

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

(Registered No 00136384)

ANNUAL REPORT AND ACCOUNTS 2012Board of Directors J H Bartlett
G L Wood**REPORT OF THE DIRECTORS**

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

Results and dividends

The loss for the year after taxation was \$933,000 which, when added to the retained deficit brought forward at 1 January 2012 of \$43,937,000, gives a total retained deficit carried forward at 31 December 2012 of \$44,870,000

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

Principal activity and review of the business

The company markets crude oil produced from the Bunduq Oilfield It also holds investments in associated undertakings engaged in oil production and related activities in Abu Dhabi

The company continues to trade at approximately the same production levels as the previous financial year There have been no significant changes in the nature of the business during 2012 and the directors believe that the trend will continue

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

	2012	2011	Variance
	\$000	\$000	%
Turnover	8,115	6,162	32
Profit / (loss) before taxation	2 445	(740)	430
Loss after taxation	(933)	(2,998)	(69)
Shareholders' funds	10,167	11,100	(8)

	2012	2011	Variance
	%	%	
Quick ratio*	0 71	0 54	0 17

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

The reduced loss is mainly due to lower interest paid on the BP Finance overdraft balance and lower operating expenditure In 2012 interest paid was \$2 8 million compared to \$4 3 million paid in 2011

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties

The company aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

Consider carefully the risks described below and the potential impact of their occurrence on the business, financial condition and results of operations for the company.

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

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 Company (Middle East) Limited.

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

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Strategic 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. Lack of material positions in new markets could impact the company's future hydrocarbon production.

Moreover, the Gulf of Mexico oil spill has damaged BP's reputation, which may have a long-term impact on the company's ability to access new opportunities. Adverse public, political and industry sentiment towards BP Companies, and towards oil and gas drilling activities generally, could damage or impair the company's existing commercial relationships and could impair the company's access to new investment opportunities. In addition, responding to the Incident has placed, and will continue to place, a significant burden on the BP group's cash flow over the next several years, which could also impede 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 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 group's oil and natural gas properties. Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the company's results of operations in the period in which it occurs. Rapid material or sustained change in oil, gas and product prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the ensuing actions derived from those decisions may no longer be appropriate. Periods of global recession could impact the demand for the company's products, the prices at which they can be sold and affect the viability of the markets in which the company operates.

Refining profitability can be volatile, with both periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand. Sectors of the petrochemicals industry are also subject to fluctuations in supply and demand, with a consequent effect on prices and profitability.

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 political instability, changes to the regulatory environment, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections. Any of these conditions could disrupt or terminate the company's operations, causing its development activities to be curtailed or terminated or its production to decline, and could cause it to incur additional costs. In particular, the company's investments in UAE could be adversely affected by heightened political and economic environment risks.

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Strategic risks (continued)

Competition

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

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home. Competition puts pressure on product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency, while ensuring safety and operational risk is not compromised. The implementation of the BP group strategy requires continued technological advances and innovation including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage. The company's performance could be impeded if competitors developed or acquired intellectual property rights to technology that it required or if its innovation lagged the industry.

Compliance and control risks

Regulatory

The oil industry in general, and in particular the US industry following the Gulf of Mexico oil spill, faces increased regulation that could increase the cost of regulatory compliance and limit the company's access to new exploration properties.

After the Gulf of Mexico oil spill, it is likely that there will be more stringent regulation of oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new drilling areas. Regulatory or legislative action may impact the industry as a whole and could be directed specifically towards BP group. New regulations and legislation, as well as 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 its 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 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. The company buys, sells and trades oil and gas products in certain regulated commodity markets. 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, we could be required to curtail or cease certain operations, or we could incur additional costs.

Reporting

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

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

The company's operations are often conducted in difficult or environmentally sensitive locations, in which the consequences of a spill, explosion, fire or other incident could be greater than in other locations. These operations are subject to various environmental 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.

To help address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the BP group can analyse the performance of its activities and identify and remediate shortfalls BP implemented a group-wide operating management system (OMS).

Work on the application of OMS in individual operating businesses continues and following the Gulf of Mexico oil spill an enhanced safety and operational risk (S&OR) function has been established, reporting directly to the BP group chief executive. 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 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 civil strife and political unrest in areas where we operate.

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 COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Safety and operational risks

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 the environment and people and given the high volumes involved.

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, including maintenance turnaround programmes, and/or a major programme designed to enhance shareholder value 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 injury to people, damage to assets, harm to the environment, breaches of regulations, litigation, legal liabilities and repatriation 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.

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Safety and operational risks (continued)

Joint ventures and other contractual arrangements

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

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

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

Financial risk management

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

Market risk

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Financial risk management (continued)

Foreign currency exchange risk

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

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

Going concern

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

Directors

The present directors are listed on page 1.

J H Bartlett served as a director throughout the financial year. Changes since 1 January 2012 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
M W Shindy	-	01 March 2012
George Leslie Wood	01 March 2012	-

Directors' indemnity

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

Policy and practice on payment of creditors

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

Auditor

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

REPORT OF THE DIRECTORS

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

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

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information

By Order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

19 August 2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP EXPLORATION COMPANY (MIDDLE EAST) 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 COMPANY (MIDDLE EAST) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

We have audited the financial statements of BP Exploration Company (Middle East) 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 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

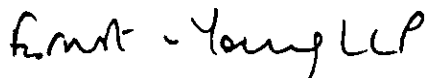
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



William Testa (Senior Statutory Auditor)

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

London

6 September 2013

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Exploration Company (Middle East) Limited were approved for issue by the Board of Directors on *04 August* 2013

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

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

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

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

Accounting convention

The accounts are prepared under the historical cost convention

Basis of preparation

At 31 December 2012 the company's balance sheet had net current liabilities amounting to \$206 619,000

The directors consider it appropriate to prepare the accounts on a going concern basis, despite the uncertainties deriving from the current economic environment. The company is in an overall net assets position and therefore will be able 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 plc, a company registered in England and Wales. These accounts present information about the company as an individual undertaking and not about the group.

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

ACCOUNTING POLICIES

Revenue recognition

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

Foreign currency transactions

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

Capitalisation of finance costs and interest

Interest costs are not capitalised and are charged in the profit and loss account in the year in which it is incurred.

Investments

Fixed asset investments in associates are held at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Other debtors

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

Other creditors

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

Use of estimates

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

		<u>2012</u>	<u>2011</u>
	Note	\$000	\$000
Turnover	1	8,115	6,162
Cost of sales		<u>(2,909)</u>	<u>(2,626)</u>
Gross profit		5,206	3,536
Administration expenses	2	<u>(4)</u>	<u>(4)</u>
Profit on ordinary activities before interest and tax		5,202	3,532
Interest payable and similar charges	3	<u>(2 757)</u>	<u>(4,272)</u>
Profit / (Loss) before taxation		2,445	(740)
Taxation	4	<u>(3 378)</u>	<u>(2,258)</u>
Loss for the year		<u>(933)</u>	<u>(2,998)</u>

The loss of \$933,000 for the year ended 31 December 2012 has derived in its entirety from continuing operations

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

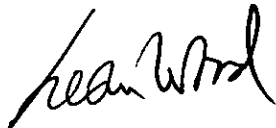
There are no recognised gains or losses attributable to the shareholders of the company other than the loss for the year

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED
(Registered No 00136384)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	<u>2012</u> \$000	<u>2011</u> \$000
Fixed assets			
Investments	6	216,786	323,661
Current assets			
Debtors	7	1,475	1,682
Creditors: amounts falling due within one year	8	(208,094)	(314,243)
Net current liabilities		<u>(206,619)</u>	<u>(312,561)</u>
NET ASSETS		<u>10,167</u>	<u>11,100</u>
Represented by			
Capital and reserves			
Called up share capital	9	55,037	55,037
Profit and loss account	10	<u>(44,870)</u>	<u>(43,937)</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>10,167</u>	<u>11,100</u>

On behalf of the Board



G L Wood
Director

19 August 2013

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover represents the gross proceeds from sales of 72,000 barrels of oil (2011: 56,000 barrels) at government selling prices (GSP) notified by the Supreme Petroleum Council, Abu Dhabi, in US Dollars. Turnover is attributable to one continuing activity, the purchasing and selling of petroleum products.

The region of origin for these sales is the rest of the world and the region of destination is the UK.

2. Auditor's remuneration

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Fees for the audit of the company	<u>4</u>	<u>12</u>

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

3. Interest payable and similar charges

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Interest expense on: Loans from group undertakings	<u>2,757</u>	<u>4,272</u>

4. Taxation

UK Taxation

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

Overseas Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<u>2012</u>	<u>2011</u>
	\$000	\$000
<u>Current tax</u>		
Overseas tax on income for the year	3,323	2,227
Overseas tax underprovided in prior years	<u>55</u>	<u>31</u>
Total current tax	<u>3,378</u>	<u>2,258</u>

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

NOTES TO THE ACCOUNTS

4. Taxation (continued)

(b) Factors affecting the current tax charge

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

	<u>2012</u>	<u>2011</u>
	UK	UK
	\$000	\$000
Profit / (Loss) on ordinary activities before tax	2,445	(740)
Current taxation	3,378	2,258
Effective current tax rate	138	(305)
	<u>2012</u>	<u>2011</u>
	%	%
UK statutory corporation tax rate	24	26
Increase / (decrease) resulting from		
Current overseas tax	138	(305)
Double tax relief	(51)	124
Free group relief	27	(150)
Effective current tax rate	<u>138</u>	<u>(305)</u>

(c) Factors that may affect future tax charges

The company earns income in United Arab Emirates and on average pays taxes at rates higher than the UK statutory rate. The overall impact of these higher taxes is subject to changes in enacted tax rates.

5. Directors and employees

(a) Remuneration of directors

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

(b) Employee costs

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

NOTES TO THE ACCOUNTS

6. Investments

	Investment in Associate shares	Loans to associates	Total
Cost	\$000	\$000	\$000
At 1 January 2012	15,863	319,132	334,995
Repayment	-	(106,875)	(106,875)
At 31 December 2012	<u>15,863</u>	<u>212 257</u>	<u>228,120</u>
Amounts provided			
At 1 January 2012 and 31 December 2012	<u>(11,334)</u>	<u>-</u>	<u>(11,334)</u>
Net book amount			
At 31 December 2012	<u>4,529</u>	<u>212 257</u>	<u>216 786</u>
At 31 December 2011	<u>4,529</u>	<u>319 132</u>	<u>323,661</u>

The investments in the associated undertakings are unlisted

The associated undertakings of the company at 31 December 2012 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

Associated Undertakings	Class of share held	%	Country of incorporation	Principal activity
Abu Dhabi Petroleum Co Ltd	Ordinary	23.75	England and Wales	Production of crude oil
Iraq Petroleum Company Ltd	Ordinary	23.75	England and Wales	Provision of services to crude oil transport company
Abu Dhabi Company for Onshore Oil Operations	Ordinary	9.5	United Arab Emirates	Production of crude oil

7. Debtors

	2012	2011
	Within 1 year	Within 1 year
	\$000	\$000
Amounts owed by group undertakings	<u>1,475</u>	<u>1,682</u>

8. Creditors

	2012	2011
	Within 1 year	Within 1 year
	\$000	\$000
Amounts owed to group undertakings	206,013	312,612
Amounts owed to associates	2,067	1 617
Other creditors	<u>14</u>	<u>14</u>
	<u>208 094</u>	<u>314 243</u>

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

NOTES TO THE ACCOUNTS

9. Called up share capital

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Allotted, called up and fully paid		
29,806,041 Ordinary shares of £1 each for a total nominal value of £29,806,041	<u>55,037</u>	<u>55,037</u>

10. Capital and reserves

	<u>Called up share capital</u>	<u>Profit and loss account</u>	<u>Total</u>
	\$000	\$000	\$000
At 1 January 2012	55,037	(43,937)	11,100
Loss for the year	-	(933)	(933)
At 31 December 2012	<u>55,037</u>	<u>(44,870)</u>	<u>10,167</u>

11. Reconciliation of movements in shareholders' funds

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Loss for the year	(933)	(2,998)
Net decrease in shareholders' interests	(933)	(2,998)
Shareholders' funds at 1 January	11,100	4,626
Issue of ordinary share capital	-	9,472
Shareholders' funds at 31 December	<u>10,167</u>	<u>11,100</u>

12. Related party transactions

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions with group companies

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

Related party	Relationship	Description	<u>Purchases from related party</u>	<u>Amounts owed to related party</u>
			\$000	\$000
Bundug Co Ltd	Group Associate	Crude oil		
2012			(2,909)	(2,067)
2011			(2,626)	(1,617)

13. Pensions

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

BP EXPLORATION COMPANY (MIDDLE EAST) LIMITED

NOTES TO THE ACCOUNTS

14. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP Exploration Company Limited, a company registered in Scotland. The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP plc, a company registered in England and Wales. Copies of BP plc's accounts can be obtained from 1 St James's Square, London, SW1Y 4PD.

