

BP EXPLORATION SERVICES LIMITED

(Registered No 00777236)

ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors S M Bennett
J Bertelsen

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 \$865,000 which, when added to the retained deficit brought forward at 1 January 2012 of \$32,855 000, gives a total retained deficit carried forward at 31 December 2012 of \$33,720,000

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 was focussed on providing support in the expatriation process of former TNK-BP personnel. It also historically incurred personnel costs for staff involved in other BP Russian operations, although the company is now scaling back its activities

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

	2012	2011	Variance
	\$000	\$000	%
Turnover	-	200	(100)
(Loss) / Profit on ordinary activities before interest and taxation	(18)	970	(102)
Loss after taxation	(865)	(25)	(3360)
Shareholders' funds	7,343	8,208	(11)
	2012	2011	Variance
	%	%	
Quick ratio*	104	105	(1)

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

There has been a decrease in turnover and cost of sales due to the company scaling back its activities

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BP EXPLORATION SERVICES LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties

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

We urge you to consider carefully the risks described below. The potential impact of the occurrence or reoccurrence of any of the risks described below could have a material adverse effect on the company's business, financial position, results of operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda.

Company level risks have been categorised against the following areas: compliance and control and financial risk management. In addition, we have also set out a further category of risk for your attention – that 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 Services 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 SERVICES LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Compliance and control risks

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.

Financial risk management

The main financial risks faced by the company through its normal business activities, foreign currency exchange 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.

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 SERVICES LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Financial risk management (continued)

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.

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.

BP EXPLORATION SERVICES LIMITED

REPORT OF THE DIRECTORS

Directors

The present directors are listed on page 1

S M Bennett, and J Bertelsen served as directors throughout the financial year Changes since 1 January 2012 are as follows

	<u>Appointed</u>	<u>Resigned</u>
J C Skipper	-	14 December 2012
D K Peattie	-	28 February 2013

Directors' indemnity

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

Policy and practice on payment of creditors

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

The number of days' purchases represented by trade creditors at the year-end was nil

Auditor

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

BP EXPLORATION SERVICES 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

26 July

2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

BP EXPLORATION SERVICES 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 SERVICES LIMITED

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

We have audited the financial statements of BP Exploration Services 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 7, 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.

Ernst & Young LLP

William Testa (Senior Statutory Auditor)

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

London

31 July 2013

BP EXPLORATION SERVICES LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Exploration Services Limited were approved for issue by the Board of Directors on 19 JULY 2013

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

Accounting convention

The accounts are prepared under the historical cost convention

Statement of cash flows

The group accounts of the ultimate parent undertaking contain a consolidated cash flow statement. The company has taken advantage of the exemption granted by the Financial Reporting Standard No 1 (Revised), whereby it is not required to publish its own cash flow statement

Revenue recognition

Commissions associated with the company's performance under a contractual arrangement in place with a principal are included in sales and other operating revenues. Any amounts received or receivable from the customers that are payable to the principal are not recognised as revenue

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

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

BP EXPLORATION SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

		<u>2012</u>	<u>2011</u>
	Note	\$000	\$000
Turnover	1	-	200
Cost of sales		<u>(17)</u>	<u>780</u>
Gross profit		(17)	980
Administration expenses		<u>(1)</u>	<u>(10)</u>
(Loss) / profit on ordinary activities before interest and taxation	2	(18)	970
Interest payable and similar charges	4	<u>(847)</u>	<u>(1,048)</u>
Loss before taxation		(865)	(78)
Taxation	5	<u>-</u>	<u>53</u>
Loss for the year		<u>(865)</u>	<u>(25)</u>

The loss of \$865,000 for the year ended 31 December 2012 was derived in its entirety from continuing operations

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

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

BP EXPLORATION SERVICES LIMITED**(Registered No 00777236)****BALANCE SHEET AT 31 DECEMBER 2012**

	Note	<u>2012</u> \$000	<u>2011</u> \$000
Current assets			
Debtors	7	<u>183,024</u>	<u>183,024</u>
		183,024	183,024
Creditors: amounts falling due within one year	8	<u>(175,681)</u>	<u>(174,816)</u>
Net current assets		7,343	8,208
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,343</u>	<u>8,208</u>
NET ASSETS		<u>7,343</u>	<u>8,208</u>
Represented by			
Capital and reserves			
Called up share capital	9	41,063	41,063
Profit and loss account	10	(33,720)	(32,855)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u>7,343</u>	<u>8,208</u>

On behalf of the Board



J Bertelsen

Director

26 July 2013

BP EXPLORATION SERVICES LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

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

The country of origin is the UK and the destination for turnover is substantially Russia

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

This is stated after charging / (crediting)

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Currency exchange losses	1	11
Bad debt charge	-	19
Reversal of accrual	-	(860)
Amortisation of intangible assets	-	1

3. Auditor's remuneration

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Fees for the audit of the company	14	26

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

The fees were borne by another group company

4. Interest payable and similar charges

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Interest expense on Loans from group undertakings	847	1,048

BP EXPLORATION SERVICES LIMITED

NOTES TO THE ACCOUNTS

5. 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 tax that arises without charge.

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate on loss before taxation.

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Loss profit before taxation	(865)	(78)
Current taxation credit	-	(53)
Effective current tax rate	0%	(68)%
	<u>2012</u>	<u>2011</u>
	%	%
UK statutory corporation tax rate	24	26
Increase / (decrease) resulting from		
Transfer pricing adjustment	(85)	(980)
Current overseas tax	-	(68)
Double tax relief	-	68
Free group relief	61	886
Effective current tax rate	<u>-</u>	<u>(68)</u>

6. 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 (2011: \$Nil).

(b) Employee costs

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Wages and salaries	-	(4)
Social security costs	-	15
	<u>-</u>	<u>11</u>

(c) The average monthly number of employees during the year was Nil (2011: Nil).

BP EXPLORATION SERVICES LIMITED

NOTES TO THE ACCOUNTS

7. Debtors

	<u>2012</u>	<u>2011</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Amounts owed by group undertakings	<u>183,024</u>	<u>183,024</u>

8. Creditors

	<u>2012</u>	<u>2011</u>
	Within	Within
	1 year	1 year
	\$000	\$000
Amounts owed to group undertakings	<u>175,681</u>	<u>174,816</u>

9. Called up share capital

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Allotted, called up and fully paid 25,501,100 Ordinary shares of £1 each for a total nominal value of £25 501,100	<u>41,063</u>	<u>41 063</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	41.063	(32,855)	8 208
Loss for the year	-	(865)	(865)
At 31 December 2012	<u>41.063</u>	<u>(33,720)</u>	<u>7.343</u>

11. Reconciliation of movements in shareholders' funds

	<u>2012</u>	<u>2011</u>
	\$000	\$000
Loss for the year	<u>(865)</u>	<u>(25)</u>
Net decrease in shareholders' funds	<u>(865)</u>	<u>(25)</u>
Shareholders' funds at 1 January	8,208	8,233
Shareholders' funds at 31 December	<u>7,343</u>	<u>8 208</u>

BP EXPLORATION SERVICES LIMITED

NOTES TO THE ACCOUNTS

12. Related party transactions

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

13. Pensions

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

14. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Operating Company Limited, a company registered in England and Wales. The ultimate controlling parent undertaking is BP plc, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP plc can be obtained from 1 St James's Square, London, SW1Y 4PD.