The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2019.

**STRAEGIC REPORT**

**Results**

The profit for the year after taxation was $409,760,446 which, when added to the retained profit brought forward at 1 January 2019 of $3,824,670,850, and after deducting total paid interim dividends to ordinary shareholders of $1,375,000,000, gives a total retained profit carried forward at 31 December 2019 of $2,859,431,296.

**Principal activities and review of the business**

The company is engaged in the production and selling of petroleum products. It also provides services to other group undertakings within the BP group and holds investments that are engaged in similar activities.

The company is a party to Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") in the Azerbaijan sector of the Caspian Sea, with a participating interest of 28.83%.

After the sanction of the Stage 1 development of the Shah Deniz field ("SD Field") on 27 February 2003, the project progressed satisfactorily through the execution phase having reached the first production in December 2006. The field has reached its plateau and gas is being sold under the current gas sales and purchases agreements to three countries: Turkey, Azerbaijan and Georgia.

On 17 December 2013, Shah Deniz PSA shareholders adopted a final investment decision ("FID") for the Stage 2 development of the field. This triggered plans to expand the South Caucasus Pipeline ("SCP") through Azerbaijan and Georgia, to construct the Trans Anatolian Gas Pipeline ("TANAP") across Turkey and to construct the Trans Adriatic Pipeline ("TAP") across Greece, Albania and into Italy. Together these projects, as well as gas transmission infrastructure to Bulgaria, will create a new Southern Gas Corridor to Europe.

The Shah Deniz Stage 2 project entails several elements: offshore includes drilling and completion of 26 subsea wells and construction of two bridge-linked platforms; as well as new processing and compression facilities at the Sangachal Terminal.

The total cost of the Shah Deniz Stage 2 project is expected to be around $25 billion (2018 $26.2 billion) (including SCP Expansion). 16 billion cubic metres per year (bcm) of additional gas produced from the Shah Deniz field will be carried some 3,500 kilometres to supply markets in Georgia, Turkey, Greece, Bulgaria and Italy. First gas started in July 2018, with sales to Georgia and Turkey.

In 2019, the Shah Deniz field continued to provide reliable deliveries of gas to markets in Azerbaijan, Georgia and Turkey producing about 16.5 billion (2018 11.2 billion) standard cubic metres (bcm) of gas and about 28.6 million (2018 20.5 billion) barrels of condensate.

There were no drilling activities on the Alpha platform through 2019. Alpha rig was on maintenance for 6 months and on warm stack rest of the time. There were few intervention activities in 4Q 2019.
Principal activities and review of the business (continued)

As part of the Stage 2 pre-drill programme, “Istiglal”, a mobile offshore rig, continued wells completion operations in the West South and East North flanks of the SD field until October 2019 when it switched to drilling East North top holes. Maersk (second mobile rig) continued drilling top and lower sections of the SD2 wells in East North, North and West South flanks of the field.

These two rigs already drilled 17 wells and completed 16 wells on the North, West and East South flanks of the field. Drilling operations will continue in order to deliver all wells required to reach the planned plateau level.

On 19 April 2018, the company 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, BP Exploration (Absheron) Limited was appointed as the well operator to plan and potentially execute an exploration well in the contract area. The company has re-assigned the interest to CGL with effect from 24 February 2020, and BP Exploration (Absheron) Limited ceased to be the well operator from the same date.

On 26 April 2018, the company entered into Agreement on the Exploration, Development and Production Sharing for the Prospective Exploration Block D230 in the Azerbaijan Sector of the Caspian Sea (D230 EDPSA) with the State Oil Company of the Republic of Azerbaijan and SOCAR Oil Affiliate with the effective date of 1 December 2018. BP D230 Limited was incorporated on 10 December 2018, and assumed the entire participating interest, together with all rights, obligations and liabilities, of BP Exploration (Azerbaijan) Limited with regard to the D230 EDPSA with effect from 1 October 2019.

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
<td>%</td>
</tr>
<tr>
<td>Turnover</td>
<td>986,824</td>
<td>848,859</td>
<td>16</td>
</tr>
<tr>
<td>Operating profit</td>
<td>396,570</td>
<td>483,175</td>
<td>(18)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>409,760</td>
<td>491,870</td>
<td>(17)</td>
</tr>
<tr>
<td>Total equity</td>
<td>6,402,112</td>
<td>7,369,440</td>
<td>(13)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019 %</th>
<th>2018 %</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick ratio*</td>
<td>324</td>
<td>1,018</td>
<td>(694)</td>
</tr>
<tr>
<td>Return on average capital employed**</td>
<td>6</td>
<td>7</td>
<td>(1)</td>
</tr>
</tbody>
</table>

*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.

**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.

The increase in turnover is a result of increase in gas and condensate production. The increase in cost of sales meanwhile has been driven primarily by an increase in the transportation, depreciation and production costs which have exceeded any increase in turnover hence the profit for the year has gone down. The decrease in quick ratio is mainly impacted by the depletion of funds on cash account during the operational year. The main event affecting cash position and decrease in total equity was the payout interim dividends to ordinary shareholders in the amount of $1,375 million.
Section 172 (1) statement

In governing the company on behalf of its shareholders and discharging their duties under section 172, the board has had regard to the factors set out in section 172 (see below) and other factors which the board considers appropriate.

Section 172 factors

Section 172 requires directors to have regard to the following in performing their duties, and as part of the process are required to consider, where relevant:

a. The likely long-term consequences of the decision.
b. The interests of the company’s employees.
c. The need to foster the company’s business relationships with suppliers, customers and others.
d. The impact of the company’s operations on the community and the environment.
e. The desire to maintain the company’s reputation for high standards of business conduct.
f. The need to act fairly between members of the company.

To support the directors in the discharge of their duties, and whilst making a decision on behalf of the company, the directors have access to functional assurance support to identify matters which may have an impact on the proposed decision including, where relevant, section 172 factors as outlined above.

The principal decisions taken by the directors during the year included the exit from Gobustan PSA Farmout Agreement in the Republic of Azerbaijan and transferring the participating interest in D230 EDPSA to BP D230 Limited, having regard to the likely long term consequences of the decision.

The company has engaged with key stakeholders and the outcome from such engagement has been considered by the directors during the decision making process where appropriate. Refer to the directors report on stakeholder engagement.

During the year the directors continued to monitor progress against the company’s strategy, as highlighted in the principal activities section of the strategic report of the company, and decisions made by the directors were in respect of operational matters, in furtherance of the BP group's purpose.

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 2019.
STRATEGIC REPORT

Strategic and commercial risks

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

Access, renewal and reserves progression
The company’s inability to access, renew and progress upstream resources in a timely manner could adversely affect its long-term replacement of reserves.

Major project delivery
Failure to invest in the best opportunities or deliver major projects successfully could adversely affect the company’s financial performance.

Geopolitical
The company is exposed to a range of political developments and consequent changes to the operating and regulatory environment may disrupt or curtail the company’s operations or development activities. These may in turn cause production to decline, limit the company’s ability to pursue new opportunities, affect the recoverability of our assets or cause us to incur additional costs. Political developments may include international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism or war and public health situations (including an outbreak of an epidemic or pandemic).

The impact of the UK's exit from the EU
BP have been assessing the potential impact on the group of Brexit and the UK’s future global relationships. BP have been considering different outcomes but do not believe any of these outcomes pose a significant risk to the business. The BP board’s geopolitical committee continues to monitor these developments.

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.

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.

Climate change and the transition to a lower carbon economy
Policy, legal, regulatory, technology and market developments related to the issue of climate change could increase costs, reduce demand for our products, reduce revenue and limit certain growth opportunities.

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.

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 regulatory and legislative environment could increase the cost of compliance, affect the company’s provisions and limit its access to new growth opportunities.

**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; 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 2019.

Authorized for issue by Order of the Board

For and on behalf of
Sunbury Secretaries Limited
Company Secretary
29 September 2020

Registered Office:
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom
DIRECTORS’ REPORT

BP EXPLORATION (AZERBAIJAN) 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 2019 are as follows:

<table>
<thead>
<tr>
<th>Appointed</th>
<th>Resigned</th>
</tr>
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<tbody>
<tr>
<td>T L Juliussen</td>
<td>10 March 2020</td>
</tr>
</tbody>
</table>

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 $1,375 million (2018 $Nil).

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 1.6) 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(s)

Since 31 December 2019, oil and gas prices have fallen sharply 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 directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided under Going Concern below. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil and gas price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of $55/bbl for Brent and $2.90 per MMBtu for Henry Hub for the period of 2021-2050 (in 2020 prices). As a result of the revised long-term price assumptions and a review of the long-term strategic plan, management reviewed BP’s exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects. Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020, which is expected to result in an approximate impairment charge of $4,387 million related to the company’s 2020 fixed assets, comprising $96 million release of negative goodwill. These revisions and impairments relate to events and circumstances arising since 31 December 2019 and therefore the impact on BP Exploration (Azerbaijan) Limited will be included in the financial statements for the year ended 31 December 2020.
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 on pages 4-6, 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.

Since 31 December 2019, the oil price has fallen sharply 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.

BP Exploration (Azerbaijan) Limited (the company) is engaged in the production and selling of petroleum products, also in trading activities within the BP group.

The company is a party to Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") in the Azerbaijan sector of the Caspian Sea, with a participating interest of 28.83%.

Gas and condensate oil ratio in the company’s export profile approximates to 80% and 20% respectively, making gas sales primary source of the revenue.

Trading activities of the company are largely external to BP, as the company sells gas volumes to external parties and trading condensate oil within the group.

BP Exploration (Azerbaijan) 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.

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 (Azerbaijan) 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. The company pays a share towards BP Group's centralised research and development costs.

Stakeholder statement

Engagement with other stakeholders

The company aims to build enduring relationships with governments, customers, partners, suppliers and communities in the countries where it operates. The company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the company’s commitments to safety and ethics and compliance.

The company’s activities affect a wide variety of individuals and organizations. The company engages with these stakeholders and listens to their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making process.

On behalf of the company, the BP group participates in 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, to understanding tax liabilities, to collaborating on community initiatives.

The BP group seeks to engage with customers through social media, focus groups and in-depth interviews with customers to better understand customer’s needs and seek their feedback.

Feedback from such engagement has been considered by the directors during the decision making process where relevant.

Corporate Governance Statement

The company’s ultimate parent BP p.l.c. has applied the UK Corporate Governance Code throughout the year. The board of BP p.l.c. operates within a system of governance that is set out in the BP board governance principles. These principles define the role of the board, its processes and its relationship with executive management. This system is reflected in the governance of the group’s subsidiaries through the adoption of:

(i) a comprehensive policy regarding the Corporate Governance of Subsidiaries (the “Policy”);
(ii) the System of Internal Control being the holistic set of management systems, organisational structures, processes, standards and behaviours that are employed to conduct the group’s business; and
(iii) the BP Code of Conduct based on BP's values, which sets clear expectations for how we work. It applies to all BP employees, including members of the board.

System of Internal Control

The System of Internal Control processes, which include functional assurance and internal group authority facilitate effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company’s objectives. This includes the safeguarding of assets from inappropriate use or loss and fraud and ensuring liabilities are identified and managed.

Further, they help 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 and also with internal policies with respect to the conduct of business.

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 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 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

The company has therefore not considered it necessary to adopt a formal corporate governance code.

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 directors of the company.

The Policy sets out the responsibilities of all directors and officers of each of the group’s subsidiaries and the primary tasks of the boards, 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 group
(iii) consult in advance of conflicts of duties in order to identify and implement steps to avoid or mitigate such conflicts
(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 group authority. Delegations are monitored and reviewed by the board on a regular basis.
DIRECTORS' REPORT

Application of the system of governance

The Directors have applied this system of governance by:

(a) Promoting the purpose of the company to advance energy to improve people's lives
(b) Regularly reviewing the board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual directors have sufficient capacity to make a valuable contribution. The board retains a minimum of three directors, 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, the board nominates a designated Chair to provide leadership of the board.
(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 take into account the System of Internal Control, the BP Code of Conduct and the company's purpose and how it furthers the 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 Systems of Internal Control to identify opportunities to create and preserve value and to manage its principal risks and uncertainties as set out in the strategic report.
(e) Having regard to and fostering good stakeholder relationships as set out within the statement of engagement with key stakeholders in the directors report.
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 s418 of the Companies Act 2006.

Authorized for issue by Order of the Board

For and on behalf of
Sunbury Secretaries Limited
Company Secretary
29 September 2020

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom
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 (AZERBAIJAN) LIMITED

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of BP Exploration (Azerbaijan) Limited ("the company"):  
• give a true and fair view of the state of the company’s affairs as at 31 December 2019 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
We are required by ISAs (UK) to report in respect of the following matters where:  
• the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or  
• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorized for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. 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.

In connection with our audit of the financial statements, 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.
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.

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.

Bevan Whitehead (Senior Statutory Auditor)
for and on behalf of Deloitte LLP Statutory Auditor
London, UK
29 September 2020
FOR THE YEAR ENDED 31 DECEMBER 2019

BP EXPLORATION (AZERBAIJAN) LIMITED

The profit of $409,760 thousand for the year ended 31 December 2019 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

There is no comprehensive income attributable to the shareholders of the company other than the profit for the year.
# BALANCE SHEET

## AS AT 31 DECEMBER 2019

**BP EXPLORATION (AZERBAIJAN) LIMITED**  
(Registered No.02160234)

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000</td>
<td>$000</td>
<td></td>
</tr>
</tbody>
</table>

### Fixed assets
- **Intangible assets**  
  - 10 (108,356) (113,748)
- **Tangible assets**  
  - 11 6,992,185 6,863,806
- **Investments**  
  - 12 46 46

### Current assets
- **Stocks**  
  - 13 31,370 38,513
- **Debtors: amounts falling due within one year**  
  - 14 306,083 1,255,179
- **Creditors: amounts falling due within one year**  
  - 15 (126,758) (123,275)

### Net current assets
- 210,695 1,170,417

### TOTAL ASSETS LESS CURRENT LIABILITIES
- 7,094,570 7,920,521

### Creditors: amounts falling due after more than one year
- 15 (40,906) (1,733)

### Provisions for liabilities and charges
- **Other provisions**  
  - 16 (651,552) (549,348)

### NET ASSETS
- 6,402,112 7,369,440

### Called up share capital
- 17 3,542,681 3,542,681

### Profit and loss account
- 18 2,859,431 3,826,759

### TOTAL EQUITY
- 6,402,112 7,369,440

Authorized for issue on behalf of the Board

[Signature]

J Freeman  
Director  
29 September 2020
## STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**BP EXPLORATION (AZERBAIJAN) LIMITED**

<table>
<thead>
<tr>
<th></th>
<th>Called up share capital (Note 17)</th>
<th>Profit and loss account (Note 18)</th>
<th>Total $000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January 2018</strong></td>
<td>3,542,681</td>
<td>3,334,889</td>
<td>6,877,570</td>
</tr>
<tr>
<td>Profit for the year, representing total comprehensive income</td>
<td>—</td>
<td>491,870</td>
<td>491,870</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>3,542,681</td>
<td>3,826,759</td>
<td>7,369,440</td>
</tr>
<tr>
<td>Adjustment on adoption of IFRS 16, net of tax</td>
<td>(2,088)</td>
<td>(2,088)</td>
<td>(2,088)</td>
</tr>
<tr>
<td><strong>Balance at 1 January 2019</strong></td>
<td>3,542,681</td>
<td>3,824,671</td>
<td>7,367,352</td>
</tr>
<tr>
<td>Profit for the year, representing total comprehensive income</td>
<td>—</td>
<td>409,760</td>
<td>409,760</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>—</td>
<td>(1,375,000)</td>
<td>(1,375,000)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2019</strong></td>
<td>3,542,681</td>
<td>2,859,431</td>
<td>6,402,112</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

BP EXPLORATION (AZERBAIJAN) LIMITED

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

The financial statements of BP Exploration (Azerbaijan) Limited or the year ended 31 December 2019 were approved by the board of directors on 24 September 2020 and the balance sheet was signed on the board’s behalf by J Freeman. BP Exploration (Azerbaijan) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 02160234). 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.

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 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
(b) the requirements of IFRS 7 Financial Instruments: Disclosures
(c) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement
(d) 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
(e) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1
   (ii) paragraph 73(c) of IAS 16 Property, Plant and Equipment
   (iii) paragraph 118(e) of IAS 38 Intangible Assets
(f) the requirements of IAS 7 Statement of Cash Flows
(g) 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
(h) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
(i) 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
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Basis of preparation (continued)

(j) 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

(k) 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

(l) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

(m) 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 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.

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.

Investments

Interests in joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The company recognizes, on a line-by-line basis, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the company’s income from the sale of its share of the output and any liabilities and expenses that the company has incurred in relation to the joint operation.

Business combinations and goodwill

The Companies Act 2006 requires goodwill to be reduced by provisions for amortization on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortized. Consequently, the company does not amortize goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a ‘true and fair view override’ to overcome the requirement for the amortization of goodwill in the Companies Act 2006. The company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful economic life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends or lower costs or other economic benefits directly to investors or other owners or participants. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill is measured as the excess of the aggregate of the consideration transferred and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the cash-generating unit to which the goodwill relates should be assessed. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Goodwill arising on business combinations prior to 1 January 2014 (1 January 2003 if applying IFRS 1:2016 exemption to adopt group measurement) is stated at the previous carrying amount under UK GAAP, less subsequent impairments.

Goodwill may arise upon investments in joint ventures and associates, being the surplus of the cost of investment over the company's share of the net fair value of the identifiable assets and liabilities. Any such goodwill is recorded within the corresponding investment in joint ventures and associates.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

Business combinations and goodwill (continued)

Goodwill may also arise upon acquisition of interests in joint operations that meet the definition of a business. The amount of goodwill separately recognized is the excess of the consideration transferred over the company's share of the net fair value of the identifiable assets and liabilities.

Under FRS 101, where an acquisition is a bargain purchase, the excess of the value of the identifiable assets acquired and the liabilities assumed over the consideration transferred shall be recognized on the balance sheet. Subsequently, the excess up to the fair value of the non-monetary assets acquired shall be recognized in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognized in profit or loss in the periods expected to be benefited.

Intangible assets

Intangible assets, other than goodwill, are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

For information on accounting for expenditures on the exploration for and evaluation of oil and natural gas resources, see the accounting policy for oil and natural gas exploration, appraisal and development expenditure below.

Intangible assets are carried initially at cost unless acquired as part of a business combination. Any such asset is measured at fair value at the date of the business combination and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. For patents, licences and trademarks, expected useful life is the shorter of the duration of the legal agreement and economic useful life, and can range from three to fifteen years. Computer software costs generally have a useful life of three to five years.

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

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

Oil and natural gas exploration, appraisal and development expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting as described below.

Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are initially capitalized within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortized on a straight-line basis over the estimated period of exploration. Upon internal approval for development and recognition of proved reserves of oil and natural gas, the relevant expenditure is transferred to tangible assets.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

Intangible assets (continued)

Exploration and appraisal expenditure
Geological and geophysical exploration costs are charged to the profit and loss account as incurred. Costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well costs are written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. If it is determined that development will not occur then the costs are expensed.

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. Upon internal approval for development and recognition of proved reserves, the relevant expenditure is transferred to tangible assets.

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g. an offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration or appraisal work in the area, remain capitalized on the balance sheet as long as such work is under way or firmly planned.

Development expenditure
Expenditure on the construction, installation or 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 tangible assets and is depreciated from the commencement of production as described below in the accounting policy for tangible assets.

In accordance with section 844(3) of the Companies Act 2006 the directors have determined that it is appropriate not to treat capitalized development costs as a realized loss in determination of distributable reserves as these have been determined in accordance with the applicable accounting standards.

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

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.

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:

<table>
<thead>
<tr>
<th>Land and buildings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>25 years</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>4 years</td>
</tr>
</tbody>
</table>

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.

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

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.

Significant judgements and estimates: recoverability of asset carrying values

Determination as to whether, and how much, an asset is impaired involves management estimates on uncertain matters such as the effects of future commodity prices and discount rates - which are considered to be significant estimates for this entity - as well as other inputs which are not considered to be significant estimates for this entity such as reserves and resources, cost and expense forecasts, the effect of inflation on operating expenses and production profiles. The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. Fair value less costs of disposal may be determined based on expected sales proceeds or similar recent market transaction data.

The estimates for assumptions made in impairment tests in 2019 relating to discount rates and oil and gas prices, which are both significant estimates, as well as reserves which are an input but not a significant estimate for this entity are discussed below. Changes in the economic environment or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

In 2019, the company identified tangible assets with carrying amounts totalling $6,992 million where the headroom, as at the dates of the last impairment test performed on those assets, was less than or equal to 20% of the carrying value. A change in factors such as price assumptions and discount rate in the next financial year may result in the recoverable amount of one or more of these assets falling below the current carrying amount. Information on the carrying amounts of the company’s tangible assets, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 11.
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 (continued)

Discount rates (continued)

Discount rates are a significant estimate in relation to the recoverability of asset carrying values. For discounted cash flow calculations, future cash flows are adjusted for risks specific to the cash-generating unit. 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. Fair value less costs of disposal calculations use the post-tax discount rate.

The discount rates applied in impairment tests are reassessed each year. In 2019 the post-tax discount rate used was 6% (2018 6%). BP Exploration (Azerbaijan) Limited has no tax obligation, therefore pre-tax discount rate equals to post-tax rate of 6%. The entity is located in Azerbaijan and there is no country specific risk premium.

Management tested the impact of 1% increase in discount rate against the 6% post-tax discount rate initially used. The discount rate increase in isolation could indicatively lead to a reduction in the carrying amount of the company’s oil and gas properties in the range of $473 million, which is approximately 7% of the net book value of property, plant and equipment as at 31 December 2019.

Oil and natural gas prices

The assumptions below represent management’s best estimate of future prices; they do not reflect a specific scenario and sit within the range of the external forecasts considered.

The long-term price assumptions used to determine recoverable amount based on value-in-use impairments tests are derived from the central case investment appraisal assumptions of $70 per barrel for Brent and $4 per mmBtu for Henry Hub gas, both in 2015 prices (2018 $75 per barrel and $4 per mmBtu respectively, in 2015 prices). These long-term prices are applied from 2025 and 2032 respectively (2018 both from 2024) and continue to be inflated for the remaining life of the asset.

The price assumptions used over the periods to 2025 and 2032 have been set such that there is a linear progression from our best estimate of 2020 prices, which were set by reference to 2019 average prices, to the long-term assumptions.

The majority of reserves and resources that support the carrying value of the company’s oil and gas properties are expected to be produced over the next 10 years. Average prices (in real 2015 terms) used to estimate cash flows over this period are $67 per barrel for Brent and $3.1 per mmBtu for Henry Hub gas.

Oil prices fell 10% in 2019 from 2018 due to trade tensions, a macroeconomic downturn, and a slight slowdown in oil demand. OPEC+ production restraint, unplanned outages, and sanctions on Venezuela and Iran kept prices from falling further. BP's long-term assumption for oil prices is slightly higher than the 2019 price average, based on the judgement that current price levels would not encourage sufficient investment to meet global oil demand sustainably in the longer term, especially given the financial requirements of key low-cost oil producing economies.

US gas prices dropped by around 20% in 2019 compared to 2018. After an initial spike in January, they remained relatively low for much of the year due to a combination of strong associated gas production growth, and storage levels coming back to normal. US gas demand growth was much lower than the exceptional increase in 2018, while LNG exports continued to expand. BP's long-term price assumption for US gas is higher than recent market prices due to forecast rising domestic demand, rapidly increasing pipeline and LNG exports, and lowest cost resources being absorbed leading to production of more expensive gas, as well as requiring increased investment in infrastructure.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

Significant judgements and estimates: recoverability of asset carrying values (continued)

Oil and natural gas prices (continued)
In response to events and circumstances arising after the balance sheet date, the BP Plc group has revised its forecast oil and gas prices for use within impairment tests, which has resulted in impairment to the company’s tangible assets balance. This impairment will be included in the financial statements for the year ended 31 December 2020. Because the price revisions led to work being performed around the carrying value of the assets, there was no need for the company to perform additional sensitivity testing around prices. Further information is provided in Note 22 Post Balance Sheet Events. Accordingly, no further sensitivity analysis has been presented.

Oil and natural gas reserves
In addition to oil and natural gas prices, significant technical and commercial assessments are required to determine the group’s estimated oil and natural gas 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 and natural gas reserves. The company bases its proved 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 and resources that management currently intend to develop. The recoverable amount of oil and gas properties is determined using a combination of inputs including reserves, resources and production volumes. Risk factors may be applied to reserves and resources which do not meet the criteria to be treated as proved.

The interdependency of these inputs and risk factors limits the practicability of estimating the probability or extent to which the overall recoverable amount is impacted by changes to reserves. We consider the recoverable amount of oil and gas properties to be primarily sensitive to changes in the long-term oil and gas price assumptions and discount rate. Accordingly sensitivities were performed over the price and discount rate key assumptions, the results of the analysis performed for these two key estimates is disclosed in the sections above.

Goodwill
As described in Note 10 the Company has recognized negative goodwill, which has arose on a bargain purchase. Negative goodwill is also considered a part of carrying value of the Company's fixed assets during an impairment assessment. As disclosed in Note 22, negative goodwill will be released to profit and loss account due to expected impairment of fixed assets for the year ended 31 December 2020.

Stocks
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.

Stocks held for short-term trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the profit and loss account.

Supplies are valued at the lower of cost on a weighted average basis and net realizable value.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

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.

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.

It has been determined that where a legal entity signed a lease contract, the same legal entity has control over the asset and in the absence of separate agreement it concluded that the entity had control by signing the lease contract. Since the company has not signed any lease contract or had any agreement to have the control over the asset the lease liability is not recognized on the balance sheet of the company.

The right-of-use asset is recognized on the balance sheet as right-of-use assets 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, except where capitalized as exploration, appraisal or development expenditure. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, and intangible assets.

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 except for leases of retail service stations where the group has elected not to separate non-lease payments from the calculation of the lease liability and right-of-use asset.

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)

Leases (continued)

As noted in ‘Impact of new International Financial Reporting Standards - IFRS 16 ‘Leases’, the company elected to apply the ‘modified retrospective’ transition approach on adoption of IFRS 16. Under this approach, comparative periods’ financial information is not restated. The accounting policy applicable for leases in the comparative periods only is disclosed in the following paragraphs.

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 using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

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

Significant accounting policies (continued)

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.

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 2.5% (2018 3.0%).
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. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately 21 years.

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. Shah Deniz PSA decommissioning provision terms are disclosed under Note 16.

Environmental expenditures and liabilities
Environmental expenditures that are required in order for the company to obtain future economic benefits from its assets are capitalized as part of those assets. Expenditures that relate to an existing condition caused by past operations and that do not contribute to future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required to settle the obligation. Provisions for environmental liabilities have been estimated using existing technology, at future prices and discounted using a nominal discount rate.

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

Significant accounting policies (continued)

Taxation (continued)

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.

Customs duties and sales taxes

Customs duties and sales taxes that are passed on or charged to customers are excluded from turnover and expenses. Assets and liabilities are recognized net of the amount of customs duties or sales tax except:

- Customs duties or sales taxes incurred on the purchase of goods and services which are not recoverable from the taxation authority are recognized as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

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, natural gas, natural gas liquids, LNG, petroleum and chemical products, and other items usually coincides with title passing to the customer and the customer taking physical possession. Revenue is recognized when the service is performed, in accordance with the terms of the contractual arrangements and in the accounting period in which the services are rendered.

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.

Certain contracts entered into by the company that result in physical delivery of products such as crude oil, natural gas and refined products are required by IFRS 9 to be accounted for as derivative financial instruments. The company's counterparties in these transactions may, however, meet the IFRS 15 definition of a customer. Revenue recognized relating to such contracts when physical delivery occurs is, therefore, measured at the contractual transaction price and presented together with revenue from contracts with customers. Changes in the fair value of derivative assets and liabilities prior to physical delivery are excluded from revenue from contracts with customers and are classified as other operating revenues.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

Turnover (continued)

Where forward sale and purchase contracts for oil, natural gas or power have been determined to be for short-term trading purposes, the associated sales and purchases are reported net within sales and other operating revenues whether or not physical delivery has occurred.

Physical exchanges with counterparties in the same line of business and to facilitate sales to customers are reported net, as are sales and purchases made with a common counterparty, as part of an arrangement similar to a physical exchange.

Revenue associated with the sale of condensate oil, natural gas liquids is included on a net basis in turnover.

Contract asset and contract liability balances are included within amounts presented for trade receivables and other payables respectively.

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.

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

Significant accounting policies (continued)

Impact of new International Financial Reporting Standards

The company adopted IFRS 16 ‘Leases’, which replaced IAS 17 ‘Leases’ and IFRIC 4 ‘Determining whether an arrangement contains a lease’, with effect from 1 January 2019. There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

IFRS 16 ‘Leases’

IFRS 16 ‘Leases’ provides a new model for lessee accounting in which the majority of leases will be accounted for by the recognition on the balance sheet of a right-of-use asset and a lease liability. The subsequent amortization of the right-of-use asset and the interest expense related to the lease liability is recognized in profit or loss over the lease term.

The company elected to apply the modified retrospective transition approach in which the cumulative effect of initial application is recognized in opening retained earnings at the date of initial application with no restatement of comparative periods’ financial information. Comparative information in the balance sheet has, however, been re-presented to align with current year presentation, showing lease liabilities and lease liability payments as separate line items. These were previously included within finance debt and repayments of long-term financing line items respectively. Amounts presented in these line items for the comparative periods relate to leases accounted for as finance leases under IAS 17.

IFRS 16 introduces a revised definition of a lease. As permitted by the standard, the company elected not to reassess the existing population of leases under the new definition and only applies the new definition for the assessment of contracts entered into after the transition date. On transition the standard permitted, on a lease-by-lease basis, the right-of-use asset to be measured either at an amount equal to the lease liability (as adjusted for prepaid or accrued lease payments), or on a historical basis as if the standard had always applied. BP has elected to use the historical asset measurement for its more material leases and used the asset equals liability approach for the remainder of the population. In measuring the right-of-use asset the company applied the transition practical expedient to exclude initial direct costs.

The bridging between operating lease commitment and lease liabilities are excluded from company's report. It is due to adoption of IFRS16 that requires to recognize lease liabilities on the face of balance sheet of the company that has been entered into the contract. All lease contracts are signed off by Operating company that previously reported under IAS17 as operating lease commitments.

Impact on leases in joint operations

The operating lease commitments for leases within joint operations as at 31 December 2018 were included on the basis of the company’s net working interest, irrespective of whether the company is the operator and whether the lease has been co-signed by the joint operators or not. However, for transition to IFRS 16, the facts and circumstances of each lease in a joint operation were assessed to determine the company’s rights and obligations and to recognize assets and liabilities on the company balance sheet accordingly. This relates mainly to leases of drilling rigs within joint operations in the Upstream segment. Where all parties to a joint operation jointly have the right to control the use of the identified asset and all parties have a legal obligation to make lease payments to the lessor, the company’s share of the right-of-use asset and its share of the lease liability will be recognized on the company balance sheet. This may arise in cases where the lease is signed by all parties to the joint operation. However, in cases where the company is the only party with the legal obligation to make lease payments to the lessor, the full lease liability will be recognized on the company balance sheet. This may be the case if for example the company, as operator of the joint operation, is the sole signatory to the lease. If, however, the underlying asset is jointly controlled by all parties to the joint operation the company will recognize its net share of the right-of-use asset on the company balance sheet along with a receivable representing the amounts to be recovered from the other parties.
2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

IFRS 16 'Leases' (continued)

Redetermination of lease term
Under IAS 17 finance leases were recognized on the balance sheet and continue to be recognized in accordance with IFRS 16. The amounts recognized on the balance sheet as at 1 January 2019 in relation to the right-of-use assets and liabilities for previous finance leases within joint operations are on a net or gross basis as appropriate as described above.

In addition to the lease liability, other line items on the balance sheet adjusted on transition to IFRS 16 include tangible assets for the right-of-use assets, lease related prepayments, receivables from joint operation partners, lease related accruals, payables to operators of joint operations.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>1 January 2019</th>
<th>Adjustment on adoption of IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
<td>$000</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>6,863,806</td>
<td>6,941,754</td>
<td>77,948</td>
</tr>
<tr>
<td>Creditors: amounts falling due within one year</td>
<td>(123,275)</td>
<td>(151,219)</td>
<td>(27,944)</td>
</tr>
<tr>
<td>Creditors: amounts falling due after more than one year</td>
<td>(1,733)</td>
<td>(53,825)</td>
<td>(52,092)</td>
</tr>
<tr>
<td>Net assets*</td>
<td>7,369,440</td>
<td>7,367,352</td>
<td>(2,088)</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td></td>
<td></td>
<td>$000</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>3,826,759</td>
<td>3,824,671</td>
<td>(2,088)</td>
</tr>
<tr>
<td>Net assets*</td>
<td>7,369,440</td>
<td>7,367,352</td>
<td>(2,088)</td>
</tr>
</tbody>
</table>

* Net assets also includes the line items not affected by the transition to IFRS 16 that are not presented separately in the table.
3. Turnover

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Sales of goods</td>
<td>986,824</td>
<td>796,227</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>—</td>
<td>52,632</td>
</tr>
<tr>
<td></td>
<td>986,824</td>
<td>848,859</td>
</tr>
<tr>
<td>Other operating income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable and similar income</td>
<td>30,343</td>
<td>22,473</td>
</tr>
<tr>
<td></td>
<td>1,017,167</td>
<td>871,332</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Class of business</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Upstream</td>
<td>986,824</td>
<td>848,859</td>
</tr>
</tbody>
</table>

The country of origin and destination is substantially the Rest of the World geographic area, namely Azerbaijan.

4. Operating profit

This is stated after charging / (crediting):

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Operating lease payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; machinery</td>
<td>—</td>
<td>34,052</td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>—</td>
<td>1,287</td>
</tr>
<tr>
<td>Tanker charters</td>
<td>—</td>
<td>8,210</td>
</tr>
<tr>
<td>Net foreign exchange (gains) / losses</td>
<td>230</td>
<td>1,237</td>
</tr>
<tr>
<td>Research and development costs expense</td>
<td>7,730</td>
<td>7,438</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(5,269)</td>
<td>(2,949)</td>
</tr>
<tr>
<td>Depreciation of tangible assets*</td>
<td>379,827</td>
<td>143,204</td>
</tr>
<tr>
<td>Depreciation of assets held under finance leases</td>
<td>—</td>
<td>254</td>
</tr>
<tr>
<td>Cost of stock recognized as an expenses*</td>
<td>1,503</td>
<td>5,025</td>
</tr>
<tr>
<td>Reversal of impairment of stock recognized in the year*</td>
<td>(317)</td>
<td>(650)</td>
</tr>
<tr>
<td>* Amount is included in Cost of Sales.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Auditor’s remuneration

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Fees for the audit of the company</td>
<td>50</td>
<td>39</td>
</tr>
</tbody>
</table>

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 (Azerbaijan) 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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income from amounts owed by group undertakings</td>
<td>29,012</td>
<td>19,578</td>
</tr>
<tr>
<td>Total interest income</td>
<td>29,012</td>
<td>19,578</td>
</tr>
<tr>
<td>Other interest income</td>
<td>1,331</td>
<td>2,895</td>
</tr>
<tr>
<td>Total interest receivable and similar income</td>
<td>30,343</td>
<td>22,473</td>
</tr>
</tbody>
</table>

7. Interest payable and similar charges

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Total interest expense</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Unwinding of discount on provisions</td>
<td>17,130</td>
<td>13,747</td>
</tr>
<tr>
<td>Total interest payable and similar expenses</td>
<td>17,153</td>
<td>13,778</td>
</tr>
</tbody>
</table>

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:

(a) Reconciliation of the effective tax rate

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% for the year ended 31 December 2019 (2018 19%). The differences are reconciled below:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>409,760</td>
<td>491,870</td>
</tr>
<tr>
<td>Tax charge / (credit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>—%</td>
<td>—%</td>
</tr>
<tr>
<td>2019</td>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>UK</td>
<td>UK</td>
<td>UK</td>
</tr>
<tr>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>UK statutory corporation tax rate:</td>
<td>19.00</td>
<td>19.00</td>
</tr>
</tbody>
</table>

Decrease resulting from:

(Non-taxable income) / non-deductible expenditure | (19.00) | (19.00) |
Movement in unrecognised deferred tax | — | — |
Effective tax rate | — | — |

The reconciling items shown above are those that arise for UK corporation tax purposes, rather than overseas tax purposes.
8. Taxation (continued)

Change in corporation tax rate
A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

The company has elected to treat the profits and losses relating to its overseas branch as being exempt from UK corporation tax. Given all activities of the company are subject to corporate income tax in Azerbaijan and are exempt from UK corporation tax, deferred tax has not been recognised.

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 (2018 $Nil).

(b) Employee costs
The company had no employees during the year (2018 None).

10. Intangible assets

The negative goodwill has been capitalised on the balance sheet as a credit to intangible fixed assets. This will be amortised based on the same unit of production method as the corresponding fixed asset.

In 2015, a further $4,400,000 was paid to Statoil after additional fair value adjustments. This decreased the total cost of negative goodwill to $128,392,743.

NOTES TO THE FINANCIAL STATEMENTS
### 11. Tangible assets

<table>
<thead>
<tr>
<th>Cost of Tangible Assets (b)</th>
<th>Land &amp; buildings $000</th>
<th>Fixtures &amp; fittings $000</th>
<th>Oil &amp; gas properties $000</th>
<th>Right-of-use assets $000</th>
<th>Total $000</th>
<th>Of which AUC $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2019</td>
<td>9,369</td>
<td>6,415</td>
<td>7,915,724</td>
<td>77,948</td>
<td>8,009,456</td>
<td>986,023</td>
</tr>
<tr>
<td>Additions</td>
<td>180</td>
<td>400,264</td>
<td>29,815</td>
<td>430,259</td>
<td>430,259</td>
<td>309,683</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(171,535)</td>
</tr>
<tr>
<td>At 31 December 2019</td>
<td>9,549</td>
<td>6,415</td>
<td>8,315,988</td>
<td>107,763</td>
<td>8,439,715</td>
<td>1,124,171</td>
</tr>
</tbody>
</table>

**Depreciation**

<table>
<thead>
<tr>
<th>Depreciation for the Year (b)</th>
<th>Land &amp; buildings $000</th>
<th>Fixtures &amp; fittings $000</th>
<th>Oil &amp; gas properties $000</th>
<th>Right-of-use assets $000</th>
<th>Total $000</th>
<th>Of which AUC $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2019</td>
<td>1,407</td>
<td>2,848</td>
<td>1,063,447</td>
<td>—</td>
<td>1,067,702</td>
<td>—</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>378</td>
<td>595</td>
<td>342,819</td>
<td>36,036</td>
<td>379,828</td>
<td>—</td>
</tr>
<tr>
<td>At 31 December 2019</td>
<td>1,785</td>
<td>3,443</td>
<td>1,406,266</td>
<td>36,036</td>
<td>1,447,530</td>
<td>—</td>
</tr>
</tbody>
</table>

**Net book value**

<table>
<thead>
<tr>
<th>At 31 December 2019 $000</th>
<th>At 31 December 2018 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,764</td>
<td>7,962</td>
</tr>
<tr>
<td>2,972</td>
<td>3,567</td>
</tr>
<tr>
<td>6,909,722</td>
<td>6,852,277</td>
</tr>
<tr>
<td>71,727</td>
<td>—</td>
</tr>
<tr>
<td>6,992,185</td>
<td>6,863,806</td>
</tr>
</tbody>
</table>

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

**Notes**

- Leases previously classified as finance leases are included within right-of-use assets following the implementation of IFRS 16 ‘Leases’; see Note 2 for further information. The reconciliation of owned property, plant and equipment for 2019 does not include right-of-use assets and, therefore, the cost and depreciation at 1 January 2019 is not equal to the cost and depreciation of total property, plant and equipment at 31 December 2018. The relevant amounts excluded are cost of $1.34 million and depreciation of $0.74 million relating to leases previously classified as finance leases.

- Capitalized interest included above is as follows:

<table>
<thead>
<tr>
<th>Capitalised interest (b)</th>
<th>Net book value $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2019</td>
<td>26,793</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>29,651</td>
</tr>
</tbody>
</table>
12. Investments

<table>
<thead>
<tr>
<th>Cost</th>
<th>Investment in joint venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2018</td>
<td>$000</td>
</tr>
<tr>
<td>At 1 January 2019</td>
<td>46</td>
</tr>
<tr>
<td>At 1 January 2019</td>
<td>46</td>
</tr>
<tr>
<td>At 1 January 2019</td>
<td>46</td>
</tr>
<tr>
<td>At 31 December 2018</td>
<td>46</td>
</tr>
<tr>
<td>At 31 December 2019</td>
<td>46</td>
</tr>
<tr>
<td>At 31 December 2019</td>
<td>46</td>
</tr>
</tbody>
</table>

The investments in joint ventures are all stated at cost less provision for impairment.

The investments in the joint ventures are unlisted.

The joint ventures of the company at 31 December 2019 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

All voting rights are equal to percentage of share capital owned unless otherwise noted below.

### Joint ventures

<table>
<thead>
<tr>
<th>Company name</th>
<th>Class of share held</th>
<th>%</th>
<th>Registered address</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan Gas Supply Company Limited</td>
<td>Ordinary share</td>
<td>23.064</td>
<td>Maples &amp; Calder, P.O.Box 309, Ugland House, 113 South Church Street, George Town, Grand Cayman, Cayman Islands.</td>
<td>Natural Gas</td>
</tr>
</tbody>
</table>

13. Stocks

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>—</td>
<td>620</td>
</tr>
<tr>
<td>Natural gas</td>
<td>3,978</td>
<td>2,433</td>
</tr>
<tr>
<td>Supplies</td>
<td>27,392</td>
<td>35,460</td>
</tr>
<tr>
<td></td>
<td>31,370</td>
<td>38,513</td>
</tr>
</tbody>
</table>

The stock valuation at 31 December 2019 is stated net of a provision of $2,946,198 (2018 $3,263,013) to write stock down to their net realizable value. The net credit to the profit and loss account in the year in respect of stock net realizable value provisions was $317,000 (2018 $650,000).
### 14. Debtors

Amounts falling due within one year:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed from parent undertakings</td>
<td>250,668</td>
<td>1,182,006</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>45,966</td>
<td>60,273</td>
</tr>
<tr>
<td>Amounts owed from fellow subsidiaries</td>
<td>8,715</td>
<td>9,180</td>
</tr>
<tr>
<td>Amounts owed from associates</td>
<td>—</td>
<td>2,537</td>
</tr>
<tr>
<td>Other debtors</td>
<td>734</td>
<td>1,183</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>306,083</strong></td>
<td><strong>1,255,179</strong></td>
</tr>
</tbody>
</table>

The amounts owed from parent undertakings comprise a funding account of $250m (2018 $1,138m). Interest is accrued on a monthly basis based on IBOR+1.95% on debit balance and based on IBID-0.125% on credit balance. The interest rate at year end was 1.653% (2018 2.393%).

### 15. Creditors

Amounts falling due within one year:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors</td>
<td>—</td>
<td>5,804</td>
</tr>
<tr>
<td>Amounts owed to parent undertakings</td>
<td>10,227</td>
<td>14</td>
</tr>
<tr>
<td>Amounts owed to fellow subsidiaries</td>
<td>95,593</td>
<td>104,083</td>
</tr>
<tr>
<td>Amounts owed to associates</td>
<td>2,215</td>
<td>9,249</td>
</tr>
<tr>
<td>Other creditors</td>
<td>62</td>
<td>69</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>18,661</td>
<td>3,782</td>
</tr>
<tr>
<td>Obligations under leases</td>
<td>—</td>
<td>274</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126,758</strong></td>
<td><strong>123,275</strong></td>
</tr>
</tbody>
</table>

Amounts falling due after one year:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed to fellow subsidiaries</td>
<td>40,906</td>
<td>1,413</td>
</tr>
<tr>
<td>Obligations under leases</td>
<td>—</td>
<td>320</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,906</strong></td>
<td><strong>1,733</strong></td>
</tr>
</tbody>
</table>

|                           | **167,664** | **125,008** |
16. Other provisions

<table>
<thead>
<tr>
<th>Decommissioning</th>
<th>$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2019</td>
<td>549,348</td>
</tr>
<tr>
<td>Recognised within tangible / intangible assets</td>
<td>45,105</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>17,130</td>
</tr>
<tr>
<td>Change in discount rate</td>
<td>39,969</td>
</tr>
<tr>
<td>At 31 December 2019</td>
<td>651,552</td>
</tr>
</tbody>
</table>

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2019, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was $651,552,129 (2018 $549,348,474). The provision has been estimated using PSA methodology and requirements according to which the company’s decommissioning obligations are calculated based on 10% of Shah Deniz cumulative capital expenditures incurred, and discounted using a nominal discount rate of 2.5% (2018 3%). These costs are expected to be incurred over the next 21 years.

17. Called up share capital

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued and fully paid:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,498,815,562 ordinary shares of £1 each for a total nominal value of £2,498,815,562</td>
<td>3,542,681</td>
<td>3,542,681</td>
</tr>
</tbody>
</table>

18. 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.

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

19. Capital commitments

Authorized and contracted future capital expenditure by the company for which contracts had been placed but not provided in the financial statements at 31 December 2019 is estimated at $368,514,448 (2018 $409,075,000).

As a participant to Shah Deniz PSA, the company carries 28.83% of the capital contracts obligation signed by the operator.

Prior year figures have been reclassified to conform to the 2019 presentation. This had no impact on the profit and loss for the year or net assets / liabilities.
20. Guarantees and other financial commitments

Pursuant to agreements governing the sales and purchase of natural gas and its transportation, the partners to the Shah Deniz PSA have undertaken the following commitments as a direct party to gas transportation contracts or as a guaranteeing and indemnifying party thereto.

In accordance with the Upstream Sales and Purchase Agreement, the Shah Deniz PSA partners agreed to deliver the entire Stage I gas to Azerbaijan Gas Supply Company Limited ("AGSC"). AGSC then ships the gas to the delivery points on the Georgian-Turkish border via the South Caucasus Pipeline system.

On 17 December 2013, Shah Deniz PSA’s shareholders adopted a FID for the Stage 2 development of the field. This triggered plans to expand the South Caucasus Pipeline through Azerbaijan and Georgia, to construct the TANAP across Turkey and to construct the TAP across Greece, Albania and into Italy.

In 2018, AGSC entered into a new gas transportation agreement with SNAM Rete Gas (SNAM), to book capacity from the exit point of Trans Adriatic Pipeline (TAP) to the Punto di Scambio Virtuale (PSV) which is the delivery point under AGSC’s Gas Sales Agreements in Italy.

The company’s financial commitments to AGSC for TAP, TANAP and SNAM are $4,242,000,000 (2018 $4,668,000,000), $5,822,278,903 (2018 $5,714,000,000) and $337,836,461 (2018 $248,000,000), respectively. TANAP is expected to commence in 2020, whereas TAP and SNAM in 2021.

AGSC has a Minimum Monthly Payment ("MMP") obligation to South Caucasus Pipeline Company Limited ("SCPC") for the transportation capacity reserved by SCPC for AGSC’s needs under the Annual Reserves Capacity Deed. The participants under the Shah Deniz PSA guaranteed to indemnify AGSC for the MMP payable to SCPC. The guarantee to AGSC is a cross guarantee in the event a participant defaults.

The company pays the amount of the MMP on behalf of the Shah Deniz PSA partners. The company's financial commitment to AGSC as at 31 December 2019 was $782,000,000 (2018 $903,000,000).

As part of Shah Deniz 2 gas sales contracts, AGSC entered into a gas transportation agreement with SNAM Rete Gas S.p.A ("SRG") in 2018 to cover the transportation of gas by AGSC from 2020 to 2036. There was a requirement by SRG Network Code for a bank guarantee to be issued to guarantee payment obligations of shippers that booked capacity in the SRG system and entered into Gas Transportation Agreements ("GTAs"). A guarantee was issued by the bank in favor of SRG for the amount of annual capacity booked in SRG system by AGSC. AGSC provided counter indemnity to the issuing bank. In any case if there are any claims raised by SEG covering the period until 2036, the bank will pay by using the guarantees provided by AGSC. Security has been requested by the issuing bank in respect of the secured liabilities as a condition precedent for the issuance of guarantee, in the form of cash held at AGSC’s bank account by shipper parties in an amount equal to the total guarantee payment. As a gas shipper via this system, the company provided security in its relevant entitlement share of circa 23% of total gross guarantee of €34,363,606 where the company’s portion is €7,903,622 ( $8,852,623) (2018 $9,156,816).
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:

<table>
<thead>
<tr>
<th>Related party</th>
<th>Purchases from related party</th>
<th>Amounts owed to related party</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Caucasus Pipeline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint arrangement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding of SCP Expansion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>192</td>
<td>—</td>
</tr>
<tr>
<td>2018</td>
<td>6,338</td>
<td>2,537</td>
</tr>
</tbody>
</table>

BP Exploration (Azerbaijan) Limited has had transactions with South Caucasus Pipeline company which has a joint arrangement with BP Pipelines (SCP) Limited, a wholly BP group owned company. The transaction comprises the recharges for funding of the Sangachal Terminal expansion project on behalf of SCPC.

22. Post balance sheet event

Since 31 December 2019, oil and gas prices have fallen sharply 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 directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the Directors’ Report under Going Concern. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil and gas price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of $55/bbl for Brent and $2.90 per MMBtu for Henry Hub for the period of 2021-2050 (in 2020 prices). As a result of the revised long-term price assumptions and a review of the long-term strategic plan, management reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects. Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020, which is expected to result in an approximate impairment charge of $4,387 million related to the company’s 2020 fixed assets, comprising $96 million release of negative goodwill. These revisions and impairments relate to events and circumstances arising since 31 December 2019 and therefore the impact on BP Exploration (Azerbaijan) Limited will be included in the financial statements for the year ended 31 December 2020.
23. **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.