# BP EXPLORATION (CASPIAN SEA) LIMITED

(Registered No.00404347)

## ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

Board of Directors: J Freeman
R G Jones
T L Juliussen

The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2021.

## STRATEGIC REPORT

**Results**

The profit for the year after taxation was $216,726,000 which, when added to the retained profit brought forward at 1 January 2021 of $646,689,000 and after deducting total paid interim dividends to ordinary shareholders of $345,000,000 gives a total retained profit carried forward at 31 December 2021 of $518,415,000.

**Principal activities and review of the business**

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

The company is a participant in a PSA for the Azeri, Chirag and Deepwater Gunashli fields ("ACG") in Azerbaijan and it acts as the operator of this undertaking on behalf of partners. The PSA extension agreement was signed on 14 September 2017. The contract was ratified by the Parliament (Milli Majlis) of the Republic of Azerbaijan on 31 October 2017.

In April 2019, ACG PSA partners announced the sanctioning of the Azeri Central East ("ACE") project, the next stage of development of the ACG field. The $6 billion development includes a new offshore platform and facilities designed to process up to 100,000 barrels of oil per day. The project is expected to achieve first production in 2023 and produce up to 300 million barrels over its lifetime.

During the year, the Azeri Central East (ACE) project progressed according to the plan along with the other bp-operated activities. Overall, the engineering and procurement works remain on track to support the first production from the ACE project in 2023.

At the end of the year, the ACE project reached the 65% progress milestone. The project construction activities are currently at peak and involve about 5,500 people across Baku, Europe and the UK, with the majority of them being Azerbaijani nationals.

In 2021, ACG produced on average 458 thousand barrels per day (gross) (about 167 million barrels or 23 million tonnes in total) from the Chirag, Central Azeri ("CA"), West Azeri ("WA"), East Azeri ("EA"), Deepwater Gunashli ("DWG") and West Chirag ("WCH") platforms. In 2020, ACG produced on average 477 thousand barrels per day (gross) (about 175 million barrels or 23.6 million tonnes in total).

In 2021, ACG delivered an average of 9 (2020 6) million cubic metres per day of ACG associated gas to State Oil Company of Azerbaijan Republic ("SOCAR") (3 billion cubic metres in total, 2020 2.2 billion cubic metres in total).





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**Principal activities and review of the business (continued)**

At the end of the year, a total of 135 oil wells were producing, while 37 wells were used for injection in the ACG field (2020: 127 producing wells, 53 injection wells). In 2021, ACG delivered 10 oil producer wells and 4 injection wells (2020 11 oil producer wells, 2 injection wells).

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

| | 2021 | 2020 | Variance |
|---|---|---|---|
| | $000 | $000 | % |
| Turnover | 1,346,287 | 1,250,834 | 8 |
| Operating profit / (loss) | 393,616 | (42,880) | (1,018) |
| Profit / (loss) for the financial year | 216,726 | (108,914) | (299) |
| Total equity | 5,832,352 | 5,960,500 | (2) |

| | 2021 | 2020 | Variance |
|---|---|---|---|
| | % | % | |
| Quick ratio* | 66 | 356 | (290) |
| Return on average capital employed** | 2 | (1) | 3 |
| Gross profit / (loss) percentage*** | 27 | (5) | 32 |

Turnover increase for the year is driven by average $31 increase in oil price in 2021, though volume decreased for 11m barrels versus 2020.

Change in operating profit and profit for the year is driven by higher turnover and lower cost of sales. Decrease in cost of sales is due to under/overlift movement effect, ACG tariff cost reduction, increase in central charges in line with digitalization agenda and decrease in DDA.

*Quick ratio is defined as current assets (excluding stocks, debtors falling due after one year, derivatives and other financial instruments falling due after one year and deferred tax assets) divided by current liabilities.

The decrease in quick ratio is due to $2.5bln loan deposit which was part of debtors - amounts falling due within one year in 2020.

**Return on average capital employed is defined as profit for the year after adding back interest, divided by average/capital employed. Capital employed is defined as total equity plus gross debt, excluding goodwill and cash.

***Gross profit percentage is defined as gross profit divided by turnover.

Increase in gross profit percentage ratio is due to cost of sales decrease and rise in oil sales turnover due to price increase.

**Section 172 (1) statement**

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the statement required under section 414CZA of the Companies Act 2006 (the "Act").

**Section 172 (1) statement (continued)**

During the course of the year the following primary tasks were undertaken by the Board in line with the principal activities of the company:

- Defining and establishing purpose and strategy including, where relevant, having regard to the purpose, strategy, culture and values defined by BP p.l.c.
- Monitoring the potential challenges presented by the ongoing COVID-19 pandemic, having regard to the company's safe and reliable operations.
- Assessing principal and emerging risks relevant to the company.

The table below demonstrates how the Board has discharged their duties under section 172(1):

| Section 172(1) | Overview of performance against section 172(1) |
|---|---|
| a. The likely long-term consequences of the decision | When setting and delivering on the company's strategy, the directors have regard to the evolving environment in which the company operates and aims to promote the long term success and sustained economic viability of the company. |
| b. The interests of the company's employees | The directors recognise that employees are vital to the long term success of the company and, as such, engage with employees, and keep them informed on matters of concern to them. During 2021 this included reviewing the impact of Reinvent bp on the workforce and reports on key performance indicators on employee engagement measured by employee 'Pulse' surveys. |
| c. The need to foster the company's business relationships with suppliers, customers and others | During 2021, the directors reiterated their focus on engagement and fostering relationships with key stakeholders, as well as an increased focus on environment, social and governance ("ESG") matters.<br>In addition, the Board reviewed and considered the company's Modern Slavery Statement and disclosed its practices in respect of the same on an annual basis.<br>Furthermore, the Board reviewed and considered the company's prompt payment reporting performance and disclosed its practices in respect of the same on a bi-annual basis. |
| d. The impact of the company's operations on the community and the environment | The directors are committed to bp's group wide policies and aims which protect the community, environment and its people. |
| e. The desirability to maintain the company's reputation for high standards of business conduct | In 2021 bp continued to operate under its sustainability frame launched in 2020, with aims and objectives linked to the UN Sustainable Development Goals. bp's values of safety, respect, excellence, courage and one team define how the bp group, including the company and its Board, conduct business. Furthermore, bp's code of conduct is based upon its values and it sets clear expectations for how bp, the company and the Board operate. The directors of the company continued to adhere, in good faith, to the bp code of conduct during the year and oversee adherence to the bp code of conduct by the company's employees to ensure the Board and the company maintain a reputation for high standards of business conduct.<br>bp's code of conduct includes prohibitions on engaging in bribery or corruption in any form, in accordance with bp's group-wide anti-bribery and corruption policy and procedures. During the year, bp continued to engage suppliers and communicate expectations for managing bribery and corruption risk on behalf of bp, where relevant. |
| f. The need to act fairly between members of the company | The directors aim to balance the needs of various stakeholders when setting and delivering the company's strategy, having regard to long term value creation, including maximising long term shareholder value. |

**Section 172 (1) statement (continued)**

Further information on the bp group policies applicable to the company can be found in BP p.l.c.'s 2021 Annual Report and Form 20-F and the bp Sustainability Report 2021.

**Stakeholder engagement**

For further details on how the company has engaged with stakeholders, fostered relationships with them and how this has impacted decision making, please refer to the Engagement with Stakeholders Statement found in the Directors' Report.

**The company's principal decisions**

The company and the bp group have taken the view that a 'principal' decision is one which is material and strategic in nature and would affect the ability of the company to generate or preserve value over the long term.

During the period, the following principal decisions were taken by the company whilst having regard to the company's stakeholders and other relevant factors:

| Principal decision | The relevant factors taken into account during the decision making process |
|---|---|
| During the year, the directors considered, approved and paid a dividend as appropriate to the shareholder. | The directors considered the impact of such a decision on the long-term prospects of the company, as well as considering the financial position of the company to ensure that it had sufficient distributable reserves at the time of the dividend. |

**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 for the bp group.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2021.

**Strategic and commercial risks**

***Prices and markets***
The company's financial performance is subject to fluctuating prices of oil and gas, technological change, exchange rate fluctuations and the general macroeconomic outlook. Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply of oil and gas or alternative low carbon energy sources, technological change, global economic conditions, public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) and the influence of OPEC can impact supply and demand and prices for our products.

***Accessing and progressing hydrocarbon resources and low carbon opportunities***
The company's inability to access, renew and progress upstream resources in a timely manner could impact its future production and financial performance. Furthermore, the company's inability to access low carbon opportunities and the commercial terms associated with those opportunities could impact its financial performance.

*Major project delivery*
Poor investment choice, efficiency or delivery, or operational challenges at any major project that underpins production or production growth, could adversely affect our financial performance.

*Geopolitical*
The company is exposed to a range of political, economic and social developments and consequent changes to the operating and regulatory environment which could cause business disruption. Political instability, changes to the regulatory environment or taxation, international trade disputes and barriers to free trade, international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism, acts of war and public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) may disrupt or curtail our operations, business activities or investments. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets and our related earnings and cash flow or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

*Joint arrangements and contractors*
The company may have varying levels of control over the standards, operations and compliance of its partners, contractors and sub-contractors which could result in legal liability and reputational damage.

*Digital infrastructure and cybersecurity*
Breach or failure of the company's or third parties' digital infrastructure or cyber security, including loss or misuse of sensitive information could damage its operations and reputation or increase costs.

Current geopolitical factors have increased these risks.

*Climate change and the transition to a lower carbon economy*
Developments in policy, law, regulation, technology and markets including societal and investor sentiment, related to the issue of climate change could increase costs, constrain the company's operations and affect our business plans and financial performance.

*Competition*
Inability to remain efficient, maintain a high-quality portfolio of assets, innovate and retain an appropriately skilled workforce could negatively impact delivery of the company's strategy in a highly competitive market.

*Talent and capability*
Inability to attract, develop and retain people with necessary skills and capabilities and to reskill existing talent could negatively impact delivery of the company's strategy in an increasing challenging labour market.

*Crisis management and business continuity*
Potential disruption to the company's business and operations could occur if it does not address an incident effectively.

*Insurance*
The bp group's insurance strategy could expose the bp group to material uninsured losses which in turn could adversely affect the company.

**Safety and operational risks**

*Process safety, personal safety and environmental risks*
The company is exposed to a wide range of health, safety, security and environmental risks that could cause harm to people, the environment, the company's assets and result in regulatory action, legal liability, business interruption, increased costs, damage to its reputation and potentially denial of its licence to operate.

*Drilling and production*
Challenging operational environments and other uncertainties could impact drilling and production activities.

*Security*
Hostile acts against the company's staff and activities could cause harm to people and disrupt its operations.

*Product quality*
Supplying customers with off-specification products could damage the company's reputation, lead to regulatory action and legal liability, and potentially impact its financial performance.

**Compliance and control risks**

*Ethical misconduct and non-compliance*
Ethical misconduct or breaches of applicable laws by the company's businesses or its employees could be damaging to its reputation, and could result in litigation, regulatory action and penalties.

*Regulation*
Changes in the law and regulation could increase costs, constrain the company's operations and affect its business plans and financial performance.

*Reporting*
Failure to accurately report the company's data could lead to regulatory action, legal liability and reputational damage.

**Financial risk management**
The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk. Further details on these financial risks are included within Note 28 of the bp group Annual Report and Form 20-F for the year ended 31 December 2021.

Authorized for issue by Order of the Board

DocuSigned by:
Jacqui Freeman
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J Freeman
Director

September 29, 2022

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# DIRECTORS' REPORT

## BP EXPLORATION (CASPIAN SEA) LIMITED

### Directors

The present directors are listed on page 1.

J Freeman and R G Jones served as directors throughout the financial year. Changes since 1 January 2021 are as follows:

| | Appointed | Resigned |
|---|---|---|
| E P Skinner-Reid | — | 14 January 2022 |
| T L Juliussen | 14 January 2022 | — |

### Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

### Dividends

During the year the company has declared and paid dividends of $345,000,000 (2020 $0). The directors do not propose the payment of a final dividend (2020 $0).

### Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 6.1) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the strategic report under Financial risk management.

### Post balance sheet event

There is no post balance sheet event at the reporting date for the entity.

### Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment, as well as the ongoing impact of COVID 19 were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis.



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# DIRECTORS' REPORT

BP Exploration (Caspian Sea) Limited is engaged in the production and selling of oil within the bp group.

The company is a party to ACG PSA in the Azerbaijan sector of the Caspian Sea, with a participating interest of 30.37%.

BP Exploration (Caspian Sea) Limited is self-sufficient and generates cash independently. The company is a wholly owned affiliate of BP p.l.c. and can request funds from BP International Limited if required.

In assessing the prospects of BP Exploration (Caspian Sea) Limited, the directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

Having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

**Future developments**

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

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

**Research and development**

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

**Stakeholder statement**

**Engagement with other stakeholders**

The Board recognises the importance of considering and having regard to key stakeholders and their interests when making decisions. By thoroughly understanding the company's key stakeholder groups, the Board can successfully consider and address the needs of these stakeholders and foster good business relationships with them. The company considers its employees, shareholders, customers, suppliers and communities within the countries it operates.

The Board are committed to doing business ethically and transparently, using bp's values and code of conduct to guide them when engaging and working with business partners. The company's activities, and the decisions of its Board, affect a wide variety of individuals and organisations. The Board engages with its stakeholders, listening to their differing needs and priorities as an everyday part of business, and utilising the feedback received to inform the Board's decision-making.

As noted in the section 172(1) statement within the Strategic Report, responsibility for decisions that impact the entire bp group are taken by the Board of BP p.l.c. On behalf of the company, the bp group is a member of industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the bp group works with governments on a range of issues that are relevant to its business, from regulatory compliance and understanding tax liabilities, to collaborating on community initiatives.

## DIRECTORS' REPORT

Regularly engaging with stakeholders is a priority for the company and the below table describes how the Board had regard to the need to foster relationships with the company's key stakeholders, how outcomes were considered and how concerns were identified and addressed during the reporting period. Further details of these decisions, and if applicable any principal decisions in relation to the stakeholders, are discussed in the section 172(1) statement:

| Stakeholders | Stakeholders' interests | How we have fostered relationships | How the fostering of relationships impacted decision making |
|---|---|---|---|
| *Employees* | Employees are vital to the long term success of the company and, as such, bp and its directors engage with employees, and keep them informed on matters that concern them. During 2021, due to the restrictions associated with COVID-19, most engagements were conducted virtually. | | |
| **Suppliers** | For the company to understand, and where feasible, meet the suppliers' needs and expectations.<br>For the company to provide regular support to the suppliers in order to improve suppliers' systems and avoid defects and/or operational issues where feasible.<br>To be part of a fair and respectful tender and supplier selection process.<br>To be part of a valued supplier relationship centred around ethics and transparency. | The company maintains a number of bp group wide policies to ensure fair treatment of its current and potential suppliers.<br>The bp group also conducts supplier site visits to build relationships and monitor how work is being carried out, ensuring that it meets the suppliers' and the bp group's expectations. | Management and/or, where significant, the Board are provided with updates on renewals and negotiations for existing and/or new supplier agreements. The information received supports effective decision making by the Board when considering the long term consequences on relationships with suppliers.<br>On an exceptional basis, the directors will engage with suppliers through means of the procurement teams in.the case of any escalation.<br>bp's supplier site visits are intended to be mutually beneficial in terms of improvement and learning opportunities. |

| | | | |
|---|---|---|---|
| **Customers** | For the company to provide its customers with top quality services.<br>For the company to build a trusted relationship with its customers.<br>Ensuring the safe execution of products and services provided to its customers and that any claims in relation to the same, are addressed and resolved.<br>Ensuring that customer data is kept in a secure environment and only for the duration and purposes that the data is required for. | The company maintains a number of bp group wide policies to ensure the ongoing security of customer data, safe execution and quality of the products and services and a continued trusted relationship with its customers.<br>On behalf of the company, the bp group also seeks to engage with customers through forums such as social media, focus bp groups and in-depth interviews with customers to better understand customer's needs and seek their feedback. | Management and/or, where significant, the Board are provided with updates on renewals and negotiations for existing and/or new customer contracts. The information received supports effective decision making by the Board when considering the long term consequences on relationships with its customers.<br>By obtaining customer feedback and understanding our customers, it has allowed us to clarify the company's vision for future growth and ways to continually add brand value. |
| **Community and environment** | The directors' relationships on behalf of the company with respect to communities are important for all its activities, but particularly for major new projects where its presence may bring about changes in the local areas.<br>For the company to deliver high quality products and services in an energy efficient and environmentally responsible manner.<br>To conduct business in a manner to minimise negative impact on the surrounding area and be respectful and conscientious of the environment/ the financial environment.<br>To take into account the interest of the local community when considering future investments and business decisions. | The company maintains a number of bp group wide policies to promote sustainable and environmentally friendly business and operational practises.<br>The directors engage with local communities through public consultations and meetings with local representatives and complete impact assessments where relevant. The directors also consult with NGOs, academics and industry associations, drawing on their external expertise, input and challenge. | Management and/or, where significant, the Board are provided with updates on the environmental impact of the company's business operations. The information received supports effective decision making by the Board when considering the long term consequences on the environment and local communities.<br>By following and implementing the bp group wide sustainability policy, the company has been able to measure and manage its impact on the community and environment in which it operates. |

| | | | |
|---|---|---|---|
| **Shareholder** | The company is 100% owned by BP Exploration Operating Company Limited. The company is committed to maximising long term shareholder value, in whatever form, when taking its decisions. | bp group functions, across Tax, Treasury and Finance, in conjunction with senior management, make recommendations to declare dividends, where relevant, via a thorough feasibility analysis process as part of its System of Internal Control, ensuring the appropriate amount of dividend and associated impact are duly considered. The company reports to its shareholders on a regular basis in the form of its financial statements and, where applicable, its business, strategic plans and key risks. | One of the company's strategic aims is to pursue strategic growth to maximise long term value for its shareholders. The company's compliance with the bp group's System of Internal Control assists the Board when considering whether to declare dividends, the amount of dividend and any associated impact. Specifically, the Board will review relevant internal functional assurance advice notes when considering the declaration of a dividend to its shareholder. |
| **Joint Venture (JV) Partners** | For the company to create trusted relationships with JV partners centred around ethics and accuracy and discuss PSA related questions and get confirmation from partners for the required areas. | The company maintains a number of bp group wide policies to ensure fair treatment of its current and potential partners. The company also conducts partner meetings to expand relationships and share the actual cost versus the approved budget ensuring that all parties are in alignment. | Management and/or, where significant, the Board are provided with updates on renewals and negotiations for existing and/or new partner agreements. The information received supports effective decision making by the Board when considering the long term consequences on relationships with partners. By obtaining partner feedback and understanding our partners, it has allowed us to hold quality partner meetings, to improve the quality of discussions and to foster long term trust and respect. |

**Streamlined Energy & Carbon Reporting (SECR)**

As a UK subsidiary of a UK parent company which prepares a group directors' report, SECR reporting details are included in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2021.

**Corporate Governance Statement**

In 2021, the bp group operated under the corporate governance framework implemented in 2020 to more closely align with bp's new purpose – reimagining energy for people and our planet – as well as the new strategy. The framework defines bp's role, to promote the long-term sustainable success of the company, generating value for its shareholders while having regard to its other stakeholders, the impact of its operations on the communities within which it operates and the environment.

# DIRECTORS' REPORT

The company's ultimate parent, BP p.l.c., applied the UK Corporate Governance Code (the "Code") throughout the year, with the company complying with bp's Global Subsidiary Corporate Governance Policy (the "Policy") where applicable.

The governance principles of the company are determined by BP p.l.c. to promote consistency and standardisation prior to being implemented in its subsidiaries in local jurisdictions. The principles determined by the bp group define the role and purpose of the Board, its processes and its relationship with executive management, shareholders and other stakeholders, as defined in the BP p.l.c. 2021 Annual Report and Form 20-F. This system is reflected in the governance of the company through the adoption by the company of:

i. the System of Internal Control, being the holistic set of management systems, organizational structures, processes, standards and behaviours that are employed to conduct the bp group's business;
ii. the Policy; and
iii. the bp Code of Conduct based on bp's values, setting clear expectations for how we work at bp which applies to all bp employees, including directors appointed to the company.

*System of Internal Control*

The System of Internal Control processes, which include functional assurance and internal bp group authorities, facilitate effective and efficient operations by enabling the company to respond appropriately to significant business, operational, financial, compliance and other risks aiding the company in achieving its objectives and fulfilling its purpose. This includes the safeguarding of assets from inappropriate use or loss and fraud and ensuring liabilities are identified and managed.

Further, the System of Internal Control helps to ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation. The System of Internal Control helps to ensure compliance with laws and regulations, in addition to internal policies with respect to the conduct of business.

This System of Internal Control has been especially important during 2021 in light of the challenging macro-economic environment facing the bp group and the significant operational challenges presented by the COVID-19 pandemic resulting in global restrictions on the movement of people. This has led to the majority of the company's employees working remotely to safeguard their, and others, wellbeing while maintaining safe and reliable operations and support of bp's customers.

*The Policy*

The Policy is a comprehensive set of rules and recommendations, reflective of best practice governance and the content of formal corporate governance codes for private companies, and is designed to improve subsidiary governance:

i. by mitigating legal and reputational risk and preserving the integrity of the bp group's corporate structure;
ii. to select, train, and assist competent and confident directors and officers who execute their duties in a manner that mitigates the risk of breaching legal requirements and fiduciary duties;
iii. to specify which of the bp group's businesses and functions are accountable for the various aspects of establishment, administration and corporate governance of subsidiaries;
iv. to provide a structure through which company objectives can be achieved and monitored; and
v. to support the System of Internal Control and the bp Code of Conduct.

As a result, the company has not considered it necessary to adopt a formal corporate governance code.

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The Policy requires any decisions in respect of the formation and change of entity form, financing of intra-group activities, transfer of ownership and dissolution to be made pursuant to bp's System of Internal Control processes. Monitoring in respect of compliance with the Policy is completed on a regular basis, and any exceptions to the Policy are considered and agreed by the Board of the company.

The Policy sets out the responsibilities of all directors and officers of each of the bp group's subsidiaries and the primary tasks of the Board, including consideration and execution of long-term strategy, monitoring of the subsidiary's performance and ensuring that the principal risks to the subsidiary are identified and that appropriate systems of risk management and control are in place.

The Policy requires directors to:

i. attend induction training upon appointment and are recommended to refresh their training annually;
ii. not engage in any activity that is, or could reasonably perceived to be, in conflict with the interests of the company and are further required to act in the best interests of the company, which may not necessarily coincide with the best interest of the bp group;
iii. consult in advance of conflicts of duties in order to identify and implement steps to avoid or mitigate such conflicts; and
iv. retain responsibility for the approval of financial statements.

Decision making rests with the directors of the company and delegation of specific powers or decisions is documented in writing, setting out the reasons for and scope and limitation of such delegation, supported by a form of bp group authority. Delegations are monitored and reviewed by the Board on a regular basis.

*Application of the system of governance*

The directors have applied this system of governance by:

a. Promoting the purpose of the company to reimagine energy for people and our planet, with an ambition to become a net zero company by 2050 or sooner, and to help the world get to net zero.
b. Regularly reviewing its Board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and ensuring that individual directors have sufficient capacity to make valuable contributions. The Board retains a minimum of three directors where appropriate, and where appropriate promotes independent and objective challenge through the appointment of a minimum of one director who is not directly or indirectly responsible for the management function of the company. In certain cases where appropriate, the Board nominates a designated Chair to provide leadership of the Board during Board meetings.
c. Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making, directors consider the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the bp group's purpose, aims and ambitions, when acting in their capacity as a director of the company.
d. In accordance with the Policy, the Board is supported by the System of Internal Control to identify opportunities to create and preserve value. Refer to the principal risks and uncertainties in the strategic report.
e. Having regard to and fostering good stakeholder relationships. Refer to the statement of engagement with key stakeholders in the directors' report for further information.

**Auditors**

Pursuant to section 487 of the Companies Act 2006, Deloitte LLP have expressed their willingness to continue in office as auditors and are therefore deemed reappointed as auditors.

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# DIRECTORS' REPORT

**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 the auditor's 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.

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Authorized for issue by Order of the Board

DocuSigned by:
Jaqui Freeman
D9708EEC9EFF4C5...
J Freeman
Director
September 29, 2022

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

## BP EXPLORATION (CASPIAN SEA) LIMITED

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK 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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 financial statements, 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. Details of the directors' assessment of going concern are provided in the directors' report.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF BP EXPLORATION (CASPIAN SEA) LIMITED

**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of BP Exploration (Caspian Sea) Limited ("the company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- An assessment of whether material uncertainties existed that could cast significant doubt on the entity's ability to continue as a going concern for least 12 months after the date of approval of the financial statements;
- An assessment of the fund that can be made available to the company through Bp group treasury channels;
- An assessment of the management's identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- An assessment of the disclosures made within the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# INDEPENDENT AUDITOR'S REPORT

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified a significant audit risk that revenue could be materially overstated, due to potential fraud, in the event that the transactions recorded did not actually occur. We performed substantive audit procedures to test all revenue transactions recorded; and assessed the design and implementation of management's key internal control.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

# INDEPENDENT AUDITOR'S REPORT

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

**Use of our report**
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.

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Bevan Whitehead (Senior Statutory Auditor)
**for and on behalf of Deloitte LLP Statutory Auditor**
London, United Kingdom
September 29, 2022

# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31 DECEMBER 2021

## BP EXPLORATION (CASPIAN SEA) LIMITED

| | Note | 2021 $000 | 2020 $000 |
|---|---|---|---|
| **Turnover** | 3 | 1,346,287 | 1,250,834 |
| Cost of sales | | (980,117) | (1,315,250) |
| **Gross profit / (loss)** | | 366,170 | (64,416) |
| Exploration expenses | | (938) | (4,259) |
| Administrative expenses | | (32,496) | (38,290) |
| Other operating income | | 60,880 | 64,085 |
| **Operating profit / (loss)** | 4 | 393,616 | (42,880) |
| Interest receivable and similar income | 6 | 3,080 | 12,681 |
| Interest payable and similar expenses | 7 | (51,816) | (63,567) |
| **Profit / (loss) before taxation** | | 344,880 | (93,766) |
| Tax on profit / (loss) | 8 | (128,154) | (15,148) |
| **Profit / (loss) for the year** | | 216,726 | (108,914) |

The profit of $216,726,000 for the year ended 31 December 2021 was derived in its entirety from continuing operations.

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2021

| | 2021 $000 | 2020 $000 |
|---|---|---|
| **Profit / (loss) for the year** | 216,726 | (108,914) |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Re-measurements of the net pension and other post-retirement benefit | 126 | 66 |
| **Other comprehensive income for the year net of tax** | 126 | 66 |
| **Total comprehensive income / (loss) for the year** | 216,852 | (108,848) |



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# BALANCE SHEET

## AS AT 31 DECEMBER 2021

## BP EXPLORATION (CASPIAN SEA) LIMITED

(Registered No.00404347)

| | Note | 2021 $000 | 2020 $000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | 1,088 | 1,176 |
| Tangible assets | 11 | 5,648,910 | 5,772,410 |
| Investments | | 8 | 8 |
| | | 5,650,006 | 5,773,594 |
| **Current assets** | | | |
| Stocks | 12 | 73,528 | 78,205 |
| Debtors | 13 | 2,603,735 | 2,907,519 |
| Debtors – amounts falling due: | | | |
| within one year | 13 | 89,248 | 2,866,628 |
| after one year | 13 | 2,514,487 | 40,891 |
| Cash at bank and in hand | | 455,807 | 450,122 |
| | | 3,133,070 | 3,435,846 |
| Creditors: amounts falling due within one year | 14 | (830,966) | (932,056) |
| Lease liabilities | | (68,412) | (131,280) |
| **Net current assets / (liabilities)** | | 2,233,692 | 2,372,510 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 7,883,698 | 8,146,104 |
| Creditors: amounts falling due after more than one year | 14 | (507,727) | (666,903) |
| Lease liabilities | | (95,934) | (179,955) |
| **Provisions for liabilities and charges** | | | |
| Deferred tax liability | 8 | (450,193) | (458,232) |
| Other provisions | 17 | (996,483) | (878,564) |
| Defined benefit pension plan deficits | | (1,009) | (1,950) |
| **NET ASSETS** | | 5,832,352 | 5,960,500 |
| **Capital and reserves** | | | |
| Called up share capital | 18 | 8,401 | 8,401 |
| Share premium account | 19 | 5,242,874 | 5,242,874 |
| Other reserves | | 62,662 | 62,536 |
| Profit and loss account | 19 | 518,415 | 646,689 |
| **TOTAL EQUITY** | | 5,832,352 | 5,960,500 |

Authorized for issue on behalf of the Board

DocuSigned by:
Jaqui Freeman
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J Freeman
Director

September 29, 2022

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## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2021

## BP EXPLORATION (CASPIAN SEA) LIMITED

| | Called up share capital (Note 18) | Share premium account (Note 19) | Other reserves | Profit and loss account (Note 19) | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **Balance at 1 January 2020** | 8,401 | 5,242,874 | 62,470 | 755,603 | 6,069,348 |
| Loss for the financial year | — | — | — | (108,914) | (108,914) |
| Other comprehensive income for the year | — | — | 66 | — | 66 |
| **Total comprehensive loss for the year** | — | — | 66 | (108,914) | (108,848) |
| **Balance at 31 December 2020** | 8,401 | 5,242,874 | 62,536 | 646,689 | 5,960,500 |
| **Balance at 1 January 2021** | 8,401 | 5,242,874 | 62,536 | 646,689 | 5,960,500 |
| Profit for the financial year | — | — | — | 216,726 | 216,726 |
| Other comprehensive income for the year | — | — | 126 | — | 126 |
| Dividends paid | — | — | — | (345,000) | (345,000) |
| **Total comprehensive loss for the year** | — | — | 126 | (128,274) | (128,148) |
| **Balance at 31 December 2021** | 8,401 | 5,242,874 | 62,662 | 518,415 | 5,832,352 |

## 1. Authorization of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of BP Exploration (Caspian Sea) Limited for the year ended 31 December 2021 were approved by the board of directors on 29/09/2022 and the balance sheet was signed on the board's behalf by J Freeman. BP Exploration (Caspian Sea) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00404347). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

## 2. Significant accounting policies, judgements, estimates and assumptions

The significant accounting policies and critical accounting judgements, estimates and assumptions of the company are set out below.

**Basis of preparation**

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies that follow have been consistently applied to all years presented, except where otherwise indicated.

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 23 to the financial statements.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared under the historical cost convention in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and the Companies Act 2006. As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

(a) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  (a) paragraph 79(a)(iv) of IAS 1;
  (b) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  (c) paragraph 118(e) of IAS 38 Intangible Assets;
(c) the requirements of IAS 7 Statement of Cash Flows;
(d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
(e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Basis of preparation (continued)**

f. the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
g. the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
h. the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
i. the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
j. The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
k. The requirements of paragraph 58 of IFRS 16 Leases, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 23.

The financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars ($000), except where otherwise indicated.

**Significant accounting policies: use of judgements, estimates and assumptions**

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: the recoverability of asset carrying values, including the estimation of reserves; and decommissioning provisions.

Judgements and estimates, not all of which are significant, made in assessing the impact of the COVID-19 pandemic, and climate change and the energy transition on the financial statements are also set out in the following paragraph. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted in the following paragraphs.

**Judgements and estimates made in assessing the impact of climate change and the energy transition**
Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future. bp's assumptions for investment appraisal help create an investment decision making framework for currently unsanctioned future capital expenditure on property, plant and equipment, and intangibles including exploration and appraisal assets, that is designed to support the effective and resilient implementation of bp's strategy. The oil and gas price assumptions used for investment appraisal are producer prices and are therefore net of any carbon prices that the market price may include. bp's oil and gas price assumptions for value-in-use impairment testing are aligned with those investment appraisal assumptions, except for the assumptions for future carbon emission costs described below.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies: use of judgements, estimates and assumptions (continued)

***Impairment of property, plant and equipment***

The energy transition is likely to impact the future prices of commodities such as oil and natural gas which in turn may affect the recoverable amount of property, plant and equipment in the oil and gas industry. bp's best estimate oil price assumptions for value-in-use impairment testing were revised during 2021. The assumption up to 2030 was increased to reflect near-term supply constraints whereas the long-term assumption was decreased as bp's management expects an acceleration of the pace of transition to a lower carbon economy. The revised assumptions sit within the range of external forecasts considered by management and are in line with a range of transition paths consistent with the goal of the Paris climate change agreement of limiting global warming to well below 2°C as well as the ambition to limit global warming to no greater than 1.5°C. See significant judgements and estimates: recoverability of asset carrying values for further information including sensitivity analysis in relation to reasonably possible changes in the price assumptions.

In order to incentivise engineering solutions to mitigate carbon emissions on projects, the group's investment appraisal process includes a single carbon emissions price assumption for the investment economics which is applied to bp scope 1 and 2 emission forecasts where they exceed defined thresholds, and is assumed to be payable by bp as the producer. However, for value-in-use impairment testing on bp's existing cash generating units (CGUs), consistent with all other relevant cash flows estimated, bp is required to reflect management's best estimate of any expected applicable carbon emission costs payable by bp in the future for each jurisdiction in which the group has interests. This requires management's best estimate of how future changes to relevant carbon emission cost policies and/or legislation are likely to affect the future cash flows of the group's applicable CGUs, whether currently enacted or not. Future potential carbon pricing and/or costs of carbon emissions allowances are included in the value-in-use calculations to the extent management has sufficient information to make such an estimate. Currently this results in limited application of carbon price assumptions in value-in-use impairment tests given that carbon pricing legislation in most jurisdictions where the group has interests is not in place and there is not sufficient information available as to the relevant policy makers' future intentions regarding carbon pricing to support an estimate.

Management will continue to review price assumptions as the energy transition progresses and this may result in impairment charges in the future.

***Property, plant and equipment – depreciation and expected useful lives***

The energy transition may curtail the expected useful lives of oil and gas industry assets thereby accelerating depreciation charges. However, the significant majority of the company's property, plant and equipment is likely to be fully depreciated by the end of PSA and as outlined in bp's strategy, oil will remain an important part of bp's business activities over that period. Therefore, management does not expect the useful lives of the company's reported property, plant and equipment to change and do not consider this to be a significant accounting judgement or estimate. The useful lives of future capital expenditure may, however, be different. See significant accounting policy: property, plant and equipment for more information.

***Provisions: decommissioning***

The energy transition may bring forward the decommissioning of oil and gas industry assets thereby increasing the present value of associated decommissioning provisions. The majority of bp's existing upstream oil and gas properties are expected to start decommissioning within the next two decades and bp's expectation to reduce hydrocarbon production by 40% by 2030 through active management and high-grading of the portfolio, has not currently materially brought forward the expected timing of decommissioning expenditures for the upstream assets in bp's portfolio. Management does not expect any reasonable change in the expected timing of decommissioning to have a material effect on the upstream decommissioning provisions, assuming cash flows remain unchanged. Decommissioning cost estimates are based on the known regulatory and external environment. These cost estimates may change in the future, including as a result of the transition to a lower carbon economy. Management will continue to review facts and circumstances to assess if decommissioning provisions need to be recognized. See significant judgements and estimates: provisions for further information.

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Significant accounting policies: use of judgements, estimates and assumptions (continued)**

**Judgements and estimates made in assessing the impact of the COVID-19 pandemic and the economic environment**

In preparing the financial statements, the following areas involving judgement and estimates were identified as most relevant with regards to the impact of the COVID-19 pandemic and current economic environment.

***Going concern***

Forecast liquidity for the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period. Reverse stress tests performed indicated that the group will continue to operate as a going concern for at least 12 months from the date of approval of the consolidated financial statements even if the Brent price fell to zero. No material uncertainties over going concern or significant judgements or estimates in the assessment were identified.

***Discount rate assumptions***

The discount rates used for impairment sensitivity testing and provisions were reassessed during the year in light of changing economic and geopolitical outlooks. Impairment discount rates and country risk premiums were unchanged from those reported in 2020. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

***Oil price assumptions***

The price assumptions for Brent oil up to 2030 used in value-in-use impairment testing were revised upwards during the year, in part due to near-term supply constraints and short term market conditions. See significant judgements and estimates: recoverability of asset carrying values for further information.

***Income taxes***

The carrying amounts of the group's deferred tax assets were reviewed and updated to the extent that there are changes in the probability of sufficient taxable profits being available to utilize the reported deferred tax assets. Management does not consider the measurement of deferred tax assets to be a significant accounting estimate. See significant accounting policy: income taxes and note 8 for further information.

**Significant accounting policies**

**Going concern**

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment, as well as the ongoing impact of COVID 19 were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis.

In assessing the prospects of BP Exploration (Caspian Sea) Limited, the directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

Having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

**Foreign currency**

The functional and presentation currency of the financial statements is US dollars. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Where this is not practical and exchange rates do not fluctuate materially the average rate has been used. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot exchange on the balance sheet date. Any resulting exchange differences are included in the profit and loss account, unless hedge accounting is applied. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

**Tangible assets**

Tangible assets owned by the company 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 the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, directly-attributable finance 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.

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

### Tangible assets (continued)

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 is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortized over total proved reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

Tangible assets are depreciated on a straight-line basis over their expected useful lives. The typical useful lives of the company's tangible assets are as follows:

| | |
|---|---|
| Land and buildings | 42 years |
| Plant and machinery | 4 years |
| Pipelines | 27 years |
| Fixtures and fittings | 4 years |

The expected useful lives and depreciation method of tangible assets are reviewed on an annual basis and, if necessary, changes in useful lives or the depreciation method are accounted for prospectively.

The carrying amounts of tangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of tangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the period in which the item is derecognized.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

### Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, changes in commodity prices, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. 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. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. 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.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil production, revenues, costs and capital expenditure. Carbon taxes and costs of emissions allowances are also included in estimates of future cash flows, based on the regulatory environment in each jurisdiction in which the group operates. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, cost inflation rates are set by senior management. These assumptions take account of existing prices, global supply-demand equilibrium for oil and other macroeconomic factors and historical trends and variability.In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



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## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

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

***Significant judgements and estimates: recoverability of asset carrying values***
Determination as to whether, and how much, an asset or CGU is impaired involves management estimates. For this entity, the oil price forecast, discount rate and production profiles based on reserves that the impairment valuation is most sensitive to, are considered to be key estimates for the entity's single ACG CGU. Operating and capital expenses and outlook for global or regional market supply–and–demand conditions for crude oil and refined products are all considered to be other, but not key, estimates.

The estimates for assumptions made in impairment sensitivity tests in 2021 relating to discount rates, oil and gas properties and prices are discussed below.

*Discount rates*
For value in use calculations, future cash flows are adjusted for risks specific to the CGU. Value-in-use calculations are typically discounted using a pre-tax discount rate based upon the cost of funding the bp group derived from an established model, adjusted to a pre-tax basis and incorporating a market participant capital structure and country risk premiums.

The discount rates applied in impairment tests are reassessed each year and in 2021 the pre-tax discount rate used by the company was 8% (2020 8%).

*Oil properties*
For oil properties, the expected future cash flows are estimated using management's best estimate of future oil prices and reserves volumes which are the key estimates for this entity.

Production forecast assumptions for value-in-use tests reflect the reserves that management currently intend to develop.

In 2021, the company identified oil properties relating to the entity's single ACG CGU with carrying amounts totalling $5.7 billion (2020 $5.8 billion) where the headroom, as at the dates of the last impairment sensitivity test performed on those assets at 31 December 2021, was $493 million which is less than or equal to 20% of the carrying value. A change in the discount rate, reserves or the oil price assumptions in the next financial year may result in a recoverable amount of one or more of these assets above or below the current carrying amount and therefore there is a significant risk of impairment charges in that period.

Information on the carrying amounts of the company's oil properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 11.

*Oil prices*
The price assumptions used for value in use impairment testing are based on those used for investment appraisal. bp's carbon emissions cost assumptions and their interrelationship with oil and gas prices are described in 'Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy' on page 30. The investment appraisal price assumptions are recommended by the bp group senior vice president economic & energy insights after considering a range of external price, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

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

During the year, bp's price assumptions applied in value in use impairment sensitivity testing for Brent oil up to 2030 were increased to reflect near-term supply constraints. bp's management also expects an acceleration of the pace of transition to a lower carbon economy. As such, the long-term Brent oil assumptions were decreased during the year, reaching $55 per barrel by 2040 and $45 per barrel by 2050 (in 2020 real terms). A summary of the group's revised price assumptions applied in 2021 and 2020, in real 2020 terms, is provided below. The assumptions represent management's best estimate of future prices, which sit within the range of external forecasts considered as appropriate for the purpose. They are considered by bp to be in line with a range of transition paths consistent with the Paris climate goal of limiting global warming to well below 2°C as well as the ambition to limit global warming to no greater than 1.5°C. An inflation rate of 2% (2020 2%) is applied to determine the price assumptions in nominal terms.

| 2021 price assumptions | 2022 | 2025 | 2030 | 2040 | 2050 |
|---|---|---|---|---|---|
| Brent oil ($/bbl) | 70 | 60 | 60 | 55 | 45 |

| 2020 price assumptions | 2021 | 2025 | 2030 | 2040 | 2050 |
|---|---|---|---|---|---|
| Brent oil ($/bbl) | 50 | 50 | 60 | 60 | 50 |

The majority of reserves that support the carrying value of the Company's existing oil properties are expected to be produced over the next 30 years.

The oil market continued its rebalancing process in 2021. Oil prices averaged $70/bbl in 2021. That is 70% higher than in 2020 and the second highest since 2015. Oil demand rebounded on the back of the economic recovery, supported by the increasing COVID-19 vaccination roll-out and gradual lifting of restrictions. On the supply side, continued active supply management by OPEC+ countries also helped accelerate the rebalancing process. bp's long-term assumption for oil prices is lower than the 2021 price average, based on the judgement that, in the long term, oil demand is likely to fall so that the price levels needed to encourage sufficient investment to meet declining global oil demand is also lower.

*Oil reserves*
In addition to oil prices, significant technical and commercial assessments are required to determine the group's estimated oil reserves. Reserves estimates are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the company's estimates of its oil reserves. bp bases its reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

Reserves assumptions for value-in-use tests reflect the reserves that management currently intend to develop. The recoverable amount of oil properties is determined using a combination of inputs including reserves and production volumes. Risk factors may be applied to reserves which do not meet the criteria to be treated as proved.

*Sensitivity analyses*
Management considers discount rates, oil prices and production to be the key sources of estimation uncertainty in determining the recoverable amount of upstream oil and gas assets. The sensitivity analyses below, in addition to covering the key sources of estimation uncertainty, also indicate how the energy transition, potential future carbon emissions costs and/or reduced demand for oil may further impact forecast revenue cash inflows to a greater extent than currently anticipated in the group's value-in-use estimates for oil and gas CGUs, if carbon emissions costs were to be implemented as a deduction against revenue cash flows. The analyses therefore represents a net revenue sensitivity.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

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

A change in net revenue from upstream oil properties can arise either due to changes in oil prices, carbon emissions costs/carbon prices, changes in oil production, or a combination of these.

Management tested the impact of a change in revenue cash flows in value-in-use impairment testing arising from changes in price assumptions and/or production volumes up to an individual effect on revenue of 10%.

Both production and price reduction of 10% in isolation could indicatively lead to a reduction in the carrying amount of the Company's Upstream oil properties around $698 million, whereas the same percentage increase would not impact on carrying amounts as there are no previous impairments to be reversed. If this net revenue reduction was solely due to reductions in oil and natural gas prices in isolation, it reflects an indicative decrease in the carrying amount of using price assumptions broadly in the middle of the range of WBCSD external scenarios for Brent oil considered to be consistent with the Paris climate ambition of limiting global warming to no more than 1.5°C.

These sensitivity analyses do not, however, represent management's best estimate of any impairment charges that might be recognized as they do not fully incorporate consequential changes that may arise, such as changes in costs and business plans and phasing of development. For example, costs across the industry are more likely to decrease as oil and natural gas prices fall. The analyses also assume the impact of increases in carbon price are fully absorbed as a decrease in net revenue (and vice versa) rather than reflecting how carbon prices or other carbon emissions costs may ultimately be incorporated by the market. The above sensitivity analyses therefore also do not reflect a linear relationship between revenue and value that can be extrapolated. The interdependency of these inputs and risk factors plus the diverse characteristics of our Upstream oil properties limits the practicability of more precisely estimating the probability or extent to which the overall recoverable amount is impacted by changes to the price assumptions or production volumes.

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of Upstream oil properties. If the discount rate was one percentage point higher across the tests performed, the value-in-use of the Company's Upstream oil properties would have been approximately $395m lower, which would eliminate most of the headroom but would not impact the carrying amount of estimated headroom, but there would be no impact on the carrying amount of the Company's Upstream oil properties. If the discount rate was one percentage point lower, there would be no impact on carrying amounts as there are no previous impairments to be reversed.

### Stock

Stocks, other than stocks held for trading purposes, are stated at the lower of cost and net realizable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

Supplies are valued at the lower of cost on a weighted average basis and net realizable value.

### Leases

Agreements that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases. The right to control is conveyed if bp has both the right to obtain substantially all of the economic benefits from, and the right to direct the use of, the identified asset throughout the period of use. An asset is identified if it is explicitly or implicitly specified by the agreement and any substitution rights held by the lessor over the asset are not considered substantive.

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Significant accounting policies (continued)**

**Leases (continued)**

Agreements that convey the right to control the use of an intangible asset including rights to explore for or use hydrocarbons are not accounted for as leases. See significant accounting policy: intangible assets.

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. The incremental borrowing rate is determined based on factors such as the group's cost of borrowing, lessee legal entity credit risk, currency and lease term. The lease term is the non-cancellable period of a lease together with any periods covered by an extension option that bp is reasonably certain to exercise, or periods covered by a termination option that bp is reasonably certain not to exercise. The future lease payments included in the present value calculation are any fixed payments, payments that vary depending on an index or rate, payments due for the reasonably certain exercise of options and expected residual value guarantee payments.

The right-of-use asset is recognized on the balance sheet as property, plant and equipment at a value equivalent to the initial measurement of the lease liability adjusted for lease prepayments, lease incentives, initial direct costs and any restoration obligations. The right-of-use asset is depreciated typically on a straight-line basis, over the lease term. The depreciation charge is recognized in the income statement. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment.

Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis.

If the lease term at commencement of the agreement is less than 12 months, a lease liability and right-of-use asset are not recognized, and a lease expense is recognized in the income statement on a straight-line basis.

If a significant event or change in circumstances, within the control of bp, arises that affects the reasonably certain lease term or there are changes to the lease payments, the present value of the lease liability is remeasured using the revised term and payments, with the right-of use asset adjusted by an equivalent amount.

Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right-of-use asset. Any gain or loss on modification is recognized in the income statement. Modifications that increase the scope of the lease at a price commensurate with the stand-alone selling price are accounted for as a separate new lease.

The company recognizes the full lease liability, rather than its working interest share, for leases entered into on behalf of a joint operation if the company has the primary responsibility for making the lease payments. In such cases, the company's working interest share of the right-of-use asset is recognized if it is jointly controlled by the company and the other joint operators, and a receivable is recognized for the share of the asset transferred to the other joint operators. If the company is a non-operator, a payable to the operator is recognized if they have the primary responsibility for making the lease payments and the company has joint control over the right-of-use asset, otherwise no balances are recognized.

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Significant accounting policies (continued)**

**Financial assets**

Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the rights to receive cash flows have been transferred to a third party along with either substantially all of the risks and rewards or control of the asset. This includes the derecognition of receivables for which discounting arrangements are entered into.

The company classifies its financial assets as measured at amortized cost or fair value through profit or loss. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

***Financial assets measured at amortized cost***

Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost. This category of financial assets includes trade and other receivables.

***Cash equivalents***

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortized cost.

**Impairment of financial assets measured at amortized cost**

The company assesses on a forward-looking basis the expected credit losses associated with financial assets classified as measured at amortized cost at each balance sheet date. Expected credit losses are measured based on the maximum contractual period over which the company is exposed to credit risk. As lifetime expected credit losses are recognized for trade receivables and the tenor of substantially all other in-scope financial assets is less than 12 months there is no significant difference between the measurement of 12-month and lifetime expected credit losses for the company. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. The expected credit loss is estimated as the difference between the asset's carrying amount and the present value of the future cash flows the company expects to receive, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is adjusted, with the amount of the impairment gain or loss recognized in the profit and loss account.

A financial asset or group of financial assets classified as measured at amortized cost is considered to be credit-impaired if there is reasonable and supportable evidence that one or more events that have a detrimental impact on the estimated future cash flows of the financial asset (or group of financial assets) have occurred. Financial assets are written off where the company has no reasonable expectation of recovering amounts due.

**Financial liabilities**

The measurement of financial liabilities is as follows:

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Significant accounting policies (continued)**

**Financial liabilities (continued)**

***Financial liabilities measured at amortized cost***

Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs. For interest-bearing loans and borrowings this is typically equivalent to the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, these financial liabilities are subsequently measured at amortized cost. This category of financial liabilities includes trade and other payables and finance debt.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The company categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or bp's assumptions about pricing by market participants.

**Offsetting of financial assets and liabilities**

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the company currently has a legally enforceable right to set off the recognized amounts; and the company intends to either settle on a net basis or realize the asset and settle the liability simultaneously. If both of the criteria are met, the amounts are set off and presented net. A right of set off is the company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

**Provisions**

Provisions are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 2.0% (2020 2.5%).

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

### Provisions (continued)

***Decommissioning***
Liabilities for decommissioning costs are recognized when the company has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognized on construction or installation. Similarly, where obligation exists for a well, this liability is recognized when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognized is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements.

An amount equivalent to the decommissioning provision is recognized as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits.

***Significant judgements and estimates: provisions***
The company holds provisions for the future decommissioning of oil production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing the company relate to the plugging and abandonment of wells and the removal and disposal of oil platforms and pipelines. Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. The timing and amounts of future cash flows are subject to significant uncertainty and estimation if required in determining the amounts of provisions to be recognized. Any changes in the expected future costs are reflected in both the provision and the asset.

Nominal discount rate that the decommissioning provision is most sensitive to is considered to be a key estimate for the provision. Management tested the impact of a half percentage point change in the discount rate used in decommissioning provision determination. If the discount rate was a half percentage point higher, a reduction in decommissioning provision would have been approximately $60 million. If the discount rate was a half percentage point lower, an increase in decommissioning provision would have been approximately $65 million.

The ACG PSA specific decommissioning provision terms are disclosed in Note 17.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

#### Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company.

#### Taxation

Income tax expense represents the sum of current tax and deferred tax.

Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, where the company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. An exception is where the deferred tax asset relates to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductive temporary differences.

In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable or increased to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Significant accounting policies (continued)**

**Taxation (continued)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Where tax treatments are uncertain, if it is considered probable that a taxation authority will accept the company's proposed tax treatment, income taxes are recognized consistent with the company's income tax filings. If it is not considered probable, the uncertainty is reflected within the carrying amount of the applicable tax asset or liability using either the most likely amount or an expected value, depending on which method better predicts the resolution of the uncertainty.

**Turnover**

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

When, or as, a performance obligation is satisfied, the company recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.

Contracts for the sale of commodities are typically priced by reference to quoted prices. Revenue from term commodity contracts is recognized based on the contractual pricing provisions for each delivery. Certain of these contracts have pricing terms based on prices at a point in time after delivery has been made. Revenue from such contracts is initially recognized based on relevant prices at the time of delivery and subsequently adjusted as appropriate. All revenue from these contracts, both that recognized at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

Revenue associated with the sale of oil is included on a net basis in turnover..

**Interest income**

Interest income is recognized as the interest accrues using the effective interest rate – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Research costs**

Research costs are expensed as incurred.

## 2. Significant accounting policies, judgements, estimates and assumptions (continued)

### Significant accounting policies (continued)

**Finance costs**

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the profit and loss account in the period in which they are incurred.

**Dividends payable**

Final dividends are recorded in the financial statements 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.

### Updates to significant accounting policies

**Impact of new International Financial Reporting Standards**

bp adopted amendments to IFRS 9 "financial instruments - Interest Rate Benchmark Reform (Phase II)", IFRS 16 "Leases" with effect from 1 January 2021. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the company's financial statements.

## 3. Turnover

An analysis of the company's turnover is as follows:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Sales of goods | 1,346,287 | 1,250,834 |
| | 1,346,287 | 1,250,834 |
| Other operating income | 60,880 | 64,085 |
| Interest receivable and similar income (Note 6) | 3,080 | 12,681 |
| | 1,410,247 | 1,327,600 |

Other operating income represents other bp entity and partner portions of ACG lease liability costs, whereby BP Exploration (Caspian Sea) Limited entered into lease contracts with third parties on behalf of its partners and other bp entities, and recharges their share of relevant costs to them.

An analysis of turnover by class of business is set out below:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Class of business [a]: | | |
| oil production & operations | 1,346,287 | 1,250,834 |

[a] Information for 2021 has been presented to reflect the changes in the bp group reportable segments. For more information see Note 1 of the bp group Annual Report and Form 20-F for the year ended 31 December 2021.

The country of origin and destination is substantially the Azerbaijan geographic area.

## 4. Operating profit

This is stated after charging:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Net foreign exchange losses | 948 | 2,108 |
| Research and development costs expensed | 5,700 | 8,053 |
| Depreciation of tangible assets | 665,509 | 852,433 |
| Depreciation of right-of-use assets | 59,271 | 65,201 |
| Cost of stock recognized as an expense* | 3,218 | 283 |

* Amount is included in Cost of Sales.

## 5. Auditor's remuneration

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Fees for the audit of the company | 89 | 83 |

Fees paid to the company's auditor, Deloitte LLP and its associates for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of BP Exploration (Caspian Sea) Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

## 6. Interest receivable and similar income

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Interest income from amounts owed by group undertakings | 3,080 | 12,681 |
| Total interest receivable and similar income | 3,080 | 12,681 |

Decrease in interest income is due to the reduction in LIBOR rate in line with the pandemic situation.

## 7. Interest payable and similar expenses

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Interest expense on: | | |
| Lease liabilities | 6,870 | 10,800 |
| Overdrafts from group undertakings | 1,141 | (89) |
| Tax provision | 100 | 4,055 |
| Total interest expense | 8,111 | 14,766 |
| Unwinding of discount on provisions - Note 17 | 20,350 | 20,359 |
| Unwinding of discount on signature bonus | 23,163 | 28,233 |
| Interest on pension scheme liabilities | 192 | 209 |
| Total interest payable and similar expenses | 51,816 | 63,567 |

## 8. Taxation

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

The taxation charge in the profit and loss account is made up as follows:

| | 2021 | 2020 |
|---|---|---|
| Current tax | $000 | $000 |
| Overseas tax on income for the year | 113,290 | 117,032 |
| Overseas tax underprovided / (overprovided) in prior years | 22,903 | (13,076) |
| Total current tax charged | 136,193 | 103,956 |
| | | |
| Deferred tax | | |
| Overseas deferred tax | (8,039) | (88,808) |
| Total deferred tax credited | (8,039) | (88,808) |
| | | |
| Tax charged on profit | 128,154 | 15,148 |

## 8. Taxation (continued)

### (a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower than the standard rate of local concession rate of 25% for the year ended 31 December 2021 (2020 - local concession rate of 25%). The differences are reconciled below:

| | 2021 | 2020 |
|---|---|---|
| | UK | UK |
| | $000 | $000 |
| Profit / (loss) before tax | 344,880 | (93,766) |
| Tax charge | 128,154 | 15,148 |
| Effective tax rate | 37.16 % | (16.16)% |

| | 2021 | 2020 |
|---|---|---|
| | UK | UK |
| | % | % |
| Local concession rate: | 25 | 25 |
| | | |
| Increase / (decrease) resulting from: | | |
| Non-taxable income | 5.52 | (55.08) |
| Adjustments to tax charge in respect of previous years | 6.64 | 13.92 |
| Effective tax rate | 37.16 | (16.16) |

The company operates in Azerbaijan. Profits arising in the company are taxed in the local jurisdiction at the rate agreed under the concession of 25%. The reconciliation above is based upon the tax computation prepared for the Azerbaijan authorities. The comparative disclosures have not been restated.

### (b) Provision for deferred tax

The deferred tax included in the profit and loss account and balance sheet is as follows:

| | Profit and loss account | | Balance sheet | |
|---|---|---|---|---|
| Deferred tax asset | 2021 | 2020 | 2021 | 2020 |
| | $000 | $000 | $000 | $000 |
| Decommissioning and other provisions | 29,480 | 16,051 | 249,121 | 219,641 |
| Other deductible temporary differences | (34,497) | (23,862) | 349,047 | 383,544 |
| Net charge for deferred tax assets | (5,017) | (7,811) | 598,168 | 603,185 |

| | Profit and loss account | | Balance sheet | |
|---|---|---|---|---|
| Deferred tax liability | 2021 | 2020 | 2021 | 2020 |
| | $000 | $000 | $000 | $000 |
| Accelerated capital allowances | 9,785 | 59,740 | (1,029,565) | (1,039,350) |
| Other taxable temporary differences | 3,271 | 36,879 | (18,796) | (22,067) |
| Net charge for deferred tax liabilities | 13,056 | 96,619 | (1,048,361) | (1,061,417) |
| | | | | |
| Net deferred tax credit and net deferred tax liability | 8,039 | 88,808 | (450,193) | (458,232) |

More detailed split by components for deferred tax balances and movements has also been applied to previous year comparatives to present consistent view.

## 8. Taxation (continued)

Analysis of movements during the year

| | 2021 |
|---|---|
| | $000 |
| At 1 January 2021 | 458,232 |
| Deferred tax credit in the profit and loss account | (8,039) |
| At 31 December 2021 | 450,193 |

Deferred tax has not been recognised on deductible temporary differences relating to decommissioning provisions outside the UK Ring fence of $996,483,000 (2020 $878,564,000), provisions of $9,089,000 (2020 $3,635,000), IFRS 16 of $6,737,000 (2020 $10,959,000) and fixed assets of $3,957,623,000 (2020 $3,750,338,000) with no fixed expiry date on the basis that they are UK tax attributes that not expected to give rise to any future benefit.

## 9. Directors and employees

(a) Remuneration of directors
None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2020 $Nil).

(b) Employee costs

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Wages and salaries | 189,014 | 173,748 |
| Social security costs | 35,580 | 33,320 |
| Other pension costs | 6,985 | 6,719 |
| Share-based payment charge | 11,209 | 5,869 |
| | 242,788 | 219,656 |

The employee costs noted above relate to those employees with contracts of employment in the name of BP Exploration (Caspian Sea) Limited. These costs are borne by the PSA and other BP group companies.

Included in other pension costs are $6,985,000 (2020 $6,719,000) in respect of defined benefit schemes.

(c) The average monthly number of employees during the year was 2,710 (2020 2,965).

| Average number of employees [a] | 2021 | 2020 |
|---|---|---|
| | No. | No. |
| oil production & operations | 2,710 | 2,965 |

[a] Information for 2021 has been presented to reflect the changes in the bp group reportable segments. For more information see Note 1 of the bp group Annual Report and Form 20-F for the year ended 31 December 2021. Comparative data for these new reportable segments for 2020 is not available.

## 10. Intangible assets

| | Exploration expenditure | Total |
|---|---|---|
| **Cost** | $000 | $000 |
| At 1 January 2021 | 1,176 | 1,176 |
| Additions | 334 | 334 |
| Transfers | (422) | (422) |
| At 31 December 2021 | 1,088 | 1,088 |
| **Amortization** | | |
| At 1 January 2021 | — | — |
| Charge for the year | — | — |
| At 31 December 2021 | — | — |
| **Net book value** | | |
| At 31 December 2021 | 1,088 | 1,088 |
| At 31 December 2020 | 1,176 | 1,176 |

## 11. Tangible assets

| | Land & buildings | Fixtures & fittings | Oil & gas properties | Plant & machinery | Right-of-use assets | Total | Of which AUC (a) |
|---|---|---|---|---|---|---|---|
| **Cost** | $000 | $000 | $000 | $000 | $000 | — | — |
| At 1 January 2021 | 30,876 | 103,744 | 18,817,983 | 42,146 | 312,403 | 19,307,152 | 1,316,185* |
| Additions | 72 | — | 599,344 | 1,429 | 19,682 | 620,527 | 526,244 |
| Transfers | — | — | — | — | — | — | (250,532) |
| Transfers from intangible assets | — | — | 422 | — | — | 422 | 422 |
| Retirement of fully depreciated right-of-use-assets (b | — | — | — | — | (12,525) | (12,525) | — |
| At 31 December 2021 | 30,948 | 103,744 | 19,417,749 | 43,575 | 319,560 | 19,915,576 | 1,592,319 |
| **Depreciation** | | | | | | | |
| At 1 January 2021 | (11,140) | (93,654) | (13,229,298) | (72,199) | (128,451) | (13,534,742) | — |
| Charge for the year | (840) | (2,690) | (630,616) | (31,363) | (78,940) | (744,449) | — |
| Retirement of fully depreciated right-of-use-assets (b) | — | — | — | — | 12,525 | 12,525 | — |
| At 31 December 2021 | (11,980) | (96,344) | (13,859,914) | (103,562) | (194,866) | (14,266,666) | — |
| **Total net book value** | | | | | | | |
| At 31 December 2021 | 18,968 | 7,400 | 5,557,835 | (59,987) | 124,694 | 5,648,910 | 1,592,319 |
| **Total net book value** | | | | | | | |
| At 31 December 2020 | 19,736 | 10,090 | 5,588,685 | (30,053) | 183,952 | 5,772,410 | 1,316,185 |

[a] AUC = assets under construction. Assets under construction are not depreciated.

*An amendment of $24,495,660 has been made to the prior year figure of $1,291,690,000 disclosed for AUC within tangible assets. This is a reclassification and a change has been made solely to enhance the reliability and relevance of the information reported in the financial statements and is considered to be more appropriate. This had no impact on the net book value of tangible assets for the year.

[b] The removal of fully depreciated right-of-use-assets at the end of the lease term.

Capitalized interest included above is as follows:

| | Net book value |
|---|---|
| At 31 December 2021 | 44,353 |
| At 31 December 2020 | 49,497 |

## 12. Stocks

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Crude oil | 6,140 | 4,589 |
| Supplies | 67,388 | 73,616 |
| | 73,528 | 78,205 |

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

## 13. Debtors

Amounts falling due within one year:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Trade debtors | 690 | 554 |
| Amounts owed from parent undertakings | 51,383 | 2,734,080 |
| Amounts owed from fellow subsidiaries | 22,570 | 99,401 |
| Amounts owed from joint ventures | 9,168 | 15,333 |
| Amounts owed from associates | 2,166 | 9,501 |
| Other debtors | (1,230) | (1,504) |
| Prepayments and accrued income | 4,501 | 9,263 |
| | 89,248 | 2,866,628 |

Amounts falling due after one year:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Amounts owed from parent undertakings | 2,500,000 | — |
| Amounts owed from fellow subsidiaries | 12,459 | 35,388 |
| Other debtors | (59) | (10) |
| Prepayments and accrued income | 2,087 | 5,513 |
| | 2,514,487 | 40,891 |
| Total debtors | 2,603,735 | 2,907,519 |

The amount represents $2.5bln loan deposit to BP International Limited. The purpose is to refinance the short-term deposit onto a long-term deposit agreement with a facility limit of US$ 3bn held by BP International Limited with the Company.

The amounts owed from fellow subsidiaries / parent undertakings / joint ventures are shown above for 2021 versus 2020. Interest is accrued on a monthly basis based on LIBOR. The borrowing interest rate at year end was LIBOR+0.46% (2020 LIBOR+0.26%) and deposit interest rate was LIBOR-0.03% (2020 LIBOR-0.14%).

## 14. Creditors

Amounts falling due within one year:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Trade creditors | 68,227 | 137,000 |
| Amounts owed to parent undertakings | 55,971 | 73,834 |
| Amounts owed to fellow subsidiaries | 14,691 | 4,606 |
| Amounts owed to joint ventures | 7,006 | 410 |
| Amounts owed to associates | 18,537 | 18,592 |
| Other creditors | 451,345 | 448,960 |
| Taxation | 77,985 | 113,459 |
| Accruals | 133,049 | 131,140 |
| Obligations under leases (Note 16) | 68,412 | 131,280 |
| Tax interest | 4,155 | 4,055 |
| | 899,378 | 1,063,336 |

Amounts falling due after one year:

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Other creditors | 507,727 | 666,903 |
| Obligations under leases (Note 16) | 95,934 | 179,955 |
| | 603,661 | 846,858 |
| Total creditors | 1,503,039 | 1,910,194 |

Materially all of the company's trade payables have payment terms in the range of 30 to 60 days and give rise to operating cash flows.

## 15. Loans and obligations under leases

Obligations under leases , included within creditors, are analysed as follows:

Within 5 years

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Lease liabilities | Total | Lease liabilities | Total |
| | $000 | $000 | $000 | $000 |
| Not wholly repayable | 164,346 | 164,346 | 311,235 | 311,235 |
| | 164,346 | 164,346 | 311,235 | 311,235 |

## 16. Leases

The company leases a number of assets as part of its activities. This primarily includes drilling rigs in the Upstream segment and shipping vessels. The weighted average remaining lease term for the total lease portfolio is around 5 years. Some leases will have payments that vary with market interest or inflation rates. Certain leases contain residual value guarantees, these may be triggered in certain circumstances such as if market values have significantly declined at the conclusion of the lease.

**16. Leases (continued)**

Certain leases, in particular for drilling rigs and shipping vessels, contain options to extend the lease period at the company's discretion. The payments for these future periods are only included in the measurement of the lease liability and right-of-use asset if the company is reasonably certain to exercise the option.

Along with the lease contracts recognized on the face of the balance sheet, the company entered into several contracts that were classified as short-term leases. The following table condenses information on such leases as well as additions to right-of-use assets and total cash outflows for amounts included in lease liabilities.

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Short-term lease expense[a] | 6,639 | 8,441 |
| Additions to right-of-use assets in the period | 19,682 | 31,615 |
| Total cash outflow for amounts included in lease liabilities[b] | 125,201 | 135,374 |

[a] A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less.

[b] The cash outflows for amounts not included in lease liabilities approximate the income statement expense disclosed above.

The lease liability reported on the Balance Sheet can be further broken down into: leases due within 1 year: $68,412,000; leases due between 1-5 years: $95,934,000.

**17. Other provisions**

| | Decommissioning |
|---|---|
| | $000 |
| At 1 January 2021 | 878,564 |
| New or increased provisions: | |
| Recognized within tangible assets | 38,032 |
| Unwinding of discount | 20,350 |
| Change in discount rate | 59,537 |
| At 31 December 2021 | 996,483 |

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines oil a discounted basis on the installation of those facilities. At 31 December 2021, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was $996,483,000 (2020 $878,564,000). The provision has been estimated using the relevant ACG PSA methodology and requirements, according to which the company's decommissioning obligations are calculated based on 10% of the Company's ACG PSA cumulative capital expenditures incurred, and discounted using a nominal discount rate of 2% (2020 2.5%). These costs are expected to be incurred over the next 29 years.

For information on significant judgements and estimates made in relation to provisions, see Provisions within Note 2.

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## 18. Called up share capital

| | 2021 | 2020 |
|---|---|---|
| | $000 | $000 |
| Issued and fully paid: | | |
| 4,969,221 ordinary shares of £1.00 each for a total nominal value of £4,969,221 | 8,401 | 8,401 |

## 19. Reserves

*Called up share capital*
The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

*Share premium account*
The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

*Profit and loss account*
The balance held on this reserve is the retained profits of the company.

*Other reserves*
The balance on the other reserves mainly represents historical adjustments for the share based payments recognized in 2016 for prior years.

In 2021, the company paid interim ordinary dividends of $345,000,000 (2020 $0). The dividend per share was $69 (2020 $0).

## 20. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2021 is estimated at $273,231,000 (2020 $449,756,000).

## 21. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel.

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

| Related party | Sales to related party | Purchases from related party | Amounts owed from related party | Amounts owed to related party |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Azerbaijan International Operating Company | | | | |
| Joint venture | | | | |
| Services | | | | |
| 2021 | 492,919 | — | 9,481 | 7,006 |
| 2020 | 499,822 | — | 15,947 | 410 |
| The Baku-Tbilisi-Ceyhan Pipeline | | | | |
| Group associate | | | | |
| Transportation and services | | | | |
| 2021 | 37,668 | 63,298 | 2,729 | 6,247 |
| 2020 | 45,731 | 77,791 | 5,407 | 6,565 |
| South Caucasus Pipeline Company Limited | | | | |
| Group associate | | | | |
| Services | | | | |
| 2021 | 23,961 | — | — | 12,290 |
| 2020 | 32,998 | — | 4,094 | — |

## 22. Post balance sheet event

There is no post balance sheet event at the reporting date for the entity.

## 23. Immediate and ultimate controlling parent undertaking

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



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