

PHP OPERATIONS
(Registered No. SC311034)

ANNUAL REPORT AND ACCOUNTS 2012

Sole Director: J S Blythe

REPORT OF THE DIRECTOR

The director presents his report and accounts for the year ended 31 December 2012.

Results and dividends

The loss for the year after taxation was \$533,597,000 which, when deducted from the retained profit brought forward at 1 January 2012 of \$2,001,024,000, together with total paid interim dividends to ordinary shareholders of \$2,000,000,000, gives a total retained loss carried forward at 31 December 2012 of \$532,573,000.

During the year the company has declared and paid dividends of \$2,000,000,000 (2011: \$Nil). The director does not propose the payment of a final dividend.

Principal activity and review of the business

The company is a holding company for a subsidiary undertaking which operates in Azerbaijan.

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 area: compliance and control. 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).

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21/06/2013
COMPANIES HOUSE

PHP OPERATIONS

REPORT OF THE DIRECTOR

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 PHP Operations.

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.

Compliance and control risk

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.

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REPORT OF THE DIRECTOR

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.

Director

The present director is listed on page 1.

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

Director's indemnity

The company indemnifies the director 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.

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REPORT OF THE DIRECTOR

Director's statement as to the disclosure of information to the auditor

The director who is a member of the board at the time of approving the director's report is listed on page 1. Having made enquiries of the company's auditor, the director confirms that:

- To the best of his knowledge and belief, there is no information relevant to the preparation of his report of which the company's auditor is unaware; and
- He 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

12 JUNE 2013

Registered Office:

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB
United Kingdom

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STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has 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 director must not approve the financial statements unless he is 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 director is 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 director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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 director confirms that he has complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continues to adopt the going concern basis in preparing the accounts.

PHP OPERATIONS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF **PHP OPERATIONS**

We have audited the financial statements of PHP Operations 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 14. 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 director and auditor

As explained more fully in the Statement of Director's Responsibilities set out on page 5, the director is 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 Director's 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 director's 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

William Testa (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

18 June 2013

PHP OPERATIONS

ACCOUNTING POLICIES

Accounting standards

The financial statements of PHP Operations were approved for issue by the Director on
3 JUNE 2013.

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

Accounting convention

The accounts are prepared under the historical cost convention.

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.

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 400 (1) of the Companies Act 2006. The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, BP p.l.c., a company registered in England and Wales. These accounts present information about the company as an individual undertaking and not about the group.

Dividend income

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

Foreign currency transactions

Foreign currency transactions are initially recorded in dollars by applying the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are translated into dollars at the rate of exchange ruling at the balance sheet date. Exchange differences are included in the profit and loss account.

Interest income

Interest income is recognised on an accruals basis.

Dividends payable

Final dividends are recorded in the accounts in the year in which they are approved by the company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

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ACCOUNTING POLICIES

Investments

Fixed asset investments in subsidiaries are held at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its 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.

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.

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.

PHP OPERATIONS**PROFIT AND LOSS ACCOUNT**
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	<u>2012</u> \$000	<u>2011</u> \$000
Dividend income		-	2,000,000
Administration expenses		<u>(11)</u>	<u>(10)</u>
Operating (loss) / profit		(11)	1,999,990
Amounts provided against fixed assets	2	(535,479)	-
Reversal of amounts provided against fixed assets	2	<u>-</u>	<u>1,200,000</u>
(Loss) / profit on ordinary activities before interest and taxation		(535,490)	3,199,990
Interest receivable and similar income	3	1,893	354
(Loss) / profit before taxation		<u>(533,597)</u>	<u>3,200,344</u>
Taxation	4	<u>-</u>	<u>-</u>
(Loss) / profit for the year		<u>(533,597)</u>	<u>3,200,344</u>

The loss of \$533,597.000 for the year ended 31 December 2012 has 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.

PHP OPERATIONS
(Registered No. SC311034)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	<u>2012</u> \$000	<u>2011</u> \$000
Fixed assets			
Investments	6	<u>10,611,121</u>	<u>11,146,600</u>
Current assets			
Debtors	7	4,922	2,003,040
Creditors: amounts falling due within one year	8	<u>(16)</u>	<u>(16)</u>
Net current assets		<u>4,906</u>	<u>2,003,024</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,616,027</u>	<u>13,149,624</u>
NET ASSETS		<u>10,616,027</u>	<u>13,149,624</u>
Represented by			
Capital and reserves			
Called up share capital	9	1,173	1,173
Share premium account	10	11,147,427	11,147,427
Profit and loss account	10	(532,573)	2,001,024
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>10,616,027</u>	<u>13,149,624</u>

On behalf of the Board



J S Blythe
Director

12 JUNE 2013

PHP OPERATIONS**NOTES TO THE ACCOUNTS****1. Auditor's remuneration**

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Fees for the audit of the company	<u>8</u>	<u>5</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 PHP Operations' ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

2. Exceptional item

Exceptional item comprise the reversal of amounts provided against fixed assets as follow:

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Amounts provided against fixed assets	(535,479)	-
Reversal of amounts provided against fixed assets	<u>-</u>	<u>1,200,000</u>

In 2011 the reversal of amounts provided against fixed assets is in relation to the impairment reversal of the company's investment in BP Exploration (Caspian Sea) Limited. The reversal has no tax effect.

In 2012, the amount provided against fixed assets was in respect of the same investment, which was the result of significant decrease in net present value of future cash flows of Azerbaijan International Operating Company, in which BP Exploration (Caspian Sea) Limited holds an investment.

3. Interest receivable and similar income

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Interest income from group undertakings	<u>1,893</u>	<u>354</u>

4. 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) / profit before taxation	(533,597)	3,200,344
Current taxation	-	-
Effective current tax rate	0%	0%

PHP OPERATIONS
NOTES TO THE ACCOUNTS

4. Taxation (continued)

	<u>2012</u>	<u>2011</u>
	%	%
UK statutory corporation tax rate:	24	26
Decrease resulting from:		
Non-taxable income	(24)	(26)
Effective current tax rate	<u>-</u>	<u>-</u>

5. Director and employees**(a) Remuneration of director**

The director did not receive any fees or remuneration for services as a director of the company during the financial year (2011: \$Nil).

(b) Employee costs

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

6. Investments

	<u>Subsidiary shares</u>
Cost	\$000
At 1 January 2012 and at 31 December 2012	<u>11,146,600</u>
Amounts provided	
At 1 January 2012	-
Charge for the year	<u>535,479</u>
At 31 December 2012	<u>535,479</u>
Net book amount	
At 31 December 2012	<u>10,611,121</u>
At 31 December 2011	<u>11,146,600</u>

The investments in the subsidiary undertaking are unlisted.

PHP OPERATIONS**NOTES TO THE ACCOUNTS****6. Investments (continued)**

The subsidiary undertaking of the company at 31 December 2012 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.

Subsidiary undertaking	Class of share held	%	Country of incorporation	Principal activity
BP Exploration (Caspian Sea) Ltd	Ordinary	100	England and Wales	Exploration and production of natural oil and gas in Azerbaijan

7. Debtors

	<u>2012</u>	<u>2011</u>
	Within 1 year	Within 1 year
	\$000	\$000
Amounts owed by group undertakings	<u>4,922</u>	<u>2,003,040</u>

8. Creditors

	<u>2012</u>	<u>2011</u>
	Within 1 year	Within 1 year
	\$000	\$000
Amounts owed to group undertakings	<u>16</u>	<u>16</u>

9. Called up share capital

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Allotted, called up and fully paid:		
100 Ordinary shares of £1 each for a total nominal value of £100	-	-
1,172,700 Ordinary shares of \$1 each for a total nominal value of \$1,172,700	1,173	1,173
	<u>1,173</u>	<u>1,173</u>

10. Capital and reserves

	<u>Called up share capital</u>	<u>Share premium account</u>	<u>Profit and loss account</u>	<u>Total</u>
	\$000	\$000	\$000	\$000
At 1 January 2012	1,173	11,147,427	2,001,024	13,149,624
Loss for the year	-	-	(533,597)	(533,597)
Dividends – current year interim paid	-	-	(2,000,000)	(2,000,000)
At 31 December 2012	<u>1,173</u>	<u>11,147,427</u>	<u>(532,573)</u>	<u>10,616,027</u>

PHP OPERATIONS**NOTES TO THE ACCOUNTS****11. Reconciliation of movements in shareholders' funds**

	<u>2012</u>	<u>2011</u>
	\$000	\$000
(Loss) / Profit for the year	(533,597)	3,200,344
Dividends – current year interim paid	(2,000,000)	-
Net (decrease) / increase in shareholders' funds	(2,533,597)	3,200,344
Shareholders' funds at 1 January	13,149,624	9,949,280
Shareholders' funds at 31 December	<u>10,616,027</u>	<u>13,149,624</u>

12. 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.

13. Pensions

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

14. 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 1 St James's Square, London, SW1Y 4PD.