BRITOIL LIMITED
(Registered No.SC077750)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

Board of Directors: G R Gordon
K Maclennan
J S Burton
D F Reiter
L A Kingham

The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2021.

STRATEGIC REPORT

Principal activities

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 engaged in similar activities.

As at 31 December 2021, the company holds the below interests in the following North Sea fields, in the UK continental shelf:

Field Name	Operated by	Interest held (%)
Arundel	BP	20.00
Clair	BP	17.48
Clair Ridge	BP	17.48
Don NE	BP	80.29
Don SW	BP	58.33
Foinaven Main Field	BP	40.00
Foinaven East	BP	7.00
Viking & VTS	Non-BP	50.00
Valkyrie	Non-BP	25.00
Vixen	Non-BP	50.00
Culzean	Non-BP	32.00
Deveron	Non-BP	1.00
Thistle	Non-BP	81.72

Main producing fields are Arundel, Clair, Clair Ridge and Culzean.

Thistle interest held moved from 1% to 81.72% on 25th March 2021. On this date Thistle equities were re-transferred from Enquest to bp. This was triggered by the field moving into decommissioning phase, and is due to bp having 81.72% of the decommissioning liability. Harbour Energy plc have 18.28% of remaining decommissioning liability and Enquest have zero but continue to be operator.

STRATEGIC REPORT

On 15 April 2021 bp announced it suspended production from the Foinaven fields, located 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 it was not economically viable to repair and continue to use the existing FPSO to recover the fields' remaining resources and all the assets of the Foinaven fields CGU were written down to zero during 2021. In the next 12 months the main focus will be decommissioning of the FPSO safely and timely and deciding on whether to redevelop the field or decommission the reserves, wells and infrastructure. bp disconnected and sailed the FPSO away from the Foinaven field in August 2022 and handed back the vessel to owners Teekay Corporation during 3Q 2022.

Results and review of the business

The profit for the year after taxation was $430,481,000 which, when added to the retained profit brought forward at 1 January 2021 of $1,727,861,000 and after deducting total paid interim and final dividends to ordinary shareholders of $178,000,000, gives a total retained profit carried forward at 31 December 2021 of $1,980,342,000.

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

	2021	2020	Variance
	$000	$000	%
Turnover	1,502,891	445,459	237
Operating profit / (loss)	655,191	(755,911)	(187)
Profit / (loss) for the year	430,481	(367,455)	(217)
Total equity	4,503,349	4,251,089	6

	2021	2020	Variance
	%	%	
Quick ratio*	266	341	(75)
Return on average capital employed**	13.28	(9.74)	23.02
Gross profit percentage***	42	(107)	149

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

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

Turnover has increased by $1,057,432,000 in 2021 mainly due to an increase of $743,144,000 in gas and $308,374,000 in oil & NGL (natural gas liquid) revenue as per the increased production in Clair, Clair Ridge and Culzean fields and increase in other operating revenue in amount of $6,034,000. This has been partially offset by the $120,000 decrease in tariff income.

Increase in gas revenue from $160,745,000 in 2020 to $903,888,000 in 2021 was mainly driven by the increase in the average gas realized price year on year from $3,105/mmscf (2020) to $16,607/mmscf (2021) resulting in an increase of $734,898,000. There is a slight growth in production from 51,773 mmscf to 54,429 mmscf in the respective years resulting in an increase of $8,246,000.
The oil production increased by $15,295,000 compared to previous year (from 7.2 mmboe to 7.7 mmboe in the respective years) and there was a significant increase in average oil realised price, from $35.82/bbl (2020) to $71.08/bbl (2021), resulting in an increase in revenue of $270,553,000.

The main drivers of the NGL (natural gas liquid) revenue increase by $22,526,000 were increase of the average NGL realized price from $303.67/tonne in 2020 to $615.43/tonne in 2021.

The company generated an operating profit of $655,191,000 in 2021 compared to $755,911,000 loss in the previous year. Primary drivers of this change are the followings: small decrease in cost of sales in amount of $45,881,000; decrease in the impairment charge recognized for fixed asset investments of $523,884,000; increase in turnover in amount of $1,057,432,000 described above; decrease in impairment of tangible assets of $327,840,000; increase in other operating income in amount of $24,817,000; increase in profit/loss on disposal of fixed assets in amount of $28,140,000; offset by dividend income from Amoco (U.K.) Exploration Limited in 2020 amounting to $600,000,000 (Nil in 2021) and $3,000,000 due to other factors.

Besides the increase in turnover the other key driver which turned the operating loss to profit was the significantly lower impairment charge on fixed asset investment in 2021 as in 2020 there was a significant decrease of net assets of Amoco (U.K.) Exploration Limited resulted in an impairment charge of $533,837,000 (2021 impairment charge: $9,953,000). In addition a tangible asset impairment reversal was recognized of $3,374,000 in 2021 compared to $324,466,000 charge in 2020 mostly driven by better long-term oil and gas price assumptions.

During the year, bp's price assumptions applied in value in use impairment testing for Brent oil up to 2030 were increased to reflect near-term supply constraints. bp's management also expects an acceleration of the pace of transition to a lower carbon economy. As such, the long-term Brent oil assumptions were decreased during the year, reaching $55 per barrel by 2040 and $45 per barrel by 2050 (in 2020 real terms). The price assumptions applied in value in use impairment test for Henry Hub gas were unchanged to those used in 2020 except that the assumption for 2022 was increased to reflect short term market condition. This triggered impairment reversal in Arundel, Culzean and Don. In 2021 following the suspension of production from the Foinaven fields impairment charge was recognized.

The tax charge for the year is $204,924,000. This represents an increased to the prior year credit of $(419,004,000), and is due to a reduction in the current tax charge of $4,270,000 and an increase to the deferred tax charge of $628,198,000.
The increase in the deferred tax liability of $204,924,000 arises mainly as a consequence of an increase in the deferred tax liability recognised on tax losses carried forward.

The decrease of quick ratio was mainly attributable to increase in short term decommissioning provision.

Increase of return on average capital employed was mainly attributable that the entity has profit in current year comparing the loss in prior year.

The increase of gross profit was due to increase in turnover described above.

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 414CZA of the Companies Act 2006 (the "Act").

During the course of the year the following primary tasks were undertaken by the Board in line with the principal activities 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 challenges presented by the ongoing COVID-19 pandemic, having regard to the company's safe and reliable operations.
- Assessing principal and emerging risks relevant to the company.

STRATEGIC REPORT

The table below demonstrates how the Board has discharged their duties under section 172(1):

Section 172(1)	Overview of performance against section 172(1)
a. The likely long-term consequences of the decision	When setting and delivering on the company's strategy, the directors have regard to the evolving environment in which the company operates and aims to promote the long term success and sustained economic viability of the company.
b. The interests of the company's employees	The company has no employees.
c. The need to foster the company's business relationships with suppliers, customers and others	During 2021, the directors reiterated their focus on engagement and fostering relationships with key stakeholders, as well as an increased focus on environment, social and governance ("ESG") matters. In addition, the Board reviewed and considered the company's Modern Slavery Statement and disclosed its practices in respect of the same on an annual basis. Furthermore, the Board reviewed and considered the company's prompt payment reporting performance and disclosed its practices in respect of the same on a bi-annual basis.
d. The impact of the company's operations on the community and the environment	The directors are committed to bp's group wide policies and aims which protect the community, environment and its people.
e. The desirability to maintain the company's reputation for high standards of business conduct	In 2021 bp continued to operate under its sustainability frame launched in 2020, with aims and objectives linked to the UN Sustainable Development Goals. bp's values of safety, respect, excellence, courage and one team define how the bp group, including the company and its Board, 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 Board operate. The directors of the company continued to adhere, in good faith, to the bp code of conduct during the year to ensure the Board and the company maintain 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.
f. The need to act fairly between members of the company	The directors aim to balance the needs of various stakeholders when setting and delivering the company's strategy, having regard to long term value creation, including maximising long term shareholder value.

Further information on the bp group policies applicable to the company can be found in BP p.l.c.'s 2021 Annual Report and Form 20-F and the bp Sustainability Report 2021.

Stakeholder engagement

For further details on how the company has engaged with stakeholders, fostered relationships with them and how this has impacted decision making, please refer to the Engagement with Stakeholders Statement found in the Directors' Report.

STRATEGIC REPORT

The company's principal decisions

The company and the bp group have 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.

During the period, the following principal decisions were taken by the company whilst having regard to the company's stakeholders and other relevant factors:

Principal decision	The relevant factors taken into account during the decision making process
During the year, the directors considered, approved and paid a dividend as appropriate to the shareholder.	The directors considered the impact of such a decision on the long-term prospects of the company, as well as considering the financial position of the company to ensure that it had sufficient distributable reserves at the time of the dividend.
The directors considered and approved the refinancing of US $1bn of the company's short-term deposit held with another group company onto a long-term deposit agreement with an increased limit.	The directors considered the impact of the refinancing on the long-term prospects and the financial position of the company.

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 2021.

Strategic and commercial risks

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. 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.

Accessing and progressing hydrocarbon resources and low carbon opportunities
The company's inability to access, renew and progress upstream resources in a timely manner could impact its future production and financial performance. Furthermore, the company's inability to access low carbon opportunities and the commercial terms associated with those opportunities could impact its financial performance.

Major project delivery
Poor investment choice, efficiency or delivery, or operational challenges at any major project that underpins production or production growth, could adversely affect our financial performance.

Geopolitical
The company is exposed to a range of political, economic and social developments and consequent changes to the operating and regulatory environment which could cause business disruption. 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 any future epidemic or pandemic) may disrupt or curtail our operations, business activities or investments. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets and our related earnings and cash flow or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

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.

Joint arrangements and contractors

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

Digital infrastructure and cybersecurity

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

Current geopolitical factors have increased these risks.

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 access to an appropriately skilled workforce (who may be employed by another bp group company), could negatively impact delivery of the company's strategy in a highly competitive market.

Crisis management and business continuity

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

Insurance

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

Safety and operational risks

Process safety, personal safety and environmental risks

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

Drilling and production

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

Security

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

STRATEGIC REPORT

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

Compliance and control risks

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

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

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

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

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; and credit risk. Further details on these financial risks are included within Note 28 of the bp group Annual Report and Form 20-F for the year ended 31 December 2021.

Authorized for issue on behalf of the Board

Karen Maclennan

K Maclennan
Director

September 30, 2022

Registered Office:

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB
United Kingdom

DIRECTORS' REPORT

BRITOIL LIMITED

Directors

The present directors are listed on page 1.

K Maclennan, D F Reiter, G R Gordon and I C Emembolu served as directors throughout the financial year. Changes since 1 January 2021 are as follows:

	Appointed	Resigned
P J Mather	—	23 September 2021
I C Emembolu	—	7 February 2022
J S Burton	17 February 2022	—
L A Kingham	23 September 2021	—

Directors' indemnity

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

Dividends

During the year the company has declared and paid dividends of $178,000,000 (2020 $0). The directors do not propose the payment of a final dividend (2020 $0).

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 6.1) 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 event

On 14 December 2021 bp announced its intention to acquire Rockrose's 28% shares in Foinaven and 47% share in East Foinaven fields. The deal was completed on 1 April 2022 and as a result bp increased its share to 100% in Foinaven and 90% in East Foinaven fields. Since the transaction arose only subsequent to 31 December 2021, it will be reflected in the financial statements of Britoil Limited for the year ending 31 December 2022.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment, as well as the ongoing impact of COVID 19 were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 5-6.

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. There is no significant exploration or development spend planned on those fields during the going concern period. The company does not hold 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 total debit balance of the internal finance accounts (IFA) in the company as at 31 December 2021 is $439,214,000 funded by BP International Limited. The company has only intercompany trading within the bp group and also has net assets position of $4,503,349,000 and net current assets of $2,380,557,000.

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

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

Future developments

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

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

Research and development

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

Stakeholder statements

Engagement with other stakeholders

The Board recognises the importance of considering and having regard to key stakeholders and their interests when making decisions. By thoroughly understanding the company's key stakeholder groups, the Board can successfully consider and address the needs of these stakeholders and foster good business relationships with them. The company considers its governments, shareholders, customers, suppliers and communities within the countries it operates.

The Board are committed to doing business ethically and transparently, using bp's values and code of conduct to guide them when engaging and working with business partners. The company's activities, and the decisions of its Board, affect a wide variety of individuals and organisations. The Board engages with its stakeholders, listening to their differing needs and priorities as an everyday part of business, and utilising the feedback received to inform the Board's decision-making.

DIRECTORS' REPORT

As noted in the section 172(1) statement within the Strategic Report, responsibility for decisions that impact the entire bp group are taken by the Board of BP p.l.c. 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 and understanding tax liabilities, to collaborating on community initiatives.

Regularly engaging with stakeholders is a priority for the company and the below table describes how the Board had regard to the need to foster relationships with the company's key stakeholders, how outcomes were considered and how concerns were identified and addressed during the reporting period. Further details of these decisions, and if applicable any principal decisions in relation to the stakeholders, are discussed in the section 172(1) statement:

Stakeholders	Stakeholders' interests	How we have fostered relationships	How the fostering of relationships impacted decision making
Suppliers	For the company to understand, and where feasible, meet the suppliers' needs and expectations. For the company to provide regular support to the suppliers in order to improve suppliers' systems and avoid defects and/or operational issues where feasible. To be part of a fair and respectful tender and supplier selection process. To be part of a valued supplier relationship centred around ethics and transparency.	The company maintains a number of bp group wide policies to ensure fair treatment of its current and potential suppliers. The bp group also conducts supplier site visits to build relationships and monitor how work is being carried out, ensuring that it meets the suppliers' and the bp group's expectations.	Management and/or, where significant, the Board are provided with updates on renewals and negotiations for existing and/or new supplier agreements. The information received supports effective decision making by the Board when considering the long term consequences on relationships with suppliers. On an exceptional basis, the directors will engage with suppliers through means of the procurement teams in the case of any escalation. bp's supplier site visits are intended to be mutually beneficial in terms of improvement and learning opportunities.

Customers	For the company to provide its customers with top quality services. For the company to build a trusted relationship with its customers. Ensuring the safe execution of products and services provided to its customers and that any claims in relation to the same, are addressed and resolved. Ensuring that customer data is kept in a secure environment and only for the duration and purposes that the data is required for.	The company maintains a number of bp group wide policies to ensure the ongoing security of customer data, safe execution and quality of the products and services and a continued trusted relationship with its customers. On behalf of the company, the bp group also seeks to engage with customers through forums such as social media, focus bp groups and in-depth interviews with customers to better understand customer's needs and seek their feedback.	Management and/or, where significant, the Board are provided with updates on renewals and negotiations for existing and/or new customer contracts. The information received supports effective decision making by the Board when considering the long term consequences on relationships with its customers. By obtaining customer feedback and understanding our customers, it has allowed us to clarify the company's vision for future growth and ways to continually add brand value.

Community and environment	The directors' 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, changes in the physical landscape, changes to the local ecosystem. For the company to manufacture and deliver high quality products and services in an energy efficient and environmentally responsible manner. To conduct business in a manner to minimise negative impact on the surrounding area and be respectful and conscientious of the environment/ the financial environment. To take into account the interest of the local community when considering future investments and business decisions.	The company maintains a number of bp group wide policies to promote sustainable and environmentally friendly business and operational practises. 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.	Management and/or, where significant, the Board are provided with updates on the environmental impact of the company's business operations. The information received supports effective decision making by the Board when considering the long term consequences on the environment and local communities. By following and implementing the bp group wide sustainability policy, the company has been able to measure and manage its impact on the community and environment in which it operates.

Shareholder	The company is 100% owned by BP Exploration Operating Company Limited. The company is committed to maximising long term shareholder value, in whatever form, when taking its decisions.	bp group functions, across Tax, Treasury and Finance, in conjunction with senior management, make recommendations to declare dividends, where relevant, via a thorough feasibility analysis process as part of its System of Internal Control, ensuring the appropriate amount of dividend and associated impact are duly considered. The company reports to its shareholder on a regular basis in the form of its financial statements and, where applicable, its business, strategic plans and key risks.	One of the company's strategic aims is to pursue strategic growth to maximise long term value for its shareholder. The company's compliance with the bp group's System of Internal Control assists the Board when considering whether to declare dividends, the amount of dividend and any associated impact. Specifically, the Board will review relevant internal functional assurance advice notes when considering the declaration of a dividend to its shareholder.
Government/ Regulators	For the company to create valued relationships with the North Sea Transition Authority and the Government centred around ethics and transparency, and discuss relevant regulations and guidance where necessary	The company keeps the North Sea Transition Authority and the Government informed of any significant changes to the company.	Management and/or, where significant, the Board are provided with updates on changes in regulation and/or legislation impacting the company. The information received supports effective decision making by the Board when considering the company's compliance with said regulations and/or legislation. The company continually engages with local government bodies and/or regulators to ensure it is conducting itself in accordance with relevant laws/ regulation to ensure its good standing, trust and respect in society and longevity.

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 2021.

Corporate Governance Statement

In 2021, the bp group operated under the corporate governance framework implemented in 2020 to more closely align with bp's new purpose – reimagining energy for people and our planet – as well as the new strategy. The framework defines bp'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., applied the UK Corporate Governance Code (the "Code") throughout the year, with the company complying with bp's Global Subsidiary Corporate Governance Policy (the "Policy") where applicable.

DIRECTORS' REPORT

The governance principles of the company are determined by BP p.l.c. to promote consistency and standardisation prior to being implemented in its subsidiaries in local jurisdictions. The principles determined by the bp group define the role and purpose of the Board, its processes and its relationship with executive management, shareholders and other stakeholders, as defined in the BP p.l.c. 2021 Annual Report and Form 20-F. This system is reflected in the governance of the company through the adoption by the company of:

i. the System of Internal Control, being the holistic set of management systems, organizational structures, processes, standards and behaviours that are employed to conduct the bp group's business;
ii. the Policy; and
iii. the bp Code of Conduct based on bp's values, setting clear expectations for how we work at bp 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 bp 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 2021 in light of the challenging macro-economic environment facing the bp 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 bp 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 bp 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.

As a result, the company has 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 Board of the company.

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

The Policy requires directors to:

i. attend induction training upon appointment and are recommended to refresh their training annually;
ii. not engage in any activity that is, or could reasonably perceived to be, in conflict with the interests of the company and are further required to act in the best interests of the company, which may not necessarily coincide with the best interest of the bp group;
iii. consult in advance of conflicts of duties in order to identify and implement steps to avoid or mitigate such conflicts; and
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 bp group authority. Delegations are monitored and reviewed by the Board on a regular basis.

Application of the system of governance

The directors have applied this system of governance by:

a. Promoting the purpose of the company to reimagine energy for people and our planet, with an ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero.
b. Regularly reviewing its Board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and ensuring 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 bp 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 the System of Internal Control to identify opportunities to create and preserve value. Refer to the principal risks and uncertainties in the strategic report.
e. Having regard to and fostering good stakeholder relationships. 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

Karen Maclennan

K Maclennan
Director
September 30, 2022

Registered Office:

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

BRITOIL 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 BRITOIL LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Britoil Limited (the company):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of whether material uncertainties existed that could cast significant doubt on the entity's ability to continue as a going concern for least 12 months after the date of approval of the financial statements;
- An assessment of the funds that can be made available to the company through bp group treasury channels;
- An assessment of the management's identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- An assessment of the disclosures made within the financial statements;

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

DJT

whether this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

DM

INDEPENDENT AUDITOR'S REPORT

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Mikhail Raikhman

Mikhail Raikhman, CA
(Senior statutory auditor)

for and on behalf of Deloitte LLP, Statutory Auditor
London, United Kingdom

September 30, 2022

DJT

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2021

BRITOIL LIMITED

	Note	2021 $000	2020 $000
Turnover	3	1,502,891	445,459
Cost of sales		(878,432)	(924,313)
Gross profit / (loss)		624,459	(478,854)
Dividend income		—	600,000
Exploration expenses		(2)	60
Distribution costs		(14)	(150)
Administrative expenses		(1,874)	(4,908)
Other operating income	3	28,908	4,091
Profit / (loss) on disposal of fixed assets	4	10,293	(17,847)
Impairment of tangible assets	12	—	(324,466)
Reversal of impairment of tangible assets	12	3,374	—
Impairment of fixed asset investments	13	(9,953)	(533,837)
Operating profit / (loss)	4	655,191	(755,911)
Interest receivable and similar income	6	2,895	168
Interest payable and similar expenses	7	(22,681)	(30,716)
Profit / (loss) before taxation		635,405	(786,459)
Tax on profit / (loss)	9	(204,924)	419,004
Profit / (loss) for the year		430,481	(367,455)

The profit of $430,481 thousand for the year ended 31 December 2021 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

BRITOIL LIMITED

	2021	2020
	$000	$000
Profit / (loss) for the year	430,481	(367,455)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Cash flow hedging that will subsequently be transferred to the balance sheet	(221)	(538)
Other comprehensive income for the year net of tax	(221)	(538)
Total comprehensive income for the year	430,260	(367,993)

DN

BALANCE SHEET

AS AT 31 DECEMBER 2021

BRITOIL LIMITED
(Registered No.SC077750)

	Note	2021 $000	2020 $000
Fixed assets			
Intangible assets	11	896,531	896,478
Tangible assets	12	2,494,056	2,874,091
Investments	13	364,412	374,365
		3,754,999	4,144,934
Current assets			
Stocks	14	27,995	30,107
Debtors – amounts falling due:			
within one year	15	1,585,093	1,495,258
after one year	15	1,151,291	204,976
Derivatives and other financial instruments:			
within one year	19	—	88
Cash at bank and in hand		5	5
Creditors: amounts falling due within one year	16	(383,169)	(295,913)
Derivatives and other financial instruments due within one year	19	—	(4,581)
Lease liabilities	17	(658)	(12,905)
Net current assets		2,380,557	1,417,035
TOTAL ASSETS LESS CURRENT LIABILITIES		6,135,556	5,561,969
Creditors: amounts falling due after more than one year	16	(88)	(9,176)
Derivatives and other financial instruments due after more than one year	19	—	(20,348)
Lease liabilities	17	(1,350)	(2,558)
Provisions for liabilities and charges			
Deferred tax liability	9	(421,635)	(216,711)
Other provisions	20	(1,209,134)	(1,062,087)
NET ASSETS		4,503,349	4,251,089

DM

BALANCE SHEET

	Note	2021 $000	2020 $000
Capital and reserves			
Called up share capital	**21**	2,389,898	2,389,898
Share premium account	**22**	133,109	133,109
Cash flow hedge reserve	**22**	—	221
Profit and loss account	**22**	1,980,342	1,727,861
TOTAL EQUITY		4,503,349	4,251,089

Authorized for issue on behalf of the Board

Karen Maclennan

K Maclennan
Director

September 30, 2022

DM

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

BRITOIL LIMITED

	Called up share capital (Note 21)	Share premium account (Note 22)	Cash flow hedge reserve (Note 22)	Profit and loss account (Note 22)	Total
	$000	$000	$000	$000	$000
Balance at 1 January 2020	2,389,898	133,109	759	2,095,316	4,619,082
Loss for the financial year	—	—	—	(367,455)	(367,455)
Other comprehensive income for the year	—	—	(538)	—	(538)
Total comprehensive income for the year	—	—	(538)	(367,455)	(367,993)
Balance at 31 December 2020	2,389,898	133,109	221	1,727,861	4,251,089
Profit for the financial year	—	—	—	430,481	430,481
Other comprehensive income for the year	—	—	(221)	—	(221)
Total comprehensive income for the year	—	—	(221)	430,481	430,260
Dividends paid	—	—	—	(178,000)	(178,000)
Balance at 31 December 2021	2,389,898	133,109	—	1,980,342	4,503,349

DM

1. Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of Britoil Limited for the year ended 31 December 2021 were approved by the board of directors on 30/09/2022 and the balance sheet was signed on the board's behalf by K Maclennan. Britoil Limited is a private company, limited by shares incorporated, domiciled and registered in Scotland (registered number SC077750). The company's registered office is at 1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB. 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.

The company has used a true and fair view override in respect of the non-amortization of goodwill (see Note 2).

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, modified to include the revaluation of certain financial instruments. 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.

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 26 to the financial statements.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared under the historical cost convention in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and the Companies Act 2006. 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 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;
(b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 74 A(b) of IAS 16 Property, Plant and Equipment;
  - (iv) paragraph 118(e) of IAS 38 Intangible Assets;

(c) the requirements of IAS 7 Statement of Cash Flows;
(d) 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;
(e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;

DМТ

(f) 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;
(g) 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;
(h) the requirements of IFRS 7 Financial Instruments: Disclosures;
(i) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
(j) the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
(k) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
(l) 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 26.

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.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: exploration and appraisal intangible assets; the recoverability of asset carrying values, including the estimation of reserves; and decommissioning provisions.

Judgements and estimates, not all of which are significant, made in assessing the impact of the COVID-19 pandemic, and climate change and the energy transition on the financial statements are also set out in boxed text below. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted within the boxed text.

Judgements and estimates made in assessing the impact of climate change and the energy transition
Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future. bp's assumptions for investment appraisal help create an investment decision making framework for currently unsanctioned future capital expenditure on property, plant and equipment, and intangibles including exploration and appraisal assets, that is designed to support the effective and resilient implementation of bp's strategy. The oil and gas price assumptions used for investment appraisal are producer prices and are therefore net of any carbon prices that the market price may include. bp's oil and gas price assumptions for value-in-use impairment testing are aligned with those investment appraisal assumptions, except for the assumptions for future carbon emission costs described below.

DM

Impairment of property, plant and equipment, and goodwill

The energy transition is likely to impact the future prices of commodities such as oil and natural gas which in turn may affect the recoverable amount of property, plant and equipment, and goodwill in the oil and gas industry. bp's best estimate oil price assumptions for value-in-use impairment testing were revised during 2021. The assumption up to 2030 was increased to reflect near-term supply constraints whereas the long-term assumption was decreased as bp's management expects an acceleration of the pace of transition to a lower carbon economy. Henry Hub gas price assumptions remain unchanged from 2020 except that the assumption for 2022 has been increased to reflect short term market conditions. The revised assumptions sit within the range of external forecasts considered by management and are in line with a range of transition paths consistent with the goal of the Paris climate change agreement of limiting global warming to well below 2°C as well as the ambition to limit global warming to no greater than 1.5°C. See significant judgements and estimates: recoverability of asset carrying values for further information including sensitivity analysis in relation to reasonably possible changes in the price assumptions.

In order to incentivise engineering solutions to mitigate carbon emissions on projects, the group's investment appraisal process includes a single carbon emissions price assumption for the investment economics which is applied to bp scope 1 and 2 emission forecasts where they exceed defined thresholds, and is assumed to be payable by bp as the producer. However, for value-in-use impairment testing on bp's existing cash generating units (CGUs), consistent with all other relevant cash flows estimated, bp is required to reflect management's best estimate of any expected applicable carbon emission costs payable by bp in the future for each jurisdiction in which the group has interests. This requires management's best estimate of how future changes to relevant carbon emission cost policies and/or legislation are likely to affect the future cash flows of the group's applicable CGUs, whether currently enacted or not. Future potential carbon pricing and/or costs of carbon emissions allowances are included in the value-in-use calculations to the extent management has sufficient information to make such an estimate. Currently this results in limited application of carbon price assumptions in value-in-use impairment tests given that carbon pricing legislation in most jurisdictions where the group has interests is not in place and there is not sufficient information available as to the relevant policy makers' future intentions regarding carbon pricing to support an estimate.

Impairments were recognized during 2021 on certain upstream oil and gas properties as a result of the long-term price assumptions. Impairment reversals were recognized on certain other upstream oil and gas properties as a result of the higher near-term assumptions. See Note 4 for further information.

Management will continue to review price assumptions as the energy transition progresses and this may result in impairment charges or reversals in the future.

Exploration and appraisal intangible assets

The energy transition may affect the future development or viability of exploration prospects. A significant proportion of exploration and appraisal intangible assets were written off in 2020 as a result of lower price assumptions and work to develop bp's new strategy. The recoverability of the remaining intangibles was considered during 2021 and no significant write-offs were identified. These assets will continue to be assessed as the energy transition progresses. See significant judgement: exploration and appraisal intangible assets and Note 8 for further information.

Property, plant and equipment – depreciation and expected useful lives

The energy transition may curtail the expected useful lives of oil and gas industry assets thereby accelerating depreciation charges. However, the significant majority of bp's existing upstream oil and natural gas properties are likely to be fully depreciated within the next 10 years and, as outlined in bp's strategy, oil and natural gas production will remain an important part of bp's business activities over that period. Similarly, for refineries, demand for refined products is expected to remain strong over the remaining useful life of existing assets. Therefore, management does not expect the useful lives of the company's reported property, plant and equipment to change and do not consider this to be a significant accounting judgement or estimate. The useful lives of future capital expenditure may, however, be different. See significant accounting policy: property, plant and equipment for more information.

DJT

Provisions: decommissioning
The energy transition may bring forward the decommissioning of oil and gas industry assets thereby increasing the present value of associated decommissioning provisions. The majority of bp's existing upstream oil and gas properties are expected to start decommissioning within the next two decades and bp's expectation to reduce hydrocarbon production by 40% by 2030 through active management and high-grading of the portfolio, has not currently materially brought forward the expected timing of decommissioning expenditures for the upstream assets in bp's portfolio. Management does not expect any reasonable change in the expected timing of decommissioning to have a material effect on the upstream decommissioning provisions, assuming cash flows remain unchanged. Decommissioning cost estimates are based on the known regulatory and external environment. These cost estimates may change in the future, including as a result of the transition to a lower carbon economy. Management will continue to review facts and circumstances to assess if decommissioning provisions need to be recognized. See significant judgements and estimates: provisions for further information.

Judgements and estimates made in assessing the impact of the COVID-19 pandemic and the economic environment
In preparing the financial statements, the following areas involving judgement and estimates were identified as most relevant with regards to the impact of the COVID-19 pandemic and current economic environment.

Going concern
Forecast liquidity has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period. Reverse stress tests performed indicated that the group will continue to operate as a going concern for at least 12 months from the date of approval of the consolidated financial statements even if the Brent price fell to zero. No material uncertainties over going concern or significant judgements or estimates in the assessment were identified. See also Note X Financial instruments and financial risk factors – Liquidity risk for further information.

Discount rate assumptions
The discount rates used for impairment testing and provisions were reassessed during the year in light of changing economic and geopolitical outlooks. The nominal discount rate applied to provisions was reduced during the year to reflect the enduring reduction in US Treasury yields. The principal impact of this rate reduction at group level was a $1.3 billion increase in the decommissioning provision with a corresponding increase in the carrying amount of property, plant and equipment of $1.0 billion. Impairment discount rates and country risk premiums were unchanged from those reported in 2020. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

Oil and natural gas price assumptions
The price assumptions for Brent oil up to 2030 and Henry Hub gas for 2022 used in value-in-use impairment testing were revised upwards during the year, in part due to near-term supply constraints and short term market conditions. Impairment reversals were recognized on certain upstream oil and gas properties as a consequence of these price assumptions changes. See significant judgements and estimates: recoverability of asset carrying values for further information.

Income taxes
The carrying amounts of the group's deferred tax assets were reviewed and updated to the extent that there are changes in the probability of sufficient taxable profits being available to utilize the reported deferred tax assets. Management does not consider the measurement of deferred tax assets to be a significant accounting estimate. See significant accounting policy: income taxes and Note 9 for further information.

Significant accounting policies

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment, as well as the ongoing impact of COVID 19 were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices

DN

over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 5-6.

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. There is no significant exploration or development spend planned on those fields during the going concern period. The company does not hold 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 total debit balance of the internal finance accounts (IFA) in the company as at 31 December 2021 is $439,214,000 funded by BP International Limited. The company has only intercompany trading within the bp group and also has net assets position of $4,503,349,000 and net current assets of $2,380,557,000.

In assessing the prospects of Britoil 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.

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

Fixed asset investments in subsidiaries are held at cost. The company assesses investments for an impairment indicator annually. If any such indication of possible impairment exists, the company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

All other fixed asset investments are stated in the financial statements at cost less provisions for impairment.

DMT

Interests in joint arrangements

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

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

Business combinations and goodwill

The Companies Act 2006 requires goodwill to be reduced by provisions for amortization on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortized. Consequently, the company does not amortize goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the requirement for the amortization of goodwill in the Companies Act 2006. The company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful economic life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends or lower costs or other economic benefits directly to investors or other owners or participants. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the cash-generating unit to which the goodwill relates should be assessed. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

DM

Goodwill may also arise upon acquisition of interests in joint operations that meet the definition of a business. The amount of goodwill separately recognized is the excess of the consideration transferred over the company's share of the net fair value of the identifiable assets and liabilities.

Significant judgements and estimates: impairment of investments

Determination as to whether, and how much, an investment is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation 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.

For value in use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The pre-tax discount rate is based upon the cost of funding the group derived from an established model, adjusted to a pre-tax basis. Fair value less costs of disposal calculations use the post-tax discount rate. The discount rates applied in impairment tests are reassessed each year.

See 'Significant judgements and estimates: recoverability of asset carrying values' below for details of assumptions used.

Intangible assets

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

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

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

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives.

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 and appraisal expenditure

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

DM

NOTES TO THE FINANCIAL STATEMENTS

Licence and property acquisition costs

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

Exploration and appraisal expenditure

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

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

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

Significant judgement: exploration and appraisal intangible assets

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

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

The carrying amount of capitalized costs and further information on the write-offs are included in Note 8.

Tangible assets

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

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

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

Expenditure on the construction, installation and 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 property, plant and equipment and is depreciated from the commencement of production.

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

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

Fixtures and fittings 5 to 15 years

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

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

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

DM

Impairment of intangible and tangible assets

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

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

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

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

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of CGUs to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs to which goodwill has been allocated is compared with its recoverable amount. Where the recoverable amount of the group of CGUs is less than the carrying amount (including goodwill), an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

DM

Significant judgements and estimates: recoverability of asset carrying values

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

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

Details of impairment charges and reversals recognized in the profit and loss account are provided in Note 4 and details of the carrying amounts of assets are shown in Note 11 and Note 12.

The estimates for assumptions made in impairment tests in 2021 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment including as a result of the energy transition or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

Discount rates

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

The discount rates applied in impairment tests are reassessed each year and in 2021 the post-tax discount rate used was 6% (2020 6%). Where the CGU is located in a country that was judged to be higher risk an additional premium of 1% to 3% was reflected in the discount rate (2020 1% to 3%). The judgement of classifying a country as higher risk and the applicable premium takes into account various economic and geopolitical factors. The pre-tax discount rate typically ranged from 7% to 15% (2020 7% to 15%) depending on the applicable tax rate in the geographic location of the CGU.

DM

NOTES TO THE FINANCIAL STATEMENTS

Oil and natural gas properties

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

In 2021, the company identified oil and gas properties with carrying amounts totalling $4 million (2020 $936 million) where the headroom, as at the dates of the last impairment test performed on those assets, was less than or equal to 20% of the carrying value. A change in the discount rate, reserves, resources or the oil and gas price assumptions in the next financial year may result in a recoverable amount of one or more of these assets above or below the current carrying amount and therefore there is a significant risk of impairment reversals or charges in that period.

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

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 12.

Oil and natural gas prices

The price assumptions used for value in use impairment testing are based on those used for investment appraisal. bp's carbon emissions cost assumptions and their interrelationship with oil and gas prices are described in 'Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy' on page 27. The investment appraisal price assumptions are recommended by the bp group senior vice president economic & energy insights after considering a range of external price, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met.

During the year, bp's price assumptions applied in value in use impairment testing for Brent oil up to 2030 were increased to reflect near-term supply constraints. bp's management also expects an acceleration of the pace of transition to a lower carbon economy. As such, the long-term Brent oil assumptions were decreased during the year, reaching $55 per barrel by 2040 and $45 per barrel by 2050 (in 2020 real terms). The price assumptions applied in value in use impairment test for Henry Hub gas were unchanged to those used in 2020 except that the assumption for 2022 was increased to reflect short term market condition.
These price assumptions are derived from the central case investment appraisal assumptions. A summary of the group's revised price assumptions applied in 2021 and 2020, in real 2020 terms, is provided below. The assumptions represent management's best estimate of future prices, which sit within the range of external forecasts considered as appropriate for the purpose. They are considered by bp to be in line with a range of transition paths consistent with the Paris climate goal of limiting global warming to well below 2°C as well as the ambition to limit global warming to no greater than 1.5°C. An inflation rate of 2% (2020 2%) is applied to determine the price assumptions in nominal terms.

2021 price assumptions	2022	2025	2030	2040	2050
Brent oil ($/bbl)	70	60	60	55	45
Henry Hub gas ($/mmBtu)	4	3	3	3	2.75

2020 price assumptions	2021	2025	2030	2040	2050
Brent oil ($/bbl)	50	50	60	60	50
Henry Hub gas ($/mmBtu)	3.00	3.00	3.00	3.00	2.75

DN

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

The oil market continued its rebalancing process in 2021. Oil prices averaged $70/bbl in 2021. That is 70% higher than in 2020 and the second highest since 2015. Oil demand rebounded on the back of the economic recovery, supported by the increasing COVID-19 vaccination roll-out and gradual lifting of restrictions. On the supply side, continued active supply management by OPEC+ countries also helped accelerate the rebalancing process. bp's long-term assumption for oil prices is lower than the 2021 price average, based on the judgement that, in the long term, oil demand is likely to fall so that the price levels needed to encourage sufficient investment to meet declining global oil demand is also lower.

US gas prices almost doubled in 2021 to $3.9/mmbtu from $2.0/mmbtu in 2020. The higher prices reflect a much tighter demand/supply balance for 2021 when compared to 2020. Early in the year, colder weather increased demand and decreased supply resulting in a large draw on storage and therefore the need to replenish it over the summer. Strong global GDP recovery also saw a recovery in LNG exports from the US relative to the shut-ins in 2020. Further, higher coal prices also supported gas prices through competition in the power sector. The level of US gas prices in 2021 is above bp's long term price assumption based on the judgement of the price level required to incentivize new production.

Oil and natural gas reserves

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

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

DM

Sensitivity analyses

Management considers discount rates, oil and natural gas prices and production to be the key sources of estimation uncertainty in determining the recoverable amount of upstream oil and gas assets. The sensitivity analyses in addition to covering the key sources of estimation uncertainty, also indicate how the energy transition, potential future carbon emissions costs and/or reduced demand for oil and gas may further impact forecast revenue cash inflows to a greater extent than currently anticipated in the group's value-in-use estimates for oil and gas CGUs, if carbon emissions costs were to be implemented as a deduction against revenue cash flows. The analyses therefore represents a net revenue sensitivity.

A change in net revenue from upstream oil and gas properties can arise either due to changes in oil and natural gas prices, carbon emissions costs/carbon prices, changes in oil and natural gas production, or a combination of these.

Management tested the impact of a change in revenue cash flows in value-in-use impairment testing arising from changes in price assumptions and/or production volumes up to a combined effect on revenue of 10%, however they concluded no impairment charges/reversals would be recognized.

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

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of Upstream oil and gas properties, however they concluded no impairment charges/ reversals would be recognized.

Goodwill

Irrespective of whether there is any indication of impairment, the company is required to test annually for impairment of goodwill acquired in business combinations. In testing goodwill for impairment, the company uses a similar approach to that described above for asset impairment. If there are low oil or natural gas prices or refining margins or marketing margins for an extended period or the long-term price outlook weakens, the company may need to recognize goodwill impairment charges.

Stocks

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

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

DM

Leases

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

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

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

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

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. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, intangible assets, and goodwill.

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

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

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

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

The company recognizes the full lease liability, rather than its working interest share, for leases entered into on behalf of a joint operation if the company has the primary responsibility for making the lease payments. In such cases, the company's working interest share of the right-of-use asset is recognized if it is jointly controlled by the company and the other joint operators, and a receivable is recognized for the share of the asset transferred to the other joint operators. If the company is a non-operator, a payable to the operator is

DMT

recognized if they have the primary responsibility for making the lease payments and the company has joint control over the right-of-use asset, otherwise no balances are recognized.

Financial assets

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

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

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

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

Derivatives designated as hedging instruments in an effective hedge
Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

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

Impairment of financial assets measured at amortized cost

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

DTT

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

Derivatives designated as hedging instruments in an effective hedge
Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

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

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. This category of financial liabilities includes trade and other payables and finance debt.

Derivative financial instruments and hedging activities

The company is exempt from the disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair value measurement" as the company is included in the consolidated financial statements of the ultimate parent undertaking, BP p.l.c., which include the disclosures on a group basis that comply with these standards. Relevant disclosures as required by the Companies Act 2006 in relation to instruments held at fair value have been included in these financial statements.

The company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging exposure to changes in the fair value of a recognized asset or liability.
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the existence at inception of an economic relationship and subsequent measurement of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable

DMT

to the hedged risk, the hedge ratio and sources of hedge ineffectiveness. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is reported in other comprehensive income, while the ineffective portion is recognized in profit or loss. Amounts reported in other comprehensive income are reclassified to the profit and loss account when the hedged transaction affects the profit or loss.

Where the hedged item is a highly probable forecast transaction that results in the recognition of a non-financial asset or liability, such as a forecast foreign currency transaction for the purchase of tangible assets, the amounts recognized within other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

Cash flow hedge accounting is discontinued only when the hedging relationship or a part thereof ceases to meet the qualifying criteria. This includes when the designated hedged forecast transaction or part thereof is no longer considered to be highly probable to occur, or when the hedging instrument is sold, terminated or exercised without replacement or rollover. When cash flow hedge accounting is discontinued, amounts previously recognized within other comprehensive income remain in equity until the forecast transaction occurs and are reclassified to profit or loss or transferred to the initial carrying amount of a non-financial asset or liability as above. If the forecast transaction is no longer expected to occur, amounts previously recognized within other comprehensive income will be immediately reclassified to profit or loss.

Fair value measurement

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

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

Provisions and contingent liabilities

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 2.0% (2020 2.5%).

DM

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, if material, unless the possibility of an outflow of economic resources is considered remote.

Decommissioning

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

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

Significant judgements and estimates: provisions

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

If oil and natural gas production facilities and pipelines are sold to third parties, judgement is required to assess whether the new owner will be unable to meet their decommissioning obligations, whether the company would then be responsible for decommissioning, and if so the extent of that responsibility. The company has assessed that no significant provisions should be recognized as at 31 December 2021 (2020 no significant provisions) for assets sold to third parties where the sale transferred the decommissioning obligation to the new owner.

DNT

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually, together with the rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligations at the end of 2021 was a nominal rate of 2.0% (2020 2.5%), which was based on long-dated US government bonds. The weighted average period over which decommissioning is generally expected to be incurred is estimated to be approximately 8 years (2020 8 years). Costs at future prices are determined by applying an inflation rate of 1.5% (2020 1.5%) to decommissioning costs and 2% (2020 2%) for all other provisions. A lower rate is typically applied to decommissioning as certain costs are expected to remain fixed at current or past prices.
The estimated phasing of undiscounted cash flows in real terms for the upstream decommissioning is approximately $1,086 million (2020 $951 million) within the next 10 years, $179 million (2020 $184 million) in 10 to 20 years and the remainder of approximately $82 million (2020 $82 million) after 20 years. The timing and amount of decommissioning cash flows are inherently uncertain and therefore the phasing is management's current best estimate but may not be what will ultimately occur.

Further information about the company's provisions is provided in Note 20. Changes in assumptions in relation to the company's provisions could result in a material change in their carrying amounts within the next financial year. A 0.5 percentage point change in the nominal discount rate could have an impact of approximately $44 million (2020 $42 million) on the value of the company's provisions.

The discounting impact on the company's decommissioning provisions for oil and gas properties in the oil productions & operations and gas & low carbon energy segments of a two-year change in the timing of expected future decommissioning expenditures is approximately $9 million (2020 $17 million). Management currently does not consider a change of greater than two years to be reasonably possible in the next financial year.

If all expected future decommissioning expenditures were 10% higher, these decommissioning provisions would increase by approximately $131 million and a pre-tax charge of approximately $65 million would be recognized.

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

Taxation

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

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

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

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

- Where the deferred tax liability arises on the initial recognition of goodwill;
- Where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither

DM

accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

- 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, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductive temporary differences.

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.

Petroleum revenue tax

Deferred Petroleum Revenue Tax (PRT) assets are recognized where PRT relief on future decommissioning costs is virtually certain.

DNT

Customs duties and sales taxes

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

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

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

Turnover

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

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

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

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

Tariff income is recognized as the underlying commodity is shipped through the pipeline network based on established tariff rates.

Interest income

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

Dividend income

Dividend income from investments is recognized when the shareholders' right to receive the payment is established.

Research costs

Research costs are expensed as incurred.

DN

Development costs

Development costs for internally developed intangible assets are expensed as incurred unless all of the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale.
- There is an intention and the ability to complete, and use or sell, the intangible asset.
- It can be demonstrated how the intangible asset will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Finance costs

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

Updates to significant accounting policies

Impact of new International Financial Reporting Standards

bp adopted 'Interest Rate Benchmark Reform – Phase II – Amendments to IFRS9 'financial instruments', IFRS 16 'Leases' and other IFRSs' with effect from 1 January 2021. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the company's financial statements.

The adoption of 'Interest Rate Benchmark Reform – Phase II – Amendments to IFRS 9 'Financial instruments', IFRS 16 'Leases' and other IFRSs' has had no material impact on the company's financial statements.

DM

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover

Sales of goods, which is stated net of value added tax, represents amounts where the performance obligation of a contract has been met with third parties and group companies. Turnover is realised entirely in the oil production & operations business.

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

	2021	2020
	$000	$000
Revenue from contracts with customers	1,500,241	448,858
Tariff income	1,400	1,520
Other operating revenue	1,250	(4,919)
	1,502,891	445,459
Other operating income	28,908	4,091
Interest receivable and similar income (Note 7)	2,895	168
	1,534,694	449,718

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

Revenue from contracts with customers is attributable to one continuing activity, the production and sale of petroleum and hydrocarbon products. Revenue is recognised as the performance obligation of delivery to the end buyer is met, being the point risk and reward has transferred in accordance with the sales contract.

The increase of $25 million in other operating income was mainly related to final insurance payments received for Foinaven field in the second half of the year relating to lost production associated with the failure of a compressor in 2019.

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

4. Operating profit / (loss)

This is stated after charging / (crediting):

	2021	2020
	$000	$000
Net foreign exchange losses	600	8,952
Research and development costs expensed	710	904
Depreciation of tangible assets (Note 12)	521,669	606,837
Depreciation of right-of-use assets[a] (Note 12)	1,797	34,974
Impairment of tangible assets (Note 12)	—	297,777
Impairment of right-of-use assets[a] (Note 12)	—	26,689
Reversal of impairment of tangible assets (Note 12)	4,466	—
Reversal of impairment of right-of-use assets[a]	(7,840)	—
Impairment of investments (Note 13)	9,953	533,837
Cost of stock recognized as an expense[b]	636	686
(Profit) / loss on disposal of tangible assets	(10,293)	17,847

[a] The line indicated is in respect of the application of IFRS 16.

[b] Amount is included in Cost of sales.

DYT

5. Auditor's remuneration

	2021	2020
	$000	$000
Fees for the audit of the company	66	29

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 Britoil Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

The fees were borne by another group company.

6. Interest receivable and similar income

	2021	2020
	$000	$000
Interest income from amounts owed by group undertakings	606	141
Other interest income	212	27
Petroleum Revenue Tax (PRT)	2,077	—
Total interest receivable and similar income	2,895	168

7. Interest payable and similar expenses

	2021	2020
	$000	$000
Interest expense on:		
Lease liabilities[a]	113	878
Petroleum Revenue Tax (PRT)	—	6,092
Other interest expense	166	73
Total interest expense	279	7,043
Unwinding of discount on provisions (Note 20)	22,402	23,673
Total interest payable and similar charges	22,681	30,716

[a] In respect of the application of IFRS 16.

DJT

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

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

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

	2021 $000	2020 $000
Exploration and evaluation costs		
Exploration expenditure written off	—	(99)
Other exploration costs	959	(512)
Exploration expense for the year	959	(611)
Intangible assets – exploration and appraisal expenditure	92,783	92,730
Liabilities	79,908	24,001
Net assets	12,875	68,729
Cash (used in)/from operating activities	959	(512)
Cash used in investing activities	57	1,614

9. Taxation

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

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

	2021 $000	2020 $000
Current tax		
UK corporation tax on income for the year	—	—
UK tax underprovided in prior years	—	4,270
Total current tax charged	—	4,270
Deferred tax		
Origination and reversal of temporary differences	205,073	(415,703)
Effect of increased / (decreased) tax rate on opening liability	—	—
Adjustments in prior year temporary differences	(149)	(7,571)
Total deferred tax charged / (credited)	204,924	(423,274)
Tax charged / (credited) on profit	204,924	(419,004)

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower (2020: higher) than the standard rate of overseas tax in the UK of 40% for the year ended 31 December 2021 (2020: 40%). The differences are reconciled below:

DM

	2021	2020
	$000	$000
Profit / (loss) before taxation	635,405	(786,459)
Tax charge / (credit)	204,924	(419,004)
Effective tax rate	32 %	53 %

	2021	2020
	%	%
UK statutory corporation tax rate:	40	40
Non-deductible expenditure / (non-taxable income)	1	(28)
Dividends not subject to UK tax	—	31
Ring Fence Expenditure supplement	(1)	6
Investment allowance	—	4
Activated investment/Cluster allowance	(8)	—
Effective tax rate	32	53

Change in corporation tax rate
On 3 March 2021, the UK Government announced an increase in the UK's main corporation tax rate from 19% to 25%, effective from 1 April 2023. On 23 September 2022, the Chancellor of the Exchequer announced that the planned corporation tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. This change has yet to be substantively enacted. Because the enacted rate at the balance sheet date was 25% this announcement does not represent an adjusting event and the company's deferred tax balances as at 31 December 2021 are still calculated at that higher rate.

The rate change is not expected to have a material impact on the company's financial statements.

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

If the cancellation of the increase in the main rate of corporation tax had been substantively enacted at the balance sheet date, there would have been no impact on the company's deferred tax position. This is because all of the company's deferred tax balances as at 31 December 2021 relate to the Ring Fence trade.

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
Deferred tax asset	2021	2020	2021	2020
	$000	$000	$000	$000
Decommissioning and other provisions	(59,622)	7,378	486,428	426,805
Tax losses carried forward	429,313	(84,418)	162,747	592,060
Other deductible temporary differences	(1,751)	—	1,751	—
Net credit for deferred tax assets	367,940	(77,040)	650,926	1,018,865

DJT

	Profit and loss account		Balance sheet	
Deferred tax liability	2021	2020	2021	2020
	$000	$000	$000	$000
Accelerated capital allowances	(146,326)	(325,520)	(1,035,470)	(1,181,795)
Other taxable temporary differences	(16,690)	(20,714)	(37,091)	(53,781)
Net charge for deferred tax liabilities	(163,016)	(346,234)	(1,072,561)	(1,235,576)
Net deferred tax credit and net deferred tax liability	204,924	(423,274)	(421,635)	(216,711)

Analysis of movements during the year

	2021
	$000
At 1 January 2021	(216,711)
Deferred tax charge in the profit and loss account	(204,924)
At 31 December 2021	(421,635)

10. Directors and employees

(a) Remuneration of directors

The following details relate to the directors who received remuneration for their qualifying services to the company and so are in scope for this disclosure.

The total remuneration for these qualifying directors for their period of directorship to the company amounted to $157,000 (2020 $171,000). None of these directors received non-cash benefits in relation to qualifying services.

None of these qualifying directors were members of the defined benefit section of the bp Pension Fund at 31 December 2021 (2020 One).

None of the qualifying directors exercised share options over BP p.l.c. shares during the year (2020 None).

(b) Employee costs

The company had no employees during the year (2020: None).

DIT

11. Intangible assets

	Goodwill	Exploration expenditure	Total
Cost	$000	$000	$000
At 1 January 2021	803,748	95,799	899,547
Additions	—	57	57
Changes in decommissioning provision	—	(4)	(4)
At 31 December 2021	803,748	95,852	899,600
Amortisation			
At 1 January 2021	—	(3,069)	(3,069)
At 31 December 2021	—	(3,069)	(3,069)
Net book value			
At 31 December 2021	803,748	92,783	896,531
At 31 December 2020	803,748	92,730	896,478

The purchase of 16.5% of Clair field from BP Exploration (PSI) Limited in October 2019 resulted in goodwill in amount of $803,748,000. Goodwill arose as a result of the hive-down of 16.5% equity in Clair field by BP Exploration (PSI) Limited and has been computed under IFRS 3 as the excess of consideration transferred over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed.

DM

NOTES TO THE FINANCIAL STATEMENTS

12. Tangible assets

	Fixtures & fittings	Oil & gas properties	Total	Of which AUC[a]
Cost - owned tangible assets	$000	$000	$000	$000
At 1 January 2021	12,308	7,177,549	7,189,857	15,293
Additions	—	45,445	45,445	45,445
Disposals	—	(10,000)	(10,000)	—
Transfers	—	—	—	(50,098)
Changes in decommissioning provision	—	106,118	106,118	—
At 31 December 2021	12,308	7,319,112	7,331,420	10,640
Depreciation - owned tangible assets				
At 1 January 2021	(12,308)	(4,310,137)	(4,322,445)	(2,779)
Charge for the year	—	(521,669)	(521,669)	—
Reversal of impairment	—	(4,466)	(4,466)	2,779
Disposals	—	10,000	10,000	—
At 31 December 2021	(12,308)	(4,826,272)	(4,838,580)	—
Owned tangible assets - net book value				
At 31 December 2021	—	2,492,840	2,492,840	10,640
Right-of-use assets - net book value				
At 31 December 2021	—	1,216	1,216	—
Total tangible assets net book value				
At 31 December 2021	—	2,494,056	2,494,056	10,640
Total net book value				
At 31 December 2020	—	2,874,091	2,874,091	12,514
Depreciation charge for the year on right-of-use assets				
2021	—	(1,797)	(1,797)	—
2020	—	(34,974)	(34,974)	—

[a]AUC = assets under construction. Assets under construction are not depreciated.

Capitalized interest included above is:

	Net book value
Capitalized interest	$000
At 31 December 2021	303
At 31 December 2020	1,188

In 2021 the company recognised AUC additions in amount of $45 million due to further developments in Clair area ($36 million), Culzean field ($5 million), and Foinaven field ($4 million). Also the company has capitalized $50 million of AUC to Oil and Gas properties in Clair area ($39 million), Foinaven field ($7 million) and Culzean field ($4 million).

DTT

During the year the company has recognized impairment charges of $179 million relating to oil production and operations. This principally relates to losses on anticipated portfolio changes. Impairment reversals of $182 million mainly arose as a result of changes to the group's oil and gas price assumptions and re-assessment of reserves.

Management's best estimate of oil price assumptions for value-in-use impairment testing was revised during 2021. The assumption up to 2030 was increased to reflect near-term supply constraints whereas the long-term assumption was decreased as bp's management expects an acceleration of the pace of transition to a lower carbon economy. Henry Hub gas price assumptions remain unchanged from 2020 except that the assumption for 2022 has been increased to reflect short-term market conditions. The revised assumptions sit within the range of external scenarios considered by management and are in line with a range of transition paths consistent with the temperature goal of the Paris climate change agreement, of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, refinery throughputs, sales volumes for various types of refined products (e.g. gasoline and lubricants), revenues, costs and capital expenditure. Carbon taxes and costs of emissions allowances are included in estimates of future cash flows, where applicable, based on the regulatory environment in each jurisdiction in which the group operates. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, natural gas prices, refining margins, refined product margins and cost inflation rates are set by senior management. These assumptions take account of existing prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group to the extent that they are not already 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.

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

The key assumptions used in the value-in-use calculations are oil and natural gas prices, production volumes and the discount rate. The value-in-use calculations have been prepared solely for the purposes of determining whether the goodwill balance were impaired. Estimated future cash flows were prepared on the basis of certain assumptions prevailing at the time of the tests. The actual outcomes may differ from the assumptions made. For example, reserves and resources estimates and production forecasts are subject to revision as further technical information becomes available and economic conditions change. Due to economic developments, regulatory change and emissions reduction activity arising from climate concern and other factors, future commodity prices and other assumptions may differ from the forecasts used in the calculations.

These sensitivity analyses do not, however, represent management's best estimate of any impairment charges or reversals that might be recognized as they do not fully incorporate consequential changes that may arise, such as changes in costs and business plans and phasing of development. For example, costs across the industry are more likely to decrease as oil and natural gas prices fall. The analyses also assume the impact of increases in carbon price on operational GHG emissions are fully absorbed as a decrease in net revenue (and vice versa) rather than reflecting how carbon prices or other carbon emissions costs may ultimately be incorporated by the market. The above sensitivity analyses therefore do not reflect a linear relationship between net revenue and value that can be extrapolated. The interdependency of these inputs and factors plus the diverse characteristics of our upstream oil and gas properties limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to the price assumptions or production volumes.

As a result of this review, the company has recognized total impairment reversals of $3 million (2020 $324 million charge). These consist of impairment charges of owned tangible assets amounting to $5 million (2020: $298 million) and impairment reversals of right-of-use assets amounting to $8 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 $6 million.

13. Investments

	Investment in subsidiaries
Cost	$000
At 1 January 2020	1,434,000
At 31 December 2020	1,434,000
At 1 January 2021	1,434,000
At 31 December 2021	1,434,000
Impairment losses	
At 1 January 2020	(525,798)
Charge for the year	(533,837)
At 31 December 2020	(1,059,635)
At 1 January 2021	(1,059,635)
Charge for the year	(9,953)
At 31 December 2021	(1,069,588)
Net book amount	
At 31 December 2021	364,412
At 31 December 2020	374,365

The investments in subsidiaries are all stated at cost less provision for impairment.

The company has recognized $9,953,000 of impairment as a result of slight decrease of net assets of Amoco Fiddich Limited as production has been ceased due to the FPSO off-stationing in 2021.

The investments in the subsidiary undertakings are unlisted.

The subsidiary and other undertakings of the company at 31 December 2021 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.

DTT

NOTES TO THE FINANCIAL STATEMENTS

Subsidiary undertakings

Company name	Class of share held	%	Registered address	Principal activity
Amoco (UK) Exploration LLC	Ordinary shares	100	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Exploration and production of hydrocarbons

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	Holding %	Registered address	Direct / Indirect
Amoco UK Petroleum Limited	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Amoco (Fiddich) Limited	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect

14. Stocks

	2021	2020
	$000	$000
Raw materials and consumables	16,879	15,421
Crude oil	11,116	14,686
	27,995	30,107

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

15. Debtors

Amounts falling due within one year:

	2021	2020
	$000	$000
Trade debtors	105,182	38,351
Amounts owed from parent undertakings	724,116	959,604
Amounts owed from fellow subsidiaries	414,312	262,277
Other debtors	290,532	180,848
Prepayments and accrued income	5,933	7,029
Taxation	46	—
Petroleum Revenue Tax	44,866	46,827
Joint venture lease receivable	106	322
	1,585,093	1,495,258

DNT

Amounts falling due after one year:

	2021	2020
	$000	$000
Other debtors	58,564	70,523
Loans to group undertakings	1,000,000	—
Petroleum Revenue Tax	92,727	134,453
	1,151,291	204,976
Total debtors	2,736,384	1,700,234

The amounts owed from parent undertakings include an Internal Financing Account (IFA) of $439m (2020 $576m). Interest is accrued on a monthly basis based on LIBOR. The interest rate at year end was 0.01% (2020: Nil).
The remaining $285m relates of the balance with BPEOC and with BP International IST. The remaining amount owed from parent undertakings, fellow subsidiaries and associates are trading balances with payment terms of 30 days. Trade and other receivables are predominantly non-interest bearing.

Whilst IFA balances are legally repayable on demand, in practice they have no termination date.

16. Creditors

Amounts falling due within one year:

	2021	2020
	$000	$000
Trade creditors	39,481	56,333
Amounts owed to parent undertakings	68,213	2
Amounts owed to fellow subsidiaries	132,770	122,673
Other creditors	98,341	14,110
Taxation	—	37,722
Accruals and deferred income	44,195	64,764
Bank overdraft	169	309
	383,169	295,913

Amounts falling due after one year:

	2021	2020
	$000	$000
Other creditors	88	9,176
Total creditors	383,257	305,089

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.
The 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.

DJT

17. Obligation under leases

Lease liabilities are analysed as follows:

Within 5 years

	2021	2020
	$000	$000
Not wholly repayable	1,383	14,516
	1,383	14,516

After 5 years

	2021	2020
	$000	$000
Not wholly repayable	625	947
	625	947

Lease liabilities due within one year is $658,000 and due after more than one year is $1,350,000.

Further reduction of liability on Foinaven FPSO lease contract was due to the FPSO removal on Foinaven field. Lease liability for Maersk drilling rig was settled in amount of $13 million in current year in line with terms of lease contracts.

18. Leases

The company leases a number of assets as part of its activities. This primarily includes FPSO (floating, production, storage, offtake) that will terminate in 3Q 2022. Some leases will have payments that vary with market interest or inflation rates.

	2021	2020
	$000	$000
Expense for variable payments not included in the lease liability	—	267
Additions to right-of-use assets in the period	10,850	(2,771)
Total cash outflow for amounts included in lease liabilities[a]	480	39,028

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

An analysis of right-of-use assets and depreciation is provided in Note 12. An analysis of lease interest expense is provided in Note 7.

Operating lease payments receivable, included within debtors, are analysed as follows:

	2021	2020
	$000	$000
Year 1	106	322
Total	106	322

DMT

19. 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 foreign currency exchange rates consistent with risk management policies and objectives.

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:

	2021 Fair value asset $000	2021 Fair value liability $000	2020 Fair value asset $000	2020 Fair value liability $000
Cash flow hedges				
- Currency forwards, futures and cylinders	—	—	88	—
Other financial liabilities	—	—	—	(24,929)
	—	—	88	(24,929)
Of which:				
– current derivatives with third parties	—	—	—	(4,581)
– current intercompany derivatives with parent undertaking	—	—	88	—
– non-current derivatives with third parties	—	—	—	(20,348)
	—	—	88	(24,929)

2020	Less than 1 year $000	1-2 years $000	2-3 years $000	3-4 years $000	Total $000
Fair value of derivative assets					
Level 2	88	—	—	—	88
Fair value of derivative liabilities					
Level 2	—	—	—	—	—
Net fair value	88	0	—	—	88

DJT

Cash flow hedges

At 31 December 2020, the company held currency forwards designated as hedging instruments in cash flow hedge relationships of highly probable forecast non-US dollar capital expenditure. There were no forwards as at 31 December 2021. Note 28 of the bp group Annual Report and Form 20-F for the year ended 31 December 2021 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.

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.

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

Of the nominal amount of hedging instruments relating to highly probable forecast capital expenditure $4.2 million matured in 2021

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.

	Weighted average price/rate Forecast Capital Expenditure
At 31 December 2020	
GBPUSD	1.34

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 this Note above.

DJT

	Cash flow hedge reserves Highly probable forecast capital expenditure
As at 1 January 2021	221
Cash flow hedges transferred to the balance sheet	(221)
As at 31 December 2021	—

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 Culzean 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 point taken immediately to the income statement. The amount recognized in the profit and loss account was a profit of $132,000 (2020: $742,000 profit).

The company completed the sale of its interest in the Devenick field on 28 June 2013 (cessation of production is happened at the end of 2021). As part of the terms of this divestment, the company retained the rights to 80% of the future cash flows of the assets, also known as The Devenick Revenue Sharing Agreement (RSA). The rights have been recognized in these accounts as other financial instruments at fair value through profit or loss. The RSA is fair valued quarterly using the value in use method applying a 6% (2020: 6%) discount rate to the future cash flows. In 2021 the profit share element of RSA has been terminated, thus it is reported under decommissioning obligation as that is all the cash flow left in RSA.

DTT

20. Other provisions

	Decom-missioning $000	Total $000
At 1 January 2021	1,062,087	1,062,087
New or increased provisions:		
Charged to profit and loss account	126,174	126,174
Recognized within tangible and intangible assets	106,114	106,114
Recognized within right-of-use assets	(12,062)	(12,062)
Unwinding of discount	22,402	22,402
Utilization	(95,581)	(95,581)
At 31 December 2021	1,209,134	1,209,134
At 31 December 2021		
Current	211,047	211,047
Non-current	998,087	998,087
	1,209,134	1,209,134
At 31 December 2020		
Current	125,235	125,235
Non-current	936,852	936,852
	1,062,087	1,062,087

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

21. Called up share capital

	2021 $000	2020 $000
Issued and fully paid:		
16,756,628,766 ordinary shares of 10p each for a total nominal value of £1,675,662,876.6 (2019: 16,756,628,766 ordinary shares of 10p each for a total nominal value of £1,675,662,876.6)	2,389,898	2,389,898
	2,389,898	2,389,898

DTT

22. Reserves

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

Share premium account
The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

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.

Profit and loss account
The balance held on this reserve is the retained profits of the company.

In 2021, the company paid interim ordinary dividends of $178,000,000 (2020 $0). The dividend per share was $0.01 (2020 $0.00).

23. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2021 is estimated at $12,459,000 (2020: $19,350,000).

24. Related party transactions

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

25. Post balance sheet event

On 14 December 2021 bp announced its intention to acquire Rockrose's 28% shares in Foinaven and 47% share in East Foinaven fields. The deal was completed on 1 April 2022 and as a result bp increased its share to 100% in Foinaven and 90% in East Foinaven fields. Since the transaction arose only subsequent to 31 December 2021, it will be reflected in the financial statements of Britoil Limited for the year ending 31 December 2022.

26. Immediate and ultimate controlling parent undertaking

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

DJT