BP EXPLORATION (CASPIAN SEA) LIMITED
(Registered No 00404347)

ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors	B M Puffer
	S J MacRae
	G Y Burrell

REPORT OF THE DIRECTORS

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

Results and dividends

The profit for the year after taxation was $994,763,000 which, when added to the retained profit brought forward at 1 January 2012 of $1 587 105,000, gives a total retained profit carried forward at 31 December 2012 of $2 581,868,000.

The company has not declared any dividends during the year (2011 $2,000,000,000). The directors do not propose the payment of a dividend

Principal activities and review of the business

The company is engaged in the exploration for and exploitation of oil and natural gas It also provides services to other Production Sharing Agreements ("PSAs") and Host Government Agreements ("HGAs") in Azerbaijan

The company is a participant in a PSA for the Azeri, Chirag and Deepwater Gunashli fields ("ACG") in Azerbaijan, with a participating interest of 35 78 per cent, and it acts as the operator of this undertaking on behalf of partners

• In 2012, ACG produced on average 664 thousand barrels per day (gross) (243 million barrels or about 32 9 million tonnes in total) from the Chirag, Central Azeri ("CA"), West Azeri ("WA"), East Azeri ("EA") and Deepwater Gunashli ("DWG") platforms

• At the end of the year a total of 65 oil wells were producing, while 29 wells were used for injection in the ACG field Chirag had 14 wells (10 oil producers and 4 water injectors), CA had 20 wells (14 oil producers 1 water injector and 5 gas injectors producing), WA had 21 wells (16 oil producers and 5 water injectors) EA had 18 wells (14 oil producers and 4 water injectors), DWG had 21 wells (11 oil producers and 10 water injectors)

• In 2012 ACG delivered four oil producer wells and one gas injector well In addition, WA and Chirag platforms started new well delivery activities on oil producer wells C27 and A16w in 2012 with expected delivery in 2013 The Chirag Oil Project (COP) pre-drill campaign delivered seven wells with four drilled to top set at 9-5/8" casing shoe and three drilled to top set at 13-3/8" casing shoe

• In 2012, Chirag Oil Project (COP) construction activities continued slightly behind schedule but still on target for 1st November production Overall the project has made reasonable progress at all of fabrication sites with 86 per cent of work scope already completed

Principal activities and review of the business (continued)

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

	2012	2011	Variance
	$000	$000	%
Turnover	3,463,512	3,428 661	1
Operating profit	1,666,059	1,922,134	(13)
Profit after taxation	994,763	1,442,594	(31)
Shareholders' funds	7,891,655	6,886,094	15

	2012	2011	Variance
	%	%	
Quick ratio*	235	175	60

*Quick ratio is defined as current assets, excluding stock and debtors receivable after one year, as a percentage of current liabilities

The decrease in Profit for the year is a result of underlift balance which decreased in 2012 in comparison with 2011, increase in centrally allocated expenses and increase in fixed asset depreciation charges which is due to changes in reserves estimates Quick ratio increased mainly due to increase in debtors within one year, cash and decrease in creditors The increase in shareholder's funds is due to the profit generated during the year and the fact that no dividends have been declared and paid during the as opposed to 2011

BP EXPLORATION (CASPIAN SEA) LIMITED

REPORT OF THE DIRECTORS

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).

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 Exploration (Caspian Sea) 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

Principal risks and uncertainties (continued)

Strategic and commercial risks

Access and renewal
Successful execution of the company's strategy depends on implementing activities to renew and reposition its portfolio The challenges to renewal of the company's upstream portfolio are growing due to increasing competition for access to opportunities globally and heightened political and economic risks in certain countries where significant hydrocarbon bases are located. Lack of material positions in new markets could impact the company's future hydrocarbon production

Moreover, the Gulf of Mexico oil spill has damaged the BP group's reputation, which may have a long-term impact on the group's ability to access new opportunities, both in the US and elsewhere Adverse public, political and industry sentiment towards the BP group, and towards oil and gas drilling activities generally, could damage or impair the company's existing commercial relationships with counterparties, partners and host governments and could impair access to new investment opportunities exploration properties, operatorships or other essential commercial arrangements with potential partners and host governments, particularly in the US In addition, responding to the Incident has placed, and will continue to place, a significant burden on cash flow over the next several years, which could also impede the BP group's ability to invest in new opportunities and deliver long-term growth, which in turn may impact the company More stringent regulation of the oil and gas industry generally, and of the BP group's activities specifically, arising from the Incident, could increase this risk.

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

Periods of global recession could impact the demand for the company's products, the prices at which they can be sold and affect the viability of the markets in which the company operates

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.

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

Climate change and carbon pricing
Compliance with changes in laws, regulations and obligations relating to climate change could result in substantial capital expenditure, taxes, reduced profitability from changes in operating costs, and revenue generation and strategic growth opportunities being impacted. The company's commitment to the transition to a lower-carbon economy may create expectations for its activities, and the level of participation in alternative energies carries reputational, economic and technology risks.

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. In particular, the company's investments in Azerbaijan could be adversely affected by heightened political and economic environment risks

Competition
The company's strategy depends upon continuous innovation in a highly competitive market.

The oil, gas and petrochemicals industries are highly competitive There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home Competition puts pressure on the terms of access to new opportunities, licence costs and product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency, while ensuring safety and operational risk is not compromised The implementation of the BP group strategy requires continued technological advances and innovation including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage The company's performance could be impeded if competitors developed or acquired intellectual property rights to technology that it required or if its innovation lagged the industry, or by its failure to adequately protect the company's brands and trademarks The company's competitive position could be adversely affected if competitors offer superior terms for access rights or licences, if it fails to control its operating costs or manage its margins, or if it fails to sustain develop and operate efficiently a high quality portfolio of assets

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

Joint ventures and other contractual arrangements
Many of the company's major projects and operations are conducted through joint ventures or associates and through contracting and sub-contracting arrangements 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

The company's partners may have economic or business interests or objectives that are inconsistent with, or opposed to, those of the company's and may exercise veto rights to block certain key decisions or actions that the company believes are in its or the joint venture's or associate's best interest, or approve such matters without the company's consent

Additionally, the company's joint venture partners or associates or contractual counterparties 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 or associates 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

Investment efficiency
The company's organic growth is dependent on creating a portfolio of quality options and investing in the best options Ineffective investment selection and development could lead to loss of value and higher capital expenditure

Reserves progression
Successful execution of the BP group strategy depends critically on sustaining long-term reserves replacement If upstream resources are not progressed in a timely and efficient manner due to commercial, technical or regulatory reasons or otherwise, the company will be unable to sustain long-term replacement of reserves

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

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

Digital infrastructure
The reliability and security of the company's digital infrastructure are critical to maintaining the availability of its business applications, including the reliable operation of technology in its various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information A breach of the company's digital security, either due to intentional actions or due to negligence, could cause serious damage to business operations and, in some circumstances, could result in the loss of data or sensitive information, injury to people, damage to assets, harm to the environment, reputational damage, breaches of regulations, litigation, legal liabilities and reparation costs

Business continuity and disaster recovery
Contingency plans are required to continue or recover operations following a disruption or incident Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect business and operations

Crisis management
Crisis management plans and capability are essential to deal with emergencies at every level of the company's operations If the company does not respond, or is perceived not to respond, in an appropriate manner to either an external or internal crisis, its business and operations could be severely disrupted

People and capability
Successful recruitment of new staff, employee training, development and continuing enhancement of skills, in particular technical capabilities such as petroleum engineers and scientists, are key to implementing the company's plans Inability to develop human capacity and capability, both across the organisation and in specific operating locations, could jeopardise performance delivery The company relies on recruiting and retaining high-quality employees to execute its strategic plans and to operate its business. The reputational damage suffered by the company as a result of the Incident and any consequent adverse impact on its business could affect employee recruitment and retention

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

BP EXPLORATION (CASPIAN SEA) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

Regulatory (continued)
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.

Changes in external factors
The company remains exposed to changes in the external environment, such as new laws and regulations (whether imposed by international treaty or by national or local governments in the jurisdictions in which the company operates), changes in tax or royalty regimes, price controls, government actions to cancel or renegotiate contracts, market volatility or other factors Such factors could reduce the company's profitability from operations in certain jurisdictions, limit its opportunities for new access, require it to divest or write-down certain assets or affect the adequacy of its provisions for pensions, tax, environmental and legal liabilities Potential changes to pension or financial market regulation could also impact funding requirements of the company

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

Treasury and trading activities
In the normal course of business, the company is subject to operational risk around its treasury and trading activities Control of these activities is highly dependent on the company's ability to process, manage and monitor a large number of complex transactions across many markets and currencies Shortcomings or failures in the company's systems, risk management methodology, internal control processes or people could lead to disruption of its business, financial loss, regulatory intervention or damage to its reputation

Following the Gulf of Mexico oil spill, Moody's Investors Service, Standard and Poor's and Fitch Ratings downgraded the group's long-term credit ratings Since that time, the group's credit ratings have improved somewhat but are still lower than they were immediately before the Gulf of Mexico oil spill The impact that a significant operational incident can have on the group's credit ratings, taken together with the reputational consequences of any such incident, the ratings and assessments published by analysts and investors' concerns about the group's costs arising from any such incident, on-going contingencies, liquidity, financial performance and volatile credit spreads, could increase the group's financing costs and limit the group's and consequently also the company's, access to financing

The BP group's ability to engage in its trading activities could also be impacted due to counterparty concerns about the BP group's financial and business risk profile in such circumstances. Such counterparties could require that the group provide collateral or other forms of financial security for its obligations, particularly if the group's credit ratings are downgraded. Certain counterparties for the group's non-trading businesses could also require that the group provide collateral for certain of its contractual obligations, particularly if the group's credit ratings were downgraded below investment grade or where a counterparty had concerns about the group's financial and business risk profile following a significant operational incident In addition, the BP group may be unable to make a drawdown under certain of its committed borrowing facilities in the event that the BP group is aware that there are pending or threatened legal, arbitration or administrative proceedings which, if determined adversely, might reasonably be expected to have a material adverse effect on its ability to meet the payment obligations under any of these facilities Credit rating downgrades could trigger a requirement for the company to review its funding arrangements with the BP pension trustees Extended constraints on the group's ability to obtain financing and to engage in its trading activities on acceptable terms (or at all) would put pressure on the group's liquidity In addition, this could occur at a time when cash flows from business operations would be constrained following a significant operational incident, and the group could be required to reduce planned capital expenditures and/or increase asset disposals in order to provide additional liquidity, as the group did following the Gulf of Mexico oil spill This in turn could also have adverse effects for the company's own financing requirements

Further information on the risks of Treasury and Trading activities are included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012

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

In addition, inability to provide safe environments for the company's workforce and the public while at the company's facilities or premises could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to the company's reputation

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

Product quality
Supplying customers with on-specification products is critical to maintaining the company's licence to operate and its reputation in the marketplace Failure to meet product quality standards throughout the value chain could lead to harm to people and the environment and loss of customers

BP EXPLORATION (CASPIAN SEA) LIMITED

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Principal risks and uncertainties (continued)

Safety and operational risks (continued)

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 uneconomic to develop The Gulf of Mexico incident illustrates the risks the company faces in its drilling and production activities

Transportation
All modes of transportation of hydrocarbons involve inherent risks An explosion or fire or loss of containment of hydrocarbons or other hazardous material could occur during transportation by road, rail, sea or pipeline This is a significant risk due to the potential impact of a release on people and the environment and given the high volumes involved

Financial risk management

The main financial risks faced by the company through its normal business activities, as well as its use of financial instruments, are market risk, commodity price risk, foreign currency exchange risk, interest rate risk, credit risk and liquidity 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

Commodity price risk
The group's integrated supply and trading function uses conventional financial and commodity instruments and physical cargoes available in the related commodity markets Oil and natural gas swaps, options and futures are used to mitigate price risk Power trading is undertaken using a combination of over-the-counter forward contracts and other derivative contracts, including options and futures This activity is on both a standalone basis and in conjunction with gas derivatives in relation to gas-generated power margin

Principal risks and uncertainties (continued)

Financial risk management (continued)

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

Interest rate risk
The company is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments, principally finance debt

Where the company enters into money market contracts for entrepreneurial trading purposes, the activity is controlled at BP group level using value-at-risk techniques

Credit risk
Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the company It arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables The management of such risks is performed at BP group level The group has a credit policy, approved by the CFO, which is designed to ensure that consistent processes are in place throughout the group to measure and control credit risk Credit risk is considered as part of the risk-reward balance of doing business On entering into any business contract the extent to which the arrangement exposes the group to credit risk is considered Before trading with a new counterparty can start, its creditworthiness is assessed and a credit rating allocated that indicates the probability of default, along with a credit exposure limit Creditworthiness continues to be evaluated after transactions have been initiated and a watch list of higher-risk counterparties is maintained.

Commercial credit risk is measured and controlled to determine the company's total credit risk. Inability to determine adequately the company's credit exposure could lead to financial loss A credit crisis affecting banks and other sectors of the economy could impact the ability of counterparties to meet their financial obligations to the company It could also affect the company's ability to raise capital to fund growth and to meet its obligations

Principal risks and uncertainties (continued)

Financial risk management (continued)

Liquidity risk
Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available This risk is managed by the BP group on the company's behalf and as such the company has access to the resources of the group The group has long-term debt ratings of A2 (stable outlook) assigned by Moody's consistently throughout the year and A (positive outlook) assigned by Standard & Poor's since July 2012, strengthened from A (stable outlook) in force at the start of the year

Research and development

The company incurs research and development expenditure in the ordinary course of business as it looks to improve its future performance

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth 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.

Directors

The present directors are listed on page 1

B M Puffer served as a director throughout the financial year Changes since 1 January 2012 are as follows:

	Appointed	Resigned
S J MacRae	27 February 2012	-
J H Bartlett	-	27 February 2012
R J O Javanshir	-	15 November 2012
G Y Birrell	15 November 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

BP EXPLORATION (CASPIAN SEA) LIMITED

REPORT OF THE DIRECTORS

Disabled employees

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate

Employee involvement

During the year, the BP group continued its policy of providing employees with information on matters of concern to them. Executive team members hold regular town halls and webcasts to communicate with our employees around the world We conduct an employee engagement survey to monitor employee attitudes and identify areas for improvement In particular, information relating to group performance and group policies has been readily available to employees through the 'One BP' intranet web-site

We encourage employee share ownership For example, through the ShareMatch plan run in around 50 countries, we match BP shares purchased by our employees

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 17

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 EXPLORATION (CASPIAN SEA) LIMITED

REPORT OF THE DIRECTORS

Diiectois' statement as to the disclosure of information to the auditor

The duectors who were members of the board at the tune of approving the duectors' report are listed on page 1. Havmg made enquines of fellow duectors and of the company's auditor, each of these duectors confirms that

- To the best of each director's knowledge and behef, there is no mformation relevant to the preparation of their ieport of which the company's auditor is unawaie, and
- Each director has taken all the steps a duector might reasonably be expected to have taken to be aware of ielevant 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 Secretanes Limited
Company Secretary

17 September 2013

Registered Office

Sunbury on Thames
Chertsey Road
Middlesex
TW16 7BP
United Kingdom

BP EXPLORATION (CASPIAN SEA) 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 EXPLORATION (CASPIAN SEA) LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BP EXPLORATION (CASPIAN SEA) LIMITED

We have audited the financial statements of BP Exploration (Caspian Sea) 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 25 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 16 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 profit 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 19/9/2013

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Exploration (Caspian Sea) Limited were approved for issue by the Board of Directors on 13 September 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 p l c 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 p l c 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

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.

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

Revenue recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products and all other items are recognised when title passes to the customer Generally, revenues from the production of natural gas and oil properties in which the company has an interest with other producers are recognised on the basis of the company's working interests in those properties (the entitlement method). Differences between the production sold and the company's share of production (under / over lifts) are included as an adjustment to cost of sales

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

Research

Expenditure on research is written off in the year in which it is incurred

Capitalisation of finance costs and interest

Interest is capitalised gross of related tax relief during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects All other interest is charged against income in the year in which it is incurred

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

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 stated at cost, less accumulated depreciation and accumulated impairment losses Intangible assets with a finite life are depreciated on a straight-line basis over their expected useful lives The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively

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

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

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

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within tangible production assets

Tangible fixed assets

Tangible fixed assets 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 operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing 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 The capitalised value of a finance lease is also included within tangible fixed assets

Oil and natural gas properties are depreciated using a unit-of-production method. The cost of producing wells is depreciated over proved developed reserves. Licence acquisition, decommissioning and field development costs are depreciated over total proved reserves The unit-of-production rate for the depreciation of field development costs takes into account expenditures incurred to date, together with future development expenditure required to access the total proved reserves

Other tangible assets, with the exception of freehold land and assets under construction, are depreciated on the straight line method over their estimated useful lives

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts

Maintenance expenditure

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 and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised All other maintenance costs are expensed as incurred

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

Investments

Fixed asset investments in associates 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

Proportional consolidation

The company holds an interest in a joint agreement that is not an entity ('JANE') As a result, it accounts for its proportionate share of the costs, revenues, assets and liabilities in the JANE

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

Stock valuation

Stocks are valued at cost to the company, usmg the first-m first-out method or net realisable value, whichevei is the lower Stores are valued at cost to the company mainly usmg the average method or net realisable value, whichever is the lower

Trade and other debtors

Trade and other debtors are carried at the ongmal mvoice amount, less allowances made for doubtful receivables Provision is made when there is objective evidence that the company will be unable to recover balances m full Balances are written off when the probability of recovery is assessed as bemg remote

Ti ade and othei creditors

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

Pi ovisions

Provisions are recognised when the company has a present obligation (legal oi constructive) as a iesult of a past event, and it is piobable that an outflow of resources embodymg economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain The expense relating to any provision is presented m the profit and loss account net of any reimbursement 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 rate

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is piobable

Decommissioning

Piovision 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 thiough a change m legislation or thiough a decision to terminate operations The amount recognised is the present value of the estimated future expenditure determined m 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 m the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites The amount recognised is the best estimate of the expenditure required Where the time value of money is material, the amount recognised is the present value of the estimated future expenditure

Deferred tax

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future In particular

- Provision is made for tax on gains arising on disposals of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the replacement assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable, and
- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Discounting

The unwinding of the discount on provisions is included within interest expense Any change in the amount recognised for environmental and other provisions arising through changes in discount rates is included within interest expense, apart from decommissioning provisions where the change is adjusted against the decommissioning asset

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

Leases

Assets held under leases which transfer to the company substantially all risks and rewards incidental to ownership of the leased item are classified as finance leases, and are capitalised at inception of the lease at the fair value of the leased property or, if significantly lower, at the estimated present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the lease liability. The total finance charge is charged over the lease term so as to achieve a constant rate of interest on the remaining balance of the liability

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term

All other lease arrangements are classified as operating leases Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company Deferred bonus arrangements that have a vesting date more than 12 months after the period end are valued on an actuarial basis using the projected unit credit method and amortised on a straight line basis over the service period until the award vests The accounting policy for pensions and other post-retirement benefits is described below

Pensions

For defined benefit pension and other post-retirement benefit schemes, scheme assets are measured at fair value and scheme liabilities are measured on an actuarial basis using the projected unit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities Full actuarial valuations are obtained at least every three years and are updated at each balance sheet date The resulting surplus or deficit, net of taxation thereon, is presented separately above the total for net assets on the face of the balance sheet

The service cost of providing pension and other post-retirement benefits to employees for the year is charged to the profit and loss account. The cost of making improvements to pension and other post-retirement benefits is recognised in the profit and loss account on a straight-line basis over the period during which the increase in benefits vests To the extent that the improvements in benefits vest immediately, the cost is recognised immediately These costs are recognised as an operating expense

A charge representing the unwinding of the discount on the scheme liabilities during the year is included within other finance expense

A credit representing the expected return on the scheme assets during the year is included within other finance expense. This credit is based on the market value of the scheme assets and expected rates of return, at the beginning of the year

Actuarial gains and losses may result from. differences between the expected return and actual return on scheme assets, differences between actuarial assumptions underlying the scheme liabilities and actual experience during the year, or changes in the actuarial assumptions used in the valuation of the scheme liabilities Actuarial gains and losses, and taxation thereon, are recognised in the statement of total recognised gains and losses.

BP EXPLORATION (CASPIAN SEA) LIMITED

ACCOUNTING POLICIES

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 EXPLORATION (CASPIAN SEA) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 $000	2011 $000
Turnover	1	3,463,512	3,428,661
Cost of sales		(1,740,810)	(1,460,583)
Gross profit		1,722,702	1,968,078
Exploration expenses		(5,324)	(3,055)
Administration expenses		(51,319)	(42,889)
Operating profit	2	1,666,059	1,922 134
Profit on disposal of fixed assets	4	-	112 049
Profit on ordinary activities before interest and taxation		1 666,059	2,034,183
Interest payable and similar charges	5	(73,277)	(89,628)
Interest receivable and similar income	6	1,440	2,606
Profit before taxation		1,594,222	1,947,161
Taxation	7	(599,459)	(504,567)
Profit for the year		994,763	1,442,594

The profit of $994,763,000 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

		2012 $000	2011 $000
Profit for the year		994,763	1,442,594
Actuarial Loss	24	(1,269)	(197)
Total recognised gains and losses for the year		993 494	1,442,397

BP EXPLORATION (CASPIAN SEA) LIMITED
(Registered No. 00404347)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	2012 $000	2011 $000
Fixed assets			
Intangible assets	9	19,778	8,530
Tangible assets	10	8,462,846	8,613,181
Investments	11	8	8
		8,482,632	8,621,719
Current assets			
Stocks	12	218,175	200,793
Debtors – amounts falling due:			
within one year	13	1,483,842	1,179 802
after one year	13	109,860	106,769
Cash at bank and in hand		4,467	834
		1,816,344	1 488,198
Creditors: amounts falling due within one year	14	(632,863)	(676,122)
Net current assets		1,183,481	812,076
TOTAL ASSETS LESS CURRENT LIABILITIES		9,666,113	9,433,795
Creditors: amounts falling due after more than one year	14	(20,094)	(903,840)
Provisions for liabilities and charges			
Deferred tax	7	(958,806)	(939,774)
Other provisions	17	(791,630)	(701,518)
Net assets excluding pension liability		7,895,583	6,888 663
Defined benefit pension liability	24	(3,928)	(2,569)
NET ASSETS		7,891 655	6,886,094
Represented by			
Capital and reserves			
Called up share capital	18	8,401	8,401
Share premium account	19	5,242 874	5,242,874
Other reserves	19	58,512	47 714
Profit and loss account	19	2,581,868	1,587,105
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		7,891,655	6,886,094

On behalf of the Board

B M Puffer
Director

17 September 2013

1. Turnover

Turnover which is stated net of value added tax, represents amounts invoiced to third parties and group companies The country of origin and destination is substantially the Rest of World geographic area

2. Operating profit

This is stated after charging

	2012	2011
	$000	$000
Hire charges under operating leases		
Plant & machinery	67,547	52,547
Land & buildings	8,979	6,231
Tanker charters	17,267	17,316
Currency exchange (gains) and losses	(1,830)	309
Expenditure on research	11,303	7,437
Depreciation of owned fixed assets (including amortisation of intangibles)	9,481	8,053
Depreciation of assets held under finance leases	3,608	3,659
Depreciation of assets held under PSA	1,115,737	1,042,853

3. Auditor's remuneration

	2012	2011
	$000	$000
Fees for the audit of the company	72	76

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 Exploration (Caspian Sea) Limited's ultimate parent, BP p.l c , are required to disclose non-audit fees on a consolidated basis

4. Exceptional items

Exceptional items comprise the profit on disposal of fixed assets as follows

	2012	2011
	$000	$000
Profit on disposal of fixed assets	-	112,049
Exceptional items	-	112,049
Taxation (charge)	-	-
Exceptional items (net of tax)	-	112,049

The profit on disposal of fixed assets of $112,049,000 in 2011 arose due to sale of 4 4% of the Company's participating interest in the ACG PSA. There was no tax effect on this disposal

5. Interest payable and similar charges

	2012	2011
	$000	$000
Interest expense on		
Loans from group undertakings	73,704	76,651
Finance leases	1,526	1,734
	75,230	78,385
Capitalised at 2 25% (2011 2 25%)	(20,384)	(11,398)
	54,846	66,987
Unwinding of discount on provisions – See note 17	18,431	22,641
Total charged against profit	73,277	89,628

6. Interest receivable and similar income

	2012	2011
	$000	$000
Interest income from group undertakings	1,440	2,606

7. 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 tax charge is made up as follows

	2012	2011
Current tax	$000	$000
Overseas tax on income for the year	580,427	571,153
Total current tax charged	580,427	571,153
Deferred tax		
Origination and reversal of timing differences	19,032	(66,586)
Total deferred tax	19,032	(66,586)
Tax charged on profit on ordinary activities	599 459	504,567

BP EXPLORATION (CASPIAN SEA) LIMITED

NOTES TO THE ACCOUNTS

7. Taxation (continued)

(a) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 24% for the year ended 31 December 2012 (2011 – 26%) The differences are reconciled below

	2012	2011
	UK	UK
	$000	$000
Profit on ordinary activities before tax	1,594,222	1,947,161
Current taxation	580,427	571,153
Effective current tax rate	36%	29%

	2012	2011
	UK	UK
	%	%
UK corporation tax rate	24	26
Increase / (decrease) resulting from		
Fixed asset timing differences	4	5
Double tax relief	(29)	(29)
Current overseas tax	36	29
Free group relief	1	(2)
Effective current tax rate	36	29

The permanent and timing difference shown in the current tax rate reconciliation above are those that arise for UK corporation tax purposes, rather than overseas tax purposes

(b) Provision for deferred tax

The deferred tax included in the balance sheet is as follows

	2012	2011
	$000	$000
Accelerated capital allowances	1,155 425	1,094,220
Decommissioning and other provisions	(198 876)	(174,486)
Other timing differences	2 257	20,040
Provision for deferred tax	958 806	939,774

	2012
	$000
At 1 January 2012	939,774
Deferred tax charged in the profit and loss account	19,032
At 31 December 2012	958,806

8. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2011 $Nil)

(b) Employee costs

	2012	2011
	$000	$000
Wages and salaries	174,730	142,533
Social security costs	35,544	32,413
Pension costs	5,070	4,365
Share based payment charge	11,999	7,425
	227,343	186,736

(c) The average monthly number of employees during the year was 3,231 (2011 3,349)

	2012	2011
	No	No.
UK	245	238
Non-UK	2,986	3,111
	3,231	3,349

9. Intangible Assets

	Exploration expenditure	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2012	6,633	7,932	14,565
Additions	11,718	58	11,776
At 31 December 2012	18,351	7,990	26,341
Amortisation			
At 1 January 2012	-	(6,035)	(6,035)
Charge for the year	-	(528)	(528)
At 31 December 2012	-	(6,563)	(6,563)
Net book value			
At 31 December 2012	18,351	1,427	19,778
At 31 December 2011	6,633	1,897	8,530
Principal rates of amortisation		25%	

BP EXPLORATION (CASPIAN SEA) LIMITED

NOTES TO THE ACCOUNTS

10. Tangible assets

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Total	Of which AUC*
Cost	$000	$000	$000	$000	$000	$000
At 1 January 2012	1,228	60,447	11,781,318	21,134	11,864,127	844,987
Additions	1,234	22 717	949,212	4,800	977,963	517,911
At 31 December 2012	2,462	83,164	12,730,530	25,934	12,842,090	1,362,898
Depreciation and impairment						
At 1 January 2012	(741)	(48,757)	(3,187,955)	(13,493)	(3,250 946)	-
Charge for the year	(20)	(4,625)	(1,119,345)	(4,308)	(1,128,298)	-
At 31 December 2012	(761)	(53,382)	(4,307,300)	(17,801)	(4,379,244)	-
Net book value						
At 31 December 2012	1,701	29,782	8,423,230	8,133	8 462,846	1,362,898
At 31 December 2011	487	11,690	8,593,363	7,641	8 613 181	844,987

Principal rates of depreciation	6%	25%	Unit of Production	25%

*AUC = assets under construction Assets under construction are not depreciated

Assets held under finance leases and capitalised interest included above, are

	Cost	Depreciation	Net book value
Leased assets	$000	$000	$000
At 31 December 2012	36 082	(15,362)	20,720
At 31 December 2011	36,082	(11,754)	24,328
Capitalised interest			
At 31 December 2012	149,675	(49,134)	100,541
At 31 December 2011	129,291	(36,231)	93,060

BP EXPLORATION (CASPIAN SEA) LIMITED

NOTES TO THE ACCOUNTS

11. Investments

	Investment in associate companies
	$000
Cost	
At 1 January 2012 and 31 December 2012	8
Net book amount	
At 31 December 2012 and 31 December 2011	8

The investments in the subsidiary and associated undertakings are unlisted

The subsidiary undertakings and associated undertakings of the company at 31 December 2012 and the percentage of equity capital held set out below are the investments which principally affected the profits or net assets of the company To avoid a statement of excessive length, details of investments which are not significant have been omitted The principal country of operation is generally indicated by the company's country of incorporation or by its name

Associated undertakings	Class of share held	%	Country of incorporation	Principal activity
Azerbaijan International Operating Company	Ordinary	40 50	Cayman Islands	Oil field operator
Georgian Pipeline Company	Ordinary	40.50	Cayman Islands	Pipeline operator

Subsidiary undertakings	Class of share held	%	Country of incorporation	Principal activity
Energy Caspian Corporation	Ordinary	100	British Virgin Islands	Holding company

12. Stocks

	2012	2011
	$000	$000
Petroleum	23,621	17,435
Stores	194,554	183,358
	218,175	200,793

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

13. Debtors

	2012 Within 1 year $000	2012 After 1 year $000	2011 Within 1 year $000	2011 After 1 year $000
Trade debtors	35,777	102,473	73,077	99,105
Amounts owed by group undertakings	1,340,416	-	1,014,157	-
Amounts owed by associates	4,716	-	3,307	-
Amounts owed by joint ventures	26,987	-	24,067	-
Other debtors	55,936	7	46,561	2
Prepayments and accrued income	20,010	7 380	18,633	7,662
	1,483,842	109,860	1,179 802	106,769

14. Creditors

	2012 Within 1 year $000	2012 After 1 year $000	2011 Within 1 year $000	2011 After 1 year $000
Trade creditors	133,867	-	73,830	-
Amounts owed to group undertakings	83,122	-	57,801	-
Amounts owed to associates	18,110	-	12,730	-
Other creditors	65,283	-	76,115	-
Taxation	151,358	-	125,529	-
Accruals and deferred income	177,502	374	139,555	378
Loans (see note 15)	-	-	187,149	880,065
Obligations under leases (see note 16)	3,620	19,698	3,401	23,318
Cash-settled share-based payment	1	22	12	79
	632,863	20 094	676,122	903,840

15. Loans

Loans repayable, included within creditors, are analysed as follows

	2012 Within 5 years $000	2011 Within 5 years $000
Wholly repayable	-	1,067,214

After the Gulf of Mexico oil spill BP Group was in need of liquidity Third party lenders underwrote a $2 25 billion loan, secured by crude sales from BP's interest in ACG PSA It was a five year loan with quarterly re-payments as per an agreed schedule The loan was totally repaid in 2012

16. Obligations under leases

Amounts due under finance leases are as follows

	2012	2011
Amounts payable	$000	$000
Within 1 year	4,914	4 927
Between 2 to 5 years	16,917	19,184
Thereafter	5,772	8,419
	27,603	32,530
Less finance charges	(4 285)	(5,811)
Net obligations	23,318	26,719

Annual commitments under non-cancellable operating leases are set out below

	2012	2012	2011	2011
	Land & buildings	Other	Land & buildings	Other
	$000	$000	$000	$000
Operating leases which expire				
Within 1 year	4,901	25,900	10,521	24,026
Between 2 to 5 years	9,507	147,384	-	38,565
Thereafter	-	3 796	-	3,806

17. Other provisions

	Decommissioning
	$000
At 1 January 2012	701,518
New or increased provisions	71 681
Unwinding of discount	18,431
At 31 December 2012	791,630

The company makes full provision at the upper limit of 10% of capital costs as specified in the ACG PSA 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 $791,630,000 (2011 $701,518,000) The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 2 5% (2011 2 5%). These costs are expected to be incurred over the next 11 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

18. Called up share capital

	2012	2011
	$000	$000
Allotted and called up		
2,469,221 Ordinary shares of £1 each for a total nominal value of £2,469,221, £1 = US $1 509	3,726	3,726
2,500,000 Ordinary shares of £1 each for a total nominal value of £ 2,500,000, £1 = US $1 870	4,675	4,675
	8,401	8,401

19. Capital and reserves

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total
	$000	$000	$000	$000	$000
At 1 January 2012	8,401	5,242,874	47,714	1,587,105	6,886,094
Profit for the year	-	-	-	994,763	994,763
Share based payment charge	-	-	12,067	-	12,067
Actuarial Loss	-	-	(1,269)	-	(1,269)
At 31 December 2012	8,401	5,242,874	58,512	2,581,868	7,891,655

20. Reconciliation of movements in shareholders' funds

	2012	2011
	$000	$000
Profit for the year	994,763	1,442,594
Contribution from parent SBP	12 067	7,553
Actuarial Loss	(1,269)	(197)
Dividends – current year interim paid	-	(2 000,000)
Net increase / (decrease) in shareholders' funds	1,005,561	(550,050)
Shareholders' funds at 1 January	6,886,094	7,436,144
Shareholders' funds at 31 December	7,891,655	6,886,094

21 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 $552,497 000 (2011 $765,434,000)

22. 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

During the year the company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 December, are as follows:

Related party	Relationship	Description	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
			$000	$000	$000	$000
Azerbaijan International Operating Company	Joint venture	Services				
2012			712,833	-	26,988	-
2011			521,860	-	24,067	-
The Baku-Tbilisi-Ceyhan Pipeline Company	Associate	Transportation and service				
2012			73,527	190,296	3,120	18,110
2011			62,770	193,756	1,835	12,730
South Caucasus Pipeline Company Limited	Associate	Services				
2012			43,678	-	1,596	-
2011			31,297	-	1,472	-

23. Off-balance sheet arrangements

The company enters into operating lease arrangements for the hire of buildings and plant and equipment as these arrangements are a cost efficient way of obtaining the short-term benefits of these assets The hire charges for the year are disclosed in note 2 and the annual commitments under these arrangements are disclosed in note 16 There are no other material off-balance sheet arrangements

BP EXPLORATION (CASPIAN SEA) LIMITED

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24. Pensions

The company is obligated to meet a portion of the liabilities of the BP Petrolleri Pension Plan defined benefit scheme The scheme is unfunded. A valuation of the liabilities of this scheme was carried out as at 31 December 2012, by Hewitt Associates SA, qualified actuaries At that date the portion of the liabilities associated with BPX (Caspian Sea) Limited for this scheme were valued at $3,928,000 (2011: $2,569,000)

The pension assumptions for this plan are set out below The assumptions used to evaluate accrued pension benefits at 31 December in the year are used to determine pension expense for the following year, that is, the assumptions at 31 December 2012 are used to determine the pension liabilities at that date and the pension cost for 2013

	2012	2011
	% per annum	*% per annum*
Rate of increase in salaries	6 90	7.40
Rate of increase in pensions in payment	5 20	5 70
Discount rate	6 50	9 90
Inflation assumption	5 20	5 70

Analysis of the amount charged to operating profit

	2012	2011
	$000	$000
Current service cost	65	55
Total operating charge	65	55

Analysis of the amount charged to other finance expense

	2012	2011
	$000	$000
Interest on pension scheme liabilities	237	205
Net charge	237	205

Analysis of the amount recognised in the statement of total recognised gains and losses

	2012	2011
	$000	$000
Experience loss arising on plan liabilities	(1)	-
Change in assumptions underlying the present value of plan liabilities	1 270	197
Actuarial loss recognised in the statement of total recognised gains and losses	1,269	197

24. Pensions (continued)

Movement in deficit during the year

	2012	2011
	$000	$000
Deficit at 1 January	2,569	-
Movement in year.		
Current service cost	65	55
Other finance expense	237	205
Actuarial loss	1.269	197
Contributions	(56)	(58)
Transfers	-	2,116
Exchange adjustments	(156)	54
Deficit at 31 December	3 928	2,569

History of experience gains and losses

	2012	2011
	$000	$000
Experience loss on plan liabilities		
Amount ($000)	1	-
Percentage of the present value of plan liabilities	-%	-%
Total amount recognised in statement of total recognised losses		
Amount ($000)	1.269	197
Percentage of the present value of plan liabilities	32 3%	7 7%

The company is a participating employer in the BP Azerbaijan Employees Long Term Savings Fund established with effect 1 January 2007 The plan is part of the BP Global Pension Trust which contains a number of similar plans and which is separately funded. The BP Azerbaijan Employees Long Term Savings Fund is a cash balance plan with contributions made by both employer and employee The level of contributions made to the BP Global Pension Trust is the amount needed to provide adequate funds to meet pension obligations as they fall due. and are based on pension costs in respect of all members of the fund.

The obligation and cost of providing pensions is assessed annually by using the projected unit cost method and is subject to a formal actuarial valuation at least every three years The date of the next actuarial valuation of the BP Global Pension Trust will be on or before 1 January 2015 and the date of the most recent actuarial review was 31 December 2012 During 2012. contributions of $13 4m (2011 $8 8m) were made to the BP Global Pension Trust

The BP Global Pension Trust is operated in a way that does not allow the individual participating employing companies in the Pension Funds within the trust to identify their share of the underlying assets and liabilities of the fund on a consistent and reasonable basis Therefore the company's pension contributions have been accounted for as an expense as if they were contributions to a defined contribution scheme and no further FRS 17 disclosures made in these accounts

24. Pensions (continued)

The results of the most recent actuarial valuation of the BP Global Pension Trust as at 1 January 2012 have been reflected in the disclosures required by FRS 17 for the year ended 31 December 2012, and are included with the accounts of the ultimate parent undertaking BP plc

In the BP plc accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities Actuarial gains and losses are recognised in full in this company's statement of total recognised gains and losses in the period in which they occur

25. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is PHP Operations, a company registered in Scotland 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.