

BP EXPLORATION (ABSHERON) LIMITED

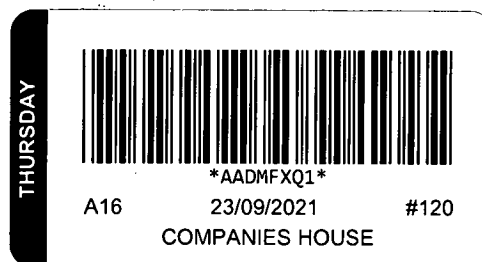
(Registered No.11041000)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

Board of Directors: J Freeman
R G Jones
E P Skinner-Reid

The directors present their report and the audited financial statements for the year ended 31 December 2020.

In accordance with section 414B (b) of the Companies Act 2006, the directors are taking advantage of the small companies exemption to not prepare a strategic report.



DIRECTORS' REPORT**BP EXPLORATION (ABSSHERON) 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 2020 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
T L Juliussen	10 March 2020	30 September 2020
E P Skinner-Reid	30 September 2020	—

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

The company has not declared any dividends during the year (2019 \$Nil). The directors do not propose the payment of a dividend.

Post balance sheet events

In 2020 bp commenced negotiation of lease contract terms for Satti rig, a drilling rig for SWAP exploration programme. Satti rig is owned by KMG (the national oil and gas company of Kazakhstan) and would be operated by Caspian Drilling Company ("CDC"), an affiliate of the State Oil Company of the Azerbaijan Republic ("SOCAR"). In February 2021 bp and CDC entered into a lease contract for the Satti Rig.

On 15 February 2021 the Main Exploration Period ("MEP") was extended until 1 November 2023 in order to deliver exploration programme.

On 16 February 2021 bp executed a joint operating agreement ("JOA") with SOCAR Oil Affiliate ("SOA"), which provides for joint venture governance details and structure as well as precise definition of rights and responsibilities of the contractor parties to the Exploration, Development and Production Sharing Agreement ("EDPSA") for the Shallow Water Area around the Abssheron Peninsula in the Azerbaijan Sector of the Caspian Sea executed between bp and SOCAR.

Going concern

The directors have assessed the prospects of the company over a period of at least 12 months. The directors have considered expectations of the position and performance of the company over this period, taking account of its short-term and longer-range plans. Taking into account the company's current position and its principal risks, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months.

DIRECTORS' REPORT

Going concern (continued)

Since 1 January 2020, there has been a significant volatility in the oil and gas prices and refining margins, in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered.

The State Oil Company of the Azerbaijan Republic ("SOCAR") and BP have executed an EDPSA for the Shallow Water Area around the Absheron Peninsula ("SWAP") in the Azerbaijan Sector of the Caspian Sea dated 22 December 2014, and which became effective on 1 May 2015. BP Exploration (Absheron) Limited (BPXAL) incurs costs on an agency basis on behalf of the parties to the SWAP EDPSA. BPXAL is always in the net current assets position and cannot generate either a profit nor loss, as it acts as both technical and commercial operator of the SWAP EDPSA. The exploration period is still ongoing, and all operations are fully funded by BP Absheron Limited, the contractor party to the EDPSA.

Liquidity and financing is managed within bp under pooled group-wide arrangements which include the company. As part of assuring the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has been taken into consideration. The bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity extending at least twelve months from the date of approval of these financial statements has been assessed at a group level under a number of scenarios and a reverse stress test performed to support the group's going concern assertion. In addition, group management of bp have confirmed that the existing intra-group funding and liquidity arrangements as currently constituted are expected to continue for the foreseeable future, being no less than twelve months from the approval of these financial statements.

In assessing the prospects of BP Exploration (Absheron) 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 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.

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 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2020.

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas, petrochemicals and refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook. Political developments, increased supply of oil and gas or low carbon energy sources, technological change,

DIRECTORS' REPORT

global economic conditions, public health situations and the influence of OPEC can impact supply and demand and prices for our products.

Liquidity, financial capacity and financial, including credit, exposure

Failure to work within the financial framework set by the bp group could impact the company's ability to operate and result in financial loss.

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.

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 on behalf of the Board

J Freeman

Director

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Jaqui Freeman

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22-09-21

Registered Office:

Chertsey Road
Sunbury-on-Thames
Middlesex
TW16 7BP
United Kingdom

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

BP EXPLORATION (ABSHERON) 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 (ABSSHERON) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BP Exploration (Abssheron) Limited (the company):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its result 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 balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 13.

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.

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.

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.

INDEPENDENT AUDITOR'S REPORT

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: UK Companies Act, tax legislation etc; 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.

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.

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, 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.

INDEPENDENT AUDITOR'S REPORT

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

Matters on which we are required to report by exception

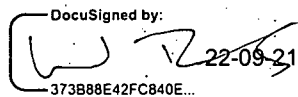
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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;
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

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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William Brooks FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP Statutory Auditor

London, UK

BALANCE SHEET**AS AT 31 DECEMBER 2020****BP EXPLORATION (ABSHERON) LIMITED****(Registered No.11041000)**

	Note	2020 \$	2019 \$
Current assets			
Debtors: amounts falling due within one year	7	1,764,517	12,693,936
Cash at bank and in hand		6,533	27,261
Creditors: amounts falling due within one year	8	(1,771,049)	(12,721,196)
Net current assets		<u>1</u>	<u>1</u>
NET ASSETS		<u><u>1</u></u>	<u><u>1</u></u>
Capital and reserves			
Called up share capital	9	1	1
TOTAL EQUITY		<u><u>1</u></u>	<u><u>1</u></u>

Authorized for issue on behalf of the Board

J Freeman
Director

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
BP EXPLORATION (ABSSHERON) LIMITED

	Called up share capital (Note 8)
	<u>\$</u>
Balance at 1 January 2019	<u>1</u>
Balance at 31 December 2019	<u>1</u>
Balance at 31 December 2020	<u><u>1</u></u>

NOTES TO THE FINANCIAL STATEMENTS**FOR THE PERIOD ENDED 31 DECEMBER 2020****BP EXPLORATION (ABSHERON) LIMITED****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 (Absheron) Limited for the year ended 31 December 2020 were approved by the board of directors on 17/09/2021 and the balance sheet was signed on the board's behalf by J Freeman. BP Exploration (Absheron) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 11041000). 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.

Principal activity

SOCAR and bp have executed an EDPSA for the Shallow Water Area around the Absheron Peninsula in the Azerbaijan Sector of the Caspian Sea dated 22 December 2014, and which became effective on 1 May 2015.

The Initial Exploration Period ("IEP") commenced on the effective date of the EDPSA (1 May 2015). During the IEP, bp acquired 2D and 3D seismic data, completed data interpretation and moved to prospect evaluation. As a result, three high-graded Prospective Areas ("PA") – West PA, South-East PA and North-East PA – were selected for further exploration. A Notice of Prospectivity in relation to these Prospective Areas was submitted to SOCAR on 30 October 2017. The Main Exploration Period commenced immediately following the date of the Notice of Prospectivity. On February 15 2021 the MEP was extended from 30 November 2020 to 1 November 2023. During the MEP, bp is obliged to perform planning and execution of exploration wells in the Prospective Areas.

The EDPSA was originally executed by BP Exploration (Azerbaijan) Limited. BP Absheron Limited was incorporated on 26 January 2016, and on 1 September 2016 it assumed the entire participating interest, together with all rights, obligations and liabilities, of BP Exploration (Azerbaijan) Limited with regard to the EDPSA. As a contractor party, BP Absheron Limited has a 50% participating interest under the EDPSA. The remaining 50% participating interest is held by SOCAR Oil Affiliate ("SOA"), a company to be formed, owned and controlled by SOCAR. Pending formation of SOA, all rights and obligations of SOA will be performed by SOCAR.

According to the terms of the EDPSA, bp or its affiliate shall act as the operating company during the IEP and MEP, and before SOCAR's approval of the first development programme. Upon approval of the first development programme, bp and SOA shall establish a joint operating company (JOC) equally owned by bp and SOA. BP Exploration (Absheron) Limited has been incorporated to act as the operating company under the EDPSA during the MEP on 31 October 2017, and has been appointed as such upon execution of the JOA on 16 February 2021.

Under the EDPSA, the operating company is entitled to all the benefits, waivers, indemnities and exemptions awarded to the interest holders (contractor parties). However, the operating company shall only act as operator upon instructions from the contractor parties, it shall own no assets or equipment, shall not be entitled to any share of petroleum produced nor shall it make a profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Principal activity (continued)

The operating company shall record all financial flows or other transactions of the interest holders as passing through to the contractor parties as though it did not exist as a commercial entity, and for all purposes the amount of its taxable profit shall be nil.

On 19 April 2018, BP Exploration (Azerbaijan) Limited entered into a Farmout Agreement relating to the South-West Gobustan Production Sharing Agreement in the Republic of Azerbaijan ("Gobustan PSA") with Commonwealth Gobustan Limited ("CGL") to acquire from CGL a 61% participating interest in the Gobustan PSA. The acquisition was completed on 4 September 2018.

Pursuant to the terms of the Farmout Agreement, the company was appointed as the well operator to plan and potentially execute an exploration well in the contract area. BP Exploration (Azerbaijan) Limited has re-assigned the interest to CGL with effect from 24 February 2020, and the company ceased to be the well operator from the same date. CGL has disputed the re-assignment and The London Court of International Arbitration ("LCIA") arbitration proceedings are currently underway.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- (c) 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;
- (d) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- (e) the requirements of IAS 7 Statement of Cash Flows;
- (f) 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;
- (g) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- (h) 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.

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 13.

The financial statements are presented in US dollars and all values are rounded to the nearest whole number in dollars (\$).

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 and the disclosure of contingent 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 accounting judgements and estimates that have a significant impact on the results of the company are set out within the boxed text below, and should be read in conjunction with the information provided in the Notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 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 bp group consolidated financial statements. These issues are not expected to have significant impacts on the currently reported amounts of the company's assets and liabilities

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies

Going concern

The directors have 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 and the financial statements have therefore been prepared under the going concern basis.

For further detail on the directors' going concern assessment, please refer to the directors' report.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Significant accounting policies (continued)

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:

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.

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.

Impact of new International Financial Reporting Standards

bp adopted 'Interest Rate Benchmark Reform – Phase I – Amendments to IFRS 9 'Financial instruments' and IFRS 7 'Financial instruments: Disclosures' with effect from 1 January 2020. 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.

The adoption of 'Interest Rate Benchmark Reform – Phase I – Amendments to IFRS 9 'Financial instruments' and IFRS 7 'Financial instruments: Disclosures' has had no material impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS**3. Operating profit**

This is stated after charging:

	2020	2019
	\$	\$
Cost incurred on behalf of SWAP EDPSA participants	4,982,613	24,585,425
Share of cost recharged to SWAP EDPSA participants	(4,982,613)	(24,585,425)
	<u>—</u>	<u>—</u>

In the SWAP EDPSA, all operational expenditure incurred in BP Exploration (Absheron) Limited is recharged at nil mark up to BP Absheron Limited at the end of reporting period. At the end of reporting period, the profit or loss account for BP Exploration (Absheron) Limited is in a net nil position.

NOTES TO THE FINANCIAL STATEMENTS**4. Auditor's remuneration**

	2020	2019
	\$	\$
Fees for the audit of the company	<u>26,750</u>	<u>24,450</u>

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 (Absheron) Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis. The fees were borne by the parties to the EDPSA.

5. Taxation

The company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010. The Company is an operating company under Article 6 of the EDPSA. An operating company may only act upon instructions from the EDPSA participants, owns no assets or equipment, is not entitled to any share of petroleum produced, and makes neither a gain nor loss. An operating company always has its taxable profit at the level of zero. Such operating company shall not be treated as a legal entity subject to the profit tax and therefore shall be exempt from the submission of profit tax returns, reports and financial statements.

6. 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 (2019 \$Nil).

(b) Employee costs

The company had no employees during the year (2019 None).

7. Debtors

Amounts falling due within one year:

	2020	2019
	\$	\$
Amounts owed from fellow subsidiaries	3,728	11,540,410
Amounts owed from parent undertakings	1,760,789	1,153,526
	<u>1,764,517</u>	<u>12,693,936</u>

The amounts owed from parent undertakings is mainly represents by interest free balance of \$1.7m (2019 \$0.9m) on Internal Financing account agreements with BP International Limited. Whilst IFA balances are legally repayable on demand, in practice they have no termination date. The decrease in the amount owed from fellow subsidiaries is due to ramp down of operation activities during 2020.

NOTES TO THE FINANCIAL STATEMENTS

8. Creditors

Amounts falling due within one year:

	2020	2019
	\$	\$
Amounts owed to fellow subsidiaries	1,583,166	12,489,170
Accruals and deferred income	159,211	200,799
Trade creditors	21,860	26,348
Other creditors	6,812	4,879
	<u>1,771,049</u>	<u>12,721,196</u>

The amounts owed to fellow subsidiaries represent non-interest bearing balance to BP Exploration (Caspian Sea) Limited. The decrease is due to ramp down of operation activities during 2020.

9. Called up share capital

	2020	2019
	\$	\$
Issued:		
1 ordinary share of \$1 for a total nominal value of \$1	<u>1</u>	<u>1</u>

10. 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.

11. 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. There were no other related party transactions in the year.

11. Post balance sheet event

In 2020 bp commenced negotiation of lease contract terms for Satti rig, a drilling rig for SWAP exploration programme. Satti rig is owned by KMG and would be operated by CDC, an affiliate of SOCAR. In February 2021 bp and CDC entered a lease contract for the Satti Rig.

On 15 February 2021 the MEP was extended until 1 November 2023 in order to deliver exploration programme.

On 16 February 2021 bp executed a JOA with SOA, which provides for joint venture governance details and structure as well as precise definition of rights and responsibilities of the contractor parties to the EDPSA for the Shallow Water Area around the Absheron Peninsula in the Azerbaijan Sector of the Caspian Sea executed between bp and SOCAR.

NOTES TO THE FINANCIAL STATEMENTS

13. Immediate and ultimate controlling parent undertaking

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