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BP EXPLORATION (CASPIAN SEA) LIMITED

(Registered No.00404347)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

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

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

STRATEGIC REPORT

Results

The profit for the year after taxation was $172,637,000 which, when added to the retained profit brought forward at 1 January 2019 of $702,346,000 after making a transitional adjustment for IFRS 16 of $19,380,000 and after deducting total paid interim dividends to ordinary shareholders of $100,000,000, gives a total retained profit carried forward at 31 December 2019 of $755,603,000.

Principal activities and review of the business

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

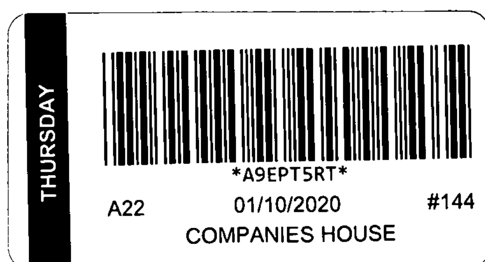
The company is a participant in a PSA for the Azeri, Chirag and Deepwater Gunashli fields ("ACG") in Azerbaijan and it acts as the operator of this undertaking on behalf of partners. The PSA extension agreement was signed on 14 September 2017. The contract was ratified by the Parliament (Milli Majlis)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

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

In 2019, ACG produced on average 535 thousand barrels per day (gross) (more than 195 million barrels or 26 million tonnes in total) from the Chirag, Central Azeri ("CA"), West Azeri ("WA"), East Azeri ("EA"), Deepwater Gunashli ("DWG") and West Chirag ("WCH") platforms. In 2018, ACG produced on average 584 thousand barrels per day (gross) (about 213 million barrels or 29 million tonnes in total).

In 2019, ACG delivered an average of 5.7 (2018 6.4) million cubic metres per day of ACG associated gas to State Oil Company of Azerbaijan Republic ("SOCAR") (2.1 billion cubic metres in total, 2018 2.3 billion cubic metres in total).

At the end of the year, a total of 125 oil wells were producing, while 46 wells were used for injection in the ACG field (2018 117 producing wells, 51 injection wells). In 2019, ACG delivered 10 oil producer wells and 1 injection well (2018 14 oil producer wells, 3 injection wells).



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Principal activities and review of the business (continued)

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

	2019	2018	Variance
	$000	$000	%
Turnover	1,414,020	1,485,171	(5)
Operating profit	306,567	403,105	(24)
Profit result for the year	172,637	191,606	(10)
Total equity	6,069,348	6,016,545	1

	2019	2018	Variance
	%	%	
Quick ratio*	332	385	(53)

Turnover reduction for the year is driven by average $5.4 decrease in price in 2019, though volume increased for 1 lifting versus 2018.

Change in operating profit and profit for the year is driven by lower turnover, higher cost of sales and other operating income due to adoption of IFRS 16 in 2019. Increase in cost of sales is due to rise in depreciation charges, OPEX cost increase, stock reduction effect and adoption of IFRS 16.

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

The decrease in quick ratio is due to the increase in ACE project creditors and adoption of IFRS 16.

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

Section 172 (1) statement

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

Section 172 factors

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

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

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

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The principal decision taken by the directors during the year included sanctioning FID on the ACE project on 1 April 2019. In taking decisions throughout the financial year, the directors were focused on supporting the development and return prospects of the ACG field, having regard to the likely long term consequences of the decision.

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

Principal risks and uncertainties

The company aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management for the BP group.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the BP group Annual Report and Form 20-F for the year ended 31 December 2019.

Strategic and commercial risks

Prices and markets
The company's financial performance is subject to fluctuating prices of oil, gas and refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook. Political developments, increased supply of oil and gas or low carbon energy sources, technological change, global economic conditions, public health situations and the influence of OPEC can impact supply and demand and prices for our products.

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

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

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

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

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

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

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

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Strategic and commercial risks (continued)

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

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

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

Safety and operational risks

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

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

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

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

Compliance and control risks

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

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

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

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Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk, and liquidity risk. Further details on these financial risks are included within Note 29 of the BP group Annual Report and Form 20-F for the year ended 31 December 2019.

Authorized for issue by Order of the Board

DocuSigned by:
CThomas
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For and on behalf of
Sunbury Secretaries Limited
Company Secretary

29 September 2020

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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DIRECTORS' REPORT

BP EXPLORATION (CASPIAN SEA) LIMITED

Directors

The present directors are listed on page 1.

J Freeman and R G Jones served as directors throughout the financial year. Changes since 1 January 2019 are as follows:

	Appointed	Resigned
T L Juliussen	10 March 2020	—

Directors' indemnity

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

Dividends

During the year the company has declared and paid dividends of $100,000,000 (2018 $150,000,000). The directors do not propose the payment of a final dividend.

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the strategic report under Financial risk management.

Post balance sheet event(s)

Since 31 December 2019, oil and gas prices have fallen sharply in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided under Going Concern below. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of $55/bbl for Brent for the period of 2021-2050 (in 2020 prices). Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020. As a result of the revised long–term price assumptions and a review of the long–term strategic plan, management also reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects, however, no impairment has been identified related to the assets of the Company. As these revisions relate to events and circumstances arising since 31 December 2019, this is non–adjusting event for the financial statements for the period ending 31 December 2019.

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Going concern

The directors have assessed the prospects of the company over a period of at least 12 months. The directors have considered expectations of the position and performance of the company over this period, taking account of its short-term and longer-range plans. Taking into account the company's current position and its principal risks on pages 3-4, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over at least the next 12 months.

Since 31 December 2019, the oil price has fallen sharply in large part due to the impact of the international spread of COVID-19 and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered.

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

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

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

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

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

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

Future developments

The directors aim to maintain the management policies which have resulted in the company's 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.

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Research and development

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

Stakeholder statement

Engagement with other stakeholders

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

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

On behalf of the company, the BP group participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the BP group works with governments on a range of issues that are relevant to its business, from regulatory compliance, to understanding tax liabilities, to collaborating on community initiatives.

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

The company's relationships with communities are important for all its activities, but particularly for major new projects where its presence may bring about changes in the local areas, such as jobs and support for community development, as well as increased road traffic, changes in the landscape and increased demands for fresh water. The company engages with local communities through public consultations and meetings with local representatives and completes impact assessments where relevant.

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

Corporate Governance Statement

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

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

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System of Internal Control

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

Further, they help to ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation.

The System of Internal Control helps to ensure compliance with laws and regulations and also with internal policies with respect to the conduct of business.

The Policy

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

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

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

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

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

The Policy requires directors to:

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

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

Application of the system of governance

The Directors have applied this system of governance by:

(a) Promoting the purpose of the company to advance energy to improve people's lives
(b) Regularly reviewing the board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual directors have sufficient capacity to make a valuable contribution. The board retains a minimum of three directors, and where appropriate, promotes independent and objective challenge through the appointment of a minimum of one director who is not directly or indirectly responsible for the management function of the company. In certain cases, the board nominates a designated Chair to provide leadership of the board.
(c) Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making directors take into account the System of Internal Control, the BP Code of Conduct and the company's purpose and how it furthers the group's purpose, aims and ambitions, when acting in their capacity as a director of the company.
(d) In accordance with the Policy, the board is supported by Systems of Internal Control to identify opportunities to create and preserve value and to manage its principal risks and uncertainties as set out in the strategic report.
(e) Having regard to and fostering good stakeholder relationships as set out within the statement of engagement with key stakeholders in the directors' report.

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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.

Authorized for issue by Order of the Board

DocuSigned by:
CThomas
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For and on behalf of
Sunbury Secretaries Limited
Company Secretary

29 September 2020

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

BP EXPLORATION (CASPIAN SEA) LIMITED

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP EXPLORATION (CASPIAN SEA) LIMITED

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorized for issue.

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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

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

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

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

Report on other legal and regulatory requirements

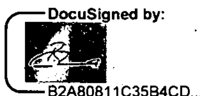
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

DocuSigned by:

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29 September 2020

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

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PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2019

BP EXPLORATION (CASPIAN SEA) LIMITED

	Note	2019 $000	2018 $000
Turnover	3	1,414,020	1,485,171
Cost of sales		(1,142,827)	(1,050,938)
Gross profit		271,193	434,233
Exploration expenses		(4,387)	(4,054)
Administrative expenses		(28,304)	(27,074)
Other operating income		68,065	—
Operating profit	4	306,567	403,105
Interest receivable and similar income	6	59,462	44,399
Interest payable and similar expenses	7	(72,432)	(60,081)
Profit before taxation		293,597	387,423
Tax on profit	8	(120,960)	(195,817)
Profit result for the year		172,637	191,606

The profit of $172,637,000 for the year ended 31 December 2019 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $000	2018 $000
Profit for the year	172,637	191,606
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Re-measurements of the net pension and other post-retirement benefit	(454)	515
Other comprehensive (loss) / income for the year net of tax	(454)	515
Total comprehensive income for the year	172,183	192,121

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BALANCE SHEET

AS AT 31 DECEMBER 2019

BP EXPLORATION (CASPIAN SEA) LIMITED

(Registered No.00404347)

	Note	2019 $000	2018 $000
Fixed assets			
Intangible assets	**10**	1,236	300,935
Tangible assets	**11**	6,069,077	5,850,022
Investments	**12**	8	8
		6,070,321	6,150,965
Current assets			
Stocks	**13**	90,817	105,696
Debtors	**14**	2,876,618	2,318,007
Debtors – amounts falling due:			
within one year	**14**	2,773,985	2,308,944
after one year	**14**	102,633	9,063
Cash at bank and in hand		460,972	450,531
		3,428,407	2,874,234
Creditors: amounts falling due within one year	**15**	(842,007)	(715,935)
Lease liabilities		(133,775)	—
Net current assets		2,452,625	2,158,299
TOTAL ASSETS LESS CURRENT LIABILITIES		8,522,946	8,309,264
Creditors: amounts falling due after more than one year	**15**	(820,987)	(971,319)
Lease liabilities		(269,000)	—
Provisions for liabilities and charges			
Deferred tax liability	**8**	(547,040)	(626,255)
Other provisions	**18**	(814,359)	(693,385)
Defined benefit pension plan deficits		(2,212)	(1,760)
NET ASSETS		6,069,348	6,016,545
Capital and reserves			
Called up share capital	**19**	8,401	8,401
Share premium account	**20**	5,242,874	5,242,874
Other reserves		62,470	62,924
Profit and loss account	**20**	755,603	702,346
Total equity		6,069,348	6,016,545

Authorized for issue on behalf of the Board

DocuSigned by:
Jaqui Freeman
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J Freeman
Director
29 September 2020

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

BP EXPLORATION (CASPIAN SEA) LIMITED

	Called up share capital (Note 19)	Share premium account (Note 20)	Other reserves	Profit and loss account (Note 19)	Total
	$000	$000	$000	$000	$000
Balance at 1 January 2018	8,401	5,242,874	62,506	660,740	5,974,521
Profit for the year	—	—	—	191,606	191,606
Other comprehensive income for the year	—	—	515	—	515
Total comprehensive income for the year	8,401	5,242,874	63,021	852,346	6,166,642
Capital contribution for equity-settled share-based payments	—	—	(97)	—	(97)
Dividends paid	—	—	—	(150,000)	(150,000)
Balance at 31 December 2018	8,401	5,242,874	62,924	702,346	6,016,545
Adjustment on adoption of IFRS 16, net of tax*	—	—	—	(19,380)	(19,380)
At 1 January 2019	8,401	5,242,874	62,924	682,966	5,997,165
Profit for the year	—	—	—	172,637	172,637
Other comprehensive loss for the year	—	—	(454)	—	(454)
Total comprehensive income for the year	8,401	5,242,874	62,470	855,603	6,169,348
Dividends paid	—	—	—	(100,000)	(100,000)
Balance at 31 December 2019	8,401	5,242,874	62,470	755,603	6,069,348

*See Note 2 IFRS16 Leases table for transition disclosure.

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

The financial statements of BP Exploration (Caspian Sea) Limited for the year ended 31 December 2019 were approved by the board of directors on 24 September 2020 and the balance sheet was signed on the board's behalf by J Freeman. BP Exploration (Caspian Sea) Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00404347). The company's registered office is at Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

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

Basis of preparation

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

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

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 24 to the financial statements.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

(a) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
(b) the requirements of IFRS 7 Financial Instruments: Disclosures;
(c) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
(d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(e) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of
 (i) paragraph 79(a)(iv) of IAS 1;
 (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 (iii) paragraph 118(e) of IAS 38 Intangible Assets;
(f) the requirements of IAS 7 Statement of Cash Flows;
(g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
(h) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
(i) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

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

Basis of preparation (continued)

(j) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
(k) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and
(l) 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 24.

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

Significant accounting policies: use of judgements, estimates and assumptions

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

Significant accounting policies

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved and the financial statements have therefore been prepared under the going concern basis.

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

Foreign currency

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

As the company is considered to be an intermediate holding company, and therefore an extension of its parent company, its functional currency is the same as its parent company.

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.

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

Significant accounting policies (continued)

Tangible assets

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

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

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, changes in commodity prices, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Significant judgements and estimates: recoverability of asset carrying values

Determination as to whether, and how much, an asset is impaired involves management estimates. For this entity, price is considered to be a key estimate. The effects of inflation on operating expenses, discount rates, production profiles and reserves and resources, including the outlook for global or regional market supply–and–demand conditions for crude oil, natural gas and refined products are all considered to be further inputs.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. Fair value less costs of disposal may be determined based on expected sales proceeds or similar recent market transaction data.

The estimates for assumptions made in impairment tests in 2019 relating to oil and gas properties and prices are discussed below.

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

Oil and natural gas properties
For oil and natural gas properties, the expected future cash flows are estimated using management's best estimate of future oil and natural gas prices which are a key estimate and reserves volumes which are an input but not a key estimate for this entity. The estimated future level of production – another input but not key estimate for this entity is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

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 and production volumes. Risk factors may be applied to reserves and resources which do not meet the criteria to be treated as proved. None of the inputs were sensitive to reasonably expected changes.

Oil and natural gas prices
The long-term price assumptions used for investment appraisal are recommended by the BP group chief economist after considering a range of external price, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met. The assumptions below represent management's best estimate of future prices; they do not reflect a specific scenario and sit within the range of the external forecasts considered.

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

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

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

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

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

Significant accounting policies (continued)

Impairment of intangible and tangible assets (continued)

In response to events and circumstances arising after the balance sheet date, the BP Plc group has revised its forecast oil and gas prices for use within impairment tests. Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020. As a result of the revised long–term price assumptions and a review of the long–term strategic plan, management also reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects, however, no impairment has been identified related to the assets of the Company. As these revisions relate to events and circumstances arising since 31 December, this is non–adjusting event for the financial statements for the period ending 31 December 2019.

Stock

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

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

Leases

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

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

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

The lease liability is recognized on an amortized cost basis with interest expense recognized in the income statement over the lease term, except where capitalized as exploration, appraisal or development expenditure.

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

Significant accounting policies (continued)

Leases (continued)

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, appraisal or development expenditure. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, intangible assets, and goodwill.

Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis except for leases of retail service stations where the group has elected not to separate non-lease payments from the calculation of the lease liability and right-of-use asset.

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

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

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

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

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

Agreements under which payments are made to owners in return for the right to use a specific asset are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership are recognized as finance leases. All other leases are accounted for as operating leases.

Finance leases are capitalized at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where capitalized as exploration or appraisal expenditure. See significant accounting policy: Exploration and appraisal expenditure.

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

Significant accounting policies (continued)

Financial assets

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

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

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

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

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

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

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.

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

Significant accounting policies (continued)

Financial liabilities (continued)

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

Fair value measurement

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

Offsetting of financial assets and liabilities

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

Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 2.5% (2018 3.0%).

Decommissioning

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

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

Significant accounting policies (continued)

Decommissioning **(continued)**

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.

ACG PSA decommissioning provision terms are disclosed in Note 18.

Environmental expenditures and liabilities

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

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

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

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company. Deferred bonus arrangements that have a vesting date more than 12 months after the balance sheet date are valued on an actuarial basis using the projected unit credit method and amortized on a straight-line basis over the service period until the award vests. The accounting policies for pensions and other post-retirement benefits are described below.

Pensions

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period to determine current service cost and to the current and prior periods to determine the present value of the defined benefit obligation. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognized immediately when the company becomes committed to a change.

Net interest expense relating to pensions and other post-retirement benefits, which is recognized in the profit and loss account, represents the net change in present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year, and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year.

Remeasurements of the net defined benefit liability or asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest described above) are recognized within other comprehensive income in the period in which they occur and not subsequently reclassified to profit and loss.

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

Significant accounting policies (continued)

Pensions (continued)

The defined benefit pension plan surplus or deficit in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), and the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. Defined benefit pension plan surpluses are only recognized to the extent they are recoverable, either by way of a refund from the plan or reductions in future contributions to the plan.

Taxation

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

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

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

Taxation (continued)

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

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.

Impact of new International Financial Reporting Standards

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

IFRS 16 'Leases'

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

IFRS 16 introduces a revised definition of a lease. As permitted by the standard, the company elected not to reassess the existing population of leases under the new definition and only applies the new definition for the assessment of contracts entered into after the transition date. On transition the standard permitted, on a lease-by-lease basis, the right-of-use asset to be measured either at an amount equal to the lease liability (as adjusted for prepaid or accrued lease payments), or on a historical basis as if the standard had always applied. BP has elected to use the historical asset measurement for its more material leases and used the asset equals liability approach for the remainder of the population. In measuring the right-of-use asset the company applied the transition practical expedient to exclude initial direct costs. The company also elected to adjust the carrying amounts of the right-of-use assets as at 1 January 2019 for onerous lease provisions that had been recognized on the company balance sheet as at 31 December 2018, rather than performing impairment tests on transition.

The effect on the company's balance sheet is set out further below. The presentation and timing of recognition of charges in the profit and loss account has changed following the adoption of IFRS 16. The operating lease expense previously reported under IAS 17, typically on a straight-line basis, has been replaced by depreciation of the right-of-use asset and interest on the lease liability.

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

Significant accounting policies (continued)

IFRS 16 'Leases' (continued)

The following table provides a reconciliation of the operating lease commitments disclosed as at 31 December 2018 to the total lease liability recognized on the balance sheet in accordance with IFRS 16 as at 1 January 2019, with explanations below.

	$000
Operating lease commitments at 31 December 2018	66,686
Effect of discounting	(35,008)
Impact on leases in joint operations	443,829
Total additional lease liabilities recognized on adoption of IFRS 16	475,507
Finance lease obligations as 31 December 2018	1,720
Adjustment for finance leases in joint operations	1,720
Total lease liabilities at 1 January 2019	478,947
Of which - current	143,684
- non-current	335,263

Short-term leases and leases below materiality threshold
As part of the transition to IFRS 16, the company elected not to recognize assets and liabilities relating to short-term leases i.e. leases with a term of less than 12 months and also applied a materiality threshold for the recognition of assets and liabilities related to leases. The disclosed operating lease commitments as at 31 December 2018 include amounts related to such leases.

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

Redetermination of lease term
Under the transition provisions of IFRS 16, the remaining terms of certain leases were redetermined with the benefit of hindsight, on the basis that BP was reasonably certain to exercise its option to terminate those leases before the full term.

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

Significant accounting policies (continued)

IFRS 16 'Leases' (continued)

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

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

			$000
	31 December 2018	1 January 2019	Adjustment on adoption of IFRS 16
Fixed assets	6,150,965	6,608,282	457,317
Tangible assets	5,850,022	6,149,872	299,850
Loans, trade and other receivables	—	157,467	157,467
Current assets	2,874,234	2,870,524	(3,710)
Prepayments	9,063	5,353	(3,710)
Creditors: amounts falling due within one year	(715,935)	(853,659)	(137,724)
Trade and other creditors	(626,622)	(624,834)	1,788
Accruals	(88,521)	(84,349)	4,172
Lease liabilities	(792)	(144,476)	(143,684)
Creditors: amounts falling due after more than one year	(2,292,719)	(2,627,982)	(335,263)
Lease liabilities	(928)	(336,191)	(335,263)
Net assets*	6,016,545	5,997,165	(19,380)
Capital and reserves			
Profit and loss account	702,346	682,966	(19,380)
	6,016,545	5,997,165	(19,380)

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

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3. Turnover

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

	2019	2018
	$000	$000
Sales of goods	1,414,020	1,485,171
	1,414,020	1,485,171
Other operating income	68,065	—
Interest receivable and similar income (Note 6)	59,462	44,399
	1,541,547	1,529,570

Value in other operating income in 2019 is generated due to adoption of IFRS 16. Other Operating income represents BP and partner portion of lease liability where BP Exploration (Caspian Sea) Limited entered into contract on behalf of its partners.

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

	2019	2018
	$000	$000
Class of business:		
Upstream	1,414,020	1,485,171

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

4. Operating profit

This is stated after charging / (crediting):

	2019	2018
	$000	$000
Operating lease payments:		
Plant & machinery	—	1,432
Land & buildings	—	2,950
Tanker charters	—	11,961
Net foreign exchange losses / (gains)	1,705	(276)
Research and development costs expense	5,434	5,905
Amortization of intangible assets		
- Other	5	8
Depreciation of tangible assets	849,400	835,413
Depreciation of assets held under finance leases	—	737
Depreciation of right-of-use assets	68,564	—
Cost of stock recognized as an expense*	3,666	2,085

* Amount is included in Cost of sales.

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5. Auditor's remuneration

	2019	2018
	$000	$000
Fees for the audit of the company	62	48

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

6. Interest receivable and similar income

	2019	2018
	$000	$000
Interest income from amounts owed by group undertakings	59,462	44,399
Total interest receivable and similar income	59,462	44,399

7. Interest payable and similar expenses

	2019	2018
	$000	$000
Interest expense on:		
Lease liabilities	14,504	62
Overdrafts from group undertakings	4,731	4,035
Total interest expense	19,235	4,097
Unwinding of discount on provisions - Note 18	21,434	18,014
Unwinding of discount on signature bonus	32,957	37,717
Interest on pension scheme liabilities	248	253
Interest on Capitalized Interest	(1,442)	—
Total interest payable and similar expenses	72,432	60,081

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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:

	2019	2018
Current tax	$000	$000
Overseas tax on income for the year	184,553	179,358
Overseas tax underprovided in prior years	15,622	13,174
Total current tax charged	200,175	192,532
Deferred tax		
Origination and reversal of temporary differences		
Overseas deferred tax	(79,215)	3,285
Total deferred tax (credited) / charged	(79,215)	3,285
Tax charged on profit	120,960	195,817

(a) Reconciliation of the effective tax rate

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

	2019	2018
	UK	UK
	$000	$000
Profit before tax	293,597	387,423
Tax charge	120,960	195,817
Effective tax rate	41.20%	50.54%

	2019	2018
	UK	UK
	%	%
UK corporation tax rate:	19	19
Overseas corporation tax rate:	-	-
Increase / (decrease) resulting from:		
Non-deductible expenditure / (non-taxable income)	—	1
Double tax relief	(63)	(50)
Overseas tax	41.20	50.54
Free group relief	(15)	(14)
Movements in unrecognised deferred tax	59	44
Effective tax rate	41.20	50.54

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

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8. Taxation (continued)

Change in corporation tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. Deferred tax has been measured using ACG PSA tax rate of 25%, which has been substantively enacted at 31 December 2019.

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
Deferred tax asset	2019	2018	2019	2018
	$000	$000	$000	$000
Decommissioning and other provisions	30,244	(3,829)	203,590	173,346
Other deductible temporary differences	(12,370)	(90,607)	330,260	342,630
Net credit / (charge) for deferred tax assets	17,874	(94,436)	533,850	515,976

	Profit and loss account		Balance sheet	
Deferred tax liability	2019	2018	2019	2018
	$000	$000	$000	$000
Accelerated capital allowances	72,867	80,895	(1,021,944)	(1,094,811)
Other taxable temporary differences	(11,526)	10,256	(58,946)	(47,420)
Net charge for deferred tax liabilities	61,341	91,151	(1,080,890)	(1,142,231)
Net deferred tax (charge)/credit and net deferred tax (liability)/asset	79,215	(3,285)	(547,040)	(626,255)

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

Analysis of movements during the year

	2019
	$000
At 1 January 2019	626,255
Deferred tax credit in the profit and loss account	(79,215)
At 31 December 2019	547,040

Deferred tax has not been recognised on deductible temporary differences relating to decommissioning provisions outside the UK ring fence of $814,359,000 (2018: $693,385,000), provisions of $6,394,000 (2018: $7,303,000), IFRS16 of $15,170,000 (2018: $Nil) and fixed assets of $2,914,959,000 (2018: $2,294,948,000) with no fixed expiry date on the basis that they are UK tax attributes that are not expected to give rise to any future tax benefit.

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9. Directors and employees

(a) Remuneration of directors
None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2018 $Nil).

(b) Employee costs

	2019	2018
	$000	$000
Wages and salaries	172,690	156,706
Social security costs	40,270	37,875
Other pension costs	6,380	5,792
Share-based payment charge	4,353	4,684
	223,693	205,057

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

Included in other pension costs are $6,380,000 (2018 $5,792,000) in respect of defined benefit schemes.

(c) The average monthly number of employees during the year was 2,998 (2018 3,080).

	2019	2018
	No.	No.
Upstream	2,998	3,080

10. Intangible assets

	Exploration expenditure	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2019	30,715	277,665	308,380
Additions	8	27,136	27,144
Transfers*	(29,487)	(304,801)	(334,288)
At 31 December 2019	1,236	—	1,236
Amortization			
At 1 January 2019	—	(7,445)	(7,445)
Charge for the year	—	(5)	(5)
Transfers		7,450	7,450
At 31 December 2019	—	—	—
Net book value			
At 31 December 2019	1,236	—	1,236
At 31 December 2018	30,715	270,220	300,935

*FID with ACE project - the project moved to execution stage and its cost was transferred from intangible asset to tangible as Asset Under Construction.

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11. Tangible assets

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Right-of-use asset	Total	Of which AUC[a]
Cost[b]	$000	$000	$000	$000	$000	$000	$000
At 1 January 2019	30,169	103,744	17,377,700	41,147	299,850	17,852,610	514,445
Additions	282	—	521,034	—	484	521,800	168,287
Transfers	—	—	326,838	—	—	326,838	324,104
Disposals	—	—	—	—	(3,565)	(3,565)	—
At 31 December 2019	30,451	103,744	18,225,572	41,147	296,769	18,697,683	1,006,836
Depreciation							
At 1 January 2019	(9,483)	(88,191)	(11,565,777)	(41,007)	—	(11,704,458)	—
Charge for the year	(820)	(2,773)	(845.667)	(140)	(74,748)	(924,148)	—
At 31 December 2019	(10,303)	(90,964)	(12,411,444)	(41,147)	(74,748)	(12,628,606)	—
Total net book value							
At 31 December 2019	20,148	12,780	5,814,128	—	222,021	6,069,077	1,006,836
Total net book value							
At 31 December 2018	20,686	15,553	5,811,923	140	—	5,848,302	514,445
Right–of–use assets recognized as part of the transition to IFRS 16	—	—	—	—	299,850	—	—
At 1 January 2019	30,169	103,744	17,377,700	41,147	299,850	17,852,610	514,445

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

[b] Leases previously classified as finance leases are included within right-of-use assets following the implementation of IFRS 16 'Leases'; see Note 2 for further information. The reconciliation of owned property, plant and equipment for 2019 does not include right-of-use assets and, therefore, the cost and depreciation at 1 January 2019 is not equal to the cost and depreciation of total property, plant and equipment at 31 December 2018. The relevant amounts excluded are cost of $3.9m and depreciation of $2.1m relating to leases previously classified as finance leases.

The depreciation expense recognized for the year on right-of-use assets was $74,748,000.

Capitalized interest included above is as follows:

	Net book value
Capitalized interest	
At 31 December 2019	56,213
At 31 December 2018	61,696

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12. Investments

	Investment in joint ventures
Cost	$000
At 1 January 2018	8
At 31 December 2018	8
At 1 January 2019	8
At 31 December 2019	8
Net book amount	
At 31 December 2019	8
At 31 December 2018	8

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

The investments in the subsidiary and joint ventures are unlisted.

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

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

Subsidiary undertakings

Company name	Class of share held	%	Registered address	Principal activity
BP Exploration (Xazar) PTE. Ltd	Ordinary shares	100	7 Straits View #26-01 Marina One East Tower Singapore 018936 Singapore	Employee services
BP-AIOC Exploration (TISA) LLC	Member interest	71	153 Neftchilar Avenue Baku AZ1010 Azerbaijan	Pre-school and primary education

Joint ventures

Company name	Class of share held	%	Registered address	Principal activity
Azerbaijan International Operating Company	Unlimited redeemable shares	30.37	190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands	Oil field operator
Georgian Pipeline Company	Unlimited redeemable shares	30.37	190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands	Pipeline operator

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13. Stocks

	2019	2018
	$000	$000
Crude oil	5,747	15,161
Supplies	85,070	90,535
	90,817	105,696

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

The stock valuation at 31 December 2019 is stated net of a provision of $6,394,000 (2018 $7,303,000) to write stock down to their net realizable value.

14. Debtors

Amounts falling due within one year:

	2019	2018
	$000	$000
Trade debtors	42,345	11,847
Amounts owed from parent undertakings	2,565,662	2,233,126
Amounts owed from fellow subsidiaries	108,731	15,434
Amounts owed from joint ventures	40,951	20,868
Amounts owed from associates	11,643	14,741
Other debtors	(850)	(1,090)
Prepayments and accrued income	5,503	14,018
	2,773,985	2,308,944

Amounts falling due after one year:

	2019	2018
	$000	$000
Amounts owed from fellow subsidiaries	95,799	—
Other debtors	(65)	18
Prepayments and accrued income	6,899	9,045
	102,633	9,063
Total debtors	2,876,618	2,318,007

The amounts owed from fellow subsidiaries / parent undertakings / joint ventures are shown above for 2019 versus 2018. Interest is accrued on a monthly basis based on IBOR. The borrowing interest rate at year end was LIBOR+0.25% (2018 LIBOR+0.19%) and deposit interest rate was LIBOR+0.11% (2018 LIBOR-0.11%).

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15. Creditors

Amounts falling due within one year:

	2019	2018
	$000	$000
Trade creditors	96,752	73,334
Amounts owed to parent undertakings	51,760	16,303
Amounts owed to fellow subsidiaries	3,725	5,565
Amounts owed to joint ventures	5,344	2,097
Amounts owed to associates	12,263	14,968
Other creditors	450,650	451,536
Taxation	104,039	63,611
Accruals and deferred income	117,474	88,521
	842,007	715,935

Amounts falling due after one year:

	2019	2018
	$000	$000
Other creditors	820,987	971,319
	820,987	971,319
Total creditors	1,662,994	1,687,254

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.

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16. Loans and obligations under leases

Obligations under leases are analysed as follows:

Within 5 years

	2019			2018		
	Loans	Lease liabilities	Total	Loans	Lease liabilities	Total
	$000	$000	$000	$000	$000	$000
Wholly repayable	—	—	—	—	—	—
Not wholly repayable	—	396,303	396,303	—	1,720	1,720
	—	396,303	396,303	—	1,720	1,720

After 5 years

	2019			2018		
	Loans	Lease liabilities	Total	Loans	Lease liabilities	Total
	$000	$000	$000	$000	$000	$000
Wholly repayable	—	—	—	—	—	—
Not wholly repayable	—	6,472	6,472	—	—	—
	—	6,472	6,472	—	—	—

The amounts presented for 2019 relate to the maturity of lease liabilities under IFRS 16. The amounts presented for 2018 represent finance leases accounted for under IAS 17.

Under IAS 17 finance leases were recognized on the balance sheet and continue to be recognized in accordance with IFRS 16.

17. Leases

The company leases a number of assets as part of its activities. This primarily includes drilling rigs in the Upstream segment and shipping vessels. The weighted average remaining lease term for the total lease portfolio is around 6 years. Some leases will have payments that vary with market interest or inflation rates. Certain leases contain residual value guarantees, these may be triggered in certain circumstances such as if market values have significantly declined at the conclusion of the lease.

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

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

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	2019
	$000
Short-term lease expense	4,436
Expense for variable payments not included in the lease liability	190,887
Additions to right-of-use assets in the period	484
Total cash outflow for amounts included in lease liabilities	141,362

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

The lease liability reported on the Balance Sheet can be further broken down into: leases due within 1 year: $133,775,000; leases due between 1-5 years: $262,528,866; and leases due after 5 years: $6,471,537.

18. Other provisions

	Decommissioning
	$000
At 1 January 2019	693,385
New or increased provisions:	
Recognized within tangible assets	52,789
Unwinding of discount	21,434
Change in discount rate	46,751
31 December 2019	814,359

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines oil a discounted basis on the installation of those facilities. At 31 December 2019, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was $814,359,000 (2018 $693,385,000). The provision has been estimated using PSA methodology and requirements, according to which the company's decommissioning obligations are calculated based on 10% of ACG PSA cumulative capital expenditures incurred, and discounted using a nominal discount rate of 2.5% (2018 3%). These costs are expected to be incurred over the next 31 years.

19. Called up share capital

	2019	2018
	$000	$000
Issued and fully paid:		
4,969,221 ordinary shares of £1 each for a total nominal value of £4,969,221	8,401	8,401

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20. Reserves

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

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

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

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

In 2019, the company paid interim ordinary dividends of $100,000,000 (2018 $150,000,000). The dividend per share was $20 (2018 dividend per share $30).

21. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2019 is estimated at $581,715,000 (2018 $227,154,000).

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22. Related party transactions

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

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

Related party	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
	$000	$000	$000	$000
Azerbaijan International Operating Company				
Joint venture				
Services				
2019	480,289	—	40,951	5,344
2018	429,299	—	20,868	2,097
The Baku-Tbilisi-Ceyhan Pipeline				
Group associate				
Transportation and services				
2019	51,257	67,001	4,513	1,503
2018	48,975	74,148	9,402	438
South Caucasus Pipeline Company Limited				
Group associate				
Services				
2019	39,944	—	7,048	—
2018	49,026	—	5,056	—
TAP AG				
Group associate				
Services				
2019	—	—	82	—
2018	—	—	283	—

23. Post balance sheet event

Since 31 December 2019, oil and gas prices have fallen sharply in large part due to the impact of the international spread of COVID-19 (Coronavirus) and geopolitical factors. The impact of COVID-19 and the current economic environment on the basis of preparation of these financial statements has been considered. The directors continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the Directors' Report under Going Concern. This is a non-adjusting event for the financial statements for the period ending 31 December 2019.

Following OPEC+ agreement and discussions with SOCAR, BP, the operator of the major Azeri-Chirag-Gunashli (ACG) oil field, also agreed to adjust its oil production from the field. Full year ACG gross oil production is expected to be reduced to 477,000 barrels per day versus a plan of 510,000 barrels per day.

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On 15 June 2020 BP issued a press release detailing revised investment appraisal long-term oil price assumptions used in tangible assets impairment testing. The revised long-term price assumptions used to determine recoverable amount based on value-in-use impairment tests are an average of $55/bbl for Brent for the period of 2021-2050 (in 2020 prices). Impairment tests have been performed for the purposes of the BP Plc group financial statements as at 30 June 2020. As a result of the revised long–term price assumptions and a review of the long–term strategic plan, management also reviewed BP's exploration prospects and the carrying value of the associated intangible assets. The outcome of the review has resulted in revised judgements over the expectations to extract value from certain prospects, however, no impairment has been identified related to the assets of the Company. As these revisions relate to events and circumstances arising since 31 December 2019, this is non–adjusting event for the financial statements for the period ending 31 December 2019.

24. Immediate and ultimate controlling parent undertaking

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

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