

**BP EXPLORATION MEXICO LIMITED**  
**(Registered No.119961)**

**ANNUAL REPORT AND ACCOUNTS 2008**

FRIDAY



Board of Directors: F Posada  
J H Bartlett

**REPORT OF THE DIRECTORS**

The directors present their report and accounts for the year ended 31 December 2008.

**Results and dividends**

The loss for the year after taxation was \$4,177,866 which, when added to the retained deficit brought forward at 1 January 2008 of \$30,025,986 together with exchange loss taken directly to reserves of \$383,397, gives a total retained deficit carried forward at 31 December 2008 of \$34,587,249. The directors do not propose the payment of a final dividend.

**Principal activity and review of the business**

The company provides exploration services and training in Mexico. The company now primarily acts as a representative of the BP Group in Mexico.

The company has branches operating in Mexico.

**Principal risks**

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 at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

Company level risks have been identified and classified in three categories: strategic, compliance and ethics and financial risk management.

**Strategic risks**

***Socio-political***

We have operations in developing countries where political, economical and social transition is taking place. Some countries have experienced political instability, changes to the regulatory environment, expropriation or nationalization of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt or terminate our operations, causing our development activities to be curtailed or terminated in these areas or our production to decline, and could cause us to incur additional costs.

We set ourselves high standards of corporate citizenship and aspire to contribute to a better quality of life through the products and services we provide. If it is perceived that we are not respecting or advancing the economic and social progress of the communities in which we operate, our reputation and shareholder value could be damaged.

***Competition***

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home. Competition puts pressure on product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency.

## **BP EXPLORATION MEXICO LIMITED**

### **REPORT OF THE DIRECTORS**

#### **Compliance and ethics risks**

##### ***Ethical misconduct and non-compliance***

Our code of conduct, which applies to all employees, defines our commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions we expect of our business and people wherever we operate. Incidents of non-compliance with applicable laws and regulation or ethical misconduct could be damaging to our reputation and shareholder value. Multiple events of non-compliance could call into question the integrity of our operations.

#### **Financial risk management**

The main financial risks faced by the company through its normal business activities are currency risk, credit risk and liquidity risk. The management of these financial risks is performed at a group (BP p.l.c. Group) level.

##### ***Currency risk***

Fluctuations in exchange rates can have significant effects on the company's reported profit. The company's financial assets and liabilities give rise to transactional currency exposures. Such exposures arise from transactions in a currency other than the company's functional currency. The management of such risks is performed at BP Group level.

BP's foreign exchange management policy is to minimize economic and significant transactional exposures arising from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible to reduce the risks, and then dealing with any material residual foreign exchange risks. Significant residual non-dollar exposures are managed using a range of derivatives.

##### ***Credit risk***

Credit risk is the potential exposure of the company to loss in the event of non-performance by a counterparty. The management of such risks is performed at BP Group level. The group controls the related credit risk through credit approvals, limits, use of netting arrangements and monitoring procedures. Before trading with a new counterparty, its creditworthiness is assessed and a credit rating allocated that indicates the probability of default, along with a credit exposure limit. Creditworthiness continues to be evaluated after transactions have been initiated and a watchlist of higher-risk counterparties is maintained.

##### ***Liquidity risk***

Liquidity risk is the risk that sources of funding for the company's business activities may not be available. This risk is managed by the BP Group on the company's behalf and as such the company has access to the resources of the group. The group has long-term debt ratings of Aa1 and AA, assigned respectively by Moody's and Standard & Poor's.

#### **Future developments**

The directors 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.

**BP EXPLORATION MEXICO LIMITED**

**REPORT OF THE DIRECTORS**

**Directors**

The present directors are listed on page 1.

Mr W E Armstrong and Mr J H Bartlett served as a director throughout the financial year.

Changes since 1 January 2008 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
W E Armstrong		1 July 2009
F Posada	1 July 2009	

**Directors' indemnity**

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

**Auditors**

Ernst & Young LLP will continue in office as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985.

**BP EXPLORATION MEXICO LIMITED**

**REPORT OF THE DIRECTORS**

**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 their 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.

By order of the Board



Secretary

26 August 2009

Registered Office:

Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP

## **BP EXPLORATION MEXICO LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

The directors are responsible for preparing the accounts in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice.

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and the loss for the year. In preparing these accounts, the directors are required:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. 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 and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

**BP EXPLORATION MEXICO LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**  
**BP EXPLORATION MEXICO LIMITED**

We have audited the company's accounts for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 14. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the accounts.

*Ernst & Young LLP*  
Ernst & Young LLP

Registered auditor  
London

*26 August* 2009

## **BP EXPLORATION MEXICO LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting standards**

These accounts are prepared in accordance with applicable UK accounting standards.

#### **Accounting convention**

The accounts are prepared under the historical cost convention.

#### **Statement of cash flows**

The group accounts of the ultimate parent undertaking contain a consolidated cash flow statement. The company has taken advantage of the exemption granted by the Financial Reporting Standard No. 1 (Revised), whereby it is not required to publish its own cash flow statement.

#### **Foreign currency transactions**

The company maintains its accounting records in Mexican Pesos as its functional currency. These accounts have been prepared by translating those accounting records into US Dollars.

Foreign currency transactions are initially recorded in dollars by applying the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are translated into dollars at the rate of exchange ruling at the balance sheet date. Exchange differences are included in the profit and loss account.

#### **Interest**

Interest is charged against income in the year in which it is incurred.

#### **Other debtors**

Other debtors are carried at the original invoice amount, less allowances made for doubtful receivables. Provision is made when there is objective evidence that the group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### **Other creditors**

Other creditors are carried at payment or settlement amounts. If the effect of the time value of money is material, trade and other creditors are determined by discounting the expected future cash flows at a pre-tax rate.

**BP EXPLORATION MEXICO LIMITED****PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

		<u>2008</u>	<u>2007</u>
	<b>Note</b>	\$	\$
Administration expenses		(4,009,913)	(3,432,527)
<b>Loss on ordinary activities before interest and tax</b>	<b>1</b>	<u>(4,009,913)</u>	<u>(3,432,527)</u>
Interest payable and similar charges	<b>3</b>	(311,529)	(160,432)
Interest receivable and similar income	<b>4</b>	143,576	132,977
Loss before taxation		<u>(4,177,866)</u>	<u>(3,459,982)</u>
Taxation	<b>5</b>	-	-
<b>Loss for the year</b>		<u>(4,177,866)</u>	<u>(3,459,982)</u>

The loss of \$4,177,866 for the year ended 31 December 2008 has derived in its entirety from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>Loss for the year</b>	(4,177,866)	(3,459,982)
Currency translation differences	(383,397)	52,525
<b>Total recognised gains and losses for the year</b>	<u>(4,561,263)</u>	<u>(3,407,457)</u>

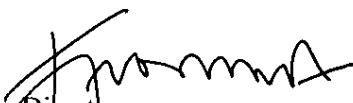


**BP EXPLORATION MEXICO LIMITED**

**BALANCE SHEET AT 31 DECEMBER 2008**

		<u>2008</u>	<u>2007</u>
	Note	\$	\$
<b>Current assets</b>			
Debtors	7	10,501,701	4,293,885
Cash at bank and in hand		<u>3,755,347</u>	<u>48,650</u>
		14,257,048	4,342,535
<b>Creditors: amounts falling due within one year</b>	8	<u>(390,972)</u>	<u>(5,161,346)</u>
<b>NET ASSETS/ (LIABILITIES)</b>		<u>13,866,076</u>	<u>(818,811)</u>
<b>Represented by</b>			
<b>Capital and reserves</b>			
Called up share capital	9	48,453,325	29,207,175
Profit and loss account	10	<u>(34,587,249)</u>	<u>(30,025,986)</u>
<b>SHAREHOLDERS' FUNDS – EQUITY INTERESTS</b>		<u>13,866,076</u>	<u>(818,811)</u>

On behalf of the Board

  
Director

26 August 2009

**BP EXPLORATION MEXICO LIMITED****NOTES TO THE ACCOUNTS****1. Loss on ordinary activities before interest and tax**

This is stated after charging:

	<u>2008</u>	<u>2007</u>
	\$	\$
Exchange loss on foreign currency borrowings less deposits	<u>215,830</u>	<u>47,048</u>

**2. Auditor's remuneration**

	<u>2008</u>	<u>2007</u>
	\$	\$
Fees for the audit of the company	<u>6,334</u>	<u>12,415</u>

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

**3. Interest payable and similar charges**

	<u>2008</u>	<u>2007</u>
	\$	\$
Interest expense on:		
Loans from group undertakings	<u>311,529</u>	<u>160,432</u>

**4. Interest receivable and similar income**

	<u>2008</u>	<u>2007</u>
	\$	\$
Interest income from group undertakings	116,736	130,853
Other interest	<u>26,840</u>	<u>2,124</u>
	<u>143,576</u>	<u>132,977</u>

**BP EXPLORATION MEXICO LIMITED**

**NOTES TO THE ACCOUNTS**

**5. Taxation**

The Company is a member of a group for the purposes of relief under Section 402 of the Income & Corporation Taxes Act 1988. No corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of group relief to the extent it is required and to provide for any current or deferred UK tax that arises without charge.

The tax charge is made up as follows:

	<u>2008</u>	<u>2007</u>
<u>Current tax</u>	\$	\$
Overseas tax on income for the year	-	-
 Total current tax	 <u>-</u>	 <u>-</u>

**(a) Factors affecting the current tax charge**

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28.5% for the year ended 31 December 2008 (2007 – 30%). The differences are reconciled below:

	<u>2008</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2007</u>
	UK	Overseas	UK	Overseas
	\$	\$	\$	\$
Loss on ordinary activities before tax	(4,177,866)	(4,177,866)	(3,459,982)	(3,459,982)
Current taxation	-	-	-	-
Effective current tax rate	0%	0%	0%	0%
	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
	UK	Overseas	UK	Overseas
	%	%	%	%
UK corporation tax rate:	28	-	30	-
Overseas corporation tax rate:	-	28	-	30
Increase / (decrease) resulting from:				
Permanent differences	-	-	(1)	-
Lower rate of overseas tax	-	-		(2)
Group relief	1	(28)	1	(28)
Transfer pricing adjustments	(2)	-	(1)	
Losses available for relief in future periods	(27)	-	(29)	
Effective current tax rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**BP EXPLORATION MEXICO LIMITED**

**NOTES TO THE ACCOUNTS**

**6. Directors and employees**

**(a) Remuneration of directors**

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2007: \$Nil).

**(b) Employee costs**

The company had no employees during the year (2007: Nil).

**7. Debtors**

	<u>2008</u>	<u>2007</u>
	Within	Within
	1 year	1 year
	\$	\$
Amounts owed by group undertakings	8,996,072	2,693,691
Taxation recoverable	1,503,383	1,600,177
Other debtors	2,246	17
	<u>10,501,701</u>	<u>4,293,885</u>

**8. Creditors**

	<u>2008</u>	<u>2007</u>
	Within	Within
	1 year	1 year
	\$	\$
Amounts owed to group undertakings	340,318	5,147,946
Other creditors	50,654	13,400
	<u>390,972</u>	<u>5,161,346</u>

**9. Called up share capital**

	<u>2008</u>	<u>2007</u>
	£	£
Authorised share capital:		
40,000,000 Ordinary shares of £1 each	<u>40,000,000</u>	<u>22,500,000</u>
	<u>2008</u>	<u>2007</u>
	\$	\$
Allotted, called up and fully paid:		
26,855,188 Ordinary shares of £1 each	<u>48,453,325</u>	<u>29,207,175</u>

On 29 September 2008, the authorised share capital of the company was increased to £40,000,000. Subsequently 11,000,000 ordinary shares of £1 each, were issued fully paid at par value to the parent company (share capital issued and fully paid in 2007: £15,885,188).

**BP EXPLORATION MEXICO LIMITED****NOTES TO THE ACCOUNTS****10. Capital and reserves**

	Equity share capital	Profit and loss account	Total
	\$	\$	\$
At 1 January 2008	29,207,175	(30,025,986)	(818,811)
Currency translation differences	-	(383,397)	(383,397)
Issue of ordinary share capital	19,246,150	-	19,246,150
Loss for the year	-	(4,177,866)	(4,177,866)
At 31 December 2008	48,453,325	(34,587,249)	13,866,076

**11. Reconciliation of movements in shareholders' funds**

	2008	2007
	\$	\$
Loss for the year	(4,177,866)	(3,459,982)
Currency translation differences	(383,397)	52,525
Issue of ordinary share capital	19,246,150	-
Net increase in shareholders' interests	14,684,887	(3,407,457)
Shareholders' interest at 1 January	(818,811)	2,588,646
Shareholders' interest at 31 December	13,866,076	(818,811)

**12. Related party transactions**

The company has taken advantage of the exemption contained within Financial Reporting Standard No 8 "Related Party Disclosures", and has not disclosed transactions with group companies. There were no other related party transactions in the year.

**13. Contingent liability**

There is a contingent liability at 31 December 2008 of \$1,100,000 in respect of value added tax (VAT) balances due to be recovered from the local tax authorities, which they believe no longer to be due to the company.

The Company has filed a suit against the tax authorities in order to obtain the outstanding balances as the company's tax advisors believe that the authorities' denial to refund the VAT is illegal. As such, the Company considers that the creation of a reserve for this amount is unnecessary, as it is felt the outcome will be favourable for the company.

**14. Immediate and ultimate parent undertaking**

The immediate parent undertaking of this company is BP Exploration Company Limited, a company registered in Scotland. The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP p.l.c., a company registered in England and Wales. Copies of BP p.l.c.'s accounts can be obtained from 1 St James's Square, London, SW1Y 4PD.