

**BP EAST KALIMANTAN CBM LIMITED**

**(Registered No 06383221)**

**ANNUAL REPORT AND ACCOUNTS 2012**

Board of Directors      J H Bartlett  
                                    J S Blythe  
                                    M R Illingworth  
                                    W W L Lin  
                                    A P Martin

**REPORT OF THE DIRECTORS**

The directors present their report and accounts for the year ended 31 December 2012.

**Results and dividends**

The loss for the year after taxation was \$3,799,000 which, when added to the retained deficit brought forward at 1 January 2012 of \$7,964,000, gives a total retained deficit carried forward at 31 December 2012 of \$11,763,000

The company has not declared any dividends during the year (2011 \$Nil) The directors do not propose the payment of a dividend

**Principal activity and review of the business**

This company has been set up to develop coal bed methane (CBM) in East Kalimantan, Indonesia. The resources sit within the existing Sanga-Sanga PSC acreage, in which BP has a 26.25% interest and which has been producing conventional gas for conversion into LNG for many years. The project is currently in the appraisal stage.

No key financial and other performance indicators have been identified for this 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 at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

We urge you to consider carefully the risks described below. The potential impact of the occurrence or reoccurrence of any of the risks described below could have a material adverse effect on the company's business, financial position, results of operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda.

Company level risks have been categorised against the following areas: strategic and commercial, compliance and control, safety and operational, and financial risk management. In addition, we have also set out a further category of risk for your attention – those resulting from the 2010 Gulf of Mexico oil spill (the Incident).



## **BP EAST KALIMANTAN CBM LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Principal risks and uncertainties (continued)**

##### **Gulf of Mexico oil spill**

The Gulf of Mexico oil spill has had and could continue to have a material adverse impact on BP as a group, and consequently may also have an adverse impact on BP East Kalimantan CBM Limited

Whilst the BP group recognised significant charges in the income statement since the Incident occurred in 2010, there is significant uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Incident, the potential changes in applicable regulations and the operating environment that may result from the Incident, the impact of the Incident on the reputation of the group and the resulting possible impact on the group's licence to operate including its ability to access new opportunities. The amount of claims that become payable by the BP group, the amount of fines ultimately levied on the BP group (including any potential determination of the BP group's negligence or gross negligence), the outcome of litigation, the terms of any further settlements including the amount and timing of any payments thereunder, and any costs arising from any longer-term environmental consequences of the Incident, will also impact upon the ultimate cost for the BP group.

Although the provisions recognised represent the current best estimates of expenditures required to settle certain present obligations that can be reasonably estimated at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligations reliably and the total amounts payable by the BP group in relation to all obligations relating to the Incident are subject to significant uncertainty. These uncertainties are likely to continue for a significant period, increase the risks to which the group is exposed and may cause costs to increase. Thus, the Incident has had, and could continue to have, a material adverse impact on the group's business, competitive position, financial performance, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US. The risks associated with the Incident could also heighten the impact of the other risks to which the group is exposed as further described below. Further information on the Incident, is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012.

#### **Strategic and commercial risks**

##### ***Prices and markets***

Oil, gas and product prices are subject to international supply and demand. Political developments and the outcome of meetings of OPEC can particularly affect world supply and oil prices. Previous oil price increases have resulted in increased fiscal take, cost inflation and more onerous terms for access to resources. As a result, increased oil prices may not improve margin performance. In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to further reviews for impairment of the company's oil and natural gas properties. Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the company's results of operations in the period in which it occurs. Rapid material or sustained change in oil, gas and product prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the ensuing actions derived from those decisions may no longer be appropriate.

Governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal and regulatory frameworks of the oil and gas industry, including the risk of increased taxation, nationalisation and expropriation.

The global financial and economic situation may have a negative impact on third parties with whom the company does, or may do, business with. In particular, on-going instability in or a collapse of the Eurozone could trigger a new wave of financial crises and push the world back into recession, leading to lower demand and lower oil and gas prices.

## **BP EAST KALIMANTAN CBM LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Principal risks and uncertainties (continued)**

##### **Strategic and commercial risks (continued)**

###### ***Socio-political***

The diverse nature of the company's operations around the world exposes it to a wide range of political developments and consequent changes to the operating environment, regulatory environment and law

The company has operations, and are seeking new opportunities, in countries where political, economic and social transition is taking place. Some countries have experienced or may experience in the future political instability, changes to the regulatory environment, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt or terminate the company's operations, causing its development activities to be curtailed or terminated in these areas or its production to decline, could limit the company's ability to pursue new opportunities, could affect the recoverability of its assets and could cause it to incur additional costs

###### ***Joint ventures and other contractual arrangements***

Many of the company's major projects and operations are conducted through joint ventures. These arrangements often involve complex risk allocation, decision-making process and indemnification arrangements. In certain cases, the company may have less control of such activities than it would have if the company had full operational control.

Additionally, the company's joint venture partners are primarily responsible for the adequacy of the human or technical competencies and capabilities which they bring to bear on the joint project, and in the event these are found to be lacking the company's joint venture partners may not be able to meet their financial or other obligations to their counterparties or to the relevant project, potentially threatening the viability of such projects

Furthermore, should accidents or incidents occur in operations in which the company participates, whether as operator or otherwise, and where it is held that the company's sub-contractors or joint venture partners are legally liable to share any aspects of the cost of responding to such incidents, the financial capacity of these third parties may prove inadequate to fully indemnify the company against the costs it incurs on behalf of the joint venture or contractual arrangement. Should a key sub-contractor, such as a lessor of drilling rigs, be no longer able to make these assets available to the company, this could result in serious disruption to its operations. Where the company does not have operational control of a venture, the company may nonetheless still be pursued by regulators or claimants in the event of an incident.

###### ***Major project delivery***

Successful execution of the company's plan depends critically on implementing the activities to deliver the major projects over the plan period. Poor delivery of any major project that underpins production or production growth, and/or a major programme designed to enhance shareholder value, including maintenance turnaround programmes, could adversely affect the company's financial performance. Successful project delivery requires, among other things, adequate engineering and other capabilities and therefore successful recruitment and development of staff is central to the company's plans.

## **BP EAST KALIMANTAN CBM LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Principal risks and uncertainties (continued)**

##### **Compliance and control risks**

###### ***Regulatory***

Due to the Gulf of Mexico oil spill, it is likely that there will be more stringent regulation of the BP group's oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new drilling areas.

Regulatory or legislative action may impact the industry as a whole and could be directed specifically towards the BP group. New regulations and legislation, the terms of the BP group's settlements with US government authorities and future settlements or litigation outcomes related to the Incident, and/or evolving practices could increase the cost of compliance and may require changes to the company's drilling operations, exploration, development and decommissioning plans, and could impact the company's ability to capitalise on its assets and limit its access to new exploration properties or operatorships. In addition, increases in taxes, royalties and other amounts payable to governments or governmental agencies, or restrictions on availability of tax relief, could also be imposed as a response to the Incident.

In addition, the oil industry in general is subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalisation, expropriation, cancellation or non-renewal of contract rights.

Failure to respond to changes in trading regulations could result in regulatory action and damage to the company's reputation. The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law. As a result of new laws and regulations or other factors, the company could be required to curtail or cease certain operations, or could incur additional costs.

###### ***Ethical misconduct and non-compliance***

The code of conduct, which applies to all employees, defines the company's commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions the company expects of its businesses and people wherever it operates. The values are intended to guide the way the company and its employees behave and do business. Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including non-compliance with anti-bribery, anti-corruption and other applicable laws could be damaging to the company's reputation and shareholder value. Multiple events of non-compliance could call into question the integrity of the company's operations.

###### ***Liabilities and provisions***

The BP group's potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Gulf of Mexico oil spill, together with the potential cost and burdens of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had, and are expected to continue to have, a material adverse impact on the group's business and consequently may also impact the company's business. Further information is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012.

###### ***Reporting***

External reporting of financial and non-financial data is reliant on the integrity of systems and people. Failure to report data accurately and in compliance with external standards could result in regulatory action, legal liability and damage to the company's reputation.

## **BP EAST KALIMANTAN CBM LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Principal risks and uncertainties (continued)**

##### **Safety and operational risks**

###### ***Process safety, personal safety and environmental risks***

The nature of the company's operations exposes it to a wide range of significant health, safety, security and environmental risks. The scope of these risks is influenced by the geographic range, operational diversity and technical complexity of the company's activities. In addition, in many of the company's major projects and operations, risk allocation and management is shared with third parties, such as contractors, sub-contractors, joint venture partners and associates. See 'Joint ventures and other contractual arrangements'.

There are risks of technical integrity failure as well as risk of natural disasters and other adverse conditions in many of the areas in which the company operates, which could lead to loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires, explosions or other incidents.

The company's operations are often conducted in difficult or environmentally sensitive locations, in which the consequences of a spill, explosion, fire or other incident could be greater than in other locations. These operations are subject to various environmental and safety laws, regulations and permits and the consequences of failure to comply with these requirements can include remediation obligations, penalties, loss of operating permits and other sanctions. Accordingly, inherent in the company's operations is the risk that if it fails to abide by environmental and safety and protection standards, such failure could lead to damage to the environment and could result in regulatory action, legal liability, material costs and damage to the company's reputation or licence to operate.

BP's group-wide operating management system (OMS) intends to address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the group can analyse the performance of its activities and identify and remediate shortfalls. There can be no assurance that OMS will adequately identify all process safety, personal safety and environmental risk or provide the correct mitigations, or that all operations will be in conformance with OMS at all times.

###### ***Security***

Security threats require continuous oversight and control. Acts of terrorism, piracy, sabotage, cyber-attacks and similar activities directed against the company's operations and offices, pipelines, transportation or computer systems could cause harm to people and could severely disrupt business and operations. The company's business activities could also be severely disrupted by, amongst other things, conflict, civil strife or political unrest in areas where the company operates.

###### ***Drilling and production***

Exploration and production require high levels of investment and are subject to natural hazards and other uncertainties, including those relating to the physical characteristics of an oil or natural gas field. The company's exploration and production activities are often conducted in extremely challenging environments, which heighten the risks of technical integrity failure and natural disasters discussed above. The cost of drilling, completing or operating wells is often uncertain. The company may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements.

In addition, exploration expenditure may not yield adequate returns, for example in the case of unproductive wells or discoveries that prove uneconomical to develop. The Gulf of Mexico incident illustrates the risks the company faces in its drilling and production activities.

## **BP EAST KALIMANTAN CBM LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Principal risks and uncertainties (continued)**

##### **Financial risk management**

The main financial risks faced by the company through its normal business activities, are market risk, and foreign currency exchange risk. The management of these financial risks is performed at BP group level. The company seeks to maintain a financial framework to ensure that it is able to maintain an appropriate level of liquidity and financial capacity. This framework constrains the level of assessed capital at risk for the purposes of positions taken in financial instruments. Failure to accurately forecast or maintain sufficient liquidity and credit to meet these needs could impact the company's ability to operate and result in a financial loss.

##### ***Market risk***

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. This includes the possibility that changes in foreign currency exchange rates, interest rates or oil, natural gas and power prices will adversely affect the value of the company's financial assets, liabilities or expected future cash flows. The management of such risks is performed at BP group level. The group has developed a control framework aimed at managing the volatility inherent in certain of its natural business exposures. In accordance with this control framework the group enters into various transactions using derivatives for risk management purposes.

##### ***Foreign currency exchange risk***

Fluctuations in foreign exchange rates can have significant effects on the company's reported results. The company's financial assets and liabilities give rise to transactional currency exposures. Such exposures arise from transactions in a currency other than the company's functional currency. The management of such risks is performed at BP group level. The main underlying economic currency of the BP group's cash flows is the US dollar. This is because the BP group's major product, oil, is priced internationally in US dollars. The BP group's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible and then dealing with any material residual foreign exchange risks. For highly probable forecast capital expenditures the group locks in the US dollar cost of non US dollar supplies by using currency forwards and futures.

Crude oil prices are generally set in US dollars, while sales of refined products may be in a variety of currencies. Fluctuations in exchange rates can therefore give rise to foreign exchange exposures, with a consequent impact on underlying costs and revenues.

##### **Going concern**

The directors consider that, despite the uncertainties deriving from the current economic environment and the loss reported for the year, the company has adequate resources to continue in operational existence for the foreseeable future.

##### **Post balance sheet event**

On 18 June 2013, 14,000,000 ordinary shares of \$1 each for a total nominal value of \$14,000,000 were allotted to the immediate parent company at par value.

**BP EAST KALIMANTAN CBM LIMITED**

**REPORT OF THE DIRECTORS**

**Directors**

The present directors are listed on page 1

There have been no director appointments or resignations since 1 January 2012

**Directors' indemnity**

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006

**Policy and practice on payment of creditors**

It is the company's policy to follow the CBI's prompt payment code of practice for all suppliers to the company with payments made in accordance with the relevant contractual payment terms. A copy of the code of practice may be obtained from the CBI

The number of days' purchases represented by trade creditors at the year-end was nil

**Auditor**

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the company's auditor for the next year

**BP EAST KALIMANTAN CBM LIMITED**

**REPORT OF THE DIRECTORS**

**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 their 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

By Order of the Board



For and on behalf of  
Sunbury Secretaries Limited  
Company Secretary

09 August 2013

Registered Office

Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP  
United Kingdom



**BP EAST KALIMANTAN CBM LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable 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). 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 accounts, 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 and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

**BP EAST KALIMANTAN CBM LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**  
**BP EAST KALIMANTAN CBM LIMITED**

We have audited the financial statements of BP East Kalimantan CBM Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

*Ernst & Young LLP*

Paul Wallek (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

*14 August* 2013

## **BP EAST KALIMANTAN CBM LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting standards**

The financial statements of BP East Kalimantan CBM Limited were approved for issue by the Board of Directors on 23 JULY 2013

These accounts are prepared on a going concern basis and in accordance with the Companies Act 2006 and applicable UK accounting standards

In addition to the requirements of accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001

These accounts have been prepared in accordance with the provisions of the SORP with the exception of the following

- (i) The SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP plc and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP plc. Consequently the directors have elected not to publish this information for the company.
- (ii) The SORP contains rules around the estimation of future oil and gas reserves. The company, as part of the BP group, estimates and calculates its reserves in accordance with the US Securities and Exchange Commission (SEC) rules. The main differences relate to the SEC requirement to use a twelve-month average price to assess future reserves, being the unweighted average of the price on the first day of the month for the past twelve months. This is the basis applied in the BP group reporting and is comparable with other oil majors. It is not possible for the company to quantify the impact of this departure as SORP estimates of reserves are no longer maintained.

#### **Accounting convention**

The accounts are prepared under the historical cost convention

#### **Basis of preparation**

At 31 December 2012 the company's balance sheet had total net liabilities amounting to \$1,763,000.

The directors consider it appropriate to prepare the accounts on a going concern basis because since the balance sheet date 14,000,000 ordinary shares of \$1 each for a total nominal value of \$14,000,000 were allotted to the immediate parent company at par value.

#### **Statement of cash flows**

The group accounts of the ultimate parent undertaking contain a consolidated cash flow statement. The company has taken advantage of the exemption granted by the Financial Reporting Standard No. 1 (Revised), whereby it is not required to publish its own cash flow statement.

## **BP EAST KALIMANTAN CBM LIMITED**

### **ACCOUNTING POLICIES**

#### **Intangible assets**

Intangible assets include expenditure on the exploration for and evaluation of oil and natural gas resources, computer software, patents, licences, trademarks and product development costs. Product development costs are capitalised as intangible assets when a project has obtained sanction and the future recoverability of such costs can reasonably be regarded as assured.

Intangible assets are not depreciated. The indefinite life of intangible assets is reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is, the higher of net realisable value and value in use, the asset is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

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

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

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

Exploration licence and property leasehold acquisition costs are initially capitalised within intangible fixed assets. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), the costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Each property is reviewed on an annual basis to confirm that drilling activity is planned and the property is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off.

#### **Exploration expenditure**

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised 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 hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets.

## **BP EAST KALIMANTAN CBM LIMITED**

### **ACCOUNTING POLICIES**

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

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. 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. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its net realisable value and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised 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.

#### **Stock valuation**

Stocks are valued at cost to the company, using the first-in first-out method or net realisable value, whichever is the lower. Stores are valued at cost to the company mainly using the average method or net realisable value, whichever is the lower.

#### **Other debtors**

Other debtors are carried at the original invoice amount, less allowances made for doubtful receivables. Provision is made when there is objective evidence that the company will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **Other creditors**

Other creditors are carried at payment or settlement amounts. If the effect of the time value of money is material, other creditors are determined by discounting the expected future cash flows at a pre-tax rate.

## **BP EAST KALIMANTAN CBM LIMITED**

### **ACCOUNTING POLICIES**

#### **Decommissioning**

Provision for decommissioning costs is recognised when the company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for decommissioning may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also recognised. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

#### **Use of estimates**

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

**BP EAST KALIMANTAN CBM LIMITED****PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

		<u>2012</u>	<u>2011</u>
	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
Exploration expenses	<b>1</b>	<b>(3,748)</b>	<b>(3,851)</b>
Administration expenses	<b>1</b>	<b>(51)</b>	<b>(132)</b>
<b>Loss on ordinary activities before taxation</b>		<b>(3,799)</b>	<b>(3,983)</b>
 Taxation	 <b>2</b>	 <b>-</b>	 <b>-</b>
 <b>Loss for the year</b>		 <b>(3,799)</b>	 <b>(3,983)</b>

The loss of \$3,799,000 for the year ended 31 December 2012 was derived in its entirety from continuing operations

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

There are no recognised gains or losses attributable to the shareholders of the company other than the loss for the year

**BP EAST KALIMANTAN CBM LIMITED****(Registered No 06383221)****BALANCE SHEET AT 31 DECEMBER 2012**

	Note	<u>2012</u> \$000	<u>2011</u> \$000
<b>Fixed assets</b>			
Intangible assets	4	35,844	21,311
Decommissioning asset	5	845	76
		<u>36,689</u>	<u>21,387</u>
<b>Current assets</b>			
Stocks	6	2,626	1,146
Debtors	7	5,788	2,696
		<u>8,414</u>	<u>3,842</u>
<b>Creditors: amounts falling due within one year</b>	8	(46,020)	(23,117)
<b>Net current liabilities</b>		<u>(37,606)</u>	<u>(19,275)</u>
<b>Provisions for liabilities and charges</b>			
Other provisions	9	(846)	(76)
<b>NET (LIABILITIES) / ASSETS</b>		<u>(1,763)</u>	<u>2,036</u>
<b>Represented by</b>			
<b>Capital and reserves</b>			
Called up share capital	10	10,000	10,000
Profit and loss account	11	(11,763)	(7,964)
<b>SHAREHOLDERS' (DEFICIT) / FUNDS – EQUITY INTERESTS</b>		<u>(1,763)</u>	<u>2,036</u>

On behalf of the Board


J S Blythe  
Director

09 August 2013



**BP EAST KALIMANTAN CBM LIMITED****NOTES TO THE ACCOUNTS****1. Auditor's remuneration**

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Fees for the audit of the company	<u>19</u>	<u>9</u>

Fees paid to the company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the company are not disclosed in these accounts since the consolidated accounts of BP East Kalimantan CBM Limited's ultimate parent, BP plc, are required to disclose non-audit fees on a consolidated basis

**2. Taxation**

The Company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010. No UK corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of group relief to the extent it is required and to provide for any current or deferred UK tax that arises without charge

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate on loss before taxation

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Loss before taxation	3,799	3,983
Current taxation	-	-
Effective current tax rate	0%	0%
	<u>2012</u>	<u>2011</u>
	%	%
UK statutory corporation tax rate	24	26
Decrease resulting from:		
Tax losses unused	(24)	(26)
Effective current tax rate	<u>-</u>	<u>-</u>

**3. Directors and employees****(a) Remuneration of directors**

None of the directors received any fees or remuneration for services as directors of the company during the financial year

**(b) Employee costs**

The company had no employees during the year (2011 Nil)

**BP EAST KALIMANTAN CBM LIMITED****NOTES TO THE ACCOUNTS****4. Intangible assets**

	Exploration expenditure	Licenses	Total
<b>Cost</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
At 1 January 2012	20,261	1,050	21,311
Additions	14,533	-	14,533
At 31 December 2012	34,794	1,050	35,844
<b>Amortisation</b>			
At 1 January 2012 & 31 December 2012	-	-	-
<b>Net book value</b>			
At 31 December 2012	34,794	1,050	35,844
At 31 December 2011	20,261	1,050	21,311

**5. Decommissioning assets**

	Decommissioning Assets
<b>Cost</b>	<b>\$000</b>
At 1 January 2012	76
Provisions	769
At 31 December 2012	845

Refer to note 9, other provisions for further details

**6. Stocks**

	2012	2011
	\$000	\$000
Raw materials and consumables	2,626	1,146

**7. Debtors**

	2012	2011
	Within 1 year	Within 1 year
	\$000	\$000
Amounts owed by group undertakings	98	-
Other debtors	107	-
Prepayments and accrued income	5,583	2,696
	5,788	2,696

**BP EAST KALIMANTAN CBM LIMITED****NOTES TO THE ACCOUNTS****8. Creditors**

	<u>2012</u>	<u>2011</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Amounts owed to group undertakings	40,510	18,115
Accruals and deferred income	5,510	5,002
	<u>46,020</u>	<u>23,117</u>

**9. Other provisions**

	<u>Decommissioning</u>
	\$000
At 1 January 2012	76
New or increased provisions	770
Unwinding of discount	0
At 31 December 2012	<u>846</u>

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2012, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was \$846,000 (2011 \$76,000). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 0.5% (2011 0.5%). These costs are expected to be incurred over the next 27 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

**10. Called up share capital**

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Allotted, called up and fully paid		
10,000,001 Ordinary shares of \$1 each for a total nominal value of \$10,000,001	10,000	10,000
1 Ordinary share of £1 for a total nominal value of £1	-	-
	<u>10,000</u>	<u>10,000</u>

**11. Capital and reserves**

	<u>Called up share capital</u>	<u>Profit and loss account</u>	<u>Total</u>
	\$000	\$000	\$000
At 1 January 2012	10,000	(7,964)	2,036
Loss for the year	-	(3,799)	(3,799)
At 31 December 2012	<u>10,000</u>	<u>(11,763)</u>	<u>(1,763)</u>

**BP EAST KALIMANTAN CBM LIMITED**

**NOTES TO THE ACCOUNTS**

**12. Reconciliation of movements in shareholders' funds**

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Loss for the year	(3,799)	(3,983)
Issue of ordinary share capital	-	8,000
Net (decrease) / increase in shareholders' (deficit) / funds	(3,799)	4,017
Shareholders' funds / (deficit) at 1 January	2,036	(1,981)
Shareholders' (deficit) / funds at 31 December	<u>(1,763)</u>	<u>2,036</u>

**13. Capital commitments**

Authorised and contracted future capital expenditure by the company for which contracts had been placed but not provided in the accounts at 31 December 2012 is estimated at \$16,966,927 (2011 \$18,136,000)

**14. Related party transactions**

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions entered into with group companies. There were no other related party transactions in the year.

**15. Post balance sheet event**

On 18 June 2013, 14,000,000 ordinary shares of \$1 each for a total nominal value of \$14,000,000 were allotted to the immediate parent company at par value.

**16. Pensions**

The company does not directly employ any staff and therefore does not directly bear any pension charge.

**17. 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 plc, 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 plc can be obtained from 1 St James's Square, London, SW1Y 4PD.