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# BP EXPLORATION (ALPHA) LIMITED

(Registered No.01021007)

## ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

Board of Directors: S K Mukundan
X Wu
N J C Evans

The directors present the Strategic Report, their report and the audited financial statements for the year ended 31 December 2022.

## STRATEGIC REPORT

### Principal activities

BP Exploration (Alpha) Limited (hereinafter - the company) is engaged in the exploration for and production of oil and natural gas from interests in the UK and overseas.

The company's project office in India has participating interest in two oil and gas PSAs (KGD6 33.33% and NEC25 33.33%), one oil and gas block under a Revenue Sharing Contract (KG-UDWHP-2018/1- 40%), all operated by Reliance Industries Limited (hereinafter - RIL).

The company also owns participating interests in Miller field (40%) and in the Chrysaor Production (U.K.) Limited operated Southern Waters V-Fields (North Valiant (38.87%), Vampire (30%), Vanguard (50%), Viscount (30%), Vulcan (42.13%) and Loggs (30%)) located in the North Sea of the United Kingdom. All production on Miller and Southern Water fields ceased in 2018.

MJ field in block KG D6 off the east coast of India has started production in 2Q 2023 with six wells flowing and another two wells expected to be completed in second half of 2023. MJ is the third of the three KG D6 developments to come onstream, following the start-up of Satellites Cluster in 2021 and R Series in 2020.

### Results

The profit for the year after taxation was $189,126,000 which, when added to the accumulated loss brought forward at 1 January 2022 gives a total accumulated loss carried forward at 31 December 2022 of $4,750,326,000.

### Review of the business

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

| | 2022 | 2021 | Variance |
|---|---|---|---|
| | $000 | $000 | % |
| Turnover | 754,311 | 282,589 | 167 |
| Operating profit | 354,143 | 1,227,381 | (71) |
| Profit for the financial year | 189,126 | 1,264,300 | (85) |
| Total equity | 2,851,233 | 2,662,107 | 7 |

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| | 2022 | 2021 | Variance |
|---|---|---|---|
| | % | % | |
| Quick ratio* | 10 % | 5 % | 5 % |
| Return on average capital employed** | 5 % | 42 % | (37)% |
| Gross Profit percentage*** | 50 % | 3 % | 47 % |

*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.

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

The increase in turnover by $472 million was mainly driven by the increase in the average gas price year on year ($395 million) and ramp-up of production in R-series and Sats in current year leading to higher production than last year ($77 million).

Operating profit decreased compared to last year mostly because of a significantly lower impairment reversal in 2022 compared to 2021 and higher depreciation charge in line with production growth which was partially offset by increase in turnover due to ramp-up of production in R-series and Sats in current year.

The tax charge for the year is $161 million. This represents an increase compared to prior year credit of $40 million and is due to decrease in the deferred tax asset by $161 million, on account of (a) primarily due to utilization of carry forward losses (deferred tax impact of $153 million) on account of current year profits of the Indian branch (b) a decrease in accelerated capital allowance of $0.4 million, (c) an increase in decommissioning provision of $8.7 million and (d) a decrease in corporate tax on petroleum revenue tax of $1.5 million.

Increase in total equity by $189 million can be explained due to the profit for the year in 2022 (profit for 2021: $1,264 million).

**Section 172 (1) statement**

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

In performing their duties throughout the year the directors have had regard to the Section 172 factors as follows:

**(a) The likely long-term consequences of the decision**
When setting and delivering on the company's strategy, the directors of the company have regard to the evolving environment in which the company operates and aims to promote the long term success and sustained economic viability of the company.

**(b) The interests of the company's employees**
The directors of the company recognise that employees are vital to the long term success of the company and, as such, engage with employees, and keep them informed on matters of concern to them. The directors of the company acknowledge the key interests of the employees, which include job security and career development, when making decisions. This includes reviewing the key performance indicators on employee engagement measured by employee 'Pulse' surveys.'

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Employee share ownership is encouraged and there are a number of employee share plans in place at bp group level to which employees of the company can participate in. For example, the bp group operates a ShareMatch plan in more than 50 countries, matching BP p.l.c. shares purchased by employees.

In 2022 the bp group launched the 'Who we are' framework of beliefs representing what we stand for at bp and to inspire our employees to and a new learning platform, Grow@bp to enable employees to take ownership of their career and develop skills both for their current roles and future options as bp evolves.

**(c) The need to foster the company's business relationships with suppliers, customers and others**

During 2022, the directors of the company reiterated its focus on engagement and fostering relationships with suppliers and customers, with the need to consider partners, customers and suppliers and how we can help them, specifically addressed in the 'Who we are' belief, 'Care for others'.

In addition, the board reviewed and considered the Company's Modern Slavery Statement and disclosed its practices in respect of the same on an annual basis.

Furthermore, the board reviewed and considered the Company's prompt payment reporting performance and disclosed its practices in respect of the same on a bi-annual basis.

**(d) The impact of the company's operations on the community and the environment**

The directors of the company are committed to the bp group's sustainability aims and objectives – 10 aims to get bp to net zero and help the world get there too, 5 aims to improve people's lives and 5 aims to care for our planet. In 2022 each business prepared a sustainability plan, identifying its priority aims and detailing the actions it will take to meet those. These plans were considered by the board.

During the year, the company undertook a program aimed to nurture an interest towards STEM (science, technology, engineering and maths) subjects and has provided learning opportunities to school students to the uses and implications of science and understand the 'net-zero' concept and develop sustainable solutions for net zero achievement.

Additionally, the company engaged with The Council on Energy, Environment and Water (CEEW) in India, to analyse and develop a marginal abatement cost (MAC) curve for the hard to abate sectors like steel, cement, metals, chemicals, and fertilisers. The study will identify major energy efficiency, fuel transition, and carbon capture and sequestration opportunities and costs for each of the sectors. The study will also look at mitigation options at a process and equipment level where the reductions achievable are significant.

The company is also working with IIT Delhi, to develop a mechanism/platform to be a catalyst, enabler, and accelerator of the process to transform the engagement with India's energy challenges with an objective to make technological and policy contributions in the following areas: Electric mobility, Hydrogen and the Future of Coal.

**(e) The desirability to maintain the company's reputation for high standards of business conduct**

In 2022, bp continued to make progress against its sustainability aims which set out the areas where bp believes it can make the biggest difference for bp, its stakeholders and society. bp's commitment to safety, having a positive impact and doing the right thing were further enshrined in the new bp 'Who we are' beliefs which also emphasise the importance of following the bp code of conduct.

bp's code of conduct sets clear expectations for how bp, the company and the board operate. The directors of the company continued to adhere, in good faith, to the bp code of conduct during the year and oversee adherence to the bp code of conduct by the company's employees to ensure the board and the company maintain a reputation for high standards of business conduct.

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The board considered its impact and decision making in light of the war in Ukraine and bp's announcement of its position in Russia.

**(f) The need to act fairly between members of the company**
The directors of the company aim to balance the needs of its members, managing any conflicts and having regard to long term value creation, including maximising long term shareholder value.

**Stakeholder engagement**

By understanding the company's key stakeholders, the board can consider and address the needs of these stakeholders and foster good business relationships with them. The board has taken time to identify the key interests of the stakeholders and establish regular engagement methods to help the board to consider and balance stakeholder interests when making decisions.

In addition to the stakeholders set out above, the company considers its key stakeholders groups to include:

**(a) Government/Regulators**
The company recognises the need to create valued relationships with the Government, such as the Government of India centred around ethics and transparency, and the need to discuss relevant regulations and guidance where necessary.

The board is provided with updates on changes in regulation and legislation impacting the company and is committed to keeping the Government informed of any significant changes to the company.

The company also aims to shape policies that are relevant and beneficial to the company's business units.

**(b) Shareholders**
The company is committed to maximising long term shareholder value in, whatever form, when making decisions.

**The company's principal decisions**

The board recognises the importance of considering and having regard to the Section 172 factors when making decisions, particularly the principal decisions of the company. The company has taken the view that a 'principal' decision is one which is material and strategic in nature and would affect the ability of the company to generate or preserve value over the long term.

During the period, the following principal decisions were taken by the company:

| **Principal decision** | **The relevant factors taken into account during the decision making process** |
|---|---|
| In October 2022 the Company considered and approved the submission of a valid and binding bid to the Directorate General of Hydrocarbons along with Reliance Industries Limited (the JV Operator) in relation to an offshore infrastructure-led exploration access opportunity. | The directors considered the bid in relation to the exploration access opportunity would most likely promote the success of the Company for the benefit of its members, pursuant to the provisions of section 172 of the Act. |

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## Principal risks and uncertainties

The bp group manages, monitors and reports on the principal risks and uncertainties that can impact the group's ability to deliver its strategy. The group's system of internal control includes policies, processes, management systems, organizational structures, culture and standards of conduct employed to manage bp's business and associated risks.

Throughout the year, bp management, the leadership team, the board and relevant committees provide oversight of how principal risks to bp are identified, assessed and managed. They support appropriate governance of risk management including having relevant policies in place to help manage risks. Such oversight may include internal audit reports, group risk reports and reviews of the outcomes of business processes including strategy, planning and resource and capital allocation. bp's group risk team analyses the group's risk profile and maintains the group's risk management system. bp's internal audit team provides independent assurance to the chief executive and board as to whether the group's system of internal control is adequately designed and operating effectively to respond appropriately to the risks that are significant to bp.

The company aims to deliver sustainable value by identifying and responding successfully to risks in line with the group's risk management process.

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 2022.

## Strategic and commercial risks

***Prices and markets***

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

Decreases in oil, gas or product prices could have an adverse effect on revenue, margins, profitability and cash flows. If these reductions are significant or for a prolonged period, bp management may have to write down assets and reassess the viability of certain projects, which may impact future cash flows, profit, capital expenditure, the ability to maintain the company's long-term investment programme. Conversely, an increase in oil, gas and product prices may not improve margin performance as there could be increased fiscal take, cost inflation and more onerous terms for access to resources.

Exchange rate fluctuations can create currency exposures and impact underlying costs and revenues. Crude oil prices are generally set in US dollars, while products vary in currency. Many of the company's major project development costs are denominated in local currencies, which may be subject to fluctuations against the US dollar.

***Accessing and progressing hydrocarbon resources and low carbon opportunities***

The company's ability to progress upstream resources and develop technologies at a level in line with the group's strategic outlook for hydrocarbon production could impact the company's future production and financial performance. Furthermore the company's ability to access low carbon opportunities and the commercial terms associated with those opportunities could impact its financial performance and the pace of our transition to an integrated energy company in line with the group's strategy.

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

The company seeks to manage this risk through the bp group projects organization which includes the centre of expertise for appraisal and optimization, expertise to manage the design and build of projects and programmes to ensure project objectives are met. This process is systematically reviewed and continuously improved.

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

Events in, or relating to Russia and the conflict in Ukraine, including trade restrictions, international sanctions or any other actions taken by governmental authorities or other relevant persons will adversely impact the company’s business activities and operations in or relating to Russia, could reduce financial liquidity and adversely impact the company’s finances.

***Liquidity, financial capacity and financial, including credit, exposure***
Failure to work within the financial framework set by the bp group could impact the bp group as well as the company’s ability to operate and result in financial loss. Credit rating downgrades could potentially increase financing costs and limit access to financing or engagement in the company's trading activities on acceptable terms, which could put pressure on the group’s liquidity.

For further details see Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

***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.

Our partners and contractors are responsible for the adequacy of their resources and capabilities. If these are found to be lacking, there may be financial, operational or safety exposures for the company. Should an incident occur in an operation that the company participates in, our partners and contractors may be unable or unwilling to fully compensate us against costs we may incur on their behalf or on behalf of the arrangement.

The company's exposure in non-operated joint ventures is primarily managed by the joint venture centre of expertise, safety and operational risk assurance and ethics and compliance functional assurance and group internal audit.

***Digital infrastructure and cybersecurity***
The energy industry is subject to fast-evolving risks, including ransomware, from cyber threat actors, including nation states, criminals, terrorists, hacktivists and insiders. Current geopolitical factors have increased these risks. There is also growing regulation around data protection and data privacy. A breach or failure of our or third parties’ digital infrastructure – including control systems – due to breaches of our cyber defences, or those of third parties, negligence, intentional misconduct or other reasons, could seriously disrupt our operations. This could result in the loss or misuse of data or sensitive information, including

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employees' and customers' personal data, injury to people, disruption to our business, harm to the environment or our assets, legal or regulatory breaches, legal liability and significant costs including fines, cost of remediation or reputational consequences. Furthermore, the rapid detection of attempts to gain unauthorized access to our digital infrastructure, often through the use of sophisticated and co-ordinated means, is a challenge and any delay or failure to detect could compound these potential harms.

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***Climate change and the transition to a lower carbon economy***

Laws, regulations, policies, obligations, government actions, social attitudes and customer preferences relating to climate change and the transition to a lower carbon economy, including the pace of change to any of these factors, and also the pace of the transition itself, could have adverse impacts on our business including on our access to and realization of competitive opportunities in any of our strategic focus areas, a decline in demand for, or constraints on our ability to sell certain products, constraints on production and supply, adverse litigation and regulatory or litigation outcomes, increased costs from compliance and increased provisions for environmental and legal liabilities.

Changes in investor preferences and sentiment could affect our access to capital markets and our attractiveness to potential investors, potentially resulting in reduced access to financing, increased financing costs and impacts upon our business plans and financial performance.

Technological improvements or innovations that support the transition to a lower carbon economy, and customer preferences or regulatory incentives that alter fuel or power choices, could impact demand for oil and gas.

Depending on the nature and speed of any such changes and our response, these changes could increase costs, reduce the company's profitability, reduce demand for certain products, limit our access to new opportunities, require us to write down certain assets or curtail or cease certain operations, and affect investor sentiment, our access to capital markets, our competitiveness and financial performance.

Policy, legal regulatory, technological and market developments related to climate change could also affect future price assumptions used in the assessment of recoverability of asset carrying values including goodwill, the judgement as to whether there is continued intent to develop exploration and appraisal intangible assets, the timing of decommissioning of assets and the useful economic lives of assets used for the calculation of depreciation and amortization.

***Competition***

The bp group strategic progress and performance could be impeded if we are unable to control our development and operating costs and margins, if we fail to scale our businesses at pace, or to sustain, develop and operate a high-quality portfolio of assets efficiently. Furthermore, as the bp group transitions from an international oil company to an integrated energy company, we face an expanded and rapidly evolving range of competitors in the sectors in which we operate.

We could be adversely affected if competitors offer superior terms for access rights or licences, or if our innovation in areas such as new low carbon technologies, digital, customer offer, exploration, production lags behind those of our competitors.

***Crisis management and business continuity***

The bp group's reputation and business activities could be negatively impacted if the management does not respond, or is perceived not to respond, in an appropriate manner to any major crisis.

***Insurance***

The bp group generally purchases insurance only in situations where this is legally and contractually required. Some risks are insured with third parties and reinsured by group insurance companies. Uninsured losses could have a material adverse effect on the bp group financial position which in turn could adversely affect the company.

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## 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.There can be no certainty that our operating management system or other policies and procedures will adequately identify all process safety, personal safety and environmental risks or that all our operating activities will be conducted in conformance with these systems.

Such events or conditions could cause harm to people, the environment and the company's assets and could result in regulatory action, legal liability, business interruption, increased costs, damage to the company's reputation and potentially denial of its licence to operate.

***Drilling and production***

The company's activities require high levels of investment and are sometimes conducted in challenging environments such as those prone to natural disasters and extreme weather, which heightens the risks of technical integrity failure. The physical characteristics of an oil or natural gas field, and cost of drilling, completing or operating wells is often uncertain. We may be required to curtail, delay or cancel drilling operations or stop production because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements.

***Security***

Acts of terrorism, piracy, sabotage, activism and similar activities directed against the company's operations and facilities, pipelines, transportation or digital infrastructure could cause harm to people and severely disrupt operations. The company's activities could also be severely affected by conflict, civil strife or political unrest.

***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***

Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including anti-bribery and corruption, competition and antitrust, and anti-fraud laws, trade restrictions or other sanctions, could damage the company's reputation, and result in litigation, regulatory action, penalties and potentially affect our licence to operate.

In relation to trade restrictions or other sanctions, current geopolitical factors have increased these risks.

***Regulation***

Changes in the law and regulation, including how they are interpreted and enforced, could increase costs, constrain the company's operations and affect its business plans and financial performance.

Royalties and taxes, particularly those applied to our hydrocarbon activities, tend to be high compared with those imposed on similar commercial activities. In certain jurisdictions there is also a degree of uncertainty relating to tax law interpretation and changes. Governments may change their fiscal and regulatory frameworks in response to public pressure on finances, resulting in increased amounts payable to them or their agencies.

***Reporting***

External reporting of financial and non-financial data relies on the integrity of the control environment, bp group's systems and people operating them. Failure to report data accurately and in compliance with applicable standards could result in regulatory action, legal liability and reputational damage.

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**Financial risk management**

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; liquidity and credit 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 2022.

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Sashi Mukundan
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S K Mukundan
Director

July 18, 2023

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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# DIRECTORS' REPORT

## BP EXPLORATION (ALPHA) LIMITED

**Directors**

The present directors are listed on page 1.

There have been no director appointments or resignations since 1 January 2022.

**Directors' indemnity**

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

**Dividends**

The company has not declared any dividends during the year (2021 $0). The directors do not propose the payment of a dividend (2021 $0).

**Financial instruments**

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

**Post balance sheet events**

MJ field in block KG D6 off the east coast of India has started production in 2Q 2023 with six wells flowing and another two wells expected to be completed in second half of 2023. MJ is the third of the three KG D6 developments to come onstream, following the start-up of Satellites Cluster in 2021 and R Series in 2020.

**Going concern**

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

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see page 6.

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The company has net assets of $2,851 million and net current liabilities of $110 million. Operations of the company are supported by an internal financing agreement with BP International Ltd, which held a payable balance of $641 million at 31 December 2022 (2021: $987 million) and cash generated from operations.

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

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

**Future developments**

The directors aim to maintain the management policies which have resulted in the company’s stability in recent years.

They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

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

**Branches**

The company has overseas branches established in India.

**Stakeholder statements**

**Statement of engagement with suppliers, customers and others in a business relationship with the company**

The Board recognises the importance of considering and having regard to key stakeholders and their interests when making decisions. By understanding the company's key stakeholders, the Board can consider and address the needs of these stakeholders and foster good business relationships with them.

The Board is committed to doing business ethically and transparently, using bp’s values and code of conduct to guide them when engaging and working with business partners. The company’s activities, and the decisions of the Board, affect a wide variety of individuals and organisations. The directors engage with the company’s stakeholders, listening to their differing needs and priorities as part of their role as a senior leader at bp and use the feedback received to inform the Board’s decision-making.

The company’s section 172(1) statement in the Strategic Report demonstrates how the directors have had regard to the need to foster business relationships with suppliers, customers and other stakeholders when making decisions on behalf of the company.

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

As a UK subsidiary of a UK parent company which prepares a group directors’ report, SECR reporting details are included in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

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**Auditors**

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

**Directors' statement as to the disclosure of information to the auditor**

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of the auditor's report of which the company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

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

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Sashi Mukundan
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S K Mukundan
Director

July 18, 2023

Registered Office:

Chertsey Road
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United Kingdom

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

## BP EXPLORATION (ALPHA) LIMITED

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements. Details of the directors' assessment of going concern are provided in the directors' report.

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# INDEPENDENT AUDITOR'S REPORT

# TO THE MEMBERS OF BP EXPLORATION (ALPHA) LIMITED

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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 26.

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

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

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

### Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

We obtained an understanding of the legal and regulatory framework(s) that the company operates in, and identified the key laws and regulations that:

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

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

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

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

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

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# INDEPENDENT AUDITOR'S REPORT

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the 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.

DocuSigned by:

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William Brooks FCA
(Senior statutory auditor)
**for and on behalf of Deloitte LLP**
Statutory Auditor
London, United Kingdom

July 18, 2023

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## PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 31 DECEMBER 2022

## BP EXPLORATION (ALPHA) LIMITED

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | $000 | $000 |
| Turnover | 3 | 754,311 | 282,589 |
| Cost of sales | | (380,727) | (272,712) |
| **Gross profit** | | 373,584 | 9,877 |
| | | | |
| Exploration expenses | 8 | (729) | (6,674) |
| Administrative expenses | | (27,605) | (24,140) |
| Other operating income | | 246 | 62 |
| Reversal of impairment of tangible assets | 12 | 8,647 | 1,248,256 |
| **Operating profit** | 4 | 354,143 | 1,227,381 |
| | | | |
| Interest receivable and similar income | 6 | 1,832 | 591 |
| Interest payable and similar expenses | 7 | (5,994) | (3,697) |
| **Profit before taxation** | | 349,981 | 1,224,275 |
| | | | |
| Tax on profit | 9 | (160,855) | 40,025 |
| **Profit for the financial year** | | 189,126 | 1,264,300 |

The profit of $189,126 thousand for the year ended 31 December 2022 was derived in its entirety from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2022

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

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# BALANCE SHEET

## AS AT 31 DECEMBER 2022

## BP EXPLORATION (ALPHA) LIMITED
(Registered No. 01021007)

| | Note | 2022 $000 | 2021 $000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets and negative goodwill | **11** | (70,999) | (61,512) |
| Tangible assets | **12** | 3,212,578 | 3,246,412 |
| | | 3,141,579 | 3,184,900 |
| **Current assets** | | | |
| Stocks | **13** | 32,647 | 31,461 |
| Debtors - amounts falling due: | | | |
| within one year | **14** | 74,750 | 54,855 |
| after one year | **14** | 615,896 | 781,560 |
| Cash at bank | | 4,513 | 5,545 |
| | | 727,806 | 873,421 |
| Creditors: amounts falling due within one year | **15** | (777,622) | (1,093,258) |
| Lease liabilities | **17** | (1,123) | (1,341) |
| Other provisions | **18** | (58,926) | (79,011) |
| **Net current liabilities** | | (109,865) | (300,189) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 3,031,714 | 2,884,711 |
| **Creditors:** amounts falling due after more than one year | **15** | (6) | (11,527) |
| Lease liabilities | **17** | (585) | (2,036) |
| **Provisions for liabilities and charges** | | | |
| Other provisions | **18** | (179,890) | (209,041) |
| **NET ASSETS** | | 2,851,233 | 2,662,107 |
| Called up share capital | **19** | 7,601,559 | 7,601,559 |
| Profit and loss account | **20** | (4,750,326) | (4,939,452) |
| **TOTAL EQUITY** | | 2,851,233 | 2,662,107 |

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Sashi Mukundan
08E907CAA06A496...

S K Mukundan
Director

July 18, 2023

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# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2022

## BP EXPLORATION (ALPHA) LIMITED

| | Called up share capital (Note 19) | Profit and loss account (Note 20) | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| **Balance at 1 January 2021** | 7,601,559 | (6,203,752) | 1,397,807 |
| Profit for the financial year, representing total comprehensive income | — | 1,264,300 | 1,264,300 |
| **Balance at 31 December 2021** | 7,601,559 | (4,939,452) | 2,662,107 |
| **Balance at 1 January 2022** | 7,601,559 | (4,939,452) | 2,662,107 |
| Profit for the financial year, representing total comprehensive income | — | 189,126 | 189,126 |
| **Balance at 31 December 2022** | 7,601,559 | (4,750,326) | 2,851,233 |

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

The financial statements of BP Exploration (Alpha) Limited for the year ended 31 December 2022 were approved by the board of directors on 18/07/2023 and the balance sheet was signed on the board's behalf by S K Mukundan. BP Exploration (Alpha) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 01021007). 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.

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

(a) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    (i) paragraph 79(a)(iv) of IAS 1;
    (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    (iii) paragraph 74 A(b) of IAS 16 Property, Plant and Equipment;
    (iv) paragraph 118(e) of IAS 38 Intangible Assets;
(c) the requirements of IAS 7 Statement of Cash Flows;
(d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
(e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
(f) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(g) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
(h) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
(i) the requirements of IFRS 7 Financial Instruments: Disclosures;
(j) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;

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(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 26.

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.

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

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

Judgements and estimates, not all of which are significant, made in assessing the current economic and geopolitical environment, and climate change and the transition to a lower carbon economy on the financial statements are also set out in boxed text below. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted within the boxed text.

***Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy***

Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future. bp's assumptions for investment appraisal help create an investment decision making framework for currently unsanctioned future capital expenditure on property, plant and equipment, and intangibles including exploration and appraisal assets, that is designed to support the effective and resilient implementation of bp's strategy. The price assumptions used for investment appraisal include oil and gas price assumptions, which are producer prices and are therefore net of any future carbon prices that the purchaser may be required to pay, and an assumption of a single carbon emissions cost imposed on the producer in respect of operational greenhouse gas (GHG) emissions (carbon dioxide and methane) in order to incentivize engineering solutions to mitigate GHG emissions on projects. bp's oil and gas price assumptions for value-in-use impairment testing are aligned with those investment appraisal assumptions, except for 2023 oil and gas prices which reflect near-term market conditions. The assumptions for future carbon emissions costs in value-in-use impairment testing differ from the investment appraisal assumptions and are described below.

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

The energy transition is likely to impact the future prices of commodities such as oil and natural gas which in turn may affect the recoverable amount of property, plant and equipment, and goodwill in the oil and gas industry. bp's best estimate oil and natural gas price assumptions for value-in-use impairment testing were revised during 2022. Prices are disclosed in real 2021 terms. The Brent oil assumption from 2024 to 2030 was increased to \$70 per barrel to reflect near-term supply constraints before steadily declining to \$45 per barrel by 2050 continuing to reflect the assumption that as the energy system decarbonizes, falling oil demand will cause oil prices to decline. The price assumptions for Henry Hub gas up to 2035 and up to 2050 were increased to \$4.00 per mmBtu and \$3.50 per mmBtu respectively, reflecting increased demand for US gas production to offset reduced Russian gas flows. The revised assumptions sit within the range of external scenarios considered by management and are in line with a range of transition paths consistent with the temperature goal of the Paris climate change agreement, of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

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

However, as bp's forecast future prices are producer prices, the group considers it reasonable to assume that if, in addition to the costs already in place, further scope 1 and 2 emission costs were partially to be borne directly by oil and gas producers including bp in future and the prevalence of such costs were to become widespread, the gross oil and gas prices realised by producers would be correspondingly higher over the long term, resulting in no expected overall materially negative impacts on the group's net cash flows. See significant judgements and estimates: recoverability of asset carrying values for further information including sensitivity analysis in relation to reasonably possible changes in the price assumptions and carbon costs.

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Production assumptions within upstream property, plant and equipment and goodwill value-in-use impairment tests reflect management's current best estimate of future production of the existing upstream portfolio. The group sees the expected reduction in upstream hydrocarbon production by around 25% by 2030 being achieved through future active management, including divestments, and high-grading of the portfolio. Changes in upstream production since 2019 will be included in the best estimate to the extent the divestments have been announced or completed however, as the specific future changes to the remainder of the portfolio are not yet known, the current best estimate used for accounting purposes does not include the full extent of the expected upstream production reduction. See significant judgements and estimates: recoverability of asset carrying values for sensitivity analyses in relation to reasonably possible changes in production for upstream oil and gas properties and goodwill respectively.

During 2021, impairment reversals of $1,229 million were recognized in respect of certain assets in India, primarily as a result of changes to the group's oil and gas price assumptions See Note 4 for further information.

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

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

The energy transition may curtail the expected useful lives of oil and gas industry assets thereby accelerating depreciation charges.

However, a significant majority of bp's existing upstream oil and natural gas properties are likely to be fully depreciated within the next 10 years and, as outlined in bp's strategy, oil and natural gas production will remain an important part of bp's business activities over that period.

Therefore, management does not expect the useful lives of bp's reported property, plant and equipment to change and do not consider this to be a significant accounting judgement or estimate. Significant capital expenditure is still required for ongoing projects as well as renewal and/or replacement of aged assets and therefore the useful lives of future capital expenditure may be different. See significant accounting policy: property, plant and equipment for more information.

***Provisions: decommissioning***

The energy transition may bring forward the decommissioning of oil and gas industry assets thereby increasing the present value of associated decommissioning provisions. Decommissioning cost estimates are based on the known regulatory and external environment. These cost estimates may change in the future, including as a result of the transition to a lower carbon economy.

The majority of bp's existing upstream oil and gas properties are expected to start decommissioning within the next two decades. bp's expectation to reduce its upstream hydrocarbon production by around 25% by 2030 is expected to be achieved through future active management, including divestments, and high-grading of the portfolio. Any resulting increases or decreases to the weighted average timing of decommissioning will be driven by the profile of assets held in the revised portfolio. Currently, the expected timing of decommissioning expenditures for the upstream oil and gas assets in the group's portfolio has not materially been brought forward. Management does not expect a reasonably possible change of two years in the expected timing of all decommissioning to have a material effect on the upstream decommissioning provisions, assuming cash flows remain unchanged.

Management will continue to review facts and circumstances to assess if decommissioning provisions need to be recognized. See significant judgements and estimates: provisions for further information.

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***Judgements and estimates made in assessing the impact of the geopolitical and economic environment***
In preparing the financial statements, the following areas involving judgement and estimates were identified as most relevant with regards to the impact of the current geopolitical and economic environment.

Oil and gas price assumptions
The near-term oil and gas price assumptions applied in value-in-use impairment testing have been increased to reflect current supply constraints and increased demand for gas to replace Russian supply. See significant judgements and estimates: recoverability of asset carrying values for further information.

Discount rate assumptions
The discount rates used for impairment testing and provisions were reassessed during the year in light of changing economic and geopolitical outlooks. The nominal discount rate applied to provisions was increased twice during the year to reflect rising US Treasury yields. The principal impact of these rate increases was a $15 million decrease in the decommissioning provision with an associated decrease in the carrying amount of property, plant and equipment of $15 million. Impairment discount rates were also increased from those reported in 2021. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

**Significant accounting policies**

**Going concern**

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

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 6.

The company has net assets of $2,851 million and net current liabilities of $110 million. Operations of the company are supported by an internal financing agreement with BP International Ltd, which held a payable balance of $641 million at 31 December 2021 (2021: $987 million) and cash generated from operations.

In assessing the prospects of BP Exploration (Alpha) 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.

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

**Foreign currency**

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

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

***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 initially 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 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.

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Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

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.

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, include expenditure on the exploration for and evaluation of oil and natural gas resources and 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. Negative goodwill is amortised on a straight line basis over 20 years, the expected period of benefit arising from the acquisition of the business.

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

***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.

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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.

**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 applicable, 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.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

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

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

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

| | |
|---|---|
| **Land and buildings** | |
| Buildings | 4 years |
| **Fixtures and fittings** | |
| Fixtures and fittings | 4 years |

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

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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, plans to dispose rather than retain assets, 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.

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

Fair value less costs of disposal is 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 or CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU 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 or CGU 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 or CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of CGUs to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs to which goodwill has been allocated is compared with its recoverable amount. Where the recoverable amount of the group of CGUs is less than the carrying amount (including goodwill), an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

***Significant judgements and estimates: recoverability of asset carrying values***

Determination as to whether, and by how much, an asset, CGU, or group of CGUs containing goodwill is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation on operating expenses, discount rates, capital expenditure, carbon pricing (where applicable), production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas, power and refined products. Judgement is required when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes. For example, individual oil and gas properties may form separate CGUs whilst certain oil and gas properties with shared infrastructure may be grouped together to form a single CGU. Alternative groupings of assets or CGUs may result in a different outcome from impairment testing.

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.

Details of impairment reversals recognized in the profit and loss account are provided in Note 4 and details of the carrying amounts of assets are shown in Note 11 and Note 12.

The estimates for assumptions made in impairment tests in 2022 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment including as a result of the energy transition 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.

*Discount rates*

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

The discount rates applied in impairment tests are reassessed each year and in 2022 the post-tax discount rate used was 7% (2021 6%). Where the CGU is located in a country that was judged to be higher risk an additional premium of 1% to 2% was reflected in the discount rate (2021 1% to 3%). The judgement of classifying a country as higher risk and the applicable premium takes into account various economic and geopolitical factors. The pre-tax discount rate typically ranged from 7% to 18% (2021 7% to 15%) depending on the risk premium and the applicable tax rate in the geographic location of the CGU.
In particular the pre-tax discount rate applied in the impairment test for the company's CGU in India was 12% in 2022 (2021: 11%).

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*Oil and natural gas properties*

For oil and natural gas properties expected future cash flows are estimated using management's best estimate of future oil and natural gas prices, production and certain resources volumes. The estimated future level of production is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

In 2021, the company identified oil and gas properties with carrying amounts totalling $3,221 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. In 2022, there were no oil and gas properties 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.

The recoverability of intangible exploration and appraisal expenditure is covered under Oil and natural gas exploration, appraisal and development expenditure above.

Information on the carrying amounts of the company's oil and natural gas properties, together with the amounts recognized as depreciation, depletion and amortization is contained in Note 12.

*Oil and natural gas prices*

The price assumptions used for value-in-use impairment testing are based on those used for investment appraisal. bp's carbon emissions cost assumptions and their interrelationship with oil and gas prices are described in 'Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy' on page 20. The investment appraisal price assumptions are recommended by the senior vice president economic & energy insights after considering a range of external price sets, and supply and demand profiles associated with various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the scenarios considered include those where those goals are met as well as those where they are not met

During the year, bp's price assumptions applied in value-in-use impairment testing (in real 2021 terms) for Brent oil from 2024 up to 2030 was increased to $70 per barrel to reflect near term supply constraints before steadily declining to $45 per barrel by 2050 continuing to reflect the assumption that as the energy system decarbonises, falling oil demand will cause oil prices to decline. The price assumptions for Henry Hub gas up to 2035 and up to 2050 were increased to $4.00 per mmBtu and $3.50 per mmBtu respectively to reflect the increased demand for US gas production to offset reduced Russian gas flows. These price assumptions are derived from the central case investment appraisal assumptions, adjusted where applicable to reflect short-term market conditions. A summary of the group's revised price assumptions for Brent oil and Henry Hub gas, applied in 2022 and 2021, in real 2021 terms, is provided below. The assumptions represent management's best estimate of future prices at the balance sheet date, which sit within the range of external scenarios considered as appropriate for the purpose. They are considered by bp to be in line with a range of transition paths consistent with the temperature goal of the Paris climate change agreement, of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. However, they do not correspond to any specific Paris-consistent scenario. An inflation rate of 2% (2021 2%) is applied to determine the price assumptions in nominal terms.

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| 2022 price assumptions | 2023 | 2025 | 2030 | 2040 | 2050 |
|---|---|---|---|---|---|
| Brent oil ($/bbl) | 77 | 70 | 70 | 58 | 45 |
| Henry Hub gas ($/mmBtu) | 4.00 | 4.00 | 4.00 | 3.50 | 3.50 |

| 2021 price assumptions | 2022 | 2025 | 2030 | 2040 | 2050 |
|---|---|---|---|---|---|
| Brent oil ($/bbl) | 71 | 61 | 61 | 56 | 46 |
| Henry Hub gas ($/mmBtu) | 4.08 | 3.06 | 3.06 | 3.06 | 2.8 |

Global oil production increased by 4.9% in 2022. Despite western sanctions on Russian oil exports, Russian export volumes remain at 97% of pre-invasion levels, as oil shipments to the EU and OECD Asian countries are redirected to China, India, and Turkey. Global oil demand continued its post-COVID-19 recovery, increasing by 2.3% in 2022. Europe’s energy crisis, a strong US dollar, and persistent COVID-19 lockdowns in China all contributed to slower energy demand growth and weaker oil demand growth. Brent increased by $30 per barrel in 2022 as a result of the rebound in oil demand and the oil risk premium associated with the Russia-Ukraine war. bp's long-term assumption for oil prices is lower than the 2022 price average, based on the judgement that, in the long term, oil demand is likely to fall so that the price levels needed to encourage sufficient investment to meet declining global oil demand is also lower.

US gas prices increased around two-thirds to $6.4 per mmBtu in 2022. The higher prices reflect much tighter demand supply balance for most of 2022. Through April, lower production particularly in Appalachia, depleted gas stocks to 90% of the five-year average, increasing prices. Thereafter, while production recovered, a record warm summer and lower coal stocks at power plants increased the call on gas fired generation, keeping demand strong and preventing gas stocks from rebuilding, This, was despite an outage at the Freeport LNG terminal since June reducing the demand for LNG exports. Further, industrial demand was further boosted by geopolitical disruptions that increased global product prices, favouring US firms due to relatively lower feedstock costs. Prices only moderated in the fourth quarter when growth in production and moderate weather allowed gas inventories to be replenished. The level of US gas prices in 2022 is above bp’s long term price assumption based on the judgement of the price level required to incentivize new production.

*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. bp bases its reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

Reserves assumptions for value-in-use tests reflect the reserves 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 or probable.



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*Sensitivity analyses*

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

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

Management tested the impact of changes in net revenue cash flows in value-in-use impairment testing under the following sensitivity analyses: an increase in net revenues of 10% in all years up to 2030, 25% in all subsequent years to 2040 and 40% in all remaining years to 2050; and a decrease in net revenues of 25% in all years up to 2030, 50% in all subsequent years to 2040 and 60% in all remaining years to 2050.

Net revenue reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of the company's upstream oil and gas properties in amount of $457 million of the net book value of property, plant and equipment as at 31 December 2022. If this net revenue reduction was solely due to reductions in oil prices in isolation, it reflects an indicative decrease in the carrying amount of using price assumptions for Brent oil trending broadly towards the bottom of the range of prices associated with a pre-publication version of the World Business Council for Sustainable Development (WBCSD) 'family' of scenarios considered to be consistent with limiting global average temperature to 1.5°C above pre-industrial levels.

Management also tested net revenue increases of this magnitude in isolation, however they concluded no impairment reversals would be recognized as all prior years impairment charges have been fully reversed in prior year and no available reversals were present at 2022 reporting year end.

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

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of upstream oil and gas properties and concluded no impairment charges/reversals would be recognized.

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**Stocks**

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

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

**Leases**

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

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

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. For the majority of the leases in the group, there is not sufficient information available to readily determine the rate implicit in the lease, and therefore the 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.

Payments that vary based on factors other than an index or a rate such as usage, sales volumes or revenues are not included in the present value calculation and are recognized in the income statement. The lease liability is recognized on an amortized cost basis with interest expense recognized in the income statement over the lease term , except where capitalized as exploration and appraisal expenditure.

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

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

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

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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.

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

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

**Financial liabilities**

The measurement of financial liabilities is as follows:

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

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in interest receivable and similar income and interest payable and similar expenses respectively. This category of financial liabilities includes trade and other payables and finance debt.

**Offsetting of financial assets and liabilities**

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

**Provisions and contingent liabilities**

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 3.5% (2021 2.0%).

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed, if material, unless the possibility of an outflow of economic resources is considered remote.

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***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 provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using a nominal discount rate.

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.

**Employee benefits**

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

**Pensions**

Contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable.

**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.



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

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

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

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

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

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

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

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

Judgement is required when determining whether a particular tax is an income tax or another type of tax (for example a production tax). Accounting for deferred tax is applied to income taxes as described above but is not applied to other types of taxes; rather such taxes are recognized in the profit and loss account in accordance with the applicable accounting policy such as Provisions and contingent liabilities.



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**Petroleum revenue tax**

Deferred Petroleum Revenue Tax (PRT) assets are recognized where PRT relief on future decommissioning costs is virtually certain.

**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 and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

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

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

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

Tariff income is recognized as the underlying commodity is shipped through the pipeline network based on established tariff rates.

**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.

**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.

**Updates to significant accounting policies**

In the current year, the company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**Impact of new International Financial Reporting Standards**

There are no IASB standards, amendments or interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the company.



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## 3. Turnover

Sales of goods, which is stated net of value added tax, represents amounts where the performance obligation of a contract has been met with third parties and group companies. Turnover is realised entirely in the gas and low carbon energy business.

For further information about revenue recognition, please refer to Turnover section in Significant accounting policies on page 39.

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

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Revenue from contracts with customers | 754,702 | 282,374 |
| Tariff income | (391) | 215 |
| | 754,311 | 282,589 |
| Other operating income | 246 | 62 |
| Interest receivable and similar income (Note 6) | 1,832 | 591 |
| | 756,389 | 283,242 |

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

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Gas & low carbon energy | 754,702 | 282,374 |
| Oil production & operations | (391) | 215 |
| Total | 754,311 | 282,589 |

An analysis of turnover by geographical market is set out below:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| UK | (391) | 215 |
| India | 754,702 | 282,374 |
| Total | 754,311 | 282,589 |

See Strategic Report for information on change in turnover.

## 4. Operating profit

This is stated after charging / (crediting):

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Net foreign exchange gains | (4,082) | (1,846) |
| Amortization of intangible assets | | |
| '- Negative goodwill (Note 11)[a] | (4,437) | (4,438) |
| Depreciation of tangible assets | 316,897 | 233,264 |
| Depreciation of right-of-use assets | 15,500 | 13,372 |
| Reversal of impairment of tangible assets[b] | (8,647) | (1,248,256) |
| Other exploration expenses | 729 | 6,674 |

[a] Amount is included in Administrative expenses.
[b] See Note 12 for further information.

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## 5. Auditor's remuneration

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Fees for the audit of the company | 51 | 87 |

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 (Alpha) 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

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Interest income from amounts owed by group undertakings | — | 1 |
| Total interest income | — | 1 |
| Other interest income | 1,832 | 590 |
| Total interest receivable and similar income | 1,832 | 591 |

## 7. Interest payable and similar expenses

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Interest expense on: | | |
| Lease liabilities | 117 | 187 |
| Loans from group undertakings | 16,053 | 2,976 |
| Other loans | 22 | — |
| Petroleum Revenue Tax (PRT) | — | 3 |
| Total interest expense | 16,192 | 3,166 |
| Interest capitalized in relation to qualifying assets | (13,559) | (2,670) |
| | 2,633 | 496 |
| Unwinding of discount on provisions (Note 18) | 3,361 | 3,201 |
| Total interest payable and similar expenses | 5,994 | 3,697 |

## 8. Exploration for and evaluation of oil and natural gas resources

The following financial information represents the amounts relating to activity associated with the exploration for and evaluation of oil and natural gas resources.

For information on significant judgements and estimates made in relation to oil and natural gas accounting see Intangible assets in Note 2.

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Exploration and evaluation costs | | |
| Other exploration costs | 729 | 6,674 |
| Exploration expense for the year | 729 | 6,674 |
| Intangible assets – exploration and appraisal expenditure | — | 13,924 |
| Net assets | — | 13,924 |
| Cash used in operating activities | 729 | 6,674 |



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## 9. Taxation

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

The taxation charge / (credit) in the profit and loss account is made up as follows:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Current tax | | |
| UK tax overprovided in previous years | — | (4,414) |
| | — | (4,414) |
| Total current tax charged / (credited) | — | (4,414) |
| Deferred tax | | |
| Origination and reversal of temporary differences | 160,855 | (35,722) |
| Adjustments in prior year temporary differences | — | 111 |
| Total deferred tax charged / (credited) | 160,855 | (35,611) |
| Tax charged / (credited) on profit | 160,855 | (40,025) |

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

The tax assessed on the profit for the year is higher (2021 lower) than the standard rate of corporation tax in the UK of 19%  for the year ended 31 December 2022 (2021 19%). The differences are reconciled below:

| | 2022 | 2021 |
|---|---|---|
| | UK | UK |
| | $000 | $000 |
| Profit before taxation | 349,981 | 1,224,275 |
| Tax on profit | 160,855 | (40,025) |
| Effective tax rate | 46 % | (3)% |

| | 2022 | 2021 |
|---|---|---|
| | UK | UK |
| | % | % |
| UK corporation tax rate: | 19 % | 19 % |
| (Decrease) / increase resulting from: | | |
| Non-deductible expenditure / (Non-taxable income) | — % | 2 % |
| Overseas tax | 27 % | (2)% |
| Free group relief | — % | (3)% |
| Movements in unrecognised deferred tax | — % | (19)% |
| Effective tax rate | 46 % | (3)% |

The reconciling items shown above are those that arise for UK corporation tax purposes, rather than overseas tax purposes.

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Change in corporation tax rate

On 3 March 2021, the UK Government announced an increase in the UK's main corporation tax rate from 19% to 25%, effective from 1 April 2023. This will increase the company's future current tax charge accordingly. This rate change was substantively enacted on 24 May 2021 and has therefore been applied when calculating the company's deferred tax balances at the balance sheet date.

On 26 May 2022, the UK Government announced the introduction of the Energy Profits Levy ("EPL"), which was subsequently enacted on 14 July 2022. EPL is effective from the date of announcement until 31 December 2025. The Autumn Finance Bill on 17 November 2022 announced that the EPL rate would increase to 35% from 1 January 2023 and the period over which EPL would apply was extended to 31 March 2028. The Finance Bill was substantively enacted on 30 November 2022.

EPL is applied to profits, or losses, that arise from UK oil and gas extraction or rights ("Ring fence profits"). For the period 26 May 2022 to 31 December 2022 EPL is levied at 25% on ring fence profits (35% from 1 January 2023). EPL is in addition to the existing Ring Fence Corporation Tax (30%) and Supplementary Charge (10%), increasing the headline rate of tax to 65% (75% from 1 January 2023).

Ring fence profits, or losses, are subject to EPL, but no relief is available for Ring Fence Corporation Tax losses carried forward, decommissioning expenditure or finance costs. An 80% EPL Investment Allowance is given for capital expenditure incurred after 26 May 2022 up to 31 December 2022. The EPL Investment Allowance is reduced to 29% from 1 January 2023. EPL has a current year income statement impact of $nil and the deferred tax asset position at 31 December 2022 by $nil.

**(b) Provision for deferred tax**

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

| | Profit and loss account | | Balance sheet | |
|---|---|---|---|---|
| Deferred tax asset | 2022 | 2021 | 2022 | 2021 |
| | $000 | $000 | $000 | $000 |
| Decommissioning and other provisions | 8,758 | 21,327 | 10,714 | 19,472 |
| Tax losses carried forward / (Tax credits) | 153,244 | (544,647) | 1,570,752 | 1,694,325 |
| Capital allowances in excess of depreciation | — | — | — | — |
| Net credit for deferred tax assets | 162,002 | (523,320) | 1,581,466 | 1,713,797 |

| Deferred tax liability | 2022 | 2021 | 2022 | 2021 |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Accelerated capital allowances | 397 | 491,370 | (972,726) | (942,658) |
| Other taxable temporary differences | (1,544) | (3,661) | (1,788) | (3,332) |
| Net charge for deferred tax liabilities | (1,147) | 487,709 | (974,514) | (945,990) |
| Net deferred tax charge and net deferred tax asset | 160,855 | (35,611) | 606,952 | 767,807 |

Analysis of movements during the year

| | 2022 |
|---|---|
| | $000 |
| At 1 January 2022 | 767,807 |
| Deferred tax charge in the profit and loss account | (160,855) |
| At 31 December 2022 | 606,952 |

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## 10. Directors and employees

(a) Remuneration of directors

The following details relate to the directors who received remuneration for their qualifying services to the company and so are in scope for this disclosure.

The total remuneration for these qualifying directors for their period of directorship to the company amounted to $843,000 (2021 $397,000). These costs were borne by other undertakings within the group.

None of the qualifying directors received a compensation for loss of office (2021 None).

Of these qualifying directors, the highest paid director received $843,000 (2021 $397,000). The accrued pension of the highest paid director at 31 December 2022 was $209,000 (2021 $130,000). The highest paid director received contributions to a money purchase pension scheme during the year for $60,000 (2021 $24,000).

One of these qualifying directors were members of the defined benefit section of the bp Pension Fund at 31 December 2022 (2021 One).

One of these qualifying directors received contribution to a money purchase pension scheme during the year (2021 One).

None of the qualifying directors exercised share options over BP p.l.c. shares during the year (2021 None).

One of the qualifying directors had awards receivable in the form of BP p.l.c. shares under a long-term incentive scheme (2021 One).

b) Employee costs

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Wages and salaries | 4,608 | 3,632 |
| Social security costs | 188 | 166 |
| Other pension costs | 127 | 121 |
| | 4,923 | 3,919 |

Included in other pension costs are $75,000 (2021 $67,000) in respect of defined benefit schemes and $52,000 (2021 $54,000) in respect of defined contribution schemes.

(c) The average monthly number of employees during the year was 47 (2021: 49).

| Average number of employees | 2022 | 2021 |
|---|---|---|
| | **No.** | **No.** |
| Gas & low carbon energy | 47 | 49 |

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## 11. Intangible assets and negative goodwill

| | Goodwill | Negative Goodwill | Exploration expenditure | Other intangible | Total |
|---|---|---|---|---|---|
| **Cost** | $000 | $000 | $000 | $000 | $000 |
| At 1 January 2022 | 2,197,165 | (86,901) | 13,920 | 3,601 | 2,127,785 |
| Transfers | — | — | (13,920) | — | (13,920) |
| At 31 December 2022 | 2,197,165 | (86,901) | — | 3,601 | 2,113,865 |
| **Amortization** | | | | | |
| At 1 January 2022 | (2,197,165) | 11,465 | 4 | (3,601) | (2,189,297) |
| Charge for the year | — | 4,437 | — | — | 4,437 |
| Transfers | — | — | (4) | — | (4) |
| At 31 December 2022 | (2,197,165) | 15,902 | — | (3,601) | (2,184,864) |
| **Net book value** | | | | | |
| At 31 December 2022 | — | (70,999) | — | — | (70,999) |
| At 31 December 2021 | — | (75,436) | 13,924 | — | (61,512) |

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## 12. Tangible assets

| | Land & buildings | Fixtures & fittings | Oil & gas properties | Total | Of which AUC** |
|---|---|---|---|---|---|
| **Cost - owned tangible assets - restated*** | $000 | $000 | $000 | $000 | $000 |
| At 1 January 2022 | 1,280 | 3,087 | 8,320,401 | 8,324,768 | 632,600 |
| Additions | — | 102 | 275,919 | 276,021 | 275,779 |
| Transfers | — | — | 13,924 | 13,924 | (543) |
| Changes in decommissioning | — | — | (10,357) | (10,357) | 14,142 |
| At 31 December 2022 | 1,280 | 3,189 | 8,599,887 | 8,604,356 | 921,978 |
| **Depreciation - owned tangible assets - restated*** | | | | | |
| At 1 January 2022 | (1,280) | (2,890) | (5,099,162) | (5,103,332) | — |
| Charge for the year | — | (120) | (316,777) | (316,897) | — |
| Reversal of impairment | — | — | 8,647 | 8,647 | — |
| At 31 December 2022 | (1,280) | (3,010) | (5,407,292) | (5,411,582) | — |
| **Owned tangible assets - net book value** | | | | | |
| At 31 December 2022 | — | 179 | 3,192,595 | 3,192,774 | 921,978 |
| **Right-of-use assets - net book value** | | | | | |
| At 31 December 2022 | 1,881 | — | 17,923 | 19,804 | — |
| **Total tangible assets net book value** | | | | | |
| At 31 December 2022 | 1,881 | 179 | 3,210,518 | 3,212,578 | 921,978 |
| **Total net book value** | | | | | |
| At 31 December 2021 | 3,248 | 197 | 3,242,967 | 3,246,412 | 632,600 |
| Depreciation charge for the year on right-of-use assets | | | | | |
| 2022 | 1,411 | — | 14,089 | 15,500 | — |
| 2021 | 1,420 | — | 11,952 | 13,372 | — |

*Comparative information has been restated by $173 million at oil & gas properties due the correction of an accounting error.
**AUC = assets under construction. Assets under construction are not depreciated.

Capitalized interest included in additions above are as follows:

| | Net book value |
|---|---|
| | $000 |
| 31 December 2022 | 13,559 |
| 31 December 2021 | 2,670 |

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Management's best estimate of oil price assumptions for value-in-use impairment testing was revised during 2022. See 'Significant accounting policies: Impairment of intangible and tangible assets' for details of assumptions used.

During 2022, the company has recognized total impairment reversals of $9 million related to decommissioning asset impairment at North Sea.

During 2021, the company had recognized impairment reversals of $1,248 million relating to oil & gas assets. This arose as a result of changes to the group's oil and gas price assumptions. This impairment reversal included an impairment charge of $ 8.6 million recognized in Profit and Loss Account relating to decommissioning provision of a field as the related decommissioning asset book value was Nil.

## 13. Stocks

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Raw materials and consumables | 32,108 | 31,028 |
| Crude oil | 539 | 433 |
| | 32,647 | 31,461 |

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

## 14. Debtors

Amounts falling due within one year:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Trade debtors | 36,675 | 22,937 |
| Amounts owed from group undertakings | 23,218 | 15,061 |
| Other debtors | 2,370 | 1,526 |
| Prepayments | 2,338 | 1,850 |
| Taxation | 6,270 | 7,559 |
| Petroleum Revenue Tax | 3,879 | 5,922 |
| | 74,750 | 54,855 |

Amounts falling due after one year:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Amounts owed from group undertakings | 1 | 1 |
| Other debtors | 4,473 | 5,422 |
| Deferred tax | 606,952 | 767,807 |
| Petroleum Revenue Tax | 4,470 | 8,330 |
| | 615,896 | 781,560 |
| Total debtors | 690,646 | 836,415 |

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## 15. Creditors

Amounts falling due within one year:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Trade creditors | 62,784 | 24,660 |
| Amounts owed to group undertakings | 663,010 | 1,016,384 |
| Other creditors | 3,251 | 5,121 |
| Taxation | 4,236 | — |
| Production Tax | — | 2,030 |
| Accruals | 24,696 | 31,330 |
| Lease Liabilities from Non Operated Partners (Note 16) | 19,645 | 13,733 |
| | 777,622 | 1,093,258 |

Amounts falling due after one year:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Amounts owed to group undertakings | 1 | 1 |
| Accruals | 5 | 6 |
| Lease Liabilities from Non Operated Partners (Note 16) | — | 11,520 |
| | 6 | 11,527 |
| Total creditors | 777,628 | 1,104,785 |

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

Trade creditors include creditors for capital expenditure of $60,069,000 (2020: $24,365,000).

The amounts owed to group undertakings comprise an Internal Funding Account (IFA) of $641 million payable to BP International Limited (2021 $987 million).

This balance forms a key part of the bp group's liquidity and funding arrangements under its centralised treasury funding model. Whilst IFA credit balances are legally repayable on demand, in practice they have no termination date.

## 16. Loans and obligations under leases

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

Within 5 years

| | 2022 | 2021 |
|---|---|---|
| Due within | $000 | $000 |
| 1 year | 19,645 | 13,733 |
| 1 to 2 years | — | 11,520 |
| | 19,645 | 25,253 |

Obligations under leases, included within creditors, are obligation under leases from Non-Operated partners.

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## 17. Leases

The company leases a number of assets as part of its activities. This primarily includes drilling rigs in the Gas and low carbon energy segment as well as office accommodation and vehicles. The weighted average remaining lease term for the total lease portfolio is around 1 year.

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Short-term lease expense[a] | 224 | 173 |
| Additions to right-of-use assets in the period | 10,328 | 10,499 |
| Total cash outflow for amounts included in lease liabilities[b] | 1,524 | 1,578 |

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

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

Please see analysis of leases below:

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Current | 1,123 | 1,341 |
| Non-current | 585 | 2,036 |
| | 1,708 | 3,377 |

An analysis of right-of-use assets and depreciation is provided in Note 12. . An analysis of lease interest expense is provided in Note 7.

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## 18. Other provisions

| | Decom-missioning $000 | Other $000 | Total $000 |
|---|---|---|---|
| At 1 January 2022 | 178,351 | 109,701 | 288,052 |
| Exchange adjustments | — | (6,620) | (6,620) |
| New or increased provisions: | | | |
| Charged to profit and loss account | (229) | 2,617 | 2,388 |
| Recognized within tangible assets | (10,357) | — | (10,357) |
| Unwinding of discount | 3,361 | — | 3,361 |
| Utilization | (38,008) | — | (38,008) |
| At 31 December 2022 | 133,118 | 105,698 | 238,816 |
| At 31 December 2022 | | | |
| Current | 8,926 | 50,000 | 58,926 |
| Non-current | 124,192 | 55,698 | 179,890 |
| | 133,118 | 105,698 | 238,816 |
| At 31 December 2021 | | | |
| Current | 29,011 | 50,000 | 79,011 |
| Non-current | 149,340 | 59,701 | 209,041 |
| | 178,351 | 109,701 | 288,052 |

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

Decommissioning provision cost estimates are reviewed regularly and a review was undertaken during the year. The timing and amount of estimated future expenditures were re-assessed and discounted to determine the present value. The impact of the review was: a) decrease in the provision of $10,357,000 with a similar decrease in the carrying amount of tangibles, b) write back of excess provision of $229,000 credited to profit and loss account as related decommissioning asset value was $Nil.

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 2022, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was $133,118,000 (2021: $178,351,000). While the provision is based on the best estimate of future costs and economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

During the year the company has spent $38,008,000 (2021: $25,845,000) in utilization as follows: India $24 million and North Sea $14 million.

Other provisions primarily represent provisions for $50,000,000 (2021: $50,000,000) in relation to government penalties for not fulfilling work commitments and disputed indirect tax liabilities of $55,698,000 (2021: $59,701,000) in India.



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## 19. Called up share capital

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Issued and fully paid: | | |
| 4,907,952,309 ordinary shares of £1 each for a total nominal value of £4,907,952,309 | 7,601,559 | 7,601,559 |
| | 7,601,559 | 7,601,559 |

## 20. 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 accumulated profits and losses of the company.

## 21. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2022 is estimated at $102,208,000 (2021: $282,920,000).

## 22. Contingent liabilities

| | 2022 | 2021 |
|---|---|---|
| | $000 | $000 |
| Service tax demands made by Indian tax authorities on the operator and its contractors | 105,660 | 112,340 |

The contingent liability has been disclosed in relation to service tax demands made by the Indian tax authorities. Uncertainty exists with regard to the timing and amount of this potential liability and the disclosed amounts above represent the company's best estimates with regard to the total contingent liability.

## 23. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions in the year.

## 24. Post balance sheet events

MJ field in block KG D6 off the east coast of India has started production in 2Q 2023 with six wells flowing and another two wells expected to be completed in second half of 2023. MJ is the third of the three KG D6 developments to come onstream, following the start-up of Satellites Cluster in 2021 and R Series in 2020.

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## 25. Comparative figures

Prior year deferred tax assets figures have been reclassified to debtors after 1 year to conform to the 2022 presentation. This had no impact on the profit and loss for the year or net assets.

## 26. 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 smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP p.l.c. can be obtained from its registered address: 1 St James's Square, London, SW1Y 4PD.

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