

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

5.4 RESTORATION OBLIGATIONS

Provisions for future removal and environmental restoration costs are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that future outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas and is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Any changes in the estimate are reflected in the present value of the restoration provision at the reporting date, with a corresponding change in the cost of the associated asset.

In the event the restoration provision is reduced, the cost of the related oil and gas asset is reduced by an amount not exceeding its carrying value. If the decrease in restoration provision exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement as other income.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.



Significant judgement - Provision for restoration

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation and the extent of restoration activities required.

The Group has recorded provisions for restoration obligations as follows:

	2016 US\$million	(Restated) 2015 US\$million
Current provision	69	52
Non-current provision	1,399	1,726
	1,468	1,778

Movements in the provision during the financial year are set out below:

	Total restoration US\$million
Balance at 1 January 2016	1,778
Impact of changes in future restoration assumptions – restoration asset	(18)
Impact of changes in future restoration assumptions – other income	(37)
Provisions used during the year	(25)
Unwind of discount	41
Disposal of provision	(56)
Change in discount rate	(111)
Transferred to liabilities held for sale	(99)
Exchange differences	(5)
Balance at 31 December 2016	1,468

Payments made into escrow accounts relating to future restoration obligations included in the table above of \$62 million (2015: \$52 million) are included within other non-current financial assets (note 5.5(f)).

Other provisions

In addition to the provision for restoration shown above and employee provisions in note 7.1, other items for which a provision has been recorded are other current provisions \$7 million (2015: \$13 million), and other non-current provisions \$52 million (2015: nil).