

BP EXPLORATION OPERATING COMPANY LIMITED

(Registered No.00305943)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

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

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

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Results

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

Principal activities and review of the business

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

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

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

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

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

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

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

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

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

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

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

The gas revenue increased by \$38 million in 2020 despite lower volume and prices in the year, as in 2019 the gas revenue included a one of settlement of \$63 million for Scottish Power regarding Andrew field. The average realized price decreased to \$3.0/mmscf in 2020 from \$3.9/mmscf in 2019. Production decreased to 65.06 mmscf/d in 2020 from 68.02 mmscf/d in 2019.

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

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

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

partially offset by

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

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

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

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

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

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

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

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

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

Section 172 (1) statement

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

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

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

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

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

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

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

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

Stakeholders

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

Shareholders

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

Employees

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

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

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

Customers and suppliers

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

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

Community and environment

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

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

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

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

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

Maintaining a reputation for high standards of business conduct

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

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

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

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

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

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

The company's principal decisions

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

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

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

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

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

Principal risks and uncertainties

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

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

Strategic and commercial risks

Prices and markets

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

Access, renewal and reserves progression

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

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Major project delivery

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

Geopolitical

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

The impact of the UK's exit from the EU

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

Liquidity, financial capacity and financial, including credit, exposure

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

The impact of coronavirus (COVID-19)

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

Joint arrangements and contractors

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

Digital infrastructure and cybersecurity

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

Climate change and the transition to a lower carbon economy

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

Competition

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

Crisis management and business continuity

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

Insurance

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

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Safety and operational risks

Process safety, personal safety and environmental risks

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

Drilling and production

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

Security

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

Product quality

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

Compliance and control risks

Ethical misconduct and non-compliance

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

Regulation

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

Treasury and trading activities

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

Reporting

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

The impact of reinventing bp on the organization

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

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Financial risk management

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

Authorized for issue on behalf of the Board

K MacLennan
Director

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DIRECTORS' REPORT

BP EXPLORATION OPERATING COMPANY LIMITED

Directors

The present directors are listed on page 1.

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

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

Directors' indemnity

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

Dividends

The company has not declared any dividends during the year (2019: \$3,055,000,000). The directors do not propose the payment of a final dividend.

Financial instruments

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

Post balance sheet events

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

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

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

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

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

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

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

Going concern

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

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

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

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

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

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

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

Future developments

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

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

Research and development

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

Branches

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

Disabled employees

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

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

Stakeholder statements

Employee engagement

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

DIRECTORS' REPORT

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

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

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

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

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

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

Engagement with other stakeholders

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

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

DIRECTORS' REPORT

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

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

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

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

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

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

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

Streamlined Energy & Carbon Reporting (SECR)

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

Corporate Governance Statement

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

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

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

DIRECTORS' REPORT

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

System of Internal Control

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

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

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

The Policy

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

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

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

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

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

DIRECTORS' REPORT

The Policy requires directors to:

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

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

Application of the system of governance

The directors have applied this system of governance by:

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

Auditors

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

DIRECTORS' REPORT

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

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

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

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

Authorized for issue on behalf of the Board

K MacLennan
Director

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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

BP EXPLORATION OPERATING COMPANY LIMITED

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

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

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

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

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

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

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

14. Investments

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Subsidiary undertakings

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

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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

Associated undertakings

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

Significant holdings in undertakings other than subsidiary undertakings

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

The material capital injections during the year are listed below:

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

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

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

15. Stocks

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

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

NOTES TO THE FINANCIAL STATEMENTS

16. Debtors

Amounts falling due within one year:

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

Amounts falling due after one year:

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

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

Trade and other receivables are predominantly non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

17. Creditors

Amounts falling due within one year:

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

Amounts falling after one year:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. Loans and obligations under leases

Lease liabilities are analysed as follows:

Within 5 years

	2020	2019
	\$000	\$000
Wholly repayable	—	—
Not wholly repayable	260,711	384,746
	260,711	384,746

After 5 years

	2020	2019
	\$000	\$000
Wholly repayable	—	—
Not wholly repayable	38,219	51,763
	38,219	51,763

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

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

19. Leases

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

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

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

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

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

20. Derivatives and other financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Cash flow hedges

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Movement in reserves related to hedge accounting

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

21. Other provisions

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

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

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

Utilization of provision is mainly related to Magnus and Capercaillie.

The other provision balance represents contractual disputes.

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

NOTES TO THE FINANCIAL STATEMENTS

22. Share-based payments

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

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

All share-based payments transactions relate to employee compensation.

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

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

Share Value Plan (SVP)

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

Restricted share unit plans (RSP)

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

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

Savings and matching plans:

BP ShareMatch Plan

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

BP ShareSave Plans

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

NOTES TO THE FINANCIAL STATEMENTS

Share option transactions

Share option transactions for the year were as follows:

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

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

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

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

Fair values and associated details for restricted share units granted

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

NOTES TO THE FINANCIAL STATEMENTS

23. Called up share capital

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

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

24. Reserves

Called up share capital

The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

Cash flow hedge reserve

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

Foreign currency translation reserve

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

Other reserves

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

Profit and loss account

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

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

25. Capital commitments

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

NOTES TO THE FINANCIAL STATEMENTS

26. Guarantees and other financial commitments

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

27. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions in the year.

28. Post balance sheet events

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

29. Pensions

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

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

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

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

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

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

30. Immediate and ultimate controlling parent undertaking

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