BP EXPLORATION (AZERBAIJAN) LIMITED

(Registered No.02160234)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

Board of directors: J S Freeman
R G Jones
T L Juliussen

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

STRATEGIC REPORT

Principal activities

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

The company is a party to Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") in the Azerbaijan sector of the Caspian Sea, with a participating interest of 29.99%.

After the sanction of the Stage 1 development of the Shah Deniz field on 27 February 2003, the project progressed satisfactorily through the execution phase and reached the first production in December 2006.

On 17 December 2013, the Shah Deniz PSA participants adopted a final investment decision ("FID") for the Stage 2 development of the field. After completion of the new Southern Gas Corridor to Europe, i.e., expansion of the South Caucasus Pipeline ("SCP Expansion") through Azerbaijan and Georgia, construction of the Trans Anatolian Gas Pipeline ("TANAP") across Turkey and the Trans Adriatic Pipeline ("TAP") across Greece, Albania and Italy, the Shah Deniz Stage 2 project reached its first production in July 2018. Currently, Shah Deniz gas is being sold under the gas sales agreements to Azerbaijan, Georgia, Turkey, and the European Union ("EU").

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

16 billion cubic metres per year of additional gas produced from the Shah Deniz field is carried some 3,500 kilometres to supply markets in Georgia, Turkey, Greece, Bulgaria, and Italy. First gas started in July 2018, with sales to Georgia and Turkey. EU sales started in the end of December 2020.

In 2022, the Shah Deniz field continued to provide reliable deliveries of gas to markets in Azerbaijan, Georgia, Turkey, and EU producing and exporting about 25.2 billion (2021 22.4 billion) standard cubic metres of gas and about 36.2 million (2021 34 million) barrels of condensate.

As part of the Stage 2 pre-drill programme, Istiglal, a mobile offshore rig, was mobilized in 4Q after the stand-by period. In total, 21 wells were drilled and 19 wells were completed on the North, West, West South and East South flanks of the field.

Heydar Aliyev rig was mobilized to drill Commitment Well (SDX-08 exploration well) under Shah Deniz PSA in 1Q 2023.

STRATEGIC REPORT

Results

The profit for the year after taxation was $5,423,605,000 which, when added to the retained profit brought forward at 1 January 2022 of $1,406,965,000, and after deducting total paid interim dividends to ordinary shareholders of $3,000,000,000, gives a total retained profit carried forward at 31 December 2022 of $3,830,570,000.

Review of the business

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

	2022	2021	Variance
	$000	$000	%
Turnover	5,807,960	2,126,729	173
Operating profit	6,472,682	3,060,779	111
Profit for the financial year	5,423,605	3,048,239	78
Total equity	7,373,251	4,949,646	49

	2022	2021	Variance
	%	%	
Quick ratio*	577	1,197	(620)
Return on average capital employed**	43	18	25
Gross profit percentage***	72	46	26

*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, in operating profit and profit for the year is majorly driven by $2.4 billion increase in gas sales predominantly due to increase in gas prices and by $1 billion tax revenue in 2022.

The decrease in quick ratio is due to the change on the company's IFA account driven by huge gas sales offset by dividend and cash call payments.

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 company has no employees.

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

During 2022, the directors of the company reiterated their 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.

The company fostered business relationships by engagement through strategy engagement sessions, workshops and consortiums. For key suppliers, collaborative sessions were held, which amongst other things, focused on net zero for people and planet and jointly improving sustainability.

(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.

The company recognises the importance of sustainability and during the year has conducted environmental and social impact assessments on its operations, has used the best available technology to mitigate environmental impacts, and has consulted public and private stakeholders on environmental discussions, including the State Oil Company of the Republic of Azerbaijan ("SOCAR") and National Academy of the Republic of Azerbaijan.

The company recognises the importance of social responsibility, and seeks to build strong relationships and encourage mutual trust in the community in which it operates. During the year, the company's activities have included community awareness meetings, involvement in social investment projects, security commission meetings of district authorities, and the operation of a complaints management process to understand community issues and resolve these swiftly.

(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 to ensure the board and the company maintain a reputation for high standards of business conduct.

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 company is a wholly owned subsidiary with one member and the directors aim to maximise 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.

(a) Government/Regulators

The company recognises the need to create valued relationships with the Government/Regulators, such as the Government of the Republic of Azerbaijan, and SOCAR centred around ethics and transparency, and the need to discuss relevant regulations and guidance where necessary.

The board is provided with regular business updates on changes in regulation and/or legislation impacting the company and is committed to keeping the Government/Regulators informed of any significant changes to the company, through regular external correspondence.

(b) Media

The company recognises the importance of media engagement for transparency and creating a relationship of mutual trust with key stakeholders, and is committed to providing regular business updates through press conferences, interviews, articles and other external publications.

(c) Joint Venture Partners

The board is committed to creating valued relationships and facilitating new relationships with its joint venture partners through relationship mapping, monthly and quarterly project updates, management committee meetings and through external correspondence.

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
During the year, the directors considered, approved and paid an interim dividend as appropriate to the shareholder.	The directors considered the impact of such a decision on the long-term prospects of the company, as well as considering the financial position of the company to ensure that it had sufficient distributable reserves at the time of the interim dividend.

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

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.

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.

Trade and other receivables, including overdue receivables, may not be recovered, and a substantial and unexpected cash call or funding request could disrupt the group's financial framework or overwhelm the company's ability to meet its obligations.

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.

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 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.

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.

Our performance could also be negatively impacted if we fail to protect our intellectual property.

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.

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.

Treasury and treasury trading activities
Ineffective oversight of treasury and trading activities could lead to business disruption, financial loss, regulatory intervention, fines or damage to the company’s reputation.

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.

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures. 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:
Jaqui Freeman
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J S Freeman
Director

September 6, 2023

Registered Office:

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TW16 7BP
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DIRECTORS' REPORT

BP EXPLORATION (AZERBAIJAN) LIMITED

Directors

The present directors are listed on page 1.

J S Freeman and R G Jones served as directors throughout the financial year. Changes since 1 January 2022 are as follows:

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

Directors' indemnity

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

Dividends

During the year the company has declared and paid dividends of $3,000,000,000 (2021 $0). The directors do not propose the payment of a final 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

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

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.

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

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

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

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

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

Future developments

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

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

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

Research and development

The company incurs research and development expenditure in the ordinary course of business as it looks to improve its future performance. The company pays a share towards bp group's centralised research and development costs.

Stakeholder 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.

Corporate Governance Statement

In 2022, the bp group continued to operate under the corporate governance framework (the "Framework") implemented in 2020. The Framework closely aligns with bp's purpose - reimagining energy for people and our planet - and strategy. The Framework also defines bp's role, to promote the long-term sustainable success of the company, generating value for its shareholders while having regard to its other stakeholders, the impact of its operations on the communities within which it operates and the environment.

The core of the company's governance arrangements come from bp's System of Internal Control, Global Subsidiary Corporate Governance Policy (the "Policy") and Code of Conduct, details of which are set out below.

System of Internal Control

The System of Internal Control is the holistic set of management systems, organisational structures, processes, standards and behaviours that are employed to conduct the bp group's business. These processes enable the company to achieve its objectives and purpose by ensuring that it responds appropriately to business, operational, financial and other risks and opportunities.

Further, the System of Internal Control requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation which helps to ensure the quality of internal and external reporting. The System of Internal Control helps to ensure compliance with laws and regulations, bp's Code of Conduct and other internal policies.

The Policy

The Policy has been established by BP p.l.c. and implemented by its subsidiaries, including the company, to establish common standards in corporate governance across the group. These standards cover the role and responsibilities of the board and the directors, its processes and its relationship with executive management, shareholders and other stakeholders.

The Policy is reviewed on a regular basis both in respect of compliance and alignment with best practice governance and the content of formal corporate governance codes for private companies. It is a comprehensive set of rules and recommendations designed to standardise and promote best practice subsidiary governance through:

i. The mitigation of legal and reputational risk and preserving the integrity of the bp group's corporate structure;
ii. The selection and training of directors to ensure that they understand and execute their statutory duties in a manner that promotes the success of the company for the benefit of its shareholders whilst having regard to the company's other stakeholders;
iii. Requiring any decisions in respect of the formation and change of entity form, financing of intra-group activities, transfer of ownership and dissolution to be made pursuant to bp's System of Internal Controls; and
iv. Specifying which of the bp group's businesses and functions are accountable for the various aspects of administration, internal controls and corporate governance of subsidiaries.

The Policy sets out the responsibilities of all directors and officers of each of the bp group's subsidiaries and the primary tasks of the board, including consideration and execution of long-term strategy, monitoring of the subsidiary's performance and ensuring that the principal risks to the subsidiary are identified and that appropriate systems of risk management and control are in place. As a result, the company has not considered it necessary to adopt a formal corporate governance code.

The Policy requires directors to:

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

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

The Code of Conduct

bp's code of conduct is based on bp's values and beliefs, and sets clear expectations for how all employees at bp should work, including directors of the company. The code is designed to be a clear set of expectations to enable all employees to make choices in a consistent way.

The code of conduct includes sections covering:

i. Safety and sustainability, including operating safely and securely and delivering bp's sustainability frame;
ii. People, including diversity, equity and inclusion;
iii. Business partners, including building and maintaining strong relationships and proactively managing conflicts of interest;
iv. Governments and communities, including human rights, community engagement and public communications; and
v. Assets and financial integrity, including the need to record and maintain accurate and complete information.

Application of the system of governance

The directors have applied this system of governance by:

a. Regularly reviewing its board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and ensuring that individual directors have sufficient capacity to make valuable contributions. The board, where appropriate, and in accordance with the Policy, retains a minimum of three directors, promotes independent and objective challenge through the appointment of directors who are not directly or indirectly responsible for the management function of the company and may nominate a designated Chair to provide leadership of the board.
b. Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making in their capacity as directors, the board considers the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the bp group's purpose, aims and ambitions.
c. In accordance with the Policy, the board is supported by the System of Internal Control to identify opportunities to create and preserve value. Refer to the principal risks and uncertainties in the Strategic Report.
d. Having regard to and fostering good stakeholder relationships. Refer to the company's section 172 statement in the Strategic Report for further information.

Auditors

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

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:

Jaqui Freeman

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J S Freeman
Director

September 6, 2023

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

BP EXPLORATION (AZERBAIJAN) LIMITED

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BP EXPLORATION (AZERBAIJAN) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of BP Exploration (Azerbaijan) Limited (the company):
- give a true and fair view of the state of the company's affairs as at 31 December 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 23.

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

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

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

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

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

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

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

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

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

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determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the 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 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. These included the company's operating licence, regulatory solvency requirements, and environmental regulations when they are applicable.

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

As a result of performing the above, we identified a significant audit risk that revenue could be materially overstated, due to potential fraud, in the event that the transactions recorded did not actually occur. We performed substantive audit procedures to test all revenue transactions recorded by tracing volumes and prices to invoices, comparatively analyzed sales price per barrel with the brent crude market price, performed analytical review of the well-head condensate production and compared the gross condensate export volumes with gross condensate production.

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.

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Bevan Whitehead
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

September 6, 2023

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PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION (AZERBAIJAN) LIMITED

	Note	2022 $000	2021 $000
Turnover	**3**	5,807,960	2,126,729
Cost of sales		(1,599,415)	(1,142,470)
Gross profit		**4,208,545**	**984,259**
Administrative expenses		(12,049)	(8,675)
Other operating income		214,474	18,879
Reversal of impairment of tangible assets	**11**	2,061,712	2,066,316
Operating profit	**4**	**6,472,682**	**3,060,779**
Interest receivable and similar income	**6**	71,040	3,410
Interest payable and similar expenses	**7**	(8,756)	(15,950)
Profit before taxation		**6,534,966**	**3,048,239**
Tax on profit	**8**	(1,111,361)	—
Profit for the financial year		**5,423,605**	**3,048,239**

The profit of $5,423,605,000 for the year ended 31 December 2022 was derived in its entirety from continuing operations and impairment reversal.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION (AZERBAIJAN) LIMITED

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 (AZERBAIJAN) LIMITED

(Registered No.02160234)

	Note	2022 $000	2021 $000
Fixed assets			
Intangible assets	**10**	14,247	1,227
Tangible assets	**11**	5,690,702	3,915,586
Investments	**12**	46	46
		5,704,995	**3,916,859**
Current assets			
Stocks	**13**	36,679	32,220
Debtors: amounts falling due within one year	**14**	2,434,656	1,538,597
		2,471,335	**1,570,817**
Creditors: amounts falling due within one year	**15**	(421,614)	(128,578)
Net current assets		**2,049,721**	**1,442,239**
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,754,716**	**5,359,098**
Creditors: amounts falling due after more than one year	**15**	(2,212)	(3,421)
Provisions for liabilities and charges			
Other provisions	**16**	(379,255)	(406,031)
NET ASSETS		**7,373,249**	**4,949,646**
Capital and reserves			
Called up share capital	**17**	3,542,681	3,542,681
Profit and loss account	**18**	3,830,570	1,406,965
TOTAL EQUITY		**7,373,251**	**4,949,646**

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

DocuSigned by:

Jaqui Freeman

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J S Freeman

Director

September 6, 2023

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION (AZERBAIJAN) LIMITED

	Called up share capital (Note 17)	Profit and loss account (Note 18)	Total
	$000	$000	$000
Balance at 1 January 2021	**3,542,681**	**(1,641,274)**	**1,901,407**
Profit for the financial year, representing total comprehensive income	—	3,048,239	3,048,239
Balance at 31 December 2021	**3,542,681**	**1,406,965**	**4,949,646**
Balance at 1 January 2022	**3,542,681**	**1,406,965**	**4,949,646**
Profit for the financial year, representing total comprehensive income	—	5,423,605	5,423,605
Dividends paid	—	(3,000,000)	(3,000,000)
Balance at 31 December 2022	**3,542,681**	**3,830,570**	**7,373,251**

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION (AZERBAIJAN) LIMITED

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

The financial statements of BP Exploration (Azerbaijan) Limited for the year ended 31 December 2022 were approved by the board of directors on 04/09/2023 and the balance sheet was signed on the board's behalf by J S Freeman. BP Exploration (Azerbaijan) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 02160234) under the Companies Act 2006. The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

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

Basis of preparation

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

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

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 12 to the financial statements.

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

(a) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    (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;

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

Basis of preparation (continued)

(f) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(g) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
(h) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
(i) the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
(j) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
(k) The requirements of paragraph 58 of IFRS 16 Leases, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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

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

Significant accounting policies: use of judgements, estimates and assumptions

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

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

The area requiring the most significant judgement and estimation in the preparation of the financial statements is the recoverability of asset carrying values.

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 the following paragraphs. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted in the following paragraph.

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.

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

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

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.

Impairment of property, plant and equipment
The energy transition is likely to impact the future prices of commodities such as oil and natural gas which in turn may affect the recoverable amount of property, plant and equipment in the oil and gas industry. bp's best estimate oil 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.

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

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

Production assumptions within upstream property, plant and equipment 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.

Impairment reversals were recognized on certain upstream oil and gas properties partly as a result of the higher near-term assumptions. See Note 11 for further information.

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

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

However, a significant majority of bp's existing upstream oil and natural gas properties are likely to be fully depreciated by the end of PSA 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 the company'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.

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.

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

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

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. 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.

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

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

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

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

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

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

Significant accounting policies (continued)

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.

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. Digital asset costs generally have a useful life of three to five years.

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

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

Oil and natural gas exploration 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.

DTT

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

Significant accounting policies (continued)

Licence and property acquisition costs

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

Exploration and appraisal expenditure

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

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

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

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

Tangible assets

Tangible assets owned by the company are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, directly-attributable finance costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

DTT

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

Significant accounting policies (continued)

Tangible assets (continued)

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

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	25 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.

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.

DTT

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, 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 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, 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.

DTT

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

Significant judgements and estimates: recoverability of asset carrying values

Determination as to whether, and by how much, an asset or CGU is impaired involves management estimates on uncertain matters such as the effect of future commodity prices, and risking of reserves - which are considered to be significant estimates for this entity's single Shah Deniz CGU - as well as other insignificant estimates.

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 10 and Note 11.

The estimates for assumptions made in impairment tests in 2022 relating to discount rates, oil and gas properties and prices 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%). The entity is located in Azerbaijan and there is no country specific risk premium.

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.

As at 31 December 2022, the company identified oil and gas properties with carrying amounts totalling $5,690,702,000 (2021 $3,915,586,000) with $3,158,000,000 (2021 $0) headroom as a result of the impairment reversal recorded in the year.

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 11.

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 24. 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.

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

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. 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.

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.

DTT

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

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.

Sensitivity analyses

Management considers oil and natural gas prices 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.

Management tested the impact of a change in revenue cash flows in value-in-use impairment testing arising from changes in price assumptions up to an effect on revenue of 35%.

Price reduction of 35% could indicatively lead to a reduction in the carrying amount of the company's oil and gas properties in the amount of $420 million, whereas the same percentage increase would not impact the carrying amount as there is a headroom for the CGU.

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 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.

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.

DTT

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

Significant accounting policies (continued)

Stocks (continued)

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.

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 and intangible assets.

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

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

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

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

DTT

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

Significant accounting policies (continued)

Leases (continued)

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. 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.

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.

DTT

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

Significant accounting policies (continued)

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at amortized cost

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

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

Financial guarantees

The company issues financial guarantee contracts to make specified payments to reimburse holders for losses incurred if certain associates, joint ventures or third-party entities fail to make payments when due in accordance with the original or modified terms of a debt instrument such as a loan. The liability for a financial guarantee contract is initially measured at fair value and subsequently measured at the higher of the contract's estimated expected credit loss and the amount initially recognized less, where appropriate, cumulative amortization.

Fair value measurement

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

Offsetting of financial assets and liabilities

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

Provisions

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

DTT

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

Significant accounting policies (continued)

Provisions (continued)

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%).

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 company has changed its decommissioning provision calculation methodology, which was based on PSA requirements, to engineering cost estimates.

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.

Judgements and estimates: provisions

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

Taxation

Income tax expense represents the sum of current 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.

DTT

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

Significant accounting policies (continued)

Taxation (continued)

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.

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.

Taxation is further disclosed under Note 8.

Customs duties and sales taxes

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

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

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

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil, natural gas, and other items usually coincides with title passing to the customer and the customer taking physical possession. Revenue is recognized when the service is performed, in accordance with the terms of the contractual arrangements and in the accounting period in which the services are rendered.

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

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

DTT

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

Significant accounting policies (continued)

Turnover (continued)

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

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

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

Interest income

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

Research costs

Research costs are expensed as incurred.

Finance costs

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

Dividends payable

Final dividends are recorded in the financial statements in the year in which they are approved by the company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

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.

DTT

3. Turnover

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

	2022	2021
	$000	$000
Sales of goods[a]	5,807,960	2,126,729
	5,807,960	2,126,729
Other operating income[b]	214,474	18,879
Interest receivable and similar income (Note 6)	71,040	3,410
	6,093,474	2,149,018

[a] The company has a notation arrangement with another group company which has entered into a third party commodity price hedging arrangement on the company's behalf, whereby the company receives the benefit or incurs the cost of the hedging arrangement. An immaterial loss of $100 million relating the arrangement is included in sales of goods for 2022 (2021 $34 million) and the hedge arrangement is included in amounts owed to fellow subsidiaries at its fair value of $60 million (2021 $34 million). The hedging arrangement expires during 2023. As the arrangement is not material no further detailed disclosures have been provided.

[b] Other operating income amount disclosed in the turnover note in 2021 accounts was corrected by $15.4 million due to misrepresentation of the disclosure in 2021. The increase in other operating income for 2022 is due to $85 million additional revenue gained by 1.16% equity share increase and the rest is due to SOCAR Gas Delivery Agreement ("GDA") earned fee in 2022.

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

	2022	2021
	$000	$000
Class of business:		
gas & low carbon energy	4,979,491	1,548,392
oil production & operations	828,469	578,337
Total	5,807,960	2,126,729

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

4. Operating profit

This is stated after charging / (crediting):

	2022	2021
	$000	$000
Net foreign exchange (gains) / losses	8,544	(3,255)
Research and development costs expensed	1,729	5,334
Depreciation of tangible assets[b]	625,916	252,533
Depreciation of right-of-use assets[b]	1,997	7,235
Reversal of impairment of tangible assets	(2,061,712)	(2,066,316)
Cost of stock recognized as an expense[a]	860	1,162

[a] Amount is included in Cost of Sales.

[b] Depreciation of right-of-use assets was included under depreciation of tangible assets in 2021 accounts.

DTT

5. Auditor's remuneration

	2022	2021
	$000	$000
Fees for the audit of the company	74	81

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

6. Interest receivable and similar income

	2022	2021
	$000	$000
Interest income from amounts owed by group undertakings	61,709	378
	61,709	378
Other interest income	9,331	3,032
Total interest receivable and similar income	71,040	3,410

Increase in interest income from amounts owed by group undertakings is due to increase in IFA account predominantly due to gas sales increase during the year and due to increase in interest rate.

7. Interest payable and similar expenses

	2022	2021
	$000	$000
Interest expense on:		
Other	—	41
Total interest expense	—	41
Unwinding of discount on provisions - Note 16	8,756	15,909
Total interest payable and similar expenses	8,756	15,950

8. Taxation

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

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

	2022	2021
Current tax	$000	$000
Overseas tax on income for the year	1,111,361	—
Total current tax charged	1,111,361	—
Tax charged on profit	1,111,361	—

DTT

8. Taxation (continued)

(a) Reconciliation of the effective tax rate

The tax assessed on the profit for the year is lower than the standard rate of local concession rate of 25% for the year ended 31 December 2022 (2021 25%). The differences are reconciled below:

	2022	2021
	Local	Local
	$000	$000
Profit before tax	6,534,966	3,048,239
Tax charge	1,111,361	—
Effective tax rate	17.01 %	— %

	2022	2021
	Local	Local
	%	%
Local concession rate:	25.00	25.00
Increase / (decrease) resulting from:		
Utilization of prior period carry forward tax losses	(7.99)	(25.00)
Effective tax rate	17.01	—

The company has elected to treat the profits and losses relating to its overseas branch as being exempt from UK corporation tax. Given all activities of the company are subject to corporate income tax in Azerbaijan and are exempt from UK corporation tax, deferred tax has not been recognised. In accordance with Shah Deniz PSA, corporate income tax (with local concession rate of 25%) is paid by SOCAR on behalf of the contractor parties. In 2022, the company became profitable for corporate income taxes and started to record corporate income tax expense.

9. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2021 $Nil).

(b) Employee costs

The company had no employees during the year (2021 None).

DTT

10. Intangible assets

	Negative Goodwill[a]	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2022	(128,393)	1,227	(127,166)
Additions	—	13,020	13,020
At 31 December 2022	(128,393)	14,247	(114,146)
Amortization			
At 1 January 2022	128,393	—	128,393
At 31 December 2022	128,393	—	128,393
Net book value			
At 31 December 2022	—	14,247	14,247
At 31 December 2021	—	1,227	1,227

[a] During 2022, there was a bargain purchase related to the acquisition of an additional 1.16% share in the Shah Deniz PSA. An immaterial fair value gain of $85 million was recognised in profit and loss for 2022 as other operating income, and not as negative goodwill in the balance sheet per FRS101 requirement. Management expects to finalize and adjust the accounting in the 2023 financial statements.

11. Tangible assets

	Land & buildings	Fixtures & fittings	Oil & gas properties	Right-of-use assets[b]	Total	Of which AUC[a]
Cost	$000	$000	$000	$000	$000	$000
At 1 January 2022	9,549	6,415	8,460,743	26,969	8,503,676	806,989
Additions[c]	—	—	341,580	(263)	341,317	254,433
Transfers	—	—	—	—	—	(315,129)
Retirement of fully depreciated right-of-use assets[d]	—	—	—	(17,003)	(17,003)	—
At 31 December 2022	9,549	6,415	8,802,323	9,703	8,827,990	746,293
Depreciation						
At 1 January 2022	(5,157)	(5,321)	(4,555,651)	(21,961)	(4,588,090)	(534,278)
Charge for the year	(233)	(366)	(625,317)	(1,997)	(627,913)	—
Reversal of impairment	2,470	460	2,056,925	1,857	2,061,712	506,617
Retirement of fully depreciated right-of-use assets[d]	—	—	—	17,003	17,003	—
At 31 December 2022	(2,920)	(5,227)	(3,124,043)	(5,098)	(3,137,288)	(27,661)
Total net book value						
At 31 December 2022	6,629	1,188	5,678,280	4,605	5,690,702	718,632
Total net book value						
At 31 December 2021	4,392	1,094	3,905,092	5,008	3,915,586	272,711

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

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[b] Cost and depreciation of right-of-use assets at 1 January 2022 is restated by $101 million consistent to old contracts' retirements. The remaining opening balances represent Schlumberger Well Testing ("SLB") equipment lease and Global Projects Organization ("GPO") vessels' balance. The latter is further retired in 2022 in line with the contract terminations.

[c] Additions for oil & gas properties also include negative addition as a result of decommissioning discount rate change by $64 million which makes the full amount different from AUC transfers. Negative addition under right-of-use assets is due to GPO vessels' lease early termination.

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

Capitalized interest included above is as follows:

	Net book value
Capitalized interest	$000
At 31 December 2022	23,762
At 31 December 2021	11,073

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.

As a result of this review, the company has recognized total impairment reversals of $2,061,712,000 (2021 $2,066,316,000). Value in use was calculated applying a discount rate of 7%. The carrying amount of the CGU which has recognized impairment reversal during the year was $5,690,702,000. All previous impairments recorded have now been fully reversed.

DTT

12. Investments

	Investment in joint venture
Cost	$000
At 1 January 2021	46
At 31 December 2021	46
At 1 January 2022	46
At 31 December 2022	46
Net book amount	
At 31 December 2022	46
At 31 December 2021	46

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

The investments in the joint ventures are unlisted.

The joint ventures of the company at 31 December 2022 and the percentage of equity capital held set out below are the investments which principally affected the profits or net assets of the company. The principal country of operation is generally indicated by the company's country of incorporation or by its name.

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

Joint ventures

Company name	Class of share held	%	Registered address	Principal activity
Azerbaijan Gas Supply Company Limited	Ordinary share	23.064	Maples & Calder, P.O.Box 309, Ugland House, 113 South Church Street, George Town, Grand Cayman, Cayman Islands.	Natural Gas

13. Stocks

	2022	2021
	$000	$000
Natural gas	6,298	4,539
Supplies	30,381	27,681
	36,679	32,220

The stock valuation at 31 December 2022 is stated net of a provision of $1,546,000 (2021 $1,395,000) to write stock down to their net realizable value. The net credit to the profit and loss account in the year in respect of stock net realizable value provisions was $151,000 (2021 $285,000).

DTT

14. Debtors

Amounts falling due within one year:

	2022	2021
	$000	$000
Trade debtors	257,970	264,782
Amounts owed from group undertakings	1,801,880	1,207,535
Amounts owed from fellow subsidiaries	52,854	58,524
Prepayments and accrued income	—	7,484
Other debtors	323	272
Taxation	321,629	—
	2,434,656	1,538,597

The amounts owed from group undertakings comprise an Internal Funding Account (IFA) of $1,801,880,000 receivable from BP International Limited (2021 $1,207,535,000).

This balance forms a key part of the bp group's liquidity and funding arrangements under its centralised treasury funding model and it can be accessed by BP International Limited at short notice. Whilst IFA balances are legally repayable on demand, in practice they have no termination date.

Interest is accrued on a monthly basis based on USD LIBOR. The borrowing interest rate at year end was LIBOR+0.43% (2021 LIBOR+0.46%) and deposit interest rate was LIBOR-0.03% (2021 LIBOR-0.03%).

From 31 December 2021 some USD LIBOR tenors, and all EUR, GBP and CHF LIBOR tenors ceased to be published. The remaining USD LIBOR tenors, including 3 month USD LIBOR, will continue to be published until June 2023. For further information in relation to LIBOR transition see Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

15. Creditors

Amounts falling due within one year:

	2022	2021
	$000	$000
Amounts owed to group undertakings	—	79
Amounts owed to fellow subsidiaries	64,634	76,766
Amounts owed to associates	2,239	2,713
Other creditors	—	20
Taxation	321,629	—
Accruals and deferred income	33,112	49,000
	421,614	128,578

Amounts falling due after one year:

	2022	2021
	$000	$000
Amounts owed to fellow subsidiaries	2,212	3,421
	2,212	3,421
Total creditors	423,826	131,999

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.

DTT

16. Other provisions

	Decommissioning
	$000
At 1 January 2022	406,031
New or increased provisions:	
Recognized within tangible assets	16,418
Change in decommissioning estimate	11,697
Unwinding of discount	8,756
Change in discount rate	(63,647)
At 31 December 2022	379,255

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 $379,255,000 (2021 $406,031,000).

In 2022, decommissioning technical estimate has been re-reviewed and as a result of the change in estimate, decommissioning provision increased by $11,697,000.

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

17. Called up share capital

	2022	2021
	$000	$000
Issued and fully paid:		
2,498,815,562 ordinary shares of £1 each for a total nominal value of £2,498,815,562	3,542,681	3,542,681

18. Reserves

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

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

In 2022, the company paid interim ordinary dividends of $3,000,000,000 (2021 $0). The dividend per share was $1.2 (2021 $0).

19. Capital commitments

Authorized and contracted future capital expenditure by the company for which contracts had been placed but not provided in the financial statements at 31 December 2022 is estimated at $171,473,494 (2021 $268,682,000).

As a party to Shah Deniz PSA, the company carries 29.99% of the capital contracts obligation signed by the operator.

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20. Guarantees and other financial commitments

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

In accordance with the Upstream Sales and Purchase Agreement, the Shah Deniz PSA participants agreed to deliver the entire Stage 1 gas to Azerbaijan Gas Supply Company Limited ("AGSC"). AGSC then ships the gas to the delivery points on the Georgian-Turkish border through the SCP system.

After the FID signed for Stage 2 development, AGSC also signed transportation agreements with TANAP and TAP with the purpose of transporting natural gas to Turkey and EU through the relevant systems.

In 2018, AGSC entered into a new gas transportation agreement with SNAM Rete Gas ("SRG") to cover the transportation of gas from 2020 to 2036 and thereby booked capacity from the exit point of TAP to the Punto di Scambio Virtuale (PSV) which is the delivery point under AGSC's Gas Sales Agreements in Italy.

The company's financial commitments to AGSC for TAP, TANAP and SNAM are $2,867,392,000 (2021 $3,218,412,000 restated from $3,718,566,000), $4,164,587,000 (2021 $4,323,077,000 restated from $5,558,712,000) and $210,571,000 (2021 $262,907,000 restated from $306,269,000), respectively. Amounts provided in 2021 were revised due to the change in approach in their calculation.

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

The company's financial commitment to AGSC for SCPC as at 31 December 2022 was $581,793,000 (2021 $627,833,000).

AGSC provided a bank guarantee in favor of SRG for the amount of annual capacity booked in SRG system. AGSC provided counter indemnity to the issuing bank. In case there is any claim raised by SRG covering the period until 2036, the bank will make the payment by using the guarantees provided by AGSC. Security has been requested by the issuing bank in respect of the secured liabilities as a condition precedent for the issuance of guarantee, in the form of cash held at AGSC's bank account by shipper parties in an amount equal to the total guarantee payment. In 2019, as a gas shipper through this system, the company provided security in its relevant entitlement share of circa 23% of total gross guarantee of €34,363,606, €7,903,622 ($8,852,623). In 2020, SRG agreed to replace the cash collateral with Parent Company Guarantee ("PCG") and thus the company received its portion of total gross guarantee of €34,363,606 ($42,010,539.24), € 9,195,077.72 ($11,241,258.37), in December 2020. In 2022, after the amendment to the agreement, total gross guarantee amount was increased to €158,000,000 including €34,692,878 capacity and service guarantees, and €123,307,122 balancing guarantee. However, due to the downward trend in gas prices, it was agreed to decrease the balancing guarantee to €73,307,122 in 2023. Correspondingly, the company's 29.99% share provided by PCG out of the total guarantee equalled to €21,984,806 in 2023.

In addition, AGSC had provided direct deposit to SNAM in the amount of €82,000,000 ($83,640,000), with company's portion of €16,407,696 ($16,735,850), which had been required to ensure uninterrupted gas deliveries to EU during 2022. However, by the end of 2022, this direct cash deposit in SNAM account had been withdrawn due to the decrease in gas prices, and corresponding shares were distributed to the contractor parties. AGSC also provided guarantee to GME in the amount of €2,500,000 ($2,550,000), with company's portion of €500,235 ($510,239), in order to continue trading activities on GME platform. GME cash collateral will be returned once AGSC stops trading activities on GME platform.

21. Related party transactions

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

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

Related party	Purchases from related party	Amounts owed to related party
	$000	$000
THE BAKU-TBILISI-CEYHAN PIPELINE COMPANY		
Group associate		
Transportation services		
2022	26,041	2,239
2021	29,717	2,713
South Caucasus Pipeline Company Limited		
Group associate		
Transportation services		
2022	241,641	27,464
2021	200,754	26,263
TAP AG		
Group associate		
Transportation services		
2022	28,941	—
2021	14,800	—
TANAP DOGALGAZ ILETIM A.S.		
Group associate		
Transportation services		
2022	—	—
2021	37,526	—

2021 figures were changed from $239,482,000 to $37,526,000 for TANAP DOGALGAZ ILETIM A.S., $233,300,000 to $14,800,000 for TAP AG, $281,520,000 to $200,754,000 for South Caucasus Pipeline Company Limited to reflect the portion of charges directly attributable to BP Exploration (Azerbaijan) Limited.

22. Post balance sheet event

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

23. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Operating Company Limited, a company registered in England and Wales. The ultimate controlling parent undertaking is BP p.l.c., a company registered in England and Wales, which is the 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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