered, approved and paid a dividend as appropriate to the shareholder(s), having considered the impact of such a decision on the long-term prospects of the business. This consideration included a review of the latest management accounts for the company and the distributable reserves available. The directors considered the level of funds that would be available to the company after paying a dividend, and the need to maintain sufficient funds to meet the ongoing liabilities of the company, as part of the bp group's funding and liquidity arrangements.

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

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

The following employees engagements were noted during the year:

- There have been huge efforts on site to keep the Oman site Covid-19 free. Testing, segregation, quarantining facilities and having a minimum critical-only workforce working onsite has been implemented to minimise spread;
- It can be considered as a social contribution that 80% of bp's oman employees are nationals;
- The Modern Slavery risk which is an actual risk for the Oman region generally is deeply embedded in bp's ethics & compliance practices and policies. bp SEAC have undertaken site visits to review human rights and bp sponsor awareness programmes and work with the Ministry of Oman to build awareness in this area which lead to an improvement in the country.

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

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

In addition, the board reviewed and considered the company's Modern Slavery Statement and disclosed its practices in respect of the same on an annual basis.

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

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

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

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

- The best methane detection technology is used to monitor methane emissions and methane intensity which helps to protect the environment;
- The Modern Slavery risk which is an actual risk for the Oman region generally is deeply embedded in bp's ethics & compliance practices and policies. bp SEAC have undertaken site visits to review human rights and bp sponsor awareness programmes and work with the Ministry of Oman to build awareness in this area which lead to an improvement in the country;
- It can be considered as a social contribution that 80% of bp's oman employees are nationals.

Maintaining a reputation for high standards of business conduct

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

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

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

- With respect to the effects of Covid-19 and the oil price, the government had decreased on the volumes it had purchased from the Company by 2.5%, however this was offset by condensate and operational efficiencies. The Board further noted that in order to mitigate the risk of the government setting the gas price, the Company had engaged with the Oman Government to negotiate whether to delay the Ghazeer project or if the government obtained short-term financial relief for Block 61.

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

The company's principal decisions

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

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

With respect to the effects of Covid-19 and the oil price, the government had decreased on the volumes it had purchased from the Company by 2.5%, however this was offset by condensate and operational efficiencies. The Board further noted that in order to mitigate the risk of the government setting the gas price, the Company had engaged with the Oman Government to negotiate whether to delay the Ghazeer project or if the government obtained short-term financial relief for Block 61.

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

a. The likely long-term consequences of the decision.
b. The interests of the company's employees.
c. The need to foster the company's business relationships with suppliers, customers and others.
d. The impact of the company's operations on the community and the environment.

Principal risks and uncertainties

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

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2020.

Strategic and commercial risks

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

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

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

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

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

Liquidity, financial capacity and financial, including credit, exposure
Failure to work within the financial framework set by the bp group could impact the company's ability to operate and result in financial loss.

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

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

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

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

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

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

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

Safety and operational risks

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

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

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

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

Compliance and control risks

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

Regulation
Changes in the law and regulation could increase costs, constrain the company's operations and affect its business plans and financial performance.

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

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

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

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk. Further details on these financial risks are included within Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2020.

Authorized for issue on behalf of the Board

Y M S Al Ojaili
Director

Registered Office:

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TW16 7BP
United Kingdom

DIRECTORS' REPORT

BP EXPLORATION (EPSILON) LIMITED

Directors

The present directors are listed on page 1.

Y M S Al Ojaili served as a director throughout the financial year. Changes since 1 January 2020 are as follows:

	Appointed	Resigned
T A Khan	1 May 2021	—
A J Forsyth	—	5 January 2021
A G Frederiksen	—	31 March 2021

Directors' indemnity

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

Dividends

During the year the company has declared and paid dividends of $450,000,000 (2019 $0). The directors do not propose the payment of a final dividend.

Financial instruments

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

Post balance sheet events

On 16 April 2021 bp announced it suspended production from the Foinaven fields west of Shetland as it began preparations to remove the Petrojarl Foinaven floating production, storage and offloading (FPSO) vessel from operation. The FPSO, which has been in the Foinaven area since 1996, was approaching the end of its 25-year design life. Work had been under way to consider options to extend the life of the vessel, but due to its age and demanding environment, it was determined that the FPSO was not the right option to recover the fields' remaining resources. bp is now assessing other options to recover the remaining reserves of up to 200 million barrels of oil at the Foinaven fields in a more efficient and sustainable way. bp plans to take the FPSO unit off station and hand it back to vessel owner Teekay Corporation in 2022. Consequently, a fixed asset impairment of $105 million was recognized in the group accounts for the Foinaven fields CGU in the first half year of 2021 out of which $7.3 million is allocated for BP Exploration (Epsilon) Limited. Since these circumstances only arose subsequent to 31 December 2020, this impairment will be reflected in the financial statements of BP Exploration (Epsilon) Limited for the year ending 31 December 2021.

In February 2021 bp Oman divested 20% of its participating interest in Oman's Block 61 to PTT Exploration and Production Public Company Limited (PTTEP) of Thailand. Following completion of the sale bp remained operator of the block, holding a 40% interest.

Going concern

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

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

As noted in the Strategic Report, the company holds an interest in the producing Foinaven field in the United Kingdom and also operates the Khazzan field in the Sultanate of Oman, as a result the company's cash-flows are impacted by changes in the oil and gas price. During the going concern assessment period there are significant ongoing development activities for Ghazeer, the second phase of Khazzan gas field in Oman and exploration activities in Block 77. The company holds a minor cash directly in the Oman branch and funding requirements are met through the central Treasury organisation, as a result the company is reliant on the overall group funding to continue in operation and meet its liabilities as they fall due in the going concern period. The total debit balance of the internal finance accounts (IFA) in the company is $739,867,000 funded by BP International Limited. The company has only intercompany trading within the bp group and also has net assets of $4,103,180,000 and net current assets of $1,912,674,000.

Liquidity and financing are managed within bp under pooled group-wide arrangements which include the company. As part of assuring the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has been taken into consideration. The bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity extending at least twelve months from the date of approval of these financial statements has been assessed at a group level under a number of scenarios and a reverse stress test performed to support the group's going concern assertion. In addition, group management of bp have confirmed that the existing intra-group funding and liquidity arrangements as currently constituted are expected to continue for the foreseeable future, being no less than twelve months from the approval of these financial statements.

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

Having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Future developments

The directors aim to maintain the management policies which have resulted in the company's stability 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 is absorbed by the fields and locations and therefore the legal entities which are expected to benefit from those developments are in the future.

Stakeholder statements

Engagement with other stakeholders

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

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

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

On behalf of the company, the BP group conducts supplier site visits to monitor how work is being carried out and check it meets expectations and to share knowledge. Site visits are intended to be mutually beneficial in terms of improvement and learning opportunities.

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

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

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

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

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

Streamlined Energy & Carbon Reporting (SECR)

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

Corporate Governance Statement

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

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

(i) the System of Internal Control being the holistic set of management systems, organisational structures, processes, standards and behaviours that are employed to conduct the group's business; and comprehensive policy regarding the Corporate Governance of Subsidiaries (the "Policy"); and
(ii) a comprehensive Global Subsidiary Corporate Governance Policy regarding the Corporate Governance of Subsidiaries (the "Policy"); and
(iii) the bp Code of Conduct based on bp's values, setting clear expectations for how we work at bp and which applies to all bp employees, including directors appointed to the company.

System of Internal Control

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

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

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

The Policy

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

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

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

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

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

The Policy requires directors to:

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

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

Application of the system of governance

The Directors have applied this system of governance by:

(a) Promoting the purpose of the company to reimagine energy for people and our planet, with an ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero.
(b) Regularly reviewing the board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual directors have sufficient capacity to make valuable contributions. The board retains a minimum of three directors where appropriate, and where appropriate promotes independent and objective challenge through the appointment of a minimum of one director who is not directly or indirectly responsible for the management function of the company. In certain cases where appropriate, the board nominates a designated Chair to provide leadership of the board during board meetings.
(c) Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making, directors consider the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the group's purpose, aims and ambitions, when acting in their capacity as a director of the company.

(d) In accordance with the Policy, the board is supported by Systems of Internal Control to identify opportunities to create and preserve value and to manage its principal risks and uncertainties as set out in the strategic report.

(e) Having regard to and fostering good stakeholder relationships. Please refer to the statement of engagement with key stakeholders in the directors' report for further information.

Auditors

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

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

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

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of the auditor's report of which the company's auditor is unaware; and

- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

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

Authorized for issue on behalf of the Board

Y M S Al Ojaili
Director

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

BP EXPLORATION (EPSILON) LIMITED

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that they have complied with these requirements. Details of the directors' assessment of going concern are provided in the directors' report.

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Development expenditure

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

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

Significant judgement: exploration and appraisal intangible assets

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

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

The carrying amount of capitalized costs and further information on the write-offs are included in Note 13.

Tangible assets

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

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

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

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

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

Fixtures and fittings	5 to 15 years

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

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

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

Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company’s business plans, plans to dispose rather than retain assets, changes in commodity prices, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the company makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group’s recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, revenues, costs and capital expenditure. Carbon taxes and costs of emissions allowances are also included in estimates of future cash flows, based on the regulatory environment in each jurisdiction in which the group operates. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, natural gas prices, refining margins, refined product margins and cost inflation rates are set by senior management. These assumptions take account of existing prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

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

Significant judgements and estimates: recoverability of asset carrying values

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

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

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

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

Discount rates

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

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

Oil and natural gas properties

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

In 2020, the company identified oil and gas properties with carrying amounts totalling $5.1 million (2019 $35.5 million) where the headroom, as at the dates of the last impairment test performed on those assets, was less than or equal to 20% of the carrying value. A change in the discount rate, reserves, resources or the oil and gas price assumptions in the next financial year may result in a recoverable amount of one or more of these assets above or below the current carrying amount and therefore there is a significant risk of impairment reversals or charges in that period.

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

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 14.

Oil and natural gas prices

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

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

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

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

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

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

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

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

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

Oil and natural gas reserves

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

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

Sensitivity analyses

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

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

Revenue reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of the company's Upstream oil and gas properties in the range of $4-5 million, which is approximately 0.17-0.22% of the net book value of tangible assets as at 31 December 2020.

Revenue increases of this magnitude in isolation could indicatively lead to an increase in the carrying amount of the company's Upstream oil and gas properties in the range of $4-5 million, which is approximately 0.17-0.22% of the net book value of tangible assets as at 31 December 2020. This potential increase in the carrying amount would arise due to reversals of previously recognized impairments.

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

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of Upstream oil and gas properties. If the discount rate was one percentage point higher across the tests performed, the impairment charge recognized in 2020 would have been approximately $0.2 million higher. If the discount rate was one percentage point lower, the impairment charge recognized would have been approximately $0.3 million lower.

Stocks

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

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

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

Leases

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

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

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

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

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

Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis.

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

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

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

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

Financial assets

Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the rights to receive cash flows have been transferred to a third party along with either substantially all of the risks and rewards or control of the asset. This includes the derecognition of receivables for which discounting arrangements are entered into.

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

Financial assets measured at amortized cost
Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

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

Cash equivalents
Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortized cost or, in the case of certain money market funds, fair value through profit or loss.

Impairment of financial assets measured at amortized cost

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

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

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at 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. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. This category of financial liabilities includes trade and other payables and finance debt.

Fair value measurement

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

Offsetting of financial assets and liabilities

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

Provisions and contingent liabilities

Provisions are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 2.5% (2019 2.5%).

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

Decommissioning

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

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

Restructuring provisions

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

Significant judgements and estimates: provisions

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

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

Further information about the company’s provisions is provided in Note 20. 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. A 0.5 percentage point change in the nominal discount rate could have an impact of approximately $4.3 million (2019 $4.8 million) on the value of the company's provisions.

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

If all expected future decommissioning expenditures were 10% higher, the company's Upstream decommissioning provisions would increase by approximately $5.6 million and a pre-tax charge of approximately $0.3 million would be recognized.

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

Employee benefits

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

Taxation

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

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

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

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

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

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

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

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

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

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

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

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

Customs duties and sales taxes

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

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

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

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. All revenue from these contracts, both that recognized at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

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.

Dividends payable

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

Exceptional items

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

Updates to significant accounting policies

Impact of new International Financial Reporting Standards

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

3. Turnover

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

	2020	2019
	$000	$000
Revenue from contracts with customers	1,127,384	1,303,373
Other operating revenue	(353)	(315)
	1,127,031	1,303,058
Other operating income	9,235	10,882
Interest receivable and similar income (Note 7)	3,558	13,864
	1,139,824	1,327,804

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

	2020	2019
	$000	$000
By geographical area:		
UK	9,941	18,639
Oman	1,129,883	1,309,165
Total	1,139,824	1,327,804

For details of turnover change in comparison to previous year please refer to strategic report.

4. Operating profit

This is stated after charging:

	2020	2019
	$000	$000
Net foreign exchange gains	(169)	(360)
Research and development costs expensed	48,084	28,518
Amortisation of intangible assets[a]	607	461
Depreciation of tangible assets[b]	314,060	384,627
Depreciation of right-of-use assets[b]	18,974	19,912
Impairment of tangible assets[b]	13,742	—
Impairment of stock recognised as an expense	2,038	3,339
Impairment of right-of-use assets[b]	3,040	—

[a] Please refer Note 13 for further details.
[b] Please refer Note 14 for further details.

5. Auditor's remuneration

	2020	2019
	$000	$000
Fees for the audit of the company	42	57

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

Exceptional items comprise the profit / (loss) on disposal of fixed assets and the fundamental reorganisation and restructuring costs as follows:

	2020	2019
	$000	$000
Profit / (loss) on disposal of fixed assets	62	(33)
Fundamental reorganization / restructuring costs[a]	(5,380)	—
Exceptional items	(5,318)	(33)
Taxation credit	—	—
Exceptional items (net of tax)	(5,318)	(33)

[a] Please see Note 2 for further details related to restructuring costs.

There is no tax effect on this disposal and fundamental reorganisation and restructuring.

7. Interest receivable and similar income

	2020	2019
	$000	$000
Interest income from amounts owed by group undertakings	3,557	13,864
Other interest income	1	—
Total interest receivable and similar income	3,558	13,864

Decrease of $10.3 million was due to interest received on the company's Internal Finance Account (IFA). It has decreased due to lower average interest rates (2020: 0.4%, 2019: 2.1%) during 2020.

8. Interest payable and similar expenses

	2020	2019
	$000	$000
Interest expense on:		
Lease liabilities	1,117	2,103
Total interest expense	1,117	2,103
Unwinding of discount on provisions (Note 20)	1,717	1,593
Total interest payable and similar expenses	2,834	3,696

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

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

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

	2020	2019
	$000	$000
Exploration and evaluation costs		
Other exploration costs	418	—
Exploration expense for the year	418	—
Intangible assets – exploration and appraisal expenditure	877	53,501
Liabilities	708	406
Net assets	169	53,095
Cash used in operating activities	418	—
Cash used in investing activities	—	3,003

10. Taxation

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

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

	2020	2019
Current tax	$000	$000
UK corporation tax on (loss) / income for the year	(1,834)	—
UK tax underprovided / (overprovided) in prior years	1,983	(889)
Overseas tax on income for the year	152,506	178,541
Total current tax charged	152,655	177,652
Deferred tax	$000	$000
Origination and reversal of temporary differences	(8,021)	5,748
Adjustments in prior year temporary differences	488	(90,883)
Total deferred tax credited	(7,533)	(85,135)
Tax charged on profit	145,122	92,517

(a) Reconciliation of the effective tax rate

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

	2020	2019
	$000	$000
Profit before taxation	592,178	748,917
Taxation	145,122	92,517
Effective tax rate	25 %	12 %

	2020	2019
	%	%
UK statutory corporation tax rate:	19	19
(Decrease) / increase resulting from:		
Non-deductible expenditure	1	—
Overseas tax	26	24
Double tax relief	(26)	(24)
Free group relief	(5)	(5)
Adjustments to tax charge in respect of previous years	—	(13)
Movements in unrecognised deferred tax	10	11
Effective tax rate	25	12

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

Change in corporation tax rate

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. Deferred tax assets at 31 December 2020 have been calculated at 19% (2019: 17%).

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

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly, the impact on deferred tax has not been calculated as there is no deferred tax asset recognised outside of the ring fence (the unrecognised deferred tax asset relates to tax attributes that are not expected to have a future tax benefit).

(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	
Deferred tax asset	2020	2019	2020	2019
	$000	$000	$000	$000
Decommissioning and other provisions	2,693	4,590	13,541	16,233
Tax losses carried forward	226	6,328	—	226
Other deductible temporary differences	262	2,511	—	263
Net charge for deferred tax assets	3,181	13,429	13,541	16,722

Deferred tax liability	Profit and loss account 2020	2019	Balance sheet 2020	2019
	$000	$000	$000	$000
Accelerated capital allowances	(10,714)	(97,564)	(1,658)	(12,372)
Other taxable temporary differences	—	(1,000)	—	—
Net credit for deferred tax liabilities	(10,714)	(98,564)	(1,658)	(12,372)
Net deferred tax credit and net deferred tax asset	(7,533)	(85,135)	11,883	4,350

Deferred tax has not been recognised on deductible temporary differences outside the UK ring fence relating to decommissioning provisions of $34,148,000 (2019: $25,708,000), fixed assets of $713,613,000 (2019: $408,241,000) and other deductible differences of $27,940,000 (2019: $20,171,000), on the basis that they are UK tax attributes that are not expected to give rise to any future tax benefit. These temporary differences have no expiry date.

Analysis of movements during the year

	2020
	$000
At 1 January 2020	4,350
Deferred tax credit in the profit and loss account	7,533
At 31 December 2020	11,883

11. Discontinued operations

(a) Assets held for sale

On 31 December 2020 the board resolved to dispose 20% of the company's operations in Block 61 in Oman and negotiations with several interested parties have subsequently taken place. These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment loss has been recognized on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2020
	$000
Tangible assets	1,098,921
Total assets classified as held for sale	1,098,921
Net assets of disposal group	1,098,921

(b) Disposal of operation

There were no disposals of operations made in 2020.

12. 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 (2019: $Nil).

(b) Employee costs

	2020	2019
	$000	$000
Wages and salaries	39,567	27,905
Social security costs	4,718	4,056
Share-based payment charge	1,537	1,205
	45,822	33,166

Total wages and salaries costs represent costs paid to local employees of the entity in the UK and Oman.

(c) The average monthly number of employees during the year was 505 (2019: 478).

	2020	2019
	No.	No.
UK	7	13
Non-UK	498	465
	505	478

13. Intangible assets

	Exploration expenditure	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2020	53,501	5,659	59,160
Transfers	(52,624)	96	(52,528)
At 31 December 2020	877	5,755	6,632
Amortisation			
At 1 January 2020	—	(4,165)	(4,165)
Charge for the year	—	(607)	(607)
At 31 December 2020	—	(4,772)	(4,772)
Net book value			
At 31 December 2020	877	983	1,860
At 31 December 2019	53,501	1,494	54,995

The $52.6m transfer from intangible to tangible assets relates to a reclassification of South Amin exploration & appraisal wells into development wells

14. Tangible assets

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Total	Of which AUC[a]
Cost - owned tangible assets	$000	$000	$000	$000	$000	$000
At 1 January 2020	—	11,164	4,400,849	5,436	4,417,449	1,318,429
Additions		(27)	335,114	—	335,087	335,087
Changes in decommissioning provision (Note 20)	—	—	(4,932)	—	(4,932)	—
Discontinued operations (Note 11)	—	—	(1,425,478)	—	(1,425,478)	—
Transfers	—	—	52,492	36	52,528	(1,171,168)
At 31 December 2020	—	11,137	3,358,045	5,472	3,374,654	482,348
Depreciation - owned tangible assets						
At 1 January 2020	—	(9,896)	(1,083,922)	(3,620)	(1,097,438)	—
Charge for the year	—	(1,222)	(311,602)	(1,236)	(314,060)	—
Impairment	—	—	(13,742)	—	(13,742)	—
Discontinued operations (Note 11)	—	—	326,557	—	326,557	—
At 31 December 2020	—	(11,118)	(1,082,709)	(4,856)	(1,098,683)	—
Owned tangible assets - net book value						
At 31 December 2020	—	19	2,275,336	616	2,275,971	482,348
Right-of-use assets - net book value						
At 31 December 2020	2,650	—	14,005	—	16,655	—
Total tangible assets - net book value						
At 31 December 2020	2,650	19	2,289,341	616	2,292,626	482,348
At 31 December 2019	3,486	1,268	3,352,360	1,816	3,358,930	1,318,429
Depreciation charge for the year on right-of-use assets						
2020	(836)	—	(18,138)	—	(18,974)	—
2019	(836)	—	(19,076)	—	(19,912)	—

[a] AUC = assets under construction. Assets under construction are not depreciated. Transfer of $1,171 million includes $1,099 million assets classified as held for sale and the remaining amount is primarily related to the ongoing work on Block 61 P&O and Ghazeer facilities.

The decrease in tangible assets was mainly due to the 20% divestment of the company's participating interest in Oman’s Block 61 combined with addition of $365 million that is primarily due to the ongoing work on Block 61 P&O and Ghazeer facilities.

Capitalized interest included above is as follows:

	Net book value
Capitalized interest	$000
At 31 December 2020	2,967
At 31 December 2019	3,359

During the year the company has recognized impairment charges of $16.8m ($13.8m connected to owned assets and $3m connected to right-of-use assets) relating to producing oil & gas assets. This arose as a result of changes to the group's oil and gas price assumptions and from management's re-assessment of expectations to extract value from certain properties as a result of a review of the group's long-term strategic plan.

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

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

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

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

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

As a result of this review, the company has recognized total impairment charges of $16.8 million (2019 $nil). Impairments were calculated on a value in use basis, applying a discount rate of 10%. The residual value of the CGU's which have recognized impairment charges during the year was $73 million.

15. Stocks

	2020	2019
	$000	$000
Raw materials and consumables	48,820	44,464
Crude oil	2,264	2,426
	51,084	46,890

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

The stock valuation at 31 December 2020 is stated net of a provision of $2,037,838 (2019: $3,338,558).

16. Debtors

Amounts falling due within one year:

	2020	2019
	$000	$000
Trade debtors	252,328	143,825
Amounts owed from parent undertakings	739,879	906,248
Amounts owed from fellow subsidiaries	191	38,840
Other debtors	58,870	100,186
Prepayments	902	762
	1,052,170	1,189,861

Amounts falling due after one year:

	2020	2019
	$000	$000
Other debtors	8,804	6,722
Joint venture lease receivable	40	—
	8,844	6,722
Total debtors	1,061,014	1,196,583

The amounts owed from parent undertakings comprise an Internal Financing Account (IFA) of $739.9m (2019 $906.2m). Interest is accrued on a monthly basis based on LIBOR. The interest rate at year end was 0.004% (2019 1.65%). Whilst IFA balances are legally repayable on demand, in practice they have no termination date.

17. Creditors

Amounts falling due within one year:

	2020	2019
	$000	$000
Trade creditors	19,576	28,748
Amounts owed to parent undertakings	11,835	14,547
Amounts owed to fellow subsidiaries	58,178	52,082
Other creditors	112,419	148,842
Taxation	44,436	47,342
Accruals	77,577	145,784
	324,021	437,345

Amounts falling due after one year:

	2020	2019
	$000	$000
Other creditors	22,564	16,832
Accruals	4,003	4,644
	26,567	21,476
Total creditors	350,588	458,821

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

Decrease of $36 million in other creditors within 1 year is mainly due to bp having less liabilities to 3rd party contractors compared to 2019.

Balance of accruals has decreased by $68 million mainly due lower balance for capex after the gas production from Ghazeer field has started.

18. Lease liabilities

Loans repayable and obligations under leases, included within lease liabilities, are analysed as follows:

Within 5 years

	2020	2019
	$000	$000
Not wholly repayable	19,366	46,999
	19,366	46,999

The amount of Lease liabilities of $19,366,000 consists of balance due within one year $9,950,000 and balance due after one year $9,416,000.

19. Leases

The company leases a number of assets as part of its activities. This primarily includes FPSO (floating, production, storage, offtake), drilling rigs and transportation services. The weighted average remaining lease term for the total lease portfolio is around 5 years. Some leases will have payments that vary with market interest or inflation rates.

	2020	2019
	$000	$000
Expense for variable payments not included in the lease liability	—	708
Additions to right-of-use assets in the period	(208)	—
Total cash outflow for amounts included in lease liabilities[a]	27,922	24,920

[a] The cash outflows for amounts not included in lease liabilities approximate the income statement expense disclosed above.

An analysis of right-of-use assets and depreciation is provided in Note 14. An analysis of lease interest expense is provided in Note 8.

20. Other provisions

	Decom-missioning	Other	Total
	$000	$000	$000
At 1 January 2020	66,172	117	66,289
New or increased provisions:			
Charged to profit and loss account	—	3,501	3,501
Recognized within tangible assets (Note 14)[a]	(3,483)	—	(3,483)
Unwinding of discount	1,651	66	1,717
Utilization	(27)	—	(27)
At 31 December 2020	64,313	3,684	67,997
At 31 December 2020			
Current	708	3,684	4,392
Non-current	63,605	—	63,605
	64,313	3,684	67,997
At 31 December 2019			
Current	406	117	523
Non-current	65,766	—	65,766
	66,172	117	66,289

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

[a] The total balance contains the $4,932,000 decrease in decommissioning movement connected to owned assets and the $1,449,000 increase in decommissioning movement relating to right-of-use assets.

There is no legal regulation for decommissioning in Oman therefore BP Standard Decommissioning Cost Estimation Guide is used for annual decommissioning revision.

21. Called up share capital

	2020	2019
	$000	$000
Issued and fully paid:		
2,088,997,458 ordinary shares of £1 each for a total nominal value of £2,088,997,458	3,225,000	3,225,000

22. 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.

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

Profit and loss account
The balance held on this reserve is the accumulated profit of the company.

In 2020, the company paid interim ordinary dividends of $450,000,000 (2019 $0). The dividend per share was $0.22 (2019 $0.00).

23. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2020 is estimated at $35,543,000 (2019: $105,521,000).

24. 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.

25. Post balance sheet events

On 16 April 2021 bp announced it suspended production from the Foinaven fields west of Shetland as it began preparations to remove the Petrojarl Foinaven floating production, storage and offloading (FPSO) vessel from operation. The FPSO, which has been in the Foinaven area since 1996, was approaching the end of its 25-year design life. Work had been under way to consider options to extend the life of the vessel, but due to its age and demanding environment, it was determined that the FPSO was not the right option to recover the fields' remaining resources. bp is now assessing other options to recover the remaining reserves of up to 200 million barrels of oil at the Foinaven fields in a more efficient and sustainable way. bp plans to take the FPSO unit off station and hand it back to vessel owner Teekay Corporation in 2022. Consequently, a fixed asset impairment of $105 million was recognized in the group accounts for the Foinaven fields CGU in the first half year of 2021 out of which $7.3 million is allocated for BP Exploration (Epsilon) Limited. Since these circumstances only arose subsequent to 31 December 2020, this impairment will be reflected in the financial statements of BP Exploration (Epsilon) Limited for the year ending 31 December 2021.

In February 2021 bp Oman divested 20% of its participating interest in Oman's Block 61 to PTT Exploration and Production Public Company Limited (PTTEP) of Thailand. Following completion of the sale bp remained operator of the block, holding a 40% interest.

26. 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.