

**BP MAURITANIA INVESTMENTS LIMITED****(Registered No.10519279)****ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

Board of Directors: R I Smith  
 N C Christie  
 O V Dembitska

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

In accordance with section 414B (b) of the Companies Act 2006, the directors are taking advantage of the small companies exemption to not prepare a strategic report.

**DIRECTORS' REPORT****Directors**

E L Delaney-McKnight, A C Lane, R I Smith and I J Evans served as directors throughout the financial year. Changes since 1 January 2019 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
N C Christie	1 January 2020	—
E L Delaney-McKnight	—	17 January 2020
I J Evans	—	20 May 2020
A C Lane	—	1 August 2020
O V Dembitska	1 August 2020	—

**Directors' indemnity**

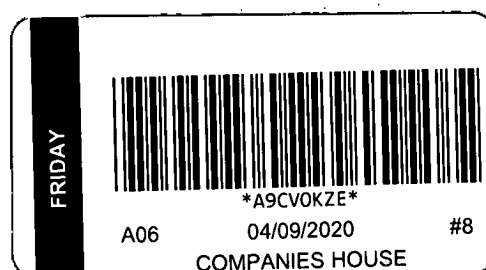
The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

**Dividends**

The company has not declared any dividends during the year (2018 \$Nil). The directors do not propose the payment of a dividend.

**Post balance sheet events**

Since 31 December 2019, oil and gas prices have fallen sharply in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided under Going Concern below. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.



## DIRECTORS' REPORT

On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil and gas price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of \$55/bbl for Brent and \$2.90 per MMBtu for Henry Hub for the period of 2021-2050 (in 2020 prices). As a result of the revised long-term price assumptions and a review of the long-term strategic plan, management reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects. Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020, which is expected to result in an impairment charge of \$827m related to the company's 2020 tangible assets and \$159m related to the company's exploration and appraisal assets. These revisions and impairments relate to events and circumstances arising since 31 December 2019 and therefore the impact on BP Mauritania Investments Limited will be included in the financial statements for the year ended 31 December 2020.

During 1Q20, BP executed a gas sale and purchase agreement with partners in the GTA project. GTA operations are severely affected by COVID-19 and the 2020 weather window for installation works can no longer be met resulting in a delay to first gas of around one year to 2023. BP is working with stakeholders to agree a revised work plan. A force majeure (FM) notice was issued under the lease and operate agreement with Golar LNG over the provision of a floating liquified natural gas vessel, where due to the FM event the lessee is not able to meet the connection date.

### **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, 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 31 December 2019, the oil price has fallen sharply in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered.

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

BP Mauritania Investments Limited is a wholly owned subsidiary of BP International Limited whose ultimate controlling parent is BP p.l.c. There is an Intra Group Current Account Facility / Internal Financing Accounts (IFA) Agreement in place between BP International Limited and BP Mauritania Investments Limited which contains an overdraft facility.

In assessing the prospects of BP Mauritania Investments 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.

## **DIRECTORS' REPORT**

### **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.

A Drill Stem Test was performed in the Tortue / Ahmeyim gas discovery in August 2017, located offshore on the border between Mauritania (C-8 block) and Senegal (Saint Louis Profond block). BP completed significant engineering design towards the Tortue / Ahmeyim project, an integrated gas value chain and near-shore liquefied natural gas (LNG) development which would export LNG to global markets as well as supplying gas to Senegal and Mauritania.

In December 2018 BP and partners announced that the final investment decision (FID) for Phase 1 of the crossborder Greater Tortue Ahmeyim development had been agreed, the parties continued to finalise agreements and obtained final regulatory and contract approvals on 20 February 2019. The FID was made following agreement between the Mauritanian and Senegalese governments and partners BP, Kosmos Energy and National Oil Companies, Petrosen and Societe Mauritanienne des Hydrocarbures et de Patrimoine Minier (SMHPM).

The project will produce gas from an ultra-deepwater subsea system and mid-water floating production, storage and offloading (FPSO) vessel. The gas will then be transferred to a floating liquefied natural gas (FLNG) facility at a near-shore hub located on the Mauritania and Senegal maritime border. The FLNG facility is designed to provide approximately 2.5 million tonnes of LNG per annum on average. The project, the first major gas project to reach FID in the basin, is planned to provide LNG for global export as well as making gas available for domestic use in both Mauritania and Senegal.

On 1 July 2019 the national oil company of Mauritania (Societe Mauritanienne des Hydrocarbures et de Patrimoine Minier (SMHPM)) exercised their option to participate in the crossborder Greater Tortue Ahmeyim development thereby granting the national oil company (NOC) a 7% equity interest in the development.

On 1 July 2019, BP confirmed the GTA-1 (BP 56% and operator) appraisal well, encountered approximately 30 metres of net gas pay in high-quality Albian reservoir confirming gas resource expectations.

On 16 December 2019, BP confirmed the successful result of the Orca-1 appraisal well located in block C8 (BP 62% and operator) in the Bir Allah appraisal area offshore Mauritania. The well successfully encountered all five of the gas sands originally targeted. The well was then further deepened to reach an additional target, which also encountered gas.

### **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 foreign currency exchange rates and interest rates. Further details on these financial risks are included within Note 29 of the BP group Annual Report and Form 20-F for the year ended 31 December 2019.

### **Prices and markets**

The company's financial performance is subject to fluctuating prices of oil, gas, technological change, exchange rate fluctuations and the general macroeconomic outlook. Political developments, increased supply of oil and gas or low carbon energy sources, technological change, global economic conditions, public health situations and the influence of OPEC can impact supply and demand and prices for our products.

## **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 s418 of the Companies Act 2006.

Authorized for issue by Order of the Board

For and on behalf of  
Sunbury Secretaries Limited  
Company Secretary

DocuSigned by:  
*C Thomas*  
02DC0B592A9A4A4... 02 September 2020  
Registered Office:

Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP  
United Kingdom

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

**BP MAURITANIA INVESTMENTS LIMITED**

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS OF BP MAURITANIA INVESTMENTS LIMITED****Report on the audit of the financial statements****Opinion**

In our opinion the financial statements of BP Mauritania Investments Limited (the company):

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

We have audited the financial statements which comprise:

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

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

**Basis for opinion**

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

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

**Conclusions relating to going concern**

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

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

We have nothing to report in respect of these matters.

**Other information**

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

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

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT****Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

**Report on other legal and regulatory requirements****Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

**Matters on which we are required to report by exception**

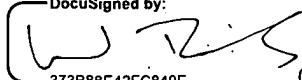
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

**Use of our report**

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

DocuSigned by:  
  
 373B88E42FC840E...  
 William Brooks

03 September 2020

(Senior Statutory Auditor)

for and on behalf of

Deloitte LLP

Statutory Auditor

London, United Kingdom

**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2019****BP MAURITANIA INVESTMENTS LIMITED**

		<u>2019</u>	<u>2018</u>
	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
Cost of sales		(1,855)	—
Operating lease income	<b>3</b>	<u>1,752</u>	<u>—</u>
<b>Gross loss</b>		(103)	—
Exploration expenses		(5,900)	(13,522)
Administrative expenses		(27,466)	(33,838)
Impairment of intangible assets	<b>9</b>	<u>(5,330)</u>	<u>—</u>
<b>Operating loss</b>	<b>4</b>	<u>(38,799)</u>	<u>(47,360)</u>
Interest payable and similar expenses	<b>6</b>	<u>(657)</u>	<u>(1,577)</u>
<b>Loss before taxation</b>		<u>(39,456)</u>	<u>(48,937)</u>
Tax on loss	<b>7</b>	<u>—</u>	<u>—</u>
<b>Loss for the year</b>		<u><u>(39,456)</u></u>	<u><u>(48,937)</u></u>

The loss of \$39,456 thousand for the year ended 31 December 2019 was derived in its entirety from continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2019**

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





**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2019****BP MAURITANIA INVESTMENTS LIMITED**

	Called up share capital (Note 17)	Profit and loss account (Note 18)	Total
	\$000	\$000	\$000
<b>Balance at 1 January 2018</b>	600,000	(181,555)	418,445
Loss for the year, representing total comprehensive income	—	(48,937)	(48,937)
<b>Balance at 31 December 2018</b>	600,000	(230,492)	369,508
Loss for the year, representing total comprehensive income	—	(39,456)	(39,456)
<b>Balance at 31 December 2019</b>	<u>600,000</u>	<u>(269,948)</u>	<u>330,052</u>

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2019****BP MAURITANIA INVESTMENTS LIMITED****1. Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)**

The financial statements of BP Mauritania Investments Limited for the year ended 31 December 2019 were approved by the board of directors on 1 September 2020 and the balance sheet was signed on the board's behalf by N C Christie. BP Mauritania Investments Limited is a private limited company incorporated, domiciled and registered in England and Wales (registered number 10519279). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

**Principal activity**

The company was incorporated on 9 December 2016. The company is engaged in the exploration for and appraisal of hydrocarbons in Mauritania. BP Mauritania Investments Limited (BPMIL) is a UK entity with an overseas branch in Mauritania.

**2. Significant accounting policies, judgements, estimates and assumptions**

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

**Basis of preparation**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

- (j) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
- (k) The requirements of paragraph 58 of IFRS 16 Leases, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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

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

### **Significant accounting policies: use of judgements, estimates and assumptions**

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

### **Significant accounting policies**

#### **Going concern**

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

For further detail on the directors' going concern assessment, please refer to the directors' report.

#### **Foreign currency**

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

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

#### **Investments**

##### *Interests in joint arrangements*

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

## NOTES TO THE FINANCIAL STATEMENTS

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The company recognizes, on a line-by-line basis, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the company's income from the sale of its share of the output and any liabilities and expenses that the company has incurred in relation to the joint operation.

### **Intangible assets**

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

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

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

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

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

### ***Oil and natural gas exploration, appraisal and development expenditure***

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

### ***Licence and property acquisition costs***

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

## NOTES TO THE FINANCIAL STATEMENTS

### ***Exploration and appraisal expenditure***

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

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

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

### ***Development expenditure***

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

### ***Significant judgement: exploration and appraisal intangible assets***

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

### ***Tangible assets***

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

### **Fixtures and fittings**

Fixtures and fittings      4 years

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

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

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

### **Impairment of intangible and tangible assets**

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, changes in commodity prices, evidence of physical damage or increases in estimated future development expenditure. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

## NOTES TO THE FINANCIAL STATEMENTS

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

### *Significant judgements and estimates: recoverability of asset carrying values*

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

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

Details of impairment charges and reversals recognized in the profit and loss account are provided in Note 4 and details of the carrying amounts of assets are shown in Note 9.

The estimates for assumptions made in impairment tests in 2019 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

### *Discount rates*

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

The discount rates applied in impairment tests are reassessed each year. In 2019 the pre-tax discount rate applied is 10% (2018 9%). The judgement of setting the discount rate takes into account various economic and geopolitical factors.

### *Oil and natural gas properties*

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

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

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

In 2019, the company identified oil and gas properties with carrying amounts totalling \$843 million where the headroom, as at the dates of the last impairment test performed on those assets, was less than 20% of the carrying value. A change in the discount rate, reserves, resources or the oil and gas price assumptions in the next financial year may result in the recoverable amount of one or more of these assets falling below the current carrying amount.

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 10.

### *Oil and natural gas prices*

The long-term price assumptions used for investment appraisal are recommended by the BP group chief economist after considering a range of external price, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met. The assumptions below represent management's best estimate of future prices; they do not reflect a specific scenario and sit within the range of the external forecasts considered.

The long-term price assumptions used to determine recoverable amount based on value-in-use impairments tests are derived from the central case investment appraisal assumptions of \$70 per barrel for Brent and \$4 per mmBtu for Henry Hub gas, both in 2015 prices (2018 \$75 per barrel and \$4 per mmBtu respectively, in 2015 prices). These long-term prices are applied from 2025 and 2032 respectively (2018 both from 2024) and continue to be inflated for the remaining life of the asset.

The price assumptions used over the periods to 2025 and 2032 have been set such that there is a linear progression from our best estimate of 2020 prices, which were set by reference to 2019 average prices, to the long-term assumptions.

The majority of reserves and resources that support the carrying value of the company's oil and gas properties are expected to be produced over the next 10 years. Average prices (in real 2015 terms) used to estimate cash flows over this period are \$67 per barrel for Brent and \$3.1 per mmBtu for Henry Hub gas.

Oil prices fell 10% in 2019 from 2018 due to trade tensions, a macroeconomic downturn, and a slight slowdown in oil demand. OPEC+ production restraint, unplanned outages, and sanctions on Venezuela and Iran kept prices from falling further. BP's long-term assumption for oil prices is slightly higher than the 2019 price average, based on the judgement that current price levels would not encourage sufficient investment to meet global oil demand sustainably in the longer term, especially given the financial requirements of key low-cost oil producing economies.

US gas prices dropped by around 20% in 2019 compared to 2018. After an initial spike in January, they remained relatively low for much of the year due to a combination of strong associated gas production growth, and storage levels coming back to normal. US gas demand growth was much lower than the exceptional increase in 2018, while LNG exports continued to expand. BP's long-term price assumption for US gas is higher than recent market prices due to forecast rising domestic demand, rapidly increasing pipeline and LNG exports, and lowest

## NOTES TO THE FINANCIAL STATEMENTS

cost resources being absorbed leading to production of more expensive gas, as well as requiring increased investment in infrastructure.

In response to events and circumstances arising after the balance sheet date, the BP Plc group has revised its forecast oil and gas prices for use within impairment tests, which has resulted in impairment to the company's tangible assets and exploration and appraisal assets balance. This impairment will be included in the financial statements for the year ended 31 December 2020. Further information is provided in Note 20 Post Balance Sheet Events. Accordingly, no further sensitivity analysis has been presented.

The interdependency of these inputs, risk factors and the wide diversity of the company's oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to one or more of the underlying assumptions. The recoverable amount of oil and gas properties is primarily sensitive to changes in the long-term oil and gas price assumptions. Sensitivity analysis may be performed if a specific oil and gas property is identified to have low headroom above its carrying amount.

### *Oil and natural gas reserves*

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

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

The interdependency of these inputs, risk factors and the wide diversity of BP's oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to one or more of the underlying assumptions. The recoverable amount of oil and gas properties is primarily sensitive to changes in the long-term oil and gas price assumptions. Sensitivity analysis may be performed if a specific oil and gas property is identified to have low headroom above its carrying amount.

### **Stocks**

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

### **Leases**

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

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

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. The incremental borrowing rate is determined

## NOTES TO THE FINANCIAL STATEMENTS

based on factors such as the group's cost of borrowing, lessee legal entity credit risk, currency and lease term. The lease term is the non-cancellable period of a lease together with any periods covered by an extension option that BP is reasonably certain to exercise, or periods covered by a termination option that BP is reasonably certain not to exercise. The future lease payments included in the present value calculation are any fixed payments, payments that vary depending on an index or rate, payments due for the reasonably certain exercise of options and expected residual value guarantee payments.

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

The right-of-use asset is recognized on the balance sheet as property, plant and equipment at a value equivalent to the initial measurement of the lease liability adjusted for lease prepayments, lease incentives, initial direct costs and any restoration obligations. The right-of-use asset is depreciated typically on a straight-line basis, over the lease term. The depreciation charge is recognized in the income statement, except where capitalized as exploration, appraisal or development expenditure. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, intangible assets, and goodwill. Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis except for leases of retail service stations where the group has elected not to separate non-lease payments from the calculation of the lease liability and right-of-use asset.

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

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

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

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

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

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

Finance leases are capitalized at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against

## NOTES TO THE FINANCIAL STATEMENTS

income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where capitalized as exploration or appraisal expenditure. See significant accounting policy: Exploration and appraisal expenditure.

### **Financial assets**

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

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

#### ***Financial assets measured at amortized cost***

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

#### **Impairment of financial assets measured at amortized cost**

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

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

### **Financial liabilities**

The measurement of financial liabilities is as follows:

#### ***Financial liabilities measured at amortized cost***

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

## **NOTES TO THE FINANCIAL STATEMENTS**

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest receivable and similar income and interest payable and similar expenses. This category of financial liabilities includes trade and other payables and finance debt.

### **Offsetting of financial assets and liabilities**

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

### **Provisions and contingent liabilities**

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 2.5% (2018 3.0%).

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

### **Employee benefits**

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

### **Taxation**

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

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

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

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

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

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

**Finance costs**

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

## NOTES TO THE FINANCIAL STATEMENTS

### **Impact of new International Financial Reporting Standards**

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

#### ***IFRS 16 'Leases'***

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

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

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

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

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

	\$ million
Operating lease commitments at 31 December 2018	4.6
Short-term leases	(3.2)
Effect of discounting <sup>a</sup>	—
Total additional lease liabilities recognized on adoption of IFRS 16	1.4
Total lease liabilities at 1 January 2019	1.4
Of which - current	1.4

<sup>a</sup> The effect of discounting amounts to \$22,856.

**NOTES TO THE FINANCIAL STATEMENTS***Short-term leases and leases below materiality threshold*

As part of the transition to IFRS 16, the company elected not to recognize assets and liabilities relating to short-term leases i.e. leases with a term of less than 12 months and also applied a materiality threshold for the recognition of assets and liabilities related to leases. The disclosed operating lease commitments as at 31 December 2018 include amounts related to such leases.

*Effect of discounting*

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

**3. Turnover**

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

	2019	2018
	\$000	\$000
Operating lease income	1,752	—
	<u>1,752</u>	<u>—</u>

**4. Operating loss**

This is stated after charging / (crediting):

	2019	2018
	\$000	\$000
Operating lease payments:		
Land & buildings <sup>a</sup>	—	1,585
Net foreign exchange (gains) / losses	(195)	186
Depreciation of tangible assets	204	192
Depreciation of right-of-use assets <sup>b</sup>	4,566	—
Impairment of intangible assets <sup>c</sup>	<u>5,330</u>	<u>—</u>

<sup>a</sup>The amount shown for the comparative period relates to leases previously classified as operating leases under IAS 17.

<sup>b</sup>The line indicated is in respect of the application of IFRS 16 in the current year only.

<sup>c</sup>Amount is included in Exploration amounts written off.

**5. Auditor's remuneration**

	2019	2018
	\$000	\$000
Fees for the audit of the company	<u>14</u>	<u>14</u>

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



**NOTES TO THE FINANCIAL STATEMENTS****6. Interest payable and similar expenses**

	<u>2019</u>	<u>2018</u>
	<u>\$000</u>	<u>\$000</u>
Interest expense on:		
Lease liabilities <sup>a</sup>	413	—
Other interest expense	244	1,577
Total interest payable and similar expenses	<u>657</u>	<u>1,577</u>

<sup>a</sup> In respect of the application of IFRS 16 in the current year only.

**NOTES TO THE FINANCIAL STATEMENTS****7. Taxation**

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

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

	2019	2018
	\$000	\$000
<u>Current tax</u>		
UK corporation tax on income for the year	—	—
Total current tax charged	—	—
<u>Deferred tax</u>		
Origination and reversal of temporary differences	—	—
Total deferred tax charged	—	—
Tax charged on profit	—	—

In 2019 the total tax charge recognized within other comprehensive income was \$Nil (2018 \$Nil) and the total tax charge recognized directly in equity was \$Nil (2018 \$Nil).

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

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

	2019	2018
	UK	UK
	\$000	\$000
Loss before taxation	(39,456)	(48,937)
Tax charge	—	—
Effective tax rate	—%	—%
	2019	2018
	UK	UK
	%	%
UK corporation tax rate:	19%	19%
Decrease resulting from:		
Non-deductible expenditure	(3)	(1)
Free group relief	—	—
Movements in unrecognised deferred tax	(16)	(18)
Effective tax rate	—	—

**Change in corporation tax rate**

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

**(b) Provision for deferred tax**

Deferred tax has not been recognised on deductible temporary differences of \$126,781,000 (2018: \$96,618,000) relating to pre-trading expenditure with a fixed expiry date; unused amounts expire in the period 2025 and \$1,013,538,000 (2018: \$450,746,000) relating to pre-trading capital expenditure with no fixed expiry date.

**NOTES TO THE FINANCIAL STATEMENTS****8. Directors and employees****(a) Remuneration of directors**

None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2018 \$Nil).

**(b) Employee costs**

	2019	2018
	\$000	\$000
Wages and salaries	2,497	1,665
Social security costs	209	71
	<u>2,706</u>	<u>1,736</u>

(c) The average monthly number of employees during the year was 21 (2018 13).

**9. Intangible assets**

	<u>Exploration expenditure</u>
<b>Cost</b>	<u>\$000</u>
At 1 January 2019	327,355
Additions	122,800
Deletion	(5,330)
Transfers	(172,907)
At 31 December 2019	<u>271,918</u>
<b>Amortisation</b>	
At 1 January 2019	—
Deletion	5,330
Impairment	(5,330)
At 31 December 2019	<u>—</u>
<b>Net book value</b>	
At 31 December 2019	<u>271,918</u>
At 31 December 2018	<u>327,355</u>

The 2019 impairment of intangible assets represents exploration write-off for C18 license acquisition.

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

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Total	Of which AUC <sup>a</sup>
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost - owned tangible assets<sup>b</sup></b>						
At 1 January 2019	875	769	—	—	1,644	875
Additions	378	—	439,438	—	439,816	439,816
Transfers	—	—	172,907	—	172,907	—
At 31 December 2019	1,253	769	612,345	—	614,367	440,691
<b>Depreciation - owned tangible assets</b>						
At 1 January 2019	—	(192)	—	—	(192)	—
Charge for the year	—	(204)	—	—	(204)	—
At 31 December 2019	—	(396)	—	—	(396)	—
<b>Owned tangible assets - net book value</b>						
At 31 December 2019	1,253	373	612,345	—	613,971	440,691
<b>Right-of-use assets - net book value</b>						
At 31 December 2019	3,792	—	—	4,195	7,987	—
<b>Total tangible assets</b>						
At 31 December 2019	5,045	373	612,345	4,195	621,958	440,691
<b>Total net book value</b>						
At 31 December 2018	875	577	—	—	1,452	875

<sup>a</sup> AUC = assets under construction. Assets under construction are not depreciated.

<sup>b</sup> Leases previously classified as finance leases are included within right-of-use assets following the implementation of IFRS 16 'Leases'; see Note 2 for further information. The reconciliation of owned property, plant and equipment for 2019 does not include right-of-use assets and, therefore, the cost and depreciation at 1 January 2019 is not equal to the cost and depreciation of total property, plant and equipment at 31 December 2018. The relevant amounts excluded are cost of \$1,400 thousand.

The depreciation expense recognized for the year on right-of-use assets was \$4,566 thousand.

**11. Stocks**

	2019	2018
	\$000	\$000
Supplies	5,014	5,237
	5,014	5,237

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

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

Amounts falling due within one year:

	2019	2018
	\$000	\$000
Amounts owed from parent undertakings	62	47,707
Amounts owed from fellow subsidiaries	161,588	26,929
Other debtors	63,391	3,570
	<u>225,041</u>	<u>78,206</u>

The amounts owed from parent undertakings comprise a funding account of \$48 million at the end of 2018. No interest is charged.

The amounts owed from fellow subsidiaries are mainly driven by the share of Tortue unit operation spend owed by BP Senegal Investments Limited (\$152 million) that are repayable on demand and no interest is being charged.

The other debtors balance includes the partner share of liabilities yet to be cash called (\$60 million). Based on an agreement with our partners cash calls are paid on a monthly basis and no interest is being charged.

**13. Creditors**

Amounts falling due within one year:

	2019	2018
	\$000	\$000
Trade creditors	1,487	3,214
Amounts owed to parent undertakings	339,200	11,486
Amounts owed to fellow subsidiaries	10,145	9,123
Other creditors	116,957	144
Accruals and deferred income	313,596	13,718
	<u>781,385</u>	<u>37,685</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 payable to parent undertakings is a funding account of \$329 million at the end of 2019 with BP International Ltd OB&C, with no interest being charged and repayable on demand.

The remaining payable amounts to parent undertakings and to fellow subsidiaries 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.

**NOTES TO THE FINANCIAL STATEMENTS****14. Loans and obligations under leases**

Loans repayable and obligations under leases are analysed as follows:

Within 5 years

Not wholly repayable<sup>1,2</sup>

2019		
Loans	Lease liabilities	Total
\$000	\$000	\$000
—	(9,279)	(9,279)
—	(9,279)	(9,279)

<sup>1</sup>In case of lease liabilities, not wholly repayable means repayable by instalments and an additional payment may be due at the end of a lease.

<sup>2</sup>The amount of lease liabilities due within one year is \$5 million, due beyond one year is \$4 million, totalling to \$9 million.

**15. Leases**

The company leases a number of assets as part of its activities. This primarily includes drilling rigs in the Upstream segment as well as office accommodation and vessel charters across the group. The weighted average remaining lease term for the total lease portfolio is around 3 years.

The company may enter into lease arrangements a number of years before taking control of the underlying asset due to construction lead times or to secure future operational requirements. The total undiscounted amount for future commitments for leases not yet commenced as at 31 December 2019 is \$4,380 million.

	2019
	\$000
Short-term lease expense	4,478
Additions to right-of-use assets in the period	11,153
Total cash outflow for amounts included in lease liabilities	3,687

An analysis of right-of-use assets and depreciation is provided in Note 10. An analysis of lease interest expense is provided in Note 6.

## NOTES TO THE FINANCIAL STATEMENTS

## 16. Other provisions

	Other
	\$000
At 1 January 2019	5,929
Write-back of unused provisions	(1,486)
Utilisation	(819)
At 31 December 2019	<u>3,624</u>
At 31 December 2019	
Current	3,624
Non-current	—
	<u>3,624</u>
At 31 December 2018	
Current	5,192
Non-current	737
	<u>5,929</u>

The provisions relate to social projects in Mauritania (Mauritania Learning Centre and a scholarship programme). The Mauritania Learning Centre is funded by BP Mauritania Investment Limited and Kosmos Energy Mauritania while the scholarship programme is solely funded by BP Mauritania Investment Limited.

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

## 17. Called up share capital

	2019	2018
	\$000	\$000
Issued and fully paid:		
600,000,000 ordinary shares of \$1 each for a total nominal value of \$600,000,000	600,000	600,000
	<u>600,000</u>	<u>600,000</u>

## 18. Reserves

*Called up share capital*

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

*Profit and loss account*

The balance held on this reserve is the accumulated losses of the company.

In 2019, the company paid interim ordinary dividends of \$Nil (2018 \$Nil). The dividend per share was \$0.00 (2018 \$0.00).

## 19. 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 2019 is estimated at \$701,147,164 (2018 \$5,797,000).

**NOTES TO THE FINANCIAL STATEMENTS****20. Post balance sheet events**

Since 31 December 2019, oil and gas prices have fallen sharply in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil and gas price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of \$55/bbl for Brent and \$2.90 per MMBtu for Henry Hub for the period of 2021-2050 (in 2020 prices). As a result of the revised long-term price assumptions and a review of the long-term strategic plan, management reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects. Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020, which is expected to result in an impairment charge of \$827m related to the company's 2020 tangible assets and \$159m related to the company's exploration and appraisal assets. These revisions and impairments relate to events and circumstances arising since 31 December 2019 and therefore the impact on BP Mauritania Investments Limited will be included in the financial statements for the year ended 31 December 2020.

During 1Q20, BP executed a gas sale and purchase agreement with partners in the GTA project. GTA operations are severely affected by COVID-19 and the 2020 weather window for installation works can no longer be met resulting in a delay to first gas of around one year to 2023. BP is working with stakeholders to agree a revised work plan. A force majeure (FM) notice was issued under the lease and operate agreement with Golar LNG over the provision of a floating liquified natural gas vessel, where due to the FM event the lessee is not able to meet the connection date.

**21. Immediate and ultimate controlling parent undertaking**

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