

**BP EXPLORATION NORTH AFRICA LIMITED**

(Registered No 05335927)



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12/09/2013

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COMPANIES HOUSE

**ANNUAL REPORT AND ACCOUNTS 2012**

Board of Directors

M R Illingworth

J H Bartlett

**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 \$42,449,000 which, when added to the retained profit brought forward at 1 January 2012 of \$267,022,000, gives a total retained profit carried forward at 31 December 2012 of \$309,471,000

The company has not declared any dividends during the year (2011 \$400,000,000). The directors do not propose the payment of a dividend.

**Principal activity and review of the business**

The company is engaged in the exploration for and production of oil and gas from its interest in Egypt, in the Saqqara concession in the Gulf of Suez.

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

|                       | 2012    | 2011    | Variance |
|-----------------------|---------|---------|----------|
|                       | \$000   | \$000   | %        |
| Turnover              | 165,398 | 236,726 | (30)     |
| Operating profit      | 77,575  | 151,115 | (49)     |
| Profit after taxation | 42,449  | 145,745 | (71)     |
| Shareholders' funds   | 384,471 | 342,022 | 12       |

|              | 2012 | 2011 | Variance |
|--------------|------|------|----------|
|              | %    | %    |          |
| Quick ratio* | 519  | 447  | 72       |

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

Operating profit has decreased due to the decrease in sales while there was almost no change in cost of sales. Lower sales are basically due to a drop in both the oil and gas production. The main reason of inconsistency between sales movement and cost of sales movement is that there is cross purchase adjustment and an inventory provision expense which has led to the increase of cost of sales.

The impairment reversal in 2011 resulted in an unusually higher profit. There was no such reversal in 2012.

**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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

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

Please 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 North Africa 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 by the Group 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***

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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

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

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

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

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

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

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

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

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

The company's investments in Egypt could be adversely affected by heightened political and economic environment risks.

##### ***Competition***

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

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

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

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

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

###### ***Investment efficiency***

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

###### ***Reserves progression***

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

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

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

###### ***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.

##### **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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

#### **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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

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

##### **Compliance and control risks (continued)**

###### ***Changes in external factors***

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

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

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

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

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

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

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

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

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

###### ***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 NORTH AFRICA 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, as well as its use of financial instruments, 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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **REPORT OF THE DIRECTORS**

#### **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.

##### **Future developments**

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

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

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

The country wide demonstrations on 30 June 2013 and subsequent heightened political environment in Egypt has not impacted any of our operations to date. We continue to monitor changing political events in Egypt closely and we are working closely with the Egyptian authorities to manage any potential impacts to the business.

##### **Directors**

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

##### **Directors' indemnity**

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



**BP EXPLORATION NORTH AFRICA LIMITED**

**REPORT OF THE DIRECTORS**

**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 36.

**Auditor**

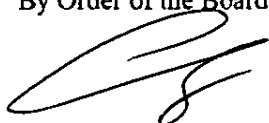
In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the company's auditor for the next year.

**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

*10 September* 2013

Registered Office

Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP  
United Kingdom

## **BP EXPLORATION NORTH AFRICA 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 NORTH AFRICA LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**  
**BP EXPLORATION NORTH AFRICA LIMITED**

We have audited the financial statements of BP Exploration North Africa 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 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of director and auditor**

As explained more fully in the Statement of 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 Reports 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

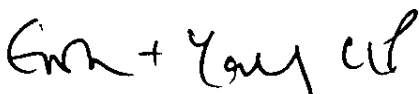
**Opinion on other matter prescribed by the Companies Act 2006**

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.



Daniel Trotman (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

11 September 2013

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting standards**

The financial statements of BP Exploration North Africa Limited were approved for issue by the Board of Directors on 8 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 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

#### **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.

#### **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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **ACCOUNTING POLICIES**

#### **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.

#### **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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **ACCOUNTING POLICIES**

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation if any and, for qualifying assets borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within tangible fixed assets.

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

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

#### **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.

## **BP EXPLORATION NORTH AFRICA LIMITED**

### **ACCOUNTING POLICIES**

#### **Impairment of intangible and tangible fixed assets (continued)**

After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life

#### **Stock valuation**

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

#### **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

#### **Leases**

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.

#### **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 NORTH AFRICA LIMITED****PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

|   |          | 2012     | 2011     |
|---|----------|----------|----------|
|   | Note     | \$000    | \$000    |
| <b>Turnover</b>   | <b>1</b> | 165 398  | 236,726  |
| Cost of sales   |          | (87 762) | (85,428) |
| <b>Gross profit</b>   |          | 77,636   | 151,298  |
| Exploration expenses  |          | (139)    | (68)     |
| Administration expenses   |          | 78       | (115)    |
| <b>Operating profit</b>   | <b>2</b> | 77,575   | 151,115  |
| Reversal of amounts provided against fixed assets                 | <b>4</b> | -        | 30,046   |
| <b>Profit on ordinary activities before interest and taxation</b> |          | 77,575   | 181,161  |
| Interest payable and similar charges                              | <b>5</b> | (101)    | -        |
| Interest receivable and similar income                            | <b>6</b> | 72       | 482      |
| <b>Profit before taxation</b>                                     |          | 77 546   | 181,643  |
| Taxation  | <b>7</b> | (35 097) | (35 898) |
| <b>Profit for the year</b>  |          | 42,449   | 145,745  |

The profit of \$42,449,000 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 profit for the year



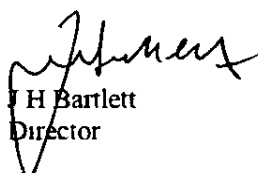
**BP EXPLORATION NORTH AFRICA LIMITED**

(Registered No 05335927)

**BALANCE SHEET AT 31 DECEMBER 2012**

|   | Note | 2012<br>\$000 | 2011<br>\$000 |
|---|------|---------------|---------------|
| <b>Fixed assets</b>                               |      |               |               |
| Tangible assets                                   | 9    | 149,694       | 161,069       |
| <b>Current assets</b>                             |      |               |               |
| Stocks  | 10   | 1 797         | 1 032         |
| Debtors   | 11   | 288,557       | 232,109       |
| Cash at bank and in hand                          |      | 3             | 3             |
|   |      | 290 357       | 233,144       |
| Creditors' amounts falling due within one year    | 12   | (55 580)      | (52,191)      |
| <b>Net current assets</b>                         |      | 234,777       | 180 953       |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>      |      | 384 471       | 342 022       |
| <b>NET ASSETS</b>                                 |      | 384 471       | 342,022       |
| <b>Represented by</b>                             |      |               |               |
| <b>Capital and reserves</b>                       |      |               |               |
| Called up share capital                           | 14   | 75,000        | 75 000        |
| Profit and loss account                           | 15   | 309 471       | 267 022       |
| <b>SHAREHOLDERS' FUNDS –<br/>EQUITY INTERESTS</b> |      | 384,471       | 342 022       |

On behalf of the Board



J H Bartlett  
Director



10 September 2013

**BP EXPLORATION NORTH AFRICA 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

The country of origin and destination is substantially Egypt. Turnover is attributable to one continuing activity, the production and selling of petroleum products

**2. Operating profit**

This is stated after charging / (crediting)

|                                     | 2012   | 2011   |
|-------------------------------------|--------|--------|
|                                     | \$000  | \$000  |
| Hire charges under operating leases | 8 906  | 5,403  |
| Currency exchange (gains)/ losses   | (57)   | 135    |
| Depreciation of owned fixed assets  | 34 515 | 46,616 |

**3. Auditor's remuneration**

|                                   | 2012  | 2011  |
|-----------------------------------|-------|-------|
|                                   | \$000 | \$000 |
| Fees for the audit of the company | 26    | 25    |

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 North Africa Limited's ultimate parent, BP plc, are required to disclose non-audit fees on a consolidated basis

**4. Exceptional items**

Exceptional items comprise the profit which resulted from a reversal of impairment in 2011

|                                | 2012  | 2011   |
|--------------------------------|-------|--------|
|                                | \$000 | \$000  |
| Impairment reversal            | -     | 30,046 |
| Exceptional items (net of tax) | -     | 30 046 |

The reversal of impairment of \$30,046,000 is as a result of a change in the Group's long-term view of oil prices

**5. Interest payable and similar charges**

|  | 2012  | 2011  |
|--|-------|-------|
|  | \$000 | \$000 |
| Interest payable from group undertakings | 101   | -     |

**6. Interest receivable and similar income**

|   | 2012  | 2011  |
|---|-------|-------|
|   | \$000 | \$000 |
| Interest income from group undertakings | 72    | 482   |

**BP EXPLORATION NORTH AFRICA LIMITED****NOTES TO THE ACCOUNTS****7. Taxation**

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

The tax charge is made up as follows:

|                                     | <u>2012</u>   | <u>2011</u>   |
|-------------------------------------|---------------|---------------|
|                                     | \$000         | \$000         |
| Current tax                         |               |               |
| Overseas tax on income for the year | 35,097        | 35,898        |
| Total current tax                   | <u>35,097</u> | <u>35,898</u> |

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

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

|  | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|
|  | UK          | UK          |
|  | \$000       | \$000       |
| Profit on ordinary activities before tax | 77,546      | 181,643     |
| Current taxation                         | 35,097      | 35,898      |
| Effective current tax rate               | 45%         | 20%         |
|  | <u>2012</u> | <u>2011</u> |
|  | UK          | UK          |
|  | %           | %           |
| UK corporation tax rate                  | 24          | 26          |
| Overseas corporation tax rate            | -           | -           |
| Increase / (decrease) resulting from:    |             |             |
| Fixed asset timing differences           | (12)        | (6)         |
| Other timing differences                 | 2           | -           |
| Current overseas tax                     | 45          | 20          |
| Double tax relief                        | (14)        | (20)        |
| Effective current tax rate               | <u>45</u>   | <u>20</u>   |

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

**BP EXPLORATION NORTH AFRICA LIMITED****NOTES TO THE ACCOUNTS****8. Directors and employees****(a) Remuneration of directors**

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

**(b) Employee costs**

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

**9. Tangible assets**

|  | Land &<br>buildings | Fixtures<br>&<br>fittings | Oil & gas<br>properties | Total          | Of<br>which<br>AUC* |
|--|---------------------|---------------------------|-------------------------|----------------|---------------------|
| Cost                                   | \$000               | \$000                     | \$000                   | \$000          | \$000               |
| At 1 January 2012                      | 2,048               | 906                       | 686,776                 | 689,730        | -                   |
| Additions                              | -                   | -                         | 23,140                  | 23,140         | 113                 |
| At 31 December 2012                    | <u>2,048</u>        | <u>906</u>                | <u>709,916</u>          | <u>712,870</u> | <u>113</u>          |
| <b>Depreciation and<br/>impairment</b> |                     |                           |                         |                |                     |
| At 1 January 2012                      | 67                  | 711                       | 527,883                 | 528,661        | -                   |
| Charge for the year                    | 67                  | 174                       | 34,274                  | 34,515         | -                   |
| At 31 December 2012                    | <u>134</u>          | <u>885</u>                | <u>562,157</u>          | <u>563,176</u> | <u>-</u>            |
| <b>Net book value</b>                  |                     |                           |                         |                |                     |
| At 31 December 2012                    | <u>1,914</u>        | <u>21</u>                 | <u>147,759</u>          | <u>149,694</u> | <u>113</u>          |
| At 31 December 2011                    | <u>1,981</u>        | <u>195</u>                | <u>158,893</u>          | <u>161,069</u> | <u>-</u>            |

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

**10. Stocks**

|                               | 2012         | 2011         |
|-------------------------------|--------------|--------------|
|                               | \$000        | \$000        |
| Raw materials and consumables | <u>1,797</u> | <u>1,032</u> |

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

**11. Debtors**

|                                    | 2012                      | 2011                      |
|------------------------------------|---------------------------|---------------------------|
|                                    | Within<br>1 year<br>\$000 | Within<br>1 year<br>\$000 |
| Trade debtors                      | 99,343                    | 122,777                   |
| Amounts owed by group undertakings | 153,483                   | 72,080                    |
| Prepayments and accrued income     | 35,347                    | 470                       |
| Other debtors                      | 384                       | 36,782                    |
|                                    | <u>288,557</u>            | <u>232,109</u>            |

**BP EXPLORATION NORTH AFRICA LIMITED****NOTES TO THE ACCOUNTS****12. Creditors**

|                                    | <u>2012</u>   | <u>2011</u>   |
|------------------------------------|---------------|---------------|
|                                    | Within        | Within        |
|                                    | 1 year        | 1 year        |
|                                    | \$000         | \$000         |
| Trade creditors                    | 5 197         | 5 618         |
| Amounts owed to group undertakings | 14            | 14            |
| Taxation                           | 34,811        | 36,234        |
| Accruals and deferred income       | 15,558        | 10,325        |
|                                    | <u>55 580</u> | <u>52 191</u> |

**13. Obligations under leases**

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

|  | <u>2012</u>  | <u>2011</u> |
|--|--------------|-------------|
|  | Other        | Other       |
|  | \$000        | \$000       |
| Operating leases which expire<br>Within 1 year | <u>7 648</u> | <u>-</u>    |

**14. Called up share capital**

|   | <u>2012</u>   | <u>2011</u>   |
|---|---------------|---------------|
|   | \$000         | \$000         |
| Allotted, called up and fully paid<br>75,000,001 Ordinary shares of \$1 each for a total nominal value of<br>\$75,000,001 | 75,000        | 75,000        |
|   | <u>75 000</u> | <u>75,000</u> |

**15. Capital and reserves**

|                     | Called up<br>share<br>capital | Profit and<br>loss<br>account | Total          |
|---------------------|-------------------------------|-------------------------------|----------------|
|                     | \$000                         | \$000                         | \$000          |
| At 1 January 2012   | 75 000                        | 267 022                       | 342,022        |
| Profit for the year | -                             | 42 449                        | 42,449         |
| At 31 December 2012 | <u>75 000</u>                 | <u>309,471</u>                | <u>384,471</u> |

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

|  | <u>2012</u>    | <u>2011</u>      |
|--|----------------|------------------|
|  | \$000          | \$000            |
| Profit for the year                              | 42,449         | 145 745          |
| Dividends – current year interim paid            | -              | (400 000)        |
| Net increase / (decrease) in shareholders' funds | <u>42 449</u>  | <u>(254,255)</u> |
| Shareholders' funds at 1 January                 | 342 022        | 596,277          |
| Shareholders' funds at 31 December               | <u>384 471</u> | <u>342 022</u>   |

**BP EXPLORATION NORTH AFRICA LIMITED**

**NOTES TO THE ACCOUNTS**

**17. 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 \$6,133,0000 (2011 \$Nil)

**18. Related party transactions**

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

**19. 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 13. There are no other material off-balance sheet arrangements.

**20. Post balance sheet event**

The country wide demonstrations on 30 June 2013 and subsequent heightened political environment in Egypt has not impacted any of our operations to date. We continue to monitor changing political events in Egypt closely and we are working closely with the Egyptian authorities to manage any potential impacts to the business.

**21. Pensions**

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

**22. Immediate and ultimate controlling parent undertaking**

The immediate parent undertaking of this company is BP Exploration Operating Company Limited, a company registered in England and Wales. The ultimate controlling 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.