BP EXPLORATION OPERATING COMPANY LIMITED
(Registered No 00305943)

ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors	T W Garlick
	D W Goodwill
	J W Halliday
	J H Bartlett
	D J Lynch

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 $2,060,603 000 which, when added to the retained profit brought forward at 1 January 2012 of $742 560,000 together with exchange adjustments taken directly to reserves of $12,648,000, and total paid interim dividends to ordinary shareholders of $1,000,000,000, gives a total retained profit carried forward at 31 December 2012 of $1,790,515,000

During the year the company has declared and paid dividends of $1,000,000,000 (2011 $3,500 000,000) The directors do not propose the payment of a final dividend

Principal activities and review of the business

The company is engaged in the exploration and production of oil and natural gas mainly in the United Kingdom It also provides services to other group undertakings within the BP group and holds investments in subsidiary undertakings engaged in similar activities

The company also has branches in Kuwait, Turkmenistan, Russian Federation, Vietnam, UAE and Jordan and it is engaged in overseas exploration and production activities

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

	2012	2011	Variance
	$000	$000	%
Turnover	3,187,698	3,964,371	(20)
Operating profit	306,010	1,556 806	(80)
Profit after taxation	2,060,603	3,342,722	(38)
Shareholders' funds	27,236,809	25,815,632	6

	2012	2011	Variance
	%	%	
Quick ratio*	20	27	(7)

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

Turnover has decreased by $777 million Oil revenues have dropped by 20% due to reduced volumes ($510 million) compounded by a decrease in the oil price ($12 million). Gas revenues have dropped by 10% due to a drop in production volumes ($197 million) partly offset by price increases ($116 million) The remaining drop in revenues results from a drop in tariff revenues driven by a decrease in transportation volumes Cost of sales increased by approximately $332 million as explained in the following paragraphs

BP EXPLORATION OPERATING COMPANY LIMITED

REPORT OF THE DIRECTORS

Principal activities and review of the business (continued)

Depreciation, depletion and amortisation charges decreased by $22 million mainly as a result of lower production volumes, however, this has been offset by increases in decommissioning cost estimates Field costs increased by $153 million due to increased focus on safety and operational risk and higher insurance costs

There was a charge to Cost of sales of $284 million in 2012 in relation to oil underlift movements (credits in 2011). Oil underlift volumes decreased relative to 2011

The company realised a $579 million impairment charge as a result of the divestment of the Devenick asset and further $230 million due the post year end liquidation of its investment, Amoco Caspian Sea Petroleum Limited

Interest payable and interest receivable increased by $192 million and $540 million respectively due to the interest on the company's loan payable and loan receivable, including its deposit with BP International Limited

Dividends income received from the company's subsidiaries decreased by $189 million to $2 4 billion in 2012

Tax charged on profit decreased by $1 5 billion in 2012, due the reduction of $1 billion of corporation tax and $0 5 billion of deferred tax

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 Operating Company 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

Principal risks and uncertainties (continued)

Gulf of Mexico oil spill (continued)

The amount of claims that become payable by the BP group, the amount of fines ultimately levied on the BP group (including any potential determination of the BP group's negligence or gross negligence), the outcome of litigation, the terms of any further settlements including the amount and timing of any payments thereunder, and any costs arising from any longer-term environmental consequences of the Incident, will also impact upon the ultimate cost for the BP group

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

Strategic and commercial risks

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

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

Prices and markets (continued)
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

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

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 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 Angola, Algeria, India, Libya and other countries could be adversely affected by heightened political and economic environment risks

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

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

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

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

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

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

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

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

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

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

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

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 OPERATING COMPANY LIMITED

REPORT OF THE DIRECTORS

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

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

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

Principal risks and uncertainties (continued)

Financial risk management (continued)

Foreign currency exchange risk (continued)
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.

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

Research and development

Research and development costs relate to the company's share of BP group-led research and development programmes and initiativies

Future developments

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

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

Post balance sheet events

On 28 November 2012 BP announced its intention to sell its interest in the non-operated Braes and Braemar assets, and the operated Harding, Maclure and Devenick assets to TAQA Bratani Limited The Braes, Harding and Maclure asset deals completed on 31 May 2013 and the Devenick asset deal completed on 28 June 2013 As a result of the loss that was recognised in the 30 June 2013 interim BP Exploration Operating Company Limited management accounts for the Devenick asset divestment an impairment charge of $579 million has been recognised in the 2012 accounts

Post balance sheet events (continued)

The Rhum field, which is 50% owned by Iranian Oil Company, has been shut-in since November 2012 due to EU Regulations concerning restrictive measures against Iran These sanctions are still in place and the field remains shut-in

On 8 April 2013 the company has subscribed to 2,900,000 ordinary shares of $1 each in BP Kapuas I Limited On 18 June 2013, the company further subscribed to 5,989,000 ordinary shares of $1 each

On 8 April 2013 the company has subscribed to 2,900,000 ordinary shares of $1 each in BP Kapuas II Limited On 18 June 2013, the company further subscribed to 5,930,000 ordinary shares of $1 each

On 8 April 2013 the company has subscribed to 3,700,000 ordinary shares of $1 each in BP Kapuas III Limited On 18 June 2013, the company further subscribed to 6,052,000 ordinary shares of $1 each

On 23 April 2013 the company has subscribed to 50,000,000 ordinary shares of $1 each in Exploration (Luderitz Basin) Limited

On 14 May 2013 the company has subscribed to 6,900,000 ordinary shares of $1 each in BP Tanjung IV Limited

On 14 May 2013 the company has subscribed to 18,000,000 ordinary shares of $1 each in BP West Papua III Limited

On 14 May 2013 the company has subscribed to 25,500,000 ordinary shares of $1 each in BP West Aru II Limited

On 14 May 2013 the company has subscribed to 7,500,000 ordinary shares of $1 each in BP West Aru I Limited

On 23 May 2013 the company has subscribed to 17,000,000 ordinary shares of $1 each in BP Exploration China Limited

On 29 May 2013 the company has subscribed to 140,000,000 ordinary shares of $1 each in BP Exploration (South Atlantic) Limited

During 2013 the company has subscribed to 418,000,000 ordinary shares of $1 each in BP Energy do Brasil Limitada

On 19 June 2013 the company issued 2,491,773,951 ordinary shares of £1 each to its immediate parent company BP Exploration Company Limited for a total consideration of $3,900,000,000

During 2013 a short term loan of $4 4billion owed to Britoil Limited was repaid by the company

During 2013 the company has been awarded 8 blocks as a result of the 11th Bid Round promoted by the Brazilian Oil, Natural Gas and Biofuels Agency ("ANP"), these being blocks FZA-M-57, FZA-M-86, FZA-M-59, FZA-M-88, FZA-M-125, FZA-M-127, BAR-M-346 and POT-M-764
In accordance with Brazilian law only Brazilian companies are permitted to execute the relevant concession contracts with ANP and, therefore BP Energy do Brazil Limitada ("BPEDB") will be the signatory company for the concession contracts related to the blocks According to the requirements of the 11th ANP Bid Round tender protocol, the company issued one performance guarantee for each of the blocks in favour of BPEDB

BP EXPLORATION OPERATING COMPANY LIMITED

REPORT OF THE DIRECTORS

Post balance sheet events (continued)

During 2013 the company's subsidiary, Amoco Caspian Sea Petroleum Limited was liquidated, all its distributable reserves paid up to BP Exploration Operating Company Limited and its share capital was cancelled, resulting in a net profit on liquidation of $44,234,000

Directors

The present directors are listed on page 1

T W Garlick, D W Goodwill, J W Halliday, J H Bartlett, D J Lynch, M C Daly served as directors throughout the financial year Changes since 1 January 2012 are as follows

	Appointed	Resigned
D K Peattie	-	28 February 2013
J C Skipper	-	14 December 2012
M C Daly	-	23 August 2013

Directors' indemnity

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

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 Share Match 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

BP EXPLORATION OPERATING COMPANY LIMITED

REPORT OF THE DIRECTORS

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

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

The directors who were members of the board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware, and

- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information

By Order of the Board

For and on behalf of
Sunbury Secretaries Limited
Company Secretary

24 September 2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP EXPLORATION OPERATING COMPANY 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 OPERATING COMPANY LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BP EXPLORATION OPERATING COMPANY LIMITED

We have audited the financial statements of BP Exploration Operating Company 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 31 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 13 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

Moira Ann Lawrence (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
25 September 2013

EY

BP EXPLORATION OPERATING COMPANY LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Exploration Operating Company Limited were approved for issue by the Board of Directors on 24 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

Basis of preparation

At 31 December 2012 the company's balance sheet had net current liabilities amounting to $4 378,988,000

The directors consider it appropriate to prepare the accounts on a going concern basis, since the parent undertaking agreed to provide sufficient finance, whether directly or through one of its subsidiaries to enable the company to meet its liabilities as they fall due for the foreseeable future

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

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BP EXPLORATION OPERATING COMPANY 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

Dividend income

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

Foreign currency transactions

Assets and liabilities of foreign currency branches are translated into dollars at rates of exchange ruling at the balance sheet date The profit and loss account is translated into dollars using average rates of exchange Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into dollars are taken directly to reserves and reported in the statement of total recognised gains and losses Exchange gains and losses arising on long-term foreign currency borrowings, to the extent that they are used to finance or to provide hedge against the company's foreign currency investments, are also dealt with in reserves.

All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit or loss for the year

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

ACCOUNTING POLICIES

Intangible assets (continued)

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

Oil and natural gas exploration and development expenditure

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

Licence and property acquisition costs

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

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

Exploration expenditure

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

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

Tangible fixed assets (continued)

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

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

ACCOUNTING POLICIES

Investments

Fixed asset investments in subsidiaries, joint ventures and 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

Stock valuation

The company's stock consists predominately of plant and insurance spares which are valued at cost to the company using the weighted average method or net realisable value whichever is lower

Trade and other debtors

Trade and 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

Trade and other 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

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where 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 in 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 probable

Decommissioning

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

Decommissioning (continued)

Any change in 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

Petroleum revenue tax

The estimation of the Petroleum Revenue Tax (PRT) charge is on a Unit of Production (UOP) basis The PRT charge will be charged / credited to the profit and loss account on the basis of the current year's production compared to the remaining reserves as a proportion of the estimated total PRT liability of the field

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

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

The disclosures of Financial Reporting Standard No 17 "Retirement Benefits" have been made in the accounts of the ultimate parent undertaking

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by using an appropriate valuation model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions) Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value, and failure to meet a non-vesting condition is treated as a cancellation, where this is within the control of the employee

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

ACCOUNTING POLICIES

Share based payments (continued)

When the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the profit and loss account for the award is expensed immediately

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value and recognised as an expense over the vesting period, with a corresponding liability recognised on the balance sheet

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

Non-equity shares are held as a liability and the dividend paid is included within the interest charge for the year Equity instruments issued by the company are recorded at the proceeds, net of direct issue costs

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 OPERATING COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 $000	2011 $000
Turnover	1	3,187,698	3,964,371
Cost of sales		(2,513,385)	(2,181,834)
Gross profit		674,313	1,782,537
Exploration expenses		(159,708)	(88,980)
Distribution and marketing expenses		(999)	(811)
Administration expenses		(249,010)	(161,416)
		264,596	1,531,330
Other operating income		41,414	25,476
Operating profit		306,010	1,556,806
Profit on disposal of fixed assets	4	170,831	154,869
(Loss) / profit on sale of operations	4	(3,983)	940,493
Amounts provided against fixed assets	2	(808,745)	(8,341)
(Loss) / profit on ordinary activities before investment income, interest and taxation	2	(335,887)	2,643,827
Income from shares in group undertakings		2,410,244	2,598,911
Interest payable and similar charges	5	(457,705)	(265,311)
Interest receivable and similar income	6	628,803	89,282
Profit before taxation		2,245 455	5,066,709
Taxation	7	(184,852)	(1,723,987)
Profit for the year	21	2,060,603	3,342,722

The profit of $2,060,603,000 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		2,060 603	3,342 722
Currency translation differences	21	(12 648)	3,760
Total recognised gains and losses for the year		2,047,955	3 346,482

BP EXPLORATION OPERATING COMPANY LIMITED
(Registered No 00305943)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	2012 $000	2011 $000
Fixed assets			
Intangible assets	9	488,644	286,149
Tangible assets	10	6,959,675	7,020,858
Investments	11	34,166,650	31,690,771
		41,614,969	38,997,778
Current assets			
Stocks	12	89,910	79,575
Debtors – amounts falling due			
within one year	13	4,278 627	3,479,219
after one year	13	13,292,531	15,523,945
Cash at bank and in hand		60 927	11,509
		17,721,995	19,094 248
Creditors: amounts falling due within one year	14	(22,065,177)	(22,241,264)
Provisions for liabilities and charges due within one year	18	(35,806)	(180,000)
Net current (liabilities)		(4,378,988)	(3,327,016)
TOTAL ASSETS LESS CURRENT LIABILITIES		37,235,981	35,670,762
Creditors: amounts falling due after more than one year	14	(4,114,412)	(4,225,642)
Provisions for liabilities and charges due after more than one year			
Deferred tax	7	(2,996,653)	(2,762,679)
Other provisions	18	(2,888,107)	(2,866,809)
NET ASSETS		27 236,809	25,815,632
Represented by			
Capital and reserves			
Called up share capital	20	25,158,277	24,838,277
Other reserves	21	288,017	234,795
Profit and loss account	21	1,790 515	742,560
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		27,236,809	25,815 632

On behalf of the Board

Director, J W Halliday
24 September 2013

BP EXPLORATION OPERATING COMPANY LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, customs duties and sales taxes represents amounts invoiced to third parties and group companies

The country of origin and destination is substantially the UK geographic area

Turnover is attributable to one continuing activity, the production, purchasing and selling of petroleum products

2. (Loss) / profit on ordinary activities before investment income, interest and taxation

This is stated after charging / (crediting)

	2012	2011
	$000	$000
Hire charges under operating leases		
Plant & machinery	36,211	34,661
Land & buildings	10,567	9,196
Currency exchange (gains) and losses	(4,565)	941
Expenditure on research	171,701	99,938
Depreciation of owned fixed assets (including amortisation of intangibles)	521,868	543,439
Depreciation of assets held under finance leases	428	377
Impairment of intangible and tangible fixed assets (see note 9 &10)	557,238	8,341
Impairment of investments (see note 11)	230,059	-

3. Auditor's remuneration

	2012	2011
	$000	$000
Fees for the audit of the company	3,122	2,725

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

BP EXPLORATION OPERATING COMPANY LIMITED

NOTES TO THE ACCOUNTS

4. Exceptional items

Exceptional items comprise the profit on disposal of fixed assets and the (loss) / profit on sale of operations as follows

	2012	2011
	$000	$000
Profit on disposal of fixed assets	170,831	154,869
(Loss) / profit on sale of operations	(3,983)	940,493
Exceptional items	166,848	1,095,362
Taxation (charge)	(85 416)	(77,434)
Exceptional items (net of tax)	81,432	1,017,928

The ownership of the Southern Gas Assets was transferred to Perenco UK Limited during 2012 The total pre-tax gain on disposal was $171 million

In 2011 the profit on sale of operations of $940,493,000 arose due to the sales of BP Exploration Company (Colombia) Limited and the Vietnam Upstream operations, with a residual loss of $3,983,000 in 2012 Also during 2011, the company disposed of its interest in the Wytch Farm, Wareham, Beacon and Kimmeridge fields to Perenco UK Limited. This resulted in a pre-tax profit of $154,869,000

5. Interest payable and similar charges

	2012	2011
	$000	$000
Interest expense on		
Bank loans and overdrafts	-	5
Overdrafts from group undertakings	106,067	96,462
Loans from group undertakings	312,911	86,973
Other	35 061	53,204
Dividends on non-equity shares	1,069	4,256
	455 108	240,900
Capitalised at 2 25% (2011 2 75%)	(10 544)	(7,434)
	444,564	233,466
Unwinding of discount on provisions – See note 18	13,141	31,845
	457,705	265,311

6. Interest receivable and similar income

	2012	2011
	$000	$000
Interest income from group undertakings	611,249	88,056
Other interest	17,554	1,226
	628,803	89,282

7. Taxation

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

Details of the corporation tax that has been provided in respect of the company's oil extraction activity in the UK and UK Continental Shelf are shown below

In respect of the company's other activities, 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 that 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
UK corporation tax on income for the year	28,263	984,479
UK tax overprovided in prior years	(113,436)	(41,078)
Overseas tax on income for the year	59,520	13,627
Total current tax (credit) / charge	(25 653)	957,028
Deferred tax		
Current year timing differences	(80,813)	308,700
Adjustment to prior year timing differences	94,720	(20,714)
Change in tax rate	196,598	478,973
Total deferred tax charge	210,505	766,959
Tax charged on profit on ordinary activities	184 852	1,723,987

(a) Factors affecting the current tax (credit) / charge

The tax assessed on the profit on ordinary activities for the year is lower (2011 lower) 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	2 245,455	5,066,709
Current taxation	(25,653)	957,028
Effective current tax rate	(1)%	19%

7. Taxation (continued)

(a) Factors affecting the current tax charge (continued)

	2012	2011
	UK	UK
	%	%
UK corporation tax rate	24	26
Decrease resulting from		
Fixed asset timing differences	(1)	(2)
Other timing differences	(1)	(2)
Non-deductible expenditure / non-taxable income	2	(5)
Double tax relief	(2)	-
Current overseas tax	3	-
Free group relief	2	1
Transfer pricing adjustment	1	-
Tax provided in respect of subsidiary companies	3	4
UK Supplementary tax at 32% on North Sea profits	(1)	9
Adjustments to tax charge in respect of previous years	(4)	(1)
Dividends not subject to UK tax	(27)	(13)
IRF Tax rate differences	-	2
Effective current tax rate	(1)	19

The permanent and timing differences 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	3,577,121	3,679,655
Decommissioning and other provisions	(653,263)	(999,345)
Petroleum revenue tax	72 795	82,369
Provision for deferred tax	2,996,653	2,762,679

	2012
	$000
At 1 January 2012	2,762,679
Deferred tax charged in the profit and loss account	210,505
Intra-group transfer	23,469
At 31 December 2012	2,996,653

8. Directors and employees

(a) Remuneration of directors

The total remuneration for all serving directors for their period of directorship to the company amounted to $2,490,000 (2011: $3,139,000) A number of directors are senior executives of the BP Plc Group and received no remuneration for services to this company or its subsidiary undertakings

Five directors were members of the defined benefit section of the BP Pension Fund at 31 December 2012 (2011 Five)

The highest paid director received $862,000 (2011 $1,346 000) The accrued pension of the highest paid director at 31 December 2012 was $164,000 (2011 $Nil) The highest paid director did not exercise share options over BP p l c. shares during the year

One director exercised share options over BP p l c shares during the year (2011 None)

(b) Employee costs

	2012	2011
	$000	$000
Wages and salaries	794,321	667,781
Social security costs	82,356	67,057
Pension costs	172,810	139,564
Share based payment charge (see note 19)	68,109	60,068
	1,117,596	934,470

(c) The average monthly number of employees during the year was 4,759 (2011 4,218)

	2012	2011
	No	No.
UK	4,348	3,712
Non-UK	411	506
	4,759	4,218

9. Intangible assets

	Exploration expenditure	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2012	293,249	572	293,821
Additions	293,524	-	293,524
Disposals	(96,611)	-	(96,611)
Transfers	6,884	-	6,884
At 31 December 2012	497 046	572	497,618
Amortisation			
At 1 January 2012	7,398	274	7,672
Charge for the year	-	143	143
Transfers	22,607	-	22,607
Impairment	(21,448)	-	(21,448)
At 31 December 2012	8,557	417	8,974
Net book value			
At 31 December 2012	488,489	155	488,644
At 31 December 2011	285,851	298	286,149

The cost transfer from Tangible assets to Intangible assets represents the reclassification of the decommissioning asset associated with the Kessog intangible in order to treat the asset and the associated decommissioning asset consistently

The amortisation transfer from the Tangible assets to Intangible assets is the reclassification of the Clair exploration decommissioning asset from tangible to intangible which was impaired during 2011

The above impairment credit relates primarily to the 2012 decrease in decommissioning cost estimates associated with the Exploration intangible

BP EXPLORATION OPERATING COMPANY 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	2,626	15,434	23,483,274	41,007	23,542,341	1,033,809
Additions	-	1,674	1,640,299	7,092	1,649,065	877 452
Disposals	-	-	(3,923,865)	-	(3,923,865)	-
Transfers	-	1,386	(6,884)	-	(5,498)	(567,901)
At 31 December 2012	2,626	18,494	21,192 824	48,099	21,262,043	1,343,360
Depreciation and impairment						
At 1 January 2012	-	12,671	16,492,101	16,711	16,521,483	-
Charge for the year	-	1,747	519,169	1,238	522,154	-
Impairment	-	-	578,686	-	578,686	-
Disposals	-	-	(3,298,735)	-	(3,298,735)	-
Transfers	-	1,386	(22,607)	-	(21,221)	-
At 31 December 2012	-	15,804	14,268,614	17,949	14,302,367	-
Net book value						
At 31 December 2012	2,626	2,690	6,924,209	30,150	6,959,675	1,343,360
At 31 December 2011	2,626	2,763	6,991,173	24,296	7,020,858	1,033 809
Principal rates of depreciation	0%-10%	3%-25%	Unit of production	4%		

The above impairment is as a result of the loss on disposal of the Devenick asset realised upon completion of the divestment after the balance sheet date

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

The net book value of land and buildings comprises:

	2012	2011
	$000	$000
Freehold land and buildings	2,626	2,626

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

	Cost	Accumulated Depreciation	Net book value
Leased assets	$000	$000	$000
At 31 December 2012	14,450	7,720	6,730
At 31 December 2011	14,450	7,292	7,158
Capitalised interest			
At 31 December 2012	551,792	395,887	155,905
At 31 December 2011 (Restated)	759,222	606,780	152,442

11. Investments

	Subsidiary shares	Investment in associate shares	Total
Cost	$000	$000	$000
At 1 January 2012	38.208.276	1,835,872	40,044,148
Additions	2 697,023	9.198	2,706,221
Disposals	(283)	-	(283)
At 31 December 2012	40,905,016	1,845,070	42,750,086
Impairment losses			
At 1 January 2012	8,353,075	302	8,353,377
Charge for the year	230,059	-	230,059
At 31 December 2012	8 583,134	302	8,583,436
Net book amount			
At 31 December 2012	32,321,882	1,844,768	34,166,650
At 31 December 2011	29 855,201	1,835,570	31,690,771

The investments in the subsidiary and associated undertakings are unlisted

The impairment charge in 2012 is a result of the post year end liquidation of Amoco Caspian Sea Petroleum Limited

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

During the year a capital injection was made to BP Brazil Tracking LLC and BP Shafag Asiman Limited Atlantic 2/3 UK Holdings Limited (100%) was acquired during the year at fair value from Amoco Trinidad LNG LLC, a fellow BP Group company Arco British Limited, LLC was acquired during the year at fair value from Arco British International Inc, a fellow BP Group company BP Exploration China Limited, BP Exploration (Namibia) Limited, BP Subsea Well Response Limited, Exploration (Luderitz Basin) Limited and BP Exploration (Canada) Limited are newly incorporated companies

NOTES TO THE ACCOUNTS

11. Investments (continued)

Subsidiary undertakings	Class of share held	%	Country of incorporation	Principal activity
Arco British Limited, LLC	Ordinary	100	England and Wales	Exploration / Production
BP Algerie Limited	Ordinary	100	England and Wales	Exploration / Production
BP Amoco Exploration (Faroes) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Amoco Exploration (Forties) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Amoco Exploration (In Amenas) Limited	Ordinary	100	Scotland	Exploration / Production
BP Amoco Exploration (Inam) Limited	Ordinary	100	England and Wales	Agency Company
BP Brasil Limitada	Ordinary	99	Brazil	Exploration
BP Exploration (Algeria) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Alpha) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Angola) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Azerbaijan) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Delta) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Epsilon) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Nigeria) Limited	Ordinary	100	Nigeria	Exploration / Production
BP Exploration (Shah Deniz) Limited	Ordinary	100	England and Wales	Agency Company
BP Exploration Beta Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration Indonesia Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration Libya Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration North Africa Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration Services Limited	Ordinary	100	England and Wales	Exploration / Production
BP Gas Marketing Limited	Ordinary	100	England and Wales	Marketing of Gas
BP Kazakhstan Limited	Ordinary	100	England and Wales	Production
BP Sharjah Limited	Ordinary	100	England and Wales	Exploration / Production
Britoil Limited	Ordinary	100	Scotland	Exploration / Production
Central North Sea Fibre Telecommunications Company Ltd	Ordinary	100	England and Wales	Exploration / Production
PHP Investments Limited	Ordinary	100	Scotland	Investment Company
BP Iraq N V	Nominative	99	Belgium	Exploration / Production
PHP Operations	Ordinary	51	Scotland	Investment Company
BP West Papua I Limited	Ordinary	100	England and Wales	Exploration / Production
BP West Papua III Limited	Ordinary	100	England and Wales	Exploration / Production
BP East Kalimantan CBM Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Alpha) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Energy Colombia Limited	Ordinary	100	England and Wales	Exploration / Production
BP Brazil Tracking L L C	Ordinary	100	Brazil	Exploration / Production
BP Exploration China Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Namibia) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Subsea Well Response Limited	Ordinary	100	England and Wales	Exploration / Production
Exploration (Luderitz Basin) Limited	Ordinary	100	England and Wales	Exploration / Production
BP Exploration (Canada) Limited	Ordinary	100	England and Wales	Exploration / Production

11. Investments (continued)

Associated undertakings	Class of share held	%	Country of incorporation	Principal activity
Amoco Angola B V	Ordinary	38	Netherlands	Exploration / Production

The associated undertaking is held directly by the company

12. Stocks

	2012 $000	2011 $000
Raw materials and consumables	89,910	79,575

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	451,064	-	540,605	-
Amounts owed by group undertakings (see note 15)	2,772,034	12,854,866	2,387,661	15,138,347
Amounts owed by associates	1,503	-	1,138	-
Other debtors	979,719	63,494	499,555	37,108
Prepayments and accrued income	42,568	8,165	46,811	8,756
Petroleum revenue tax	31,739	366 006	3,449	339,734
	4,278,627	13,292,531	3,479,219	15,523,945

14. Creditors

	2012 Within 1 year $000	2012 After 1 year $000	2011 Within 1 year $000	2011 After 1 year $000
Trade creditors	126,014	-	84,222	-
Amounts owed to group undertakings (see note 15)	20,065,765	4,112,370	20,693,501	4,223,600
Other creditors	313,460	-	253,531	-
Taxation	11,814	-	261,238	-
Petroleum revenue tax	32,553	-	138,595	-
Accruals and deferred income	1,514,764	450	809 070	450
Bank overdraft	-	-	174	-
Cash-settled share-based payment (see note 19)	807	1,592	933	1,592
	22,065,177	4,114,412	22,241,264	4,225,642

15. Loans

Loans receivable and repayable, included within amounts owed by group undertakings and amounts owed to group undertakings, are analysed as follows

	2012	2012	2011	2011
	Within 5 years	After 5 years	Within 5 years	After 5 years
	$000	$000	$000	$000
Wholly receivable	-	2,681,486	-	2,768,165
Wholly repayable	-	(2,681,486)	-	(2,768,405)

The nominal value of INR 73,432,500,000 has not changed since 2011, the change this year is a result of the year end revaluation

Interest rates on borrowings receivable more than five years from 31 December 2012 are based on MIBOR (Mumbai Inter-Bank Offer Rate) plus 3%
Interest rates on borrowings repayable more than five years from 31 December 2012 are based on MIBOR (Mumbai Inter-Bank Offer Rate) plus 1 7%.

16. Obligations under leases

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

	2012	2012	2011	2011
	Land & buildings	Plant& Machinery	Land & buildings	Plant& Machinery
	$000	$000	$000	$000
Operating leases which expire:				
Within 1 year	1,282	55,824	1,194	77,142
Between 2 to 5 years	1,270	110,060	2,050	105 442
Thereafter	2,329	47,904	3,537	39,667

17. Derivatives and other financial instruments

The company is exempt from the disclosure requirements of FRS 29 and complies with the disclosure requirements of the Companies Act 2006

Embedded derivatives
Prior to the development of an active gas trading market, UK gas contracts were priced using a basket of available price indices, primarily relating to oil products, power and inflation After the development of an active UK gas market, certain contracts were entered into or renegotiated using pricing formulae not directly related to gas prices, for example, oil products and power prices In these circumstances, pricing formulae have been determined to be derivatives, embedded within the overall contractual arrangements that are not clearly and closely related to the underlying commodity The resulting fair value relating to these contracts is recognised on the balance sheet with gains and losses recognised in the profit and loss account All embedded derivatives are valued using inputs that includes price curves for each of the different products that are built up from active market pricing data Where necessary, these are extrapolated to the expiry of the contracts (the last of which is in 2018) using all available external pricing information. Additionally, where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships

17. Derivatives and other financial instruments (continued)

The fair values of the derivatives held by the company at the balance sheet date, which have not been recognised in these accounts and are determined by reference to their market values, are as follows

	2012	2011
	$000	$000
Natural gas contracts	(414,750)	(442,810)

18. Other provisions

	Decom-missioning	Petroleum revenue tax	Other	Total
	$000	$000	$000	$000
At 1 January 2012	2,743,681	206,881	96,247	3,046,809
New or increased provisions	-	-	44,825	44,825
Write-back of unused provisions	-	(3,447)	-	(3,447)
Unwinding of discount	13,141	-	-	13,141
Change in decommissioning estimate	613,817	-	-	613,817
Utilisation	(95,647)	-	-	(95,647)
Deletions	(695,585)	-	-	(695,585)
At 31 December 2012	2,579,407	203,434	141,072	2,923,913
At 31 December 2012				
Current	35,806	-	-	35,806
Non-current	2,543,601	203,434	141,072	2,888,107
	2,579,407	203,434	141,072	2,923,913
At 31 December 2011				
Current	180,000	-	-	180,000
Non-current	2,563,681	206,881	96,247	2,866,809
	2,743,681	206,881	96,247	3,046,809

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities At 31 December 2012, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was $2,579,407,000 (2011 $2,743,681,000) The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 0 5% (2011 0 5%) These costs are expected to be incurred over the next 43 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. Other provisions (continued)

The PRT provision has reduced as the PRT paying fields move towards the end of their field lives and consequently move to reclaim position.

Other provisions relate to contractual disputes, ($29 million for Braes, $5 million for FPS and $4 million for Logistics) and a provision to Joint venture co-venturers for historical errors in the measurement of liftings, ($90 million for ETAP)

19. Share based payments

Effect of share-based payment transactions on the company's result and financial position

	2012	2011
	$000	$000
Total expense recognised for equity-settled share-based payment transactions	66,657	57,924
Total expense recognised for cash-settled share-based payment transactions	1,452	2,144
Total expense recognised for share-based payment transactions	68,109	60,068
Closing balance of liability for cash-settled share-based payment transactions	2,398	2,525
Total intrinsic value for vested cash-settled share-based payments	18	135

All share-based payments transactions relate to employee compensation

For ease of presentation, option and share holdings detailed in the tables within this note are stated as UK ordinary share equivalents in US dollars US employees are granted American Depositary Shares (ADSs) or options over the company's ADSs (one ADS is equivalent to six ordinary shares) The share-based payment plans that existed during the year are detailed below.

Plans for senior employees
The group operates a number of equity-settled share plans under which share units are granted to its senior leaders and certain other employees These plans typically have a three-year performance or restricted period during which the units accrue net notional dividends which are treated as having been reinvested Leaving employment will normally preclude the conversion of units into shares, but special arrangements apply for participants that leave for qualifying reasons Grants are settled in cash where participants are located in a country whose regulatory environment prohibits the holding of BP shares

Performance unit plans
The number of units granted is related to the level of seniority of the employees and country of operations The number of units converted to shares is determined by reference to performance measures over the three-year performance period Performance measures used include BP's Total Shareholder Return (TSR) compared with the other oil majors, balanced scorecard and individual rating The relative weighting of these different measures is related to the level of seniority of the employee Plans included in this category are the Competitive Performance Plan (CPP) (final grant made in 2011) and the Share Value Plan (SVP).

Restricted share unit plans
Share unit grants under the Restricted Share Plan (RSP) are used in special circumstances such as recruitment and retention of senior employees and normally have no performance conditions Share unit grants under BP's other restricted share plans typically take into account the employee's performance in either the current or the prior year, track record of delivery, business and leadership

19. Share based payments (continued)

skills and potential Plans included in this category are the Executive Performance Plan (EPP), the Performance Share Plan (PSP) (EPP and ESP granted for the last time in 2011), and the Deferred Annual Bonus Plan (DAB)

BP Share Option Plan (BPSOP)
Share options with an exercise price equivalent to the closing market price market price of a BP share immediately preceding the date of grant were granted to participants annually until 2006 These options are not subject to any performance conditions and are exercisable between the third and tenth anniversaries of the grant dates

BP Plan 2011
Share options with an exercise price equivalent to the closing market price market price of a BP share immediately preceding the date of grant were granted to participants in 2011 These options are not subject to any performance conditions and will be exercisable between the third and tenth anniversaries of the grant dates, with special arrangements applying to participants who leave employment for qualifying reasons

Matching and saving plans

BP ShareMatch Plans
These matching share plans give employees the opportunity to buy ordinary shares in BP p l c and receive free matching shares in BP p l c up to a predetermined limit The plans are run in the UK and in more than 50 other countries

BP ShareSave Plan
This plan is open to all eligible UK employees Participants can contribute up to a maximum of £250 per month from their net salary to a savings account over a three- or five-year contractual savings period At the end of the savings period, they are entitled to purchase shares in BP p l.c at a present price determined on the date when the invitations are sent to eligible employees This price is usually set at a discount to the market price of a share of up to 20%

Local plans
In some countries, BP provides local scheme benefits, the rules and qualifications for which vary according to local circumstances Certain US employees may participate in a defined contribution (401k) plan in which BP matches employee contributions up to certain limits Participants may invest in several investment options including a BP Stock Fund that holds BP ADSs and a small percentage of cash

19. Share based payments (continued)

Share option transactions	Number of options	2012 Weighted average exercise price ($)	Number of options	2011 Weighted average exercise price ($)
Outstanding at 1 January	38,454,725	7 41	23,598,807	8 33
Transferred in	4,072,900	7 13	3,637,132	8 59
Transferred out	(9,144,637)	6 80	(3,319,023)	6 96
Granted	7,730,876	5 01	20,437,402	6 04
Forfeited	(6,069,580)	6 59	(3,522,905)	6 80
Exercised	(1,203,710)	6 59	(487,439)	8 30
Expired	(2,593,609)	8 61	(1,889,249)	8 16
Outstanding at 31 December	31,246,965	7 04	38,454,725	7 41
Exercisable at 31 December	10,971,738	9 48	14,728,898	9 27

The weighted average share price at the dates of exercises was $7 03 (2011. $7 51)

The exercise price ranges and weighted average remaining contractual lives for options outstanding at 31 December 2012 are shown below

	Options outstanding			Options exercisable	
Range of exercise prices	Number of shares	Weighted average remaining life (yrs)	Weighted average exercise price ($)	Number of shares	Weighted average exercise price ($)
$5 90 - $6 73	21,692,304	5 96	5.73	1,696,835	6 35
$6 74 - $8 46	2,495,700	1 13	7 79	2,495 700	7 79
$8 47 - $10 19	3,006,890	1 81	9 86	2 727,132	9 96
$10 20 - $11 92	4,052,071	2 99	11 50	4 052 071	11 50
	31,246,965	4 79	7.04	10,971,738	9 48

Fair values and associated details of shares granted:

Share units granted in 2012:	SVP – non TSR	RSP	DAB
Number of share units granted	7,740,473	938,690	951,588
Weighted average fair value per unit granted	$7 78	$7 21	$7 78
Fair value measurement basis	Market value	Market Value	Market Value

19. Share based payments (continued)

Share units granted in 2011:	CPP	EPP	RSP	DAB	PSP
Number of share units granted	108,000	1,024,500	1,187,500	789,513	2,261,870
Weighted average fair value per unit granted	$11 99	$7 51	$6 86	$7 51	$7 51
Fair value measurement basis	Monte Carlo	Market value	Market Value	Market Value	Market value

The group uses the observable market price for ordinary shares at the date of grant to determine the fair value of non-TSR share unit awards

The group used a Monte Carlo simulation to determine the fair values of the TSR elements of the 2011 grant. In accordance with the plan's rules, the model simulates BP's TSR and compares it against its principal strategic competitors over the three-year period of the plan The model takes into account the historical dividends, share price volatilities and covariances of BP and each comparator company to produce a predicted distribution of relative share performance This is applied to the reward criteria to give an expected value of the TSR element

Accounting expense does not necessarily represent the intended value of share-based payments made to recipients, which are determined by the remuneration committee according to established criteria

20. Called up share capital

	2012	2011
	$000	$000
Allotted, called up and fully paid		
13,977,955,425 (2011 13,779 092,672) Ordinary shares of £1 each for a total nominal value of £13,977,955,425 (2011 13,779,092,672)	23,529,812	23,209,812
735,000 000 'A' ordinary shares of £1each	1,078,465	1,078 465
348,851,960 'B' ordinary shares of £1each	550,000	550,000
	25,158 277	24,838,277

On 28 December 2012, 198,862,753 ordinary shares of £1 each for a total nominal value of £198,862,753 (equivalent of $320,000,000), were allotted to the immediate parent company at par value.

21. Capital and reserves

	Called up share capital	Other reserves	Profit and loss account	Total
	$000	$000	$000	$000
At 1 January 2012	24,838,277	234,795	742,560	25,815,632
Currency translation differences	-	-	(12,648)	(12,648)
Issue of ordinary share capital	320,000	-	-	320,000
Profit for the year	-	-	2,060,603	2,060,603
Share based payments	-	53,222	-	53,222
Dividends – current year interim paid	-	-	(1,000,000)	(1,000,000)
At 31 December 2012	25,158,277	288,017	1,790,515	27,236,809

In 2012 the company paid interim ordinary dividends of $1,000,000,000 (2011 $3,500,000,000) The dividend per share was $0 07 (2011 dividend per share $0 24)

22. Reconciliation of movements in shareholders' funds

	2012	2011
	$000	$000
Profit for the year	2,060,603	3,342,722
Currency translation differences	(12 648)	3,760
Share based payments	53,222	46,186
Dividends – current year interim paid	(1,000,000)	(3,500,000)
Issue of ordinary share capital	320,000	16,208,465
Net increase in shareholders' funds	1,421,177	16,101,133
Shareholders' funds at 1 January	25,815,632	9,714,499
Shareholders' funds at 31 December	27,236,809	25,815,632

23. 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 $950,209,000 (2011 $907 000,000).

24. Guarantees and other financial commitments

The company has issued guarantees to under which amounts outstanding at 31 December 2012 were $100 000 000 (2011 $175 000,000) in respect of liabilities of other third parties No material losses are likely to arise from these guarantees

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25. Contingent liability

A claim has been brought by Scottish Power plc against BP Exploration Operating Company Limited in its capacity as an owner of the Andrew Field in respect of the shut-in of the Andrew Field and consequent non delivery of gas under the gas sales agreement Scottish Power plc has claimed damages, the applicability of which is disputed by the Andrew Field owners The Andrew Field owners contend that any remedy in respect of non delivery of gas is provided under, and limited by, the terms of the gas sales agreement Should such remedy apply, it would involve delivery of gas at a price discounted from that under the gas sales agreement The value of this remedy, calculated for the same period as that covered by the claim, would be $33m (BP Exploration Operating Company Limited Net)

26. 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 other 100% owned group companies There were no other related party transactions in the year

27. 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

28. Post balance sheet events

On 28 November 2012 BP announced its intention to sell its interest in the non-operated Braes and Braemar assets, and the operated Harding, Maclure and Devenick assets to TAQA Bratani Limited The Braes, Harding and Maclure asset deals completed on 31 May 2013 and the Devenick asset deal completed on 28 June 2013 As a result of the loss that was recognised in the 30 June 2013 interim BP Exploration Operating Company Limited management accounts for the Devenick asset divestment an impairment has been recognised in the 2012 accounts of $579 million

The Rhum field, which is 50% owned by Iranian Oil Company, has been shut-in since November 2012 due to EU Regulations concerning restrictive measures against Iran These sanctions are still in place and the field remains shut-in

On8 April 2013 the company has subscribed to 2,900,000 ordinary shares of $1 each in BP Kapuas I Limited On 18 June 2013, the company further subscribed to 5,989,000 ordinary shares of $1 each

On 8 April 2013 the company has subscribed to 2,900,000 ordinary shares of $1 each in BP Kapuas II Limited On 18 June 2013, the company further subscribed to 5,930,000 ordinary shares of $1 each

On 8 April 2013 the company has subscribed to 3,700,000 ordinary shares of $1 each in BP Kapuas III Limited On 18 June 2013, the company further subscribed to 6,052,000 ordinary shares of $1 each

On 23 April 2013 the company has subscribed to 50,000,000 ordinary shares of $1 each in Exploration (Luderitz Basin) Limited

On 14 May 2013 the company has subscribed to 6,900,000 ordinary shares of $1 each in BP Tanjung IV Limited

28. Post balance sheet events (continued)

On 14 May 2013 the company has subscribed to 18,000,000 ordinary shares of $1 each in BP West Papua III Limited

On 14 May 2013 the company has subscribed to 25,500,000 ordinary shares of $1 each in BP West Aru II Limited

On 14 May 2013 the company has subscribed to 7,500,000 ordinary shares of $1 each in BP West Aru I Limited

On 23 May 2013 the company has subscribed to 17,000,000 ordinary shares of $1 each in BP Exploration China Limited

On 29 May 2013 the company has subscribed to 140,000,000 ordinary shares of $1 each in BP Exploration (South Atlantic) Limited

During 2013 the company has subscribed to 418,000,000 ordinary shares of $1 each in BP Energy do Brasil Limitada

On 19 June 2013 the company issued 2,491,773,951 ordinary shares of £1 each to its immediate parent company BP Exploration Company Limited for a total consideration of $3,900,000,000

During 2013 a short term loan of $4 4billion owed to Britoil Limited was repaid by the company

During 2013 the company has been awarded 8 blocks as a result of the 11th Bid Round promoted by the Brazilian Oil, Natural Gas and Biofuels Agency ("ANP"), these being blocks FZA-M-57, FZA-M-86, FZA-M-59, FZA-M-88, FZA-M-125, FZA-M-127, BAR-M-346 and POT-M-764
In accordance with Brazilian law only Brazilian companies are permitted to execute the relevant concession contracts with ANP and, therefore BP Energy do Brazil Limitada ("BPEDB") will be the signatory company for the concession contracts related to the blocks According to the requirements of the 11th ANP Bid Round tender protocol, the company issued one performance guarantee for each of the blocks in favour of BPEDB

During 2013 the company's subsidiary, Amoco Caspian Sea Petroleum Limited was liquidated, all its distributable reserves paid up to BP Exploration Operating Company Limited and its share capital was cancelled, resulting in a net profit on liquidation of $44,234,000

29. Pensions

The company is a participating employer in the BP Pension Fund The BP Pension Fund is separately funded and provides benefits that are computed based on an employee's years of service and final pensionable salary The level of contributions made to the BP Pension Fund 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 the cost of providing pensions is assessed annually using the projected unit credit method The date of the latest actuarial valuation for the BP Pension Fund was 31 December 2011 and the date of the most recent actuarial review was 31 December 2012 During 2012, employer contributions of $870,878,000 (2011 $414,634,000) and member contributions of $36,454,000 (2011 $30,554,000) were made to the BP Pension Fund

29. Pensions (continued)

The results of the most recent actuarial valuation of the BP Pension Fund as at 31 December 2011, have been reflected into the disclosures required by FRS 17 for the year ended 31 December 2012, and are included within the accounts of the ultimate parent undertaking BP p l c

In the BP p l c 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

The BP pension fund also includes a number of defined contribution schemes and the company is a participating employer in one of these, the BP Retailing Pension and Life Assurance Scheme. The assets of these schemes are held separately from those of the Company in an independently administered fund.

30. Comparative figures

The amounts included in the balance sheet as at 31 December 2011 for debtors and creditors were understated by $6 8 billion because certain balances with other BP group companies had been incorrectly netted off The comparatives in these financial statements have been amended to correct this inconsistency This had no impact on the net assets

31. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Company Limited, 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.