BP EXPLORATION OPERATING COMPANY LIMITED
(Registered No.00305943)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

Board of Directors: J S Burton
K A H Butler
L A Kingham
G R Gordon
A J De'Ath
D F Reiter

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

STRATEGIC REPORT

Principal activities

The company is engaged in the production and selling of petroleum products. It also provides services to other group undertakings within the bp group and holds investments in subsidiary undertakings and associated undertakings engaged in similar activities. Fundamentally the company's main operations are located in the United Kingdom (Inside Ring Fence - IRF) and the rest of the world (Outside Ring Fence - ORF).

The company also has branches in Ireland, Turkey, Trinidad and Tobago, Russian Federation and UAE, where it is engaged in overseas exploration and production activities. As of 27 February 2022, bp decided to exit its businesses with Rosneft within Russia. This decision is not expected to have a material effect on the company's operations.

Results and review of the business

The profit for the year after taxation was $17,122,699,000 which, when added to the retained profit brought forward at 1 January 2022 of $5,664,899,000 and after deducting total paid interim dividends to ordinary shareholders of $4,200,000,000, gives a total retained profit carried forward at 31 December 2022 of $18,587,598,000. This excludes exchange adjustments, other reserves and cash flow hedges movement taken directly to reserves.

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

	2022	2021	Variance
	$000	$000	%
Turnover	3,322,896	1,998,992	66
Operating profit	5,374,115	3,910,532	37
Profit for the financial year	17,122,699	5,914,190	190
Total equity	61,325,001	48,406,534	27

Turnover increased by $1,324 million (66%) during the year driven by the increase of $812 million in oil and natural gas liquids (NGL) revenue and $470 million in gas revenue. This was primarily driven by increase in natural gas prices that reached record highs in 2022. Further increase of $42 million is related to other operating revenue and tariff income.

During the year the company made an operating profit of $5,374 million compared to an operating profit of $3,911 million in 2021. Increase is primarily driven by higher gross margin in 2022.

The company generated a profit for the financial year of $17,123 million, compared to $5,914 million profit in 2021. Increase is primarily driven by higher turnover and dividend income from subsidiaries.

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

	2022	2021	Variance
	%	%	%
Quick ratio*	107	33	74
Return on average capital employed**	27.88	11.43	16.45
Gross Profit percentage***	64.05	33.91	30.14

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

**Return on average capital employed is defined as profit or loss for the year after adding back interest, divided by average capital employed. Capital employed is defined as total equity plus gross debt, excluding goodwill and cash.

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

Quick ratio increased by 74% from 2021 to 2022. This increase was primarily driven by higher debtors within one year due to higher internal funding account balances partially offset by lower creditors within one year due to dividend paid.

Return on average capital employed increased by 16.45%. Profit for the financial year is $11,209 million higher and total equity improved by $12,918 million compared to 2021. This increase in ROACE reflects successful divestment activities and higher profits in 2022.

Gross profit percentage increased by 30.1% that reflects record high natural gas prices in 2022.

Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future. bp's assumptions for investment appraisal help create an investment decision making framework for currently unsanctioned future capital expenditure on property, plant and equipment, and intangibles including exploration and appraisal assets, that is designed to support the effective and resilient implementation of bp's strategy.

In line with the revised price assumptions the company recognized $659 million (2021: $471 million) of reversal of impairment on tangible assets (mainly on ETAP and Schiehallion) and $1 million (2021: $7 million) impairment on intangible assets. Please refer to Significant accounting policies: use of judgements, estimates and assumptions for further details on revised price assumption.

Furthermore, $2,329 million reversal of impairment has been recognized regarding the company's investment in various companies, but mainly in BP Exploration (Delta) Limited, BP Exploration (Alpha) Limited, Britoil Limited, BP Gas Marketing Limited and BP Netherlands Upstream B.V.. (Please refer to Note 13 for further details).

During the year, the company recognised loss on disposal of fixed assets of $281 million (gain of $400 million in 2021). The loss was mainly driven by the fair value adjustment on deferred consideration for previously divested assets mainly due to the change of assumption on Cessation of Production (COP) and discount rate as well as the higher underlying cost which were offset by price and volume impact. The most affected area is Magnus ($264 million). Further loss was generated on BKR ($16 million) due to fair value adjustment and the sale of Serica shares and smaller losses on other fields ($1 million).

Profit on sale of operations increased to $574 million (loss of $2 million in 2021) representing bp's strategy to convert and consolidate the existing assets base. This increase is primarily relates to the sale of bp's Angola business to Azule Energy and other minor movements.

The company received $13,631 million (2021: $2,420 million) dividends from its subsidiaries, comprising BP Exploration (Angola) Limited ($5,001 million), BP Exploration Azerbaijan Limited ($3,000 million), BP Exploration (Caspian Sea) Limited ($2,850 million), BP Exploration (Epsilon) Limited ($1,000 million), BP Exploration (Algeria) Limited ($936 million), BP Netherlands Upstream B.V. ($255 million), BP Amoco Exploration (In Amenas) Limited ($226 million), BP Kuwait Limited ($200 million) and several other entities ($163 million). The company received $660 million (2021: $147 million) dividend from associated undertakings, comprising Azule Energy Holdings Limited ($500 million) and Aker BP ASA ($160 million) in 2022.

Tax charge for 2022 of $2,449 million relates to a current tax charge of $921 million and a deferred tax charge of $1,528 million.

The current tax charge is split between Energy Profit Levy $303 million and corporation tax $618 million. The corporation tax increased as a consequence of increased profits within the ring fence trade and insufficiency of tax losses available to shelter the tax. The Energy Profits Levy of $303 million has arisen on profit after 26 May 2022.

Deferred tax charge arises as a consequence of an increase in the net deferred tax liability position to $2,350 million at 31 December 2022. This has been caused mainly by an increase in deferred tax liability of $1,102 million (relating to accelerated capital allowances of $1,116 million less other deductible timing differences of $14 million) and a decrease in deferred tax assets of $426 million (relating to losses of $188 million, R&D of $37 million and decommissioning provision of $201 million).

Section 172 (1) statement

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

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

(a) The likely long-term consequences of the decision

When setting and delivering on the company's strategy, the directors of the company have regard to the evolving environment in which the company operates and aims to promote the long term success and sustained economic viability of the company.

(b) The interests of the company's employees

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

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

In 2022 the bp group launched the 'Who we are' framework of beliefs representing what bp stands. The bp group also launched a new learning platform, Grow@bp, to enable employees to take ownership of their career and develop skills both for their current and future roles.

The directors engage regularly with their employees through 'Town Halls' held both face to face and online. This involves updates on performance and provides an opportunity for Q&As with key company leadership.

The company also provides updates on its activities and other areas of interest to its employees through articles shared on the company Intranet, information posted on the company Yammer page, and through email updates.

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

In addition, the directors reviewed and considered the company's Modern Slavery Statement and disclosed its practices in respect of the same.

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

The company works closely with its contractors through active engagement and dialogue. A Contract Accountable Manager holds regular performance meetings with contractors, and bp holds annual Global Supplier Safety Forums.

Furthermore, the company participates in the annual Share Fair event, organized by Offshore Energies UK. The event encourages engagement between suppliers and potential clients, emphasizing collaboratively working on future energy projects.

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

The company aims to produce oil and gas with the lowest possible environmental impact, whilst striving to improve people's lives and the communities in which the company operates. The company aims to do this by:

- Transitioning to a net zero company by 2050 or sooner.
- Striving for compliant, conformant and sustainable operations through robust compliance management, responsible use of natural resources, strong relationships with local communities and care for others.
- Managing risk through an efficient and dynamic system, which uses digital, technology and an agile mindset to embed learning.

In line with the industry aim to meet the World Bank Zero Routine Flaring initiative, the company has developed plans to eliminate routine flaring by 2030 and will continue to adopt a flare reduction mindset.

The company's operating management system was independently reviewed against, and was confirmed to be operating in accordance with, the requirements of ISO 14001:2015 in September 2022.

The company has also collaborated with other businesses and industry bodies to deploy technology to help reduce operational emissions. This has included the deployment of drones equipped with methane sensors across its portfolio of assets to detect and quantify methane emissions. The company is also exploring opportunities to electrify facilities by replacing gas turbines with lower emission forms of power.

The company is collaborating with the Port of Aberdeen to support their decarbonisation goals and supporting the Scottish charity, Future Woodlands Scotland, as one of its founding members, helping to create and restore native woodlands across the country.

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

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

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

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

(f) The need to act fairly between members of the company

The company is a wholly owned subsidiary with one member and the directors aim to maximise long term shareholder value.

Stakeholder engagement

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

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

(a) Government/Regulators

The company recognises the need to create valued relationships with the Government and Regulators such as the Health and Safety Executive (HSE), OPRED and the North Sea Transition Authority (NSTA). Engagements include discussions on regulations, policy and safety.

The board is committed to keeping Regulators and government agencies informed of any significant changes to the company, and engages with them as part of the company's day to day business requirements for permits, licences and consents for its operations. The company is also involved in industry discussions with the UK Government on policy.

(b) Industry Bodies

The company is an active member of Offshore Energies UK, which represents the integrated offshore energy industry.

The company's principal decisions

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

STRATEGIC REPORT

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

Principal decision	**The relevant factors taken into account during the decision making process**
In March 2022, the directors considered and approved a subscription for 1,368,000,001 ordinary \$1.00 shares in the share capital of BP Holdings Iraq Ltd for an aggregate total value of \$1,368,000,001.	The directors considered the impact of the subscription of shares on the long-term prospects and financial position of the company.
In March 2022, the directors considered and approved the entry into a series of transactional documentation in connection with the formation of an Iraq focused international joint venture.	The directors considered the impact of the decision on the long-term prospects of the company.
In March 2022, the directors considered and approved the entry into a series of transactional documentation in connection with the formation of an Angolan focused incorporated joint venture.	The directors considered the impact of the decision on the long-term prospects of the company and the company's ability to maintain a reputation for high standards of business conduct.
In May 2022, the directors considered and approved the entry into a pre-export facility commitment of up to US \$2,900,000,000 with a syndicate of banks in connection with the formation of an Angolan focused incorporated joint venture.	The directors considered the impact of the decision on the long-term prospects and financial position of the company.
In July 2022, the directors considered and approved an exchange of promissory notes in connection with the formation of an Angolan focused incorporated joint venture.	The directors considered the impact of the decision on the long-term prospects and financial position of the company.
In August 2022, the directors considered and approved a subscription for 499,999 ordinary \$1.00 shares in the share capital of Azule Energy Holdings Limited for an aggregate total value of \$6,632,500,000 in connection with the formation of an Angolan focused incorporated joint venture.	The directors considered the impact of the subscription of shares on the long-term prospects and financial position of the company.
In August 2022, the directors considered and approved the proposed sale of its Algerian businesses to another multinational energy company.	The directors considered the impact of the decision on the long-term prospects, strategy and financial position of the company.
In December 2022, the directors considered, approved and paid a dividend to the shareholder.	The directors considered the impact of such a decision on the long-term prospects and financial position of the company.
In December 2022, the directors considered and approved a subscription for 5,100,000,000 ordinary £1.00 shares in the share capital of BP Gas Marketing Limited for an aggregate total value of £5,100,000,000.	The directors considered the impact of the subscription of shares on the long-term prospects and financial position of the company.

Principal risks and uncertainties

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

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

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

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the Strategic Report of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

Strategic and commercial risks

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

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

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

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

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

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

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

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

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

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

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

Digital infrastructure and cybersecurity
The energy industry is subject to fast-evolving risks, including ransomware, from cyber threat actors, including nation states, criminals, terrorists, hacktivists and insiders. Current geopolitical factors have increased these risks. There is also growing regulation around data protection and data privacy. A breach or failure of our or third parties' digital infrastructure – including control systems – due to breaches of our cyber defences, or those of third parties, negligence, intentional misconduct or other reasons, could seriously disrupt our operations. This could result in the loss or misuse of data or sensitive information, including employees' and customers' personal data, injury to people, disruption to our business, harm to the environment or our assets, legal or regulatory breaches, legal liability and significant costs including fines, cost of remediation or reputational consequences. Furthermore, the rapid detection of attempts to gain unauthorized access to our digital infrastructure, often through the use of sophisticated and co-ordinated means, is a challenge and any delay or failure to detect could compound these potential harms.

Climate change and the transition to a lower carbon economy

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

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

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

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

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

Competition

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

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

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

Talent and capability

The sectors in which the bp group operates face increasing challenges to attract and retain diverse, skilled and capable talent. An inability to successfully recruit, develop and retain core skills and capabilities and to reskill existing talent could negatively impact delivery of our strategy.

Crisis management and business continuity

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

Insurance

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

Safety and operational risks

Process safety, personal safety and environmental risks
The company is exposed to a wide range of health, safety, security and environmental risks. There can be no certainty that our operating management system or other policies and procedures will adequately identify all process safety, personal safety and environmental risks or that all our operating activities will be conducted in conformance with these systems.

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

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

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

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

Compliance and control risks

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

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

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

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

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

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; and credit risk. Further details on these financial risks are included within Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

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

DocuSigned by:
Jennie Burton
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J S Burton
Director

September 28, 2023

Registered Office:

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DIRECTORS' REPORT

BP EXPLORATION OPERATING COMPANY LIMITED

Directors

The present directors are listed on page 1.

G R Gordon, D F Reiter, K MacLennan, J S Burton, K A H Butler and L A Kingham served as directors throughout the financial year with the changes since 1 January 2022 as follows:

	Appointed	Resigned
I C Emembolu	—	7 February 2022
A J De'Ath	24 January 2023	—
K MacLennan	—	27 April 2023

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 $4,200 million (2021: $3,708 million). 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 6.1) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the Strategic Report under Financial risk management.

Post balance sheet events

On 17 February 2023, the company subscribed to 4,000,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $4,000,000.

On 28 February 2023, the company completed the sale of bp's upstream business in Algeria to ENI.

On 22 March 2023, the company subscribed to 200,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $200,000.

On 22 March 2023, the company subscribed to 2,300,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $2,300,000.

On 19 April 2023, the company subscribed to 1,500,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $1,500,000.

On 24 April 2023, the company subscribed to 750,000,000 ordinary shares of $1 each in Atlantic 2/3 UK Holdings Limited for cash consideration of $750,000,000.

On 15 May 2023, the company subscribed to 147,000 ordinary shares of $1 each in BP Exploration (Morocco) Limited for a total consideration of $147,000.

On 19 May 2023, the company subscribed to 3,000,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $3,000,000.

On 29 June 2023, the company approved the liquidation of BP Exploration (Morocco) Limited and BP Exploration (Psi) Limited.

On 20 December 2022, Britoil Limited entered into a Sale and Purchase Agreement with the intent to acquire DNO's 10% share in East Foinaven field and 0.5% share of WOSPS pipeline. The deal was completed on 14 July 2023 and as a result bp entities now own 100% in East Foinaven field and 68.3% in West of Shetland Pipeline System.

On 18 August 2023, the company subscribed to 2,300,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $2,300,000.

On 22 August, 2023 the company acquired 150,000,000 ordinary shares of $1 each for a total nominal value of $150,000,000 of BP Mauritania Investment Limited.

On 19 September 2023, the company subscribed for 5,200,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $5,200,000.

Going concern

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

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 10.

As noted in the Strategic Report, the company holds interests in a number of producing fields in the UK continental shelf, as a result the company's cash flows are impacted by changes in the commodity price. Following the assessment of non-committed exploration and development spend, there is no significant spend on those fields. The company holds limited cash directly and funding requirements are met through the central Treasury organisation, as a result the company is reliant on the overall group funding to continue in operation and meet its liabilities as they fall due in the going concern period. The company has mainly intercompany trading (89% of 2022 revenue) within the bp group and some third party trading, and also has net assets of $61,325 million, while the profit for the year was $17,123 million. From the annual profit, $659 million is related to reversal of impairment of tangible assets and $2,329 million to reversal of impairment of investments due to the revised price assumptions. In 2021, the company generated $5,914 million profit.

In assessing the prospects of BP Exploration Operating Company 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.

DIRECTORS' REPORT

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

Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years.
They believe that the company is in a good position to take advantage of any opportunities which may arise in the future.

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

Research and development

Research and development costs relate to the company's share of group led research and development programmes and initiatives. The cost of these group projects is absorbed by the fields and locations and therefore the legal entities which are expected to benefit from those developments in the future.

Branches

The company has overseas branches established in Ireland, Trinidad and Tobago, UAE and Russian Federation. The branch in the Russian Federation is in the process of closing down.

Disabled employees

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Stakeholder statements

Employee engagement statement

The directors of the company recognise that employees are vital to the long term success of the company and engage with employees, and keep them informed on matters of concern to them. The company's section 172(1) statement in the Strategic Report demonstrates how the directors have engaged with employees throughout the year, and how the directors of the company have had regard to their interests when making decisions.

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

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

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

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

Streamlined Energy & Carbon Reporting (SECR)

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

Corporate Governance Statement

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

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

System of Internal Control

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

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

The Policy

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

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

i. The mitigation of legal and reputational risk and preserving the integrity of the bp group's corporate structure;
ii. The selection and training of directors to ensure that they understand and execute their statutory duties in a manner that promotes the success of the company for the benefit of its shareholders whilst having regard to the company's other stakeholders;

iii. Requiring any decisions in respect of the formation and change of entity form, financing of intra-group activities, transfer of ownership and dissolution to be made pursuant to bp's System of Internal Controls; and
iv. Specifying which of the bp group's businesses and functions are accountable for the various aspects of administration, internal controls and corporate governance of subsidiaries.

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

The Policy requires directors to:

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

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

The Code of Conduct

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

The code of conduct includes sections covering:

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

Application of the system of governance

The directors have applied this system of governance by:

a. Regularly reviewing its board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and ensuring that individual directors have sufficient capacity to make valuable contributions. The board, where appropriate, and in accordance with the Policy, retains a minimum of three directors, promotes independent and objective challenge through the appointment of directors who are not directly or indirectly responsible for the management function of the company and may nominate a designated Chair to provide leadership of the board.

b. Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making in their capacity as directors, the board considers the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the bp group's purpose, aims and ambitions.
c. In accordance with the Policy, the board is supported by the System of Internal Control to identify opportunities to create and preserve value. Refer to the principal risks and uncertainties in the Strategic Report.
d. Having regard to and fostering good stakeholder relationships. Refer to the company's section 172 statement in the Strategic Report for further information.

Auditors

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

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

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

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of the auditor's report of which the company's auditor is unaware; and

- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

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

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

DocuSigned by:
Jennie Burton
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J S Burton
Director

September 28, 2023

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

BP EXPLORATION OPERATING COMPANY LIMITED

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP EXPLORATION OPERATING COMPANY LIMITED

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- *have been prepared in accordance with the requirements of the Companies Act 2006.*

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 29.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

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

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

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

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

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

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:

Mikhail Raikhman

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Mikhail Raikhman, CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

September 29, 2023

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION OPERATING COMPANY LIMITED

	Note	2022 $000	2021 $000
Turnover	3	3,322,896	1,998,992
Cost of sales		(1,194,658)	(1,321,228)
Gross profit		2,128,238	677,764
Exploration expenses	8	(17,840)	(76,901)
Distribution and marketing income / (expenses)		448	(1,300)
Administrative expenses		(178,141)	(177,139)
Other operating income	3	161,928	124,032
(Loss) / profit on disposal of fixed assets	4	(281,464)	399,572
Profit / (loss) on sale of operations	4	574,262	(2,006)
Impairment of intangible assets	11	(705)	(6,748)
Reversal of impairment of intangible assets	11	—	1
Reversal of impairment of tangible assets	12	658,542	470,783
Reversal of impairment of fixed asset investments	13	2,328,847	2,502,171
Reorganisation / restructuring costs		—	303
Operating profit	4	5,374,115	3,910,532
Income from shares in group undertakings		13,631,489	2,420,126
Income from interests in associated undertakings		659,718	146,893
Interest receivable and similar income	6	296,182	67,865
Interest payable and similar expenses	7	(389,596)	(112,628)
Profit before taxation		19,571,908	6,432,788
Tax on profit	9	(2,449,209)	(518,598)
Profit for the financial year		17,122,699	5,914,190

The profit of $17,122,699 thousand for the year ended 31 December 2022 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	$000	$000
Profit for the financial year	17,122,699	5,914,190
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	25	(623)
Cash flow hedges - losses arising during the year	(4,013)	(6,312)
Other comprehensive income for the year net of tax	(3,988)	(6,935)
Total comprehensive income for the year	17,118,711	5,907,255

BALANCE SHEET

AS AT 31 DECEMBER 2022

BP EXPLORATION OPERATING COMPANY LIMITED
(Registered No.00305943)

	Note	2022 $000	2021 (as restated, Note 28) $000
Fixed assets			
Intangible assets	11	511,029	446,523
Tangible assets	12	6,280,468	6,449,530
Investments	13	58,211,710	49,145,902
		65,003,207	56,041,955
Current assets			
Stocks	14	112,098	97,410
Debtors – amounts falling due:			
within one year	15	4,246,310	2,168,233
after one year	15	445,199	497,575
Derivatives and other financial instruments - amounts falling due:			
within one year	19	75,068	249,711
after one year	19	151,891	449,274
Cash at bank and in hand		6,158	11,098
		5,036,724	3,473,301
Creditors: amounts falling due within one year	16	(3,931,950)	(7,326,535)
Derivatives and other financial instruments due within one year	19	(208)	—
Provision for liabilities and charges due within one year	20	(64,606)	(56,904)
Lease liabilities	17	(41,283)	(76,120)
Net current assets/(liabilities)		998,677	(3,986,258)
TOTAL ASSETS LESS CURRENT LIABILITIES		66,001,884	52,055,697
Creditors: amounts falling due after more than one year	16	(46,659)	(11,212)
Lease liabilities	17	(77,754)	(110,266)
Provisions for liabilities and charges			
Deferred tax liability	9	(2,350,148)	(822,105)
Other provisions	20	(2,202,322)	(2,705,580)
NET ASSETS		61,325,001	48,406,534

BALANCE SHEET

	Note	2022	2021 (as restated, Note 28)
		$000	$000
Capital and reserves			
Called up share capital	**21**	42,089,650	42,089,650
Other reserves	**22**	468,533	468,777
Foreign currency translation reserve	**22**	179,565	179,540
Cash flow hedge reserve	**22**	(345)	3,668
Profit and loss account	**22**	18,587,598	5,664,899
TOTAL EQUITY		61,325,001	48,406,534

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

DocuSigned by:
Jennie Burton
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J S Burton
Director

September 28, 2023

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION OPERATING COMPANY LIMITED

	Called up share capital (Note 21)	Other reserves (Note 22)	Cash flow hedge reserve (Note 22)	Foreign currency translation reserve (Note 22)	Profit and loss account (Note 22)	Total
	$000	$000	$000	$000	$000	$000
Balance at 1 January 2021	42,089,650	463,085	9,980	180,163	3,529,810	46,272,688
Profit for the year	—	—	—	—	5,914,190	5,914,190
Currency translation differences	—	—	—	(623)	—	(623)
Loss arising during the year	—	—	(6,312)	—	—	(6,312)
Total comprehensive income for the year	—	—	(6,312)	(623)	5,914,190	5,907,255
Reserve transfer	—	—	—	—	(71,101)	(71,101)
Capital contribution for equity-settled share-based payments	—	5,692	—	—	—	5,692
Dividends paid	—	—	—	—	(3,708,000)	(3,708,000)
Balance at 31 December 2021	42,089,650	468,777	3,668	179,540	5,664,899	48,406,534
Profit for the year	—	—	—	—	17,122,699	17,122,699
Currency translation differences	—	—	—	25	—	25
Loss arising during the year	—	—	(4,013)	—	—	(4,013)
Total comprehensive income for the year	—	—	(4,013)	25	17,122,699	17,118,711
Capital contribution for equity-settled share-based payments	—	(244)	—	—	—	(244)
Dividends paid	—	—	—	—	(4,200,000)	(4,200,000)
Balance at 31 December 2022	42,089,650	468,533	(345)	179,565	18,587,598	61,325,001

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

BP EXPLORATION OPERATING COMPANY LIMITED

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

The financial statements of BP Exploration Operating Company Limited for the year ended 31 December 2022 were approved by the board of directors on 28/09/2023 and the balance sheet was signed on the board's behalf by J S Burton. BP Exploration Operating Company Limited is a private company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00305943). 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, modified to include the revaluation of certain financial instruments. 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 29 to the financial statements.

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

a. the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
b. the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    (i) paragraph 79(a)(iv) of IAS 1;
    (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    (iii) paragraph 74 A(b) of IAS 16 Property, Plant and Equipment;
    (iv) paragraph 118(e) of IAS 38 Intangible Assets;
c. the requirements of IAS 7 Statement of Cash Flows;
d. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
e. the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
f. the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

g. the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
h. the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
i. The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
j. the requirements of IFRS 7 Financial Instruments: Disclosures;
k. the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
l. the requirement of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
m. The requirements of paragraph 58 of IFRS 16 Leases, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 29.

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

Significant accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used. The accounting judgements and estimates that have a significant impact on the results of the company are set out within the boxed text below, and should be read in conjunction with the information provided in the Notes to the financial statements.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: accounting for the investment in Aker BP; the formation of Azule Energy; exploration and appraisal intangible assets; the recoverability of asset carrying values, including the estimation of reserves; derivative financial instruments; provisions and contingencies; and pensions and other post-retirement benefits.

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

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

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

Impairment of property, plant and equipment.

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

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

The most significant instances where a carbon price has been incorporated in this way are for the UK North Sea and Gelsenkirchen refinery, where assumptions of approximately £100/tCO2e and an average of approximately €70/tCO2e were applied in the 2022 value-in-use impairment tests respectively.

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

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

Impairment reversals were recognized on certain upstream oil and gas properties partly as a result of the higher near-term assumptions. See Note 4 for further information.

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

Exploration and appraisal intangible assets
The energy transition may affect the future development or viability of exploration prospects. A significant proportion of exploration and appraisal intangible assets were written off in 2020 and the recoverability of the remaining intangibles was considered during 2022. No significant write-offs were identified. These assets will continue to be assessed as the energy transition progresses. See significant judgement: exploration and appraisal intangible assets and Note 11 for further information.

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

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

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

Provisions: decommissioning

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

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

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

Judgements and estimates made in assessing the impact of the geopolitical and economic environment

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

Oil and gas price assumptions

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

Discount rate assumptions

The discount rates used for impairment testing and provisions were reassessed during the year in light of changing economic and geopolitical outlooks. The nominal discount rate applied to provisions was increased twice during the year to reflect rising US Treasury yields. The principal impact of these rate increases was a $504 million decrease in the decommissioning provision with an associated decrease in the carrying amount of property, plant and equipment of $390 million and a pre-tax credit to the income statement of $114 million. Impairment discount rates were also increased from those reported in 2021. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

Pensions and other post-retirement benefits

The volatility in the financial markets during 2022 impacted the assumptions used for determining the fair value of plan assets and the present value of defined benefit obligations in the group's defined benefit pension plans. See significant estimate: pensions and other post-retirement benefits and Note 27 for further information.

NOTES TO THE FINANCIAL STATEMENTS

Significant accounting policies

Going concern

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

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 11.

As noted in the Strategic Report, the company holds interests in a number of producing fields in the UK continental shelf, as a result the company's cash flows are impacted by changes in the commodity price. Following the assessment of non-committed exploration and development spend, there is no significant spend on those fields. The company holds limited cash directly and funding requirements are met through the central Treasury organisation, as a result the company is reliant on the overall group funding to continue in operation and meet its liabilities as they fall due in the going concern period. The company has mainly intercompany trading (89% of 2022 revenue) within the bp group and some third party trading, and also has net assets of $61,325 million, while the profit for the year was $17,123 million. From the annual profit, $659 million is related to reversal of impairment of tangible assets and $2,329 million to reversal of impairment on investments due to the lower price assumptions. In 2021, the company generated $5,914 million gain.

In assessing the prospects of BP Exploration Operating Company 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.

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.

Assets and liabilities of foreign currency branches are translated into US dollars at rates of exchange ruling at the balance sheet date. The profit and loss account is translated into US dollars using average rates of exchange. Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into US dollars are taken directly to reserves and reported in other comprehensive income. When a foreign currency branch is disposed of the cumulative amount of foreign currency differences included in other comprehensive income is reclassified to the profit and loss account.

Investments

Fixed asset investments in subsidiaries, joint ventures and associates are held at cost. The company assesses investments for an impairment indicator annually. If any such indication of possible impairment exists, the company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

Interests in joint arrangements

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The company recognizes, on a line-by-line basis, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the company's income from the sale of its share of the output and any liabilities and expenses that the company has incurred in relation to the joint operation.

For joint arrangements in a separate entity, judgement may be required as to whether the arrangement should be classified as a joint venture or if the legal form, contractual arrangements or other facts and circumstances indicate that the group has rights to the assets and obligations for the liabilities of the arrangement, rather than rights to the net assets, and therefore should be classified as a joint operation. No such judgement made by the group is considered significant.

Interests in associates

An associate is an entity over which the company has significant influence, through the power to participate in the financial and operating policy decisions of the investee, but which is not a subsidiary or a joint arrangement.

Interests in other entities

Significant judgements: investments in Aker BP

Judgement is required in assessing the level of control or influence over another entity in which the group holds an interest. For bp, the judgement that the group continues to have significant influence over Aker BP, a Norwegian oil and gas company, following completion of Aker BP's acquisition of Lundin Energy's oil and gas business, is significant.

Significant influence is defined in IFRS as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those decisions. Significant influence is presumed when an entity owns 20% or more of the voting power of the investee. Significant influence is presumed not to be present when an entity owns less than 20% of the voting power of the investee. IFRS identifies several indicators that may provide evidence of significant influence, including representation on the board of directors of the investee and participation in policy-making processes.

bp owned 27.85% of the voting shares of Aker BP at 31 December 2021 and significant influence was presumed. On completion of the acquisition of Lundin Energy's oil and gas business on 30 June 2022, bp's interest was diluted to 15.9% of the voting shares of Aker BP as a result of new Aker BP shares being issued as partial consideration to Lundin Energy shareholders. bp owned 15.9% of the voting shares at 31 December 2022.

bp's group interim chief executive officer, Murray Auchincloss, has been a member of the Aker BP board since 2017. bp's other nominated director, Kate Thomson has been a member of the Aker BP board since formation of that company in 2016. She is also a member of the Aker BP board's Audit and Risk Committee. bp also holds the voting rights at general meetings of shareholders conferred by its stake in Aker BP. bp's management considers, therefore, that the group retained significant influence, as defined by IFRS, over Aker BP following the acquisition of Lundin Energy's oil and gas business and continues to have significant influence at 31 December 2022.

As a consequence of this judgement, the company has used the equity method of accounting for its investment and bp's share of Aker BP's oil and natural gas reserves is included in the group's estimated net proved reserves of equity-accounted entities. If significant influence was not present, the investment would be accounted for as an investment in an equity instrument measured at fair value and no share of Aker BP's oil and natural gas reserves would be reported at group level.

In 2021 the company presented $595 million of the investment in Aker BP's shares as an asset held for sale mirroring the equity-accounted treatment in the consolidated financial statements of BP p.l.c, the ultimate parent of the company. In the individual financial statements of the entity the investment should have been held at cost. The 2021 comparative balance sheet has been restated to present the respective amounts in investments rather than as an asset held for sale, please see Note 28.

Significant judgements and estimates: formation of Azule Energy

On 1 August 2022, Azule Energy, an independent incorporated 50:50 joint venture between bp and Eni, was formed through the combination of the two companies' Angolan businesses. As part of the consideration for contributing its assets, bp received 500,000 shares in Azule Energy. The fair value was determined using a discounted cash flow analysis with judgments over the assumptions including capital expenditure, costs, production and commodity price forecasts, and a post-tax discount rate that would be applied by a market participant.

Significant judgements and estimates: impairment of investments

Determination as to whether, and how much, an investment is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation on operating expenses, discount rates, production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products.

For value in use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The pre-tax discount rate is based upon the cost of funding the group derived from an established model, adjusted to a pre-tax basis. Fair value less costs of disposal calculations use the post-tax discount rate. The discount rates applied in impairment tests are reassessed each year.

See 'Significant judgements and estimates: recoverability of asset carrying values' below for details of assumptions used.

Intangible assets

Intangible assets, other than goodwill, include expenditure on the exploration for and evaluation of oil and natural gas resources and are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

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

Intangible assets are carried initially at cost.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. Digital asset costs generally have a useful life of three to five years.

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

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

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

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

Exploration and appraisal expenditure
Geological and geophysical exploration costs are charged to the profit and loss account as incurred. Costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well costs are written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. If it is determined that development will not occur then the costs are expensed.
Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. Upon internal approval for development and recognition of proved reserves, the relevant expenditure is transferred to tangible assets.

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil

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and natural gas and are in areas where major capital expenditure (e.g. an offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration or appraisal work in the area, remain capitalized on the balance sheet as long as such work is under way or firmly planned.

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

Significant judgements and estimates: exploration and appraisal intangible assets

Judgement is required to determine whether it is appropriate to continue to carry costs associated with exploration wells and exploratory type stratigraphic test wells on the balance sheet. This includes costs relating to exploration licences or leasehold property acquisitions. It is not unusual to have such costs remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. The costs are carried based on the current regulatory and political environment or any known changes to that environment. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed

The carrying amount of capitalized costs and further information on the write-offs are included in Note 11.

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.

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 improvements	15 to 25 years
Buildings	20 to 50 years
Plant and machinery	5 to 15 years
Fixtures and fittings	5 to 15 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.

Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, plans to dispose rather than retain assets, changes in commodity prices, low plant utilization, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

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

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. In limited circumstances where recent market transactions are not available for reference, discounted cash flow techniques are applied. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, estimates are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis.

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

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recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's or CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Significant judgements and estimates: recoverability of asset carrying values

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

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

Details of impairment charges and reversals recognized in the profit and loss account are provided in Note 4 and details of the carrying amounts of assets are shown in Note 11, Note 12 and Note 13.

The estimates for assumptions made in impairment tests in 2022 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment including as a result of the energy transition or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

Discount rates

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

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

Oil and natural gas properties

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

In 2022, the company identified no oil and gas properties (2021 $Nil) where the headroom, as at the dates of the last impairment test performed on those assets, was less than or equal to 20% of the carrying value. A change in the discount rate, reserves, resources or the oil and gas price assumptions in the next financial year may result in a recoverable amount of one or more of these assets above or below the current carrying amount and therefore there is a significant risk of impairment reversals or charges in that period.

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

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

Oil and natural gas prices

The price assumptions used for value-in-use impairment testing are based on those used for investment appraisal. bp's carbon emissions cost assumptions and their interrelationship with oil and gas prices are described in 'Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy' on page 32. The investment appraisal price assumptions are recommended by the senior vice president economic & energy insights after considering a range of external price sets, and supply and demand profiles associated with various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the scenarios considered include those where those goals are met as well as those where they are not met.

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

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

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

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

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

Oil and natural gas reserves

In addition to oil and natural gas prices, significant technical and commercial assessments are required to determine the group's estimated oil and natural gas reserves. Reserves estimates are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity and drilling of new wells all impact on the determination of the company's estimates of its oil and natural gas reserves. bp bases its reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

Reserves assumptions for value-in-use tests reflect the reserves and resources that management currently intend to develop. The recoverable amount of oil and gas properties is determined using a combination of inputs including reserves, resources and production volumes. Risk factors may be applied to reserves and resources which do not meet the criteria to be treated as proved or probable.

Sensitivity analyses

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

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

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

Net revenue reductions of this magnitude in isolation could indicatively lead to a reduction in the carrying amount of the company's upstream oil and gas properties in the amount of $293 million of the net book value of property, plant and equipment as at 31 December 2022. If this net revenue reduction was solely due to reductions in oil prices in isolation, it reflects an indicative decrease in the carrying amount of using price assumptions for Brent oil trending broadly towards the bottom of the range of prices associated with a pre-publication version of the World Business Council for Sustainable Development (WBCSD) 'family' of scenarios considered to be consistent with limiting global average temperature to 1.5°C above pre-industrial levels.

Net revenue increases of this magnitude in isolation could indicatively lead to an increase in the carrying amount of the company's upstream oil and gas properties in the amount of $308 million of the net book value of property, plant and equipment as at 31 December 2022. This potential increase in the carrying amount would arise due to reversals of previously recognized impairments. If this net revenue increase was solely due to increases in oil prices in isolation, it reflects an indicative increase in the carrying amount of using price assumptions for Brent oil trending broadly towards the top end until 2040, and then towards the mean average at 2050, of the range of prices associated with a pre-publication version of the WBCSD 'family' of scenarios considered to be consistent with limiting global average temperature to 1.5°C above pre-industrial levels.

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

Management also tested the impact of a one percentage point change in the discount rate used for value-in-use impairment testing of upstream oil and gas properties. This level of change reflects past experience of a reasonable change in rate that could arise within the next financial year. If the discount rate was one percentage point higher across the tests performed, the impairment reversal recognized in 2022 would have been approximately $82 million lower. If the discount rate was one percentage point lower, the impairment reversal recognized would have been approximately $60 million higher.

Stock

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

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

Leases

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

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

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

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

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

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

If the lease term at commencement of the agreement is less than 12 months, a lease liability and right-of-use asset are not recognized, and a lease expense is recognized in the income statement on a straight-line basis.
If a significant event or change in circumstances, within the control of bp, arises that affects the reasonably certain lease term or there are changes to the lease payments, the present value of the lease liability is remeasured using the revised term and payments, with the right-of use asset adjusted by an equivalent amount.

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

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

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

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

Financial assets measured at amortized cost
Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired and when interest income is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

Financial assets measured at fair value through profit or loss
Financial assets are classified as measured at fair value through profit or loss when the asset does not meet the criteria to be measured at amortized cost. Such assets are carried on the balance sheet at fair value with gains or losses recognized in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are included in this category.

Derivatives designated as hedging instruments in an effective hedge
Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

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

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

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at fair value through profit or loss
Financial liabilities that meet the definition of held for trading are classified as measured at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses recognized in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are included in this category.

Derivatives designated as hedging instruments in an effective hedge

Derivatives designated as hedging instruments in an effective hedge are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortized cost

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

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

Derivative financial instruments and hedging activities

The company is exempt from the disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair value measurement" as the company is included in the consolidated financial statements of the ultimate parent undertaking, BP p.l.c., which include the disclosures on a group basis that comply with these standards. Relevant disclosures as required by the Companies Act 2006 in relation to instruments held at fair value have been included in these financial statements.

The company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Contracts to buy or sell a non-financial item (for example oil, oil products, gas and power) that can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the company's expected purchase, sale or usage requirements, are accounted for as financial instruments. Contracts to buy or sell equity investments, including investments in associates, are also financial instruments. Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the profit and loss account.

If, at inception of a contract, the valuation cannot be supported by observable market data, any gain or loss determined by the valuation methodology is not recognized in the profit and loss account but is deferred on the balance sheet and is commonly known as 'day-one profit or loss'. This deferred gain or loss is recognized in the profit and loss account over the life of the contract until substantially all the remaining contractual cash flows can be valued using observable market data at which point any remaining deferred gain or loss is recognized in the profit and loss account. Changes in valuation from the initial valuation at inception of a contract are recognized immediately through the profit and loss account.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging exposure to changes in the fair value of a recognized asset or liability.
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the existence at inception of an economic relationship and subsequent measurement of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk, the hedge ratio and sources of hedge ineffectiveness. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is reported in other comprehensive income, while the ineffective portion is recognized in profit or loss. Amounts reported in other comprehensive income are reclassified to the profit and loss account when the hedged transaction affects the profit or loss.

Where the hedged item is a highly probable forecast transaction that results in the recognition of a non-financial asset or liability, such as a forecast foreign currency transaction for the purchase of tangible assets, the amounts recognized within other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability. Where the hedged item is an equity investment, the amounts recognized in other comprehensive income remain in the separate component of equity until the hedged cash flows affect profit or loss. Where the hedged item is recognized directly in profit or loss, the amounts recognized in other comprehensive income are reclassified to production and manufacturing expenses or other operating revenues as appropriate.
Cash flow hedge accounting is discontinued only when the hedging relationship or a part thereof ceases to meet the qualifying criteria. This includes when the designated hedged forecast transaction or part thereof is no longer considered to be highly probable to occur, or when the hedging instrument is sold, terminated or exercised without replacement or rollover. When cash flow hedge accounting is discontinued, amounts previously recognized within other comprehensive income remain in equity until the forecast transaction occurs and are reclassified to profit or loss or transferred to the initial carrying amount of a non-financial asset or liability as above. If the forecast transaction is no longer expected to occur, amounts previously recognized within other comprehensive income will be immediately reclassified to profit or loss.

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.

Significant judgements and estimates: derivative financial instruments
In some cases the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This primarily applies to the company's longer-term derivative contracts. The majority of these contracts are valued using models with inputs that include price curves for each of the different products that are built up from available active market pricing data (including volatility and correlation) and modelled using the maximum available external information. Additionally, where limited data exists for certain products, prices are determined using historical and long-term pricing relationships. The use of alternative assumptions or valuation methodologies may result in significantly different values for these derivatives. A reasonably possible change in the price assumptions used in the models relating to index price would not have a material impact on net assets and the profit and loss account primarily as a result of offsetting movements between derivative assets and liabilities. For more information, including the carrying amounts of level 3 derivatives, see Note 19.

In some cases, judgement is required to determine whether contracts to buy or sell commodities meet the definition of a derivative. In particular, longer-term contracts to buy and sell Liquefied Natural Gas ("LNG") are not considered to meet the definition as they are not considered capable of being net settled due to a lack of liquidity in the LNG market and so are accounted for on an accruals basis, rather than as a derivative.

Offsetting of financial assets and liabilities

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

Provisions and contingent liabilities

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 3.5% (2021 2.0%).
Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed, if material, unless the possibility of an outflow of economic resources is considered remote.

Decommissioning

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

An amount equivalent to the decommissioning provision is recognized as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits.

Restructuring provisions

Restructuring provisions are recognized where a detailed formal plan exists, and a valid expectation of risk of redundancy has been made to those affected but where the specific outcomes remain uncertain. Where formal redundancy offers have been made, the obligations for those amounts are reported as payables and, if not, as provisions if unpaid at the year-end.

Significant judgements and estimates: provisions

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

If oil and natural gas production facilities and pipelines are sold to third parties, judgement is required to assess whether the new owner will be unable to meet their decommissioning obligations, whether the company would then be responsible for decommissioning, and if so the extent of that responsibility. This typically requires assessment of the local legal requirements and the financial standing of the owner. If the standing deteriorates significantly, for example, bankruptcy of the owner, a provision may be required. The company has assessed that no decommissioning provisions should be recognized as at 31 December 2022 (2021 no significant provision) for assets previously sold to third parties where the sale transferred the decommissioning obligation to the new owner.

The timing and amount of future expenditures relating to decommissioning and environmental liabilities are reviewed annually. The interest rate used in discounting the cash flows is reviewed quarterly. The nominal interest rate used to determine the balance sheet obligations at the end of 2022 was 3.5% (2021 2.0%), which was based on long-dated US government bonds. The weighted average period over which decommissioning costs are generally expected to be incurred is estimated to be approximately 14 years (2021 17 years) respectively. Costs at future prices are determined by applying an inflation rate of 1.5% (2021 1.5%) to decommissioning costs and 2% (2021 2%) for all other provisions. A lower rate is typically applied to decommissioning as certain costs are expected to remain fixed at current or past prices.

The estimated phasing of undiscounted cash flows in real terms for the upstream decommissioning is approximately $1,310 million (2021 $705 million) within the next 10 years, $958 million (2021 $1,618 million) in 10 to 20 years and the remainder of approximately $647 million (2021 $702 million) after 20 years. The timing and amount of decommissioning cash flows are inherently uncertain and therefore the phasing is management's current best estimate but may not be what will ultimately occur.

Further information about the company's provisions is provided in Note 24. Changes in assumptions in relation to the company's provisions are could result in a material change in their carrying amounts within the next financial year. A 1.0 percentage point increase in the nominal discount rate applied could decrease the company's provision balances by approximately $267 million (2021 $424 million). The pre-tax impact on the company's income statement would be a credit of approximately $68 million (2021 $128 million). This level of change reflects past experience of a reasonable change in rate that could arise within the next financial year.

The discounting impact on the company's decommissioning provisions for oil and gas properties in the oil productions & operations and gas & low carbon energy segments of a two-year change in the timing of expected future decommissioning expenditures is not significant in 2022, nor in 2021. Management currently does not consider a change of greater than two years to be reasonably possible in the next financial year and therefore the timing of upstream decommissioning expenditure is not a key source of estimation uncertainty.

If all expected future decommissioning expenditures were 10% higher, then these decommissioning provisions would increase by approximately $222 million (2021 $271 million) with a pre-tax charge of approximately $194 million (2021 $99 million).

The bp group is subject to claims and actions for which no provisions have been recognized. The facts and circumstances relating to particular cases are evaluated regularly in determining whether a provision relating to a specific litigation should be recognized or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict.

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. The bp group is subject to claims and actions for which no provisions have been recognized. The facts and circumstances relating to particular cases are evaluated regularly in determining whether a provision relating to a specific litigation should be recognized or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict. The accounting policies for share-based payments and for pensions and other post-retirement benefits are described below.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees of the company is measured by reference to the fair value at the date at which equity instruments are granted and is recognized as an expense over the vesting period, which ends on the date on which the employees become fully entitled to the award. A corresponding credit is recognized within equity. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value, and failure to meet a non-vesting condition, where this is within the control of the employee, is treated as a cancellation and any remaining unrecognized cost is expensed.

For other equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured at the fair value of the goods and services received unless their fair value cannot be reliably estimated. If the fair value of the goods and services received cannot be reliably estimated, the transaction is measured by reference to the fair value of the equity instruments granted.

Cash-settled transactions

The cost of cash-settled transactions is recognized as an expense over the vesting period, measured by reference to the fair value of the corresponding liability which is recognized on the balance sheet. The liability is re-measured at fair value at each balance sheet date until settlement, with changes in fair value recognized in the profit and loss account.

Pensions

The sponsoring employer for the BP Pension Fund is BP p.l.c. The directors have assessed in accordance with IAS 19 Employee Benefits that BP p.l.c. applies defined benefit pension accounting for this defined benefit plan that shares risks between entities under common control. There is no contractual agreement or stated policy in place for charging to individual group entities. The net defined benefit cost for the plan as a whole is measured in accordance with IAS 19 and as a result, the company recognizes only a cost equal to the contribution payable for the period as if they were contributions to a defined contribution scheme. Relevant disclosures in relation to the plan are included in the accounts of BP p.l.c.

In the BP p.l.c. accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. Actuarial gains and losses are recognized in full in this company's statement of total recognized gains and losses in the period in which they occur.

Significant judgements and estimates: pensions and other post-retirement benefits

The defined benefit pension scheme is a scheme that shares risks between entities under common control and is administered by the ultimate parent company BP p.l.c. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so the scheme has been accounted for as a defined contribution scheme as allowed by FRS 101. Contributions to the scheme are charged through the company's profit and loss account in the year in which they become payable. Detailed disclosures have been made in the financial statements of the ultimate parent company.

Accounting for defined benefit pensions and other post-retirement benefits involves making significant estimates when measuring the company's pension plan surpluses and deficits. These estimates require assumptions to be made about many uncertainties.

Pension and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the surpluses and deficits recorded on the company's balance sheet, and pension and other post-retirement benefit expense for the following year.

The assumptions that are the most significant to the amounts reported are the discount rate, inflation rate, salary growth and mortality levels. Assumptions about these variables are based on the environment in each country. The assumptions used vary from year to year, with resultant effects on future net income and net assets. Changes to some of these assumptions, in particular the discount rate and inflation rate, could result in material changes to the carrying amounts of the company's pension and other post-retirement benefit obligations within the next financial year. Any differences between these assumptions and the actual outcome will also affect future net income and net assets. The pension and other post-retirement benefit assumptions at 31 December 2022 and 2021 are provided in Note 27.

The values ascribed to these assumptions and a sensitivity analysis of the impact of changes in the assumptions on the benefit expense and obligation is provided in the group financial statements of BP p.l.c.

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, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.; or
- In respect of taxable temporary differences associated with investments in group undertakings and associates and interests in joint arrangements, where the company is able to control the timing of the

reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

In respect of deductible temporary differences associated with investments in group undertakings and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable or increased to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

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

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

Petroleum revenue tax

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

Customs duties and sales taxes

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

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

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

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil, natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

When, or as, a performance obligation is satisfied, the company recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised. Contracts for the sale of commodities are typically priced by reference to quoted prices. Revenue from term commodity contracts is recognized based on the contractual pricing provisions for each delivery. Certain of these contracts have pricing terms based on prices at a point in time after delivery has been made. Revenue from such contracts is initially recognized based on relevant prices at the time of delivery and subsequently adjusted as appropriate. All revenue from these contracts, both that recognized at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

Revenue associated with the sale of oil, natural gas liquids, petroleum and chemical products, oil and natural gas forward sales / purchase contracts and sales / purchases of trading stock is included on a net basis in turnover.

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

Interest income

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

Dividend income

Dividend income from investments is recognized when the shareholders' right to receive the payment is established.

Research costs

Research costs are expensed as incurred.

Finance costs

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

Dividends payable

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

Updates to significant accounting policies

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

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

Impact of new International Financial Reporting Standards

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

3. Turnover

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

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

	2022	2021
	$000	$000
Revenue from contracts with customers	3,273,394	1,991,238
Tariff income	24,706	12,624
Other operating revenue	24,796	(4,870)
	3,322,896	1,998,992
Other operating income	161,928	124,032
Interest receivable and similar income (Note 6)	296,182	67,865
Income from shares in group undertakings	12,469,897	2,420,126
Income from interests in associated undertakings	659,718	146,893
	16,910,621	4,757,908

The country of origin is the UK geographic area and destination is the UK and North-West Europe geographic areas.

Turnover is attributable to one continuing activity, the production and sale of hydrocarbon products with other income relating mostly to lease partner recovery* and RDEC claim (Research and Development Expenditure Credit). Turnover is recognized at the performance obligation of delivery to the end buyer, being the point risk and reward has transferred in accordance with the sales contract.

*The company recognizes the full lease liability for leases entered into on behalf of a joint operation if the company has the primary responsibility for making the lease payments.

For details of turnover change in comparison to previous year please refer to Strategic Report.

4. Operating profit

This is stated after charging / (crediting):

	2022	2021
	$000	$000
Net foreign exchange gains	(24,655)	(2,235)
Research and development costs expensed	698	1,693
Amortisation of intangible assets (Note 11)	22,300	19,419
Depreciation of tangible assets (Note 12)	681,835	658,140
Depreciation of right-of-use assets[a]	37,629	47,963
Impairment of intangible assets (Note 11)	4,116	68,353
Impairment of tangible assets (Note 12)	13,498	—
Impairment of right-of-use assets[a]	12,072	—
Reversal of impairment of tangible assets (Note 12)	(684,112)	(470,438)
Reversal of impairment of investments (Note 13)	(2,328,847)	(2,502,171)
Cost of stock recognized as an expense[b]	7,410	15,113
(Loss) / profit on disposal of fixed assets	(281,464)	399,572
Profit / (loss) on disposal of operations	574,262	(2,006)
Fundamental reorganisation / restructuring costs	—	303

[a] The line indicated is in respect of the application of IFRS 16
[b] Amount is included in Cost of sales.

5. Auditor's remuneration

	2022	2021
	$000	$000
Fees for the audit of the company	711	693

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 Operating Company Limited's ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis.

The audit fees were borne by another group company.

6. Interest receivable and similar income

	2022	2021
	$000	$000
Interest income from amounts owed by group undertakings	294,210	6,465
Other interest income	1,801	61,398
Other interest	171	2
Total interest receivable and similar income	296,182	67,865

The increase in interest income is mainly due to increase on interest received on IFA accounts following the higher LIBOR rate in the year.

7. Interest payable and similar expenses

	2022	2021
	$000	$000
Interest expense on:		
Lease liabilities	3,829	5,965
Overdrafts from group undertakings	331,538	46,200
Other loans	9,784	9,633
Finance fee	177	141
Total interest expense	345,328	61,939
Interest capitalized in relation to qualifying assets at 4.50% (2021: 2.75%)	(11,583)	(5,520)
	333,745	56,419
Unwinding of discount on provisions (Note 20)	55,851	56,209
Total interest payable and similar charges	389,596	112,628

The increase of $285 million in overdrafts from group undertakings is manly due to the higher LIBOR rate in the year.

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

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

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

	2022	2021
	$000	$000
Exploration and evaluation costs		
Exploration expenditure written off	3,411	61,610
Other exploration costs	14,429	15,291
Exploration expense for the year	17,840	76,901
Intangible assets – exploration and appraisal expenditure	418,199	377,603
Liabilities	(24,633)	(31,590)
Net assets	393,566	346,013
Cash used in operating activities	(14,429)	(15,291)
Cash used in investing activities	(40,213)	(67,352)

No significant exploration write-off occurred in 2022, while in prior year the exploration write-off was mainly related to Capercaillie in amount of $50 million.

9. Taxation

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

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

	2022	2021
Current tax	$000	$000
UK corporation tax on income for the year	921,165	—
Total current tax charged	921,165	—
Deferred tax		
Origination and reversal of temporary differences	400,976	591,410
Effect of changes in tax rate	1,183,701	(18,913)
Prior year adjustments	(56,633)	(53,899)
Total deferred tax charged	1,528,044	518,598
Tax charged on profit	2,449,209	518,598

NOTES TO THE FINANCIAL STATEMENTS

(a) Reconciliation of the effective tax rate

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

	2022	2021
	UK	UK
	$000	$000
Profit before tax	19,571,908	6,432,788
Taxation	2,449,209	518,598
Effective tax rate	13 %	8 %

	2022	2021
	UK	UK
	%	%
UK corporation tax rate:	19	19
Increase / (decrease) resulting from:		
Non-taxable income	(17)	(16)
Free group relief	4	1
Tax rate changes	7	5
Investment allowance	—	(1)
Effective tax rate	13	8

Change in corporation tax rate

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

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

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

Ring fence profits, or losses, are subject to EPL, but no relief is available for Ring Fence Corporation Tax losses carried forward, decommissioning expenditure or finance costs. An 80% EPL Investment Allowance is given for capital expenditure incurred after 26 May 2022 up to 31 December 2022. The EPL Investment Allowance is reduced to 29% from 1 January 2023.

(b) Provision for deferred tax

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

Deferred tax asset	Profit and loss account 2022	Profit and loss account 2021	Balance sheet 2022	Balance sheet 2021
	$000	$000	$000	$000
Decommissioning and other provisions	200,775	(116,482)	895,082	1,095,857
Tax losses carried forward	187,941	635,964	—	187,941
Other deductible temporary differences	37,559	4,632	—	37,559
Net credit for deferred tax assets	426,275	524,114	895,082	1,321,357

Deferred tax liability	Profit and loss account 2022	Profit and loss account 2021	Balance sheet 2022	Balance sheet 2021
	$000	$000	$000	$000
Accelerated capital allowances	1,116,169	(20,282)	(3,114,018)	(1,997,849)
Other taxable temporary differences	(14,400)	14,766	(131,212)	(145,612)
Net charge / (credit) for deferred tax liabilities	1,101,769	(5,516)	(3,245,230)	(2,143,461)
Net deferred tax charge and net deferred tax liability	1,528,044	518,598	(2,350,148)	(822,104)

Analysis of movements during the year

	2022
	$000
At 1 January 2022	822,104
Deferred tax charge in the profit and loss account	1,528,044
At 31 December 2022	2,350,148

10. Directors and employees

(a) Remuneration of directors

A number of directors are senior executives of the BP p.l.c. Group and received no remuneration for qualifying services to this company or its group undertakings.

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

The total remuneration for these qualifying directors for their period of directorship to the company amounted to $483,000 (2021: $401,000). These costs are borne by the company.

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

Of these qualifying directors, the highest paid director received $245,000 (2021: $244,000). The accrued pension of the highest paid director at 31 December 2022 was $47,000 (2021: $63,000). The highest paid director received no contributions to a money purchase pension scheme during the year.

One of these qualifying directors was member of the defined benefit section of the BP Pension Fund at 31 December 2022 (2021: One).

None of these qualifying directors received any contribution to a money purchase pension scheme during the year (2021 None).

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

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

(b) Employee costs

	2022	2021
	$000	$000
Wages and salaries	698,261	597,897
Social security costs	21,323	22,563
Other pension costs	1,141	56,216
Share-based payment charge	70,467	68,399
	791,192	745,075

(c) The average monthly number of employees during the year was 2,851 (2021: 2,588)

	2022	2021
	No.	No.
UK	2,663	2,332
Non-UK	188	256
	2,851	2,588

11. Intangible assets

	Exploration expenditure	Other intangibles	Total
Cost	$000	$000	$000
At 1 January 2022	442,450	163,445	605,895
Additions	40,212	46,915	87,127
Disposals	(732)	(705)	(1,437)
Change in decommissioning	3,795	—	3,795
At 31 December 2022	485,725	209,655	695,380
Amortisation and impairment			
At 1 January 2022	(64,847)	(94,525)	(159,372)
Disposals	732	705	1,437
Charge for the year	—	(22,300)	(22,300)
Impairment	(3,411)	(705)	(4,116)
At 31 December 2022	(67,526)	(116,825)	(184,351)
Net book value			
At 31 December 2022	418,199	92,830	511,029
At 31 December 2021	377,603	68,920	446,523

Impairment of $3 million is mainly related to exploration write-off on Arpet asset. This arose as a result of changes to the group's oil and gas price assumptions and from management's re-assessment of expectations to extract value from certain exploration prospects as a result of a review of the group's long-term strategic plan. In 2021, disposals and impairment were $1 million.

12. Tangible assets

	Land & buildings	Fixtures & fittings	Oil & gas properties	Plant & machinery	Total	Of which AUC[a]
Cost - owned tangible assets	$000	$000	$000	$000	$000	$000
At 1 January 2022	5,709	44,824	18,060,403	62,407	18,173,343	372,635
Additions	14,817	1,207	288,980	174	305,178	291,447
Disposals	—	(2,714)	(6,144)	(11,458)	(20,316)	—
Transfers	—	—	—	—	—	(10,129)
Change in decommissioning provision (Note 20)	—	—	(417,191)	—	(417,191)	1,926
At 31 December 2022	20,526	43,317	17,926,048	51,123	18,041,014	655,879
Depreciation - owned tangible assets						
At 1 January 2022	—	(38,678)	(11,777,108)	(51,684)	(11,867,470)	(11,995)
Charge for the year	—	(2,842)	(673,757)	(5,236)	(681,835)	—
Impairment	(13,498)	—	—	—	(13,498)	—
Reversal of impairment	—	—	684,112	—	684,112	11,325
Disposals	—	2,163	3,686	11,458	17,307	—
At 31 December 2022	(13,498)	(39,357)	(11,763,067)	(45,462)	(11,861,384)	(670)
Owned tangible assets - net book value						
At 31 December 2022	7,028	3,960	6,162,981	5,661	6,179,630	655,209
Right-of-use assets - net book value						
At 31 December 2022	11,240	—	7,077	82,521	100,838	—
Total tangible assets net book value						
At 31 December 2022	18,268	3,960	6,170,058	88,182	6,280,468	655,209
Total net book value						
At 31 December 2021	25,356	6,146	6,303,063	114,965	6,449,530	360,640
Depreciation charge for the year on right-of-use assets						
2022	(5,886)	—	(10,212)	(21,531)	(37,629)	—
2021	(4,329)	—	(14,812)	(28,822)	(47,963)	—

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

Additions are mainly related to ETAP ($184 million), Clair Ridge ($53 million), Schiehallion ($34 million), Service and Function ($15 million), Andrew area ($12 million), Clair ($6 million) and smaller increase on other areas.

Capitalized interest included above is as follows:

	Net book value
Capitalized interest	$000
At 31 December 2022	246,747
At 31 December 2021	237,034

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

As a result of this review, the company has recognized total impairment reversals of $671 million (2020: $470 million impairment reversals). The impairment reversal consists of impairment charges of $13 million and impairment reversals in amount of $684 million. Impairments were calculated on a value in use basis, applying a discount rate of 10%. The residual value of the CGU's which have recognized impairment charges during the year was $7 million. The main impacted areas are ETAP ($401 million), Schiehallion ($267 million), and Foinaven ($12 million), Miller ($4 million) and Function and Services ($13 million impairment charge). $684 million impairment reversal mainly arose as a result of changes to the group's oil and gas price assumptions and re-assessment of reserves.

Impairment charges of $25 million relating to land and buildings ($13 million) and right of used assets ($12 million). This principally relates to losses on anticipated portfolio changes.

NOTES TO THE FINANCIAL STATEMENTS

13. Investments

	Investment in subsidiaries	Investment in associates	Loans to joint ventures	Total
Cost	$000	$000	$000	$000
At 1 January 2021	72,035,634	1,781,025	38,973	73,855,632
Valuation adjustments	—	23,769	—	23,769
Additions	4,119,283	—	—	4,119,283
Disposals	(922,600)	(101,884)	—	(1,024,484)
At 31 December 2021	75,232,317	1,702,910	38,973	76,974,200
At 1 January 2022	75,232,317	1,702,910	38,973	76,974,200
Valuation adjustments	—	16,888	—	16,888
Additions	7,315,466	8,524,601	—	15,840,067
Disposals	(11,086,233)	(61,534)	—	(11,147,767)
At 31 December 2022	71,461,550	10,182,865	38,973	81,683,388
Impairment losses				
At 1 January 2021	(30,291,496)	—	(38,973)	(30,330,469)
Reversal	2,502,171	—	—	2,502,171
At 31 December 2021	(27,789,325)	—	(38,973)	(27,828,298)
At 1 January 2022	(27,789,325)	—	(38,973)	(27,828,298)
Reversal	2,328,847	—	—	2,328,847
Disposals	2,027,773	—	—	2,027,773
At 31 December 2022	(23,432,705)	—	(38,973)	(23,471,678)
Net book amount				
At 31 December 2022	48,028,845	10,182,865	—	58,211,710
At 31 December 2021	47,442,992	1,702,910	—	49,145,902

	2022	2021
	$000	$000
Listed	1,658,271	1,658,271
Unlisted	56,553,439	47,487,631

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

The subsidiary and associated undertakings of the company at 31 December 2022 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.

NOTES TO THE FINANCIAL STATEMENTS

Subsidiary undertakings

Company name	Class of share held	%	Registered address	Principal activity
ARCO British Limited, LLC	Ordinary	100	1209 Orange Street, Wilmington DE 19801, United States	Exploration / Production
Atlantic 2/3 UK Holdings Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP (GTA Mauritania) Finance Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP (GTA Senegal) Finance Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Absheron Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Agung I Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, England, United Kingdom	Exploration
BP Agung II Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, England, United Kingdom	Exploration
BP Alternative Energy Trinidad and Tobago Limited	Ordinary	100	5-5A Queen's Park West Port-of-Spain Trinidad and Tobago	Sales Marketing and Distribution
BP Amoco Exploration (Faroes) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Amoco Exploration (In Amenas) Limited	Ordinary	100	1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB, United Kingdom	Exploration / Production
BP Andaman II Ltd	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Brasil Limitada	Ordinary	99	Avenida das Américas 3434, Bloco 7, Sala 301 a 308 (parte), Barra da Tijuca, Rio de Janeiro, RJ, 22640-102 Brazil	Exploration / Production
BP Brazil Tracking L.L.C.	Ordinary	100	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Exploration / Production
BP CCUS UK LTD	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Low Carbon Energy
BP Containment Response Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP D230 Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities

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BP East Kalimantan CBM Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Energy Colombia Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Exploration (Absheron) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Algeria) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Alpha) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Azerbaijan) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Canada) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Caspian Sea) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (D230) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Delta) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Epsilon) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Gambia) Limited	Ordinary	100	3 Kairaba Avenue, 3rd Floor Centenary Serekunda West Kanifing Municipality Gambia	Exploration / Production
BP Exploration (Greenland) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Madagascar) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Morocco) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Namibia) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (Nigeria) Limited	Ordinary	100	Landmark Towers - 5B, Water Corporation Road, Victoria Island, Lagos, Nigeria	Exploration / Production
BP Exploration (Psi) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production

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BP Exploration (Shah Deniz) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (South Atlantic) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration (STP) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Argentina Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex ,TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Beta Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration China Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Exploration Indonesia Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Libya Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Mexico, S.A. DE C.V.	Ordinary-A	100	Av. Santa Fe No. 505 Piso 10, Col. Cruz Manca Santa Fe Deleg., CuajimalpaC.P., 05349 México D.F., Mexico	Exploration / Production
BP Exploration North Africa Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Exploration Peru Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Gas Marketing Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Energy Trading
BP Holdings Iraq Ltd	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Iran Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Iraq N.V.	Ordinary	100	Langerbruggekaai 18, Gent, 9000, Belgium	Exploration / Production
BP Kuwait Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Mauritania Investments Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Netherlands Upstream B.V.	Ordinary	100	d'Arcyweg 76, 3198 NA Europoort, Rotterdam, Netherlands	Exploration / Production

BP Pipelines (TANAP) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Dormant
BP Pipelines TAP Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Senegal Investments Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Shafag-Asiman Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP Subsea Well Response (Brazil) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP Subsea Well Response Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Support activities
BP West Aru I Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP West Aru II Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
BP West Papua I Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
Britoil Limited	Ordinary	100	1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB, United Kingdom	Exploration / Production
Exploration (Luderitz Basin) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
GTA FPSO Company Ltd	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, England, United Kingdom	Support activities
Iraq Petroleum Company Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Exploration / Production
Wiriagar Overseas Ltd	Ordinary	100	Ocorian Corporate Services (BVI) Limited, Jayla Place, Wickhams Cay 1, PO Box 3190,Tortola, Road Town, VG1110, British Virgin Islands	Exploration / Production

Associated undertakings

Company name	Class of share held	%	Registered address	Principal activity
Aker BP ASA	Ordinary	15.9	Oksenoyveien 10, 1366 Lysaker, Norway	Exploration / Production
VIC CBM Limited	Ordinary	50	Eni House, 10 Ebury Bridge Road, London, SW1W 8PZ, United Kingdom	Exploration / Production
Virginia Indonesia Co. CBM Limited	Ordinary	50	Eni House, 10 Ebury Bridge Road, London, SW1W 8PZ, United Kingdom	Exploration / Production
Azule Energy Holdings Limited	Ordinary	50	Eni House, 10 Ebury Bridge Road, London, SW1W8PZ, England	Exploration / Production

Significant holdings in undertakings other than group undertakings

In accordance with Section 409 of the Companies Act 2006, disclosed below is a full list of related undertakings in which the company holds an interest of 20% or greater not already disclosed above.

Related undertaking	Class of share held	%	Registered address	Direct / Indirect
Amoco (Fiddich) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Amoco (U.K.) Exploration Company LLC	Ordinary	100.	Corporation Trust Center, 1209 Orange Street, Wilmington DE 19801, United States	Indirect
Amoco U.K. Petroleum Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Atlantic 2/3 Holdings LLC	Ordinary	43	RL&F Service Corp, 920 North King Street, 2nd Floor, Wilmington DE 19801, United States	Indirect
Atlantic LNG 2/3 Company of Trinidad and Tobago Unlimited	Ordinary	43	Princes Court, Cor. Pembroke & Keate Street, Port-of-Spain, Trinidad and Tobago	Indirect
Azerbaijan Gas Supply Company Limited	Ordinary-A	23	Maples & Calder, P.O. Box 309, Ugland House, 113 South Church Street, George Town, Grand Cayman, Cayman Islands	Indirect
Azerbaijan International Operating Company	Unlimited redeemable	30	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	Indirect
Bahia de Bizkaia Electridad, S.L.	Ordinary	75	Atraque Punta Lucero, Explanada Punta Ceballos s/n, Ziérbena (Vizcaya), Spain	Indirect

Blue Marble Holdings Limited	Ordinary-C	24	Northgate House, 2nd Floor, Upper Borough Walls, Bath, BA1 1RG, England, United Kingdom	Indirect
BP Egypt West Mediterranean (Block B) B.V	Ordinary	61	d'Arcyweg 76, 3198 NA Europoort, Rotterdam, Netherlands	Indirect
BP Exploration (El Djazair) Limited	Common	60	PricewaterhouseCoopers (Bahamas) Limited, Providence House, East Hill Street, P.O. Box N-3910, Nassau, Bahamas	Indirect
BP Exploration (Shafag-Asiman) Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
BP Exploration (Xazar) PTE. Limited	Ordinary	100	7 Straits View #26-01, Marina One East Tower, Singapore, 018936, Singapore	Indirect
BP Train 2/3 Holding SRL	Common	100	The Financial Services Centre, Bishop's Court Hill, St. Michael, Barbados	Indirect
BP-AIOC Exploration (TISA) LLC	Member interest	51	153 Neftchilar Avenue, Baku, AZ1010, Azerbaijan	Indirect
Georgian Pipeline Company	Unlimited redeemable	30	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands	Indirect
Phoenix Petroleum Services LLC	Ordinary	100	Royal Tulip Al Rasheed Hotel, Baghdad Tower, PO Box 8070, Baghdad, Iraq	Indirect
Rahamat Petroleum Company	Ordinary	50	70/72 Road 200, Maadi, Cairo, Egypt	Indirect
TISA Education Complex LLC	Member interest	100	153 Neftchilar Avenue, Baku, AZ1010, Azerbaijan	Indirect
Trans Adriatic Pipeline AG	Ordinary	20	Lindenstrasse 2, 6340 Baar, Switzerland	Indirect
Net Zero North Sea Storage Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Net Zero Teesside Power Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom	Indirect
Damietta Petroleum Company	Ordinary	50	Street 200, Building 70-72, Maadi, Cairo, Egypt	Indirect
North El Burg Petroleum Company	Ordinary	25	Street 200, Building 70-72, Maadi, Cairo, Egypt	Indirect

Basra Energy Company Limited	Ordinary	49	Unit GD-GB-00-15-BC-26, Level 15, Gate District Gate Building, Dubai International Financial Center, 74777, United Arab Emirates	Indirect
H2 Teesside Limited	Ordinary	100	Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, England, United Kingdom	Indirect

In 2022 and 2021, the company was required to perform an impairment review of its investments in subsidiaries. In 2022, as a result of this review the company recognized net impairment reversal of $2,329 million related to the companies listed below. In 2021, $2,502 million net impairment reversal was recognized.

	2022 $ million
BP Exploration (Caspian Sea) Limited	(2,680)
BP Mauritania Investments Limited	(515)
BP Exploration (Namibia) Limited	(29)
BP Exploration Mexico, S.A. De C.V.	(23)
BP Exploration (Madagascar) Limited	(13)
BP Exploration (Morocco) Limited	(5)
Arco British Limited	146
BP Netherlands Upstream B.V.	813
BP Gas Marketing Limited	895
BP Exploration (Alpha) Limited	1,081
Britoil Limited	1,115
BP Exploration (Delta) Limited	1,544
	2,329

The disposals movement of $11,086 million during 2022 related to the following entities:

	2022 $ million
BP Exploration (Angola) Limited	(6,664)
BP Exp. Angola (Kwanza Benguela) Limited	(2,432)
BP Exploration (Algeria) Limited *	(917)
BP Amoco Exploration (In Amenas) Limited *	(424)
BP Netherlands Upstream B.V.	(600)
BP West Papua III Limited	(45)
BP Exploration Peru Limited	(4)
	(11,086)

**It is a return of capital, dividends paid to the Company prior to disposal.*

The disposals movement of $922.6 million during 2021 was related to BP Iraq N.V. ($830 million) due to issued share capital reduced and returned to the Company; BP Brasil Limitada ($73.6 million) as a result of Castrol Brasil Limitada split and transferred to Burmah Castrol plc investment chain. BP Subsea Well Response (Brazil) Limited ($18.6 million) and BP Exploration (Canada) Limited ($0.5 million).

In 2Q 2022 the company sold its 5% stake in Serica Energy. The sale represents 13.5 million ordinary shares in Serica Energy.

The material capital injections during the year are listed below:

	2022 $ million
BP Gas Marketing Limited	6,285
BP Mauritania Investments Limited	850
BP Brazil Tracking L.L.C.	74
BP Exploration Mexico, S.A. De C.V.	59
BP Exploration (Namibia) Limited	28
BP Alternative Energy Trinidad and Tobago Limited	11
BP Senegal Investments Limited	7
BP Exploration (Madagascar) Limited	1
	7,315

The capital injections for 2021 were $4,119 million. Material capital injections were made to BP Gas Marketing Limited ($2,650 million), BP Mauritania Investment Ltd ($890 million), GTA FPSO Company Ltd ($265 million), BP Senegal Investments Limited ($238 million), BP Brazil Tracking L.L.C ($69 million) and BP Exploration Mexico, S.A. De C.V. ($7 million).

Addition of $8,525 million at investment in associates is related to Azule Energy Holdings Limited in Angola and BP Holdings Iraq Ltd.

14. Stocks

	2022 $000	2021 $000
Raw materials and consumables	65,123	65,488
Crude oil	46,975	31,922
	112,098	97,410

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

15. Debtors

Amounts falling due within one year:

	2022 $000	2021 $000
Trade debtors	53,705	46,425
Amounts owed from group undertakings	3,609,716	1,699,763
Amounts owed from associates	62,747	20,575
Other debtors	488,339	375,243
Prepayments and accrued income	31,641	26,206
Petroleum Revenue Tax	162	21
	4,246,310	2,168,233

– Amounts falling due after one year:

	2022	2021
	$000	$000
Other debtors	117,168	111,918
Prepayments and accrued income	—	2,308
Petroleum Revenue Tax	328,031	364,033
Joint venture lease receivable	—	19,316
	445,199	497,575
Total debtors	4,691,509	2,665,808

The amounts owed from group undertakings increased by $1,910 million compared to previous year mainly due to the rest of the world operation.

The amount owed from parent undertakings and associates are trading balances with payment terms of 30 days. Trade and other receivables are predominantly non-interest bearing.

16. Creditors

Amounts falling due within one year:

	2022	2021
	$000	$000
Trade creditors	179,923	219,581
Amounts owed to group undertakings	2,404,506	6,411,327
Amounts owed to associates	42,430	42,430
Other creditors	749,531	329,543
Taxation	257,213	4,383
Petroleum Revenue Tax	21	23
Accruals and deferred income	298,326	319,248
	3,931,950	7,326,535

Amounts falling after one year:

	2022	2021
	$000	$000
Amounts owed to group undertakings	1,592	1,592
Other creditors	25,136	744
Accruals and deferred income	19,931	450
Joint venture lease payable	—	8,426
	46,659	11,212
Total creditors	3,978,609	7,337,747

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.

The amounts owed to group undertakings comprise an Internal Funding Account (IFA) of $1,775 million payable to BP International Limited (2021 $4,429 million).

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

The remaining payable amounts to group undertakings and consist of intercompany trade payable balances related to the operation of the company. Intercompany payable balances also have payment terms in the range of 30 to 60 days, with no interest being charged.

17. Loans and obligations under leases

Lease liabilities are analysed as follows:

Within 5 years

	2022	2021
	$000	$000
Not wholly repayable	104,187	159,640
	104,187	159,640

After 5 years

	2022	2021
	$000	$000
Not wholly repayable	14,850	26,746
	14,850	26,746

Lease liabilities due within one year is $41,283,000 and due after more than one year is $77,754,000. Interest rates on borrowings repayable wholly or partly more than five years from 31 December 2022 with a weighted average of 4.10%.

18. Leases

The company leases a number of assets as part of its activities. The weighted average remaining lease term for the total lease portfolio is around 2 year (2021: around 1 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.

	2022	2021
	$000	$000
Short-term lease expense[a]	—	—
Additions to right-of-use assets in the period	7,317	35,055
Total cash outflow for amounts included in lease liabilities[b]	66,401	135,107

[a] A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less.
[b] The cash outflows for amounts not included in lease liabilities approximate the income statement expense disclosed above.

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

19. Derivatives and other financial instruments

In the normal course of business the company enters into derivative financial instruments (derivatives), to manage its normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt consistent with risk management policies and objectives.

For information on significant judgements and estimates made in relation to the application of hedge accounting and the valuation of derivatives, see Derivative financial instruments and hedging activities within Note 2.

The fair values of derivative financial instruments at 31 December are set out below:

	2022 Fair value asset $000	2022 Fair value liability $000	2021 Fair value asset $000	2021 Fair value liability $000
Cash flow hedges				
- Currency forwards, futures and cylinders	—	(208)	3,556	—
Other financial assets	226,959	—	695,429	—
	226,959	(208)	698,985	—
Of which:				
– current with third parties	75,068	—	246,473	—
– current with parent undertaking	—	(208)	3,238	—
– non-current with third parties	151,891	—	448,957	—
– non-current with parent undertaking	—	—	317	—
	226,959	(208)	698,985	—

2022	Less than 1 year $000	1-2 years $000	2-3 years $000	Total $000
Fair value of derivative liabilities - Level 2	(208)	—	—	(208)
Net fair value	(208)	—	—	(208)

2021	Less than 1 year $000	1-2 years $000	2-3 years $000	Total $000
Fair value of derivative assets - Level 2	3,238	318	—	3,556
Net fair value	3,238	318	—	3,556

Cash flow hedges

At 31 December 2022, the company held currency forwards designated as hedging instruments in cash flow hedge relationships of highly probable forecast non-US dollar capital expenditure. Note 28 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022 outlines the group's approach to foreign currency exchange risk management. When a highly probable forecast capital expenditure designated as a hedged item occurs, a non-financial asset is recognized and is presented within the fixed asset section of the balance sheet.

The company claims hedge accounting only for the spot value of the currency exposure in line with the strategy to fix the volatility in the spot exchange rate element. The fair value on the instrument attributable to forward points is taken immediately to the income statement.

The company applies hedge accounting where there is an economic relationship between the hedged item and hedging instrument. The existence of an economic relationship is determined at inception and prospectively by comparing the critical terms of the hedging instrument and those of the hedged item. The company enters into hedging derivatives that match the currency and notional of the hedged items on a 1:1 hedge ratio basis. The hedge ratio is determined by comparing the notional amount of the derivative with the notional designated on the forecast transaction. The company determines the extent to which it hedges highly probable forecast capital expenditures on a project by project basis.

The company has identified the following sources of ineffectiveness, which are not expected to be material:

- counterparty's credit risk, the company mitigates counterparty credit risk by entering into derivative transactions with high credit quality counterparties; and

- differences in settlement timing between the derivative and hedged items. The latter impacts the discount factor used in the calculation of the hedge ineffectiveness. The company mitigates differences in timing between the derivatives and hedged items by applying a rolling strategy and by hedging currency pairs from stable economies (i.e. sterling/US dollar, Euro/US dollar). The company's cash flow hedge designations are highly effective as the sources of ineffectiveness identified are expected to result in minimal hedge ineffectiveness.

The company has not designated any net positions as hedged items in cash flow hedges of foreign currency risk.

The table below summarizes the change in the fair value of hedging instruments and the hedged item used to calculate ineffectiveness in the period.

At 31 December 2022	Change in fair value of hedging instruments used to calculate ineffectiveness	Change in fair value of hedged item used to calculate ineffectiveness	Hedge ineffectiveness recognized in profit or loss
	$000	$000	$000
Cash flow hedges			
Foreign exchange risk			
Highly probable forecast capital expenditure	(3,764)	3,764	—

The table below summarizes the carrying amount and nominal amount of the derivatives designated as hedging instruments in cash flow hedge relationships at 31 December 2022.

	Carrying amount of hedging instrument		Nominal amount of hedging instruments
	Assets	Liabilities	
At 31 December 2022	$000	$000	$000
Cash flow hedges			
Foreign exchange risk			
Highly probable forecast capital expenditure	(208)	—	3,152

All hedging instruments are presented within derivative financial instruments on the company balance sheet.

Of the nominal amount of hedging instruments relating to highly probable forecast capital expenditure $0.2 million matures in 2022 and $ Nil matures in 2023.

The table below summarizes the weighted average exchange rates in relation to the derivatives designated as hedging instruments in cash flow hedge relationships at 31 December 2022.

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	Weighted average price/rate	
At 31 December 2022	Forecast Capital Expenditure	Forecast Sales
GBP/USD	1.27	—

Movement in reserves related to hedge accounting

The table below provides a reconciliation of the cash flow hedge and costs of hedging reserves on a pre-tax basis by risk category. The signage convention of this table is consistent with that presented in the Statement of Changes in Equity.

	$000	
	Cash flow hedge reserves	
	Highly probable forecast future sales	Total
As at 1 January 2021	3,577	3,577
Recognized in other comprehensive income		
Cash flow hedges marked to market	(4,013)	(4,013)
As at 31 December 2021	(436)	(436)

The loss of $345,000 in the Statement of Changes in Equity includes an additional $91,000 adjustment regarding tax on other comprehensive income.

Substantially all of the cash flow hedge reserve balances and all of the amounts reclassified into profit or loss during the year relate to continuing hedge relationships. Amounts deferred in the cash flow hedge reserve that have been reclassified to profit or loss are presented in sales and other operating revenues in the income statement.

Costs of hedging relates to the foreign currency basis spreads of hedging instruments used to hedge the company's interest rate and foreign currency risk on debt which is a time-period related item.

Another group company, BP International Ltd, has entered into a foreign exchange hedging programme on behalf of the company. This is to manage foreign exchange risk in relation to non US$ highly probable forecast capital expenditure on the Seagull project. The hedging instrument is an intercompany derivative between the company and BP International Ltd.

For cash flow hedges the company only claims hedge accounting on the intrinsic value on the currency, with any fair value attributable to forward points taken immediately to the income statement. The amount recognized in the profit and loss account was a gain of $248,000 (2021: loss of $251,000).

The balance held in other financial instruments includes amounts relating to the Magnus disposals ($198 million), and the balance related to the Thistle financial deed agreement ($29 million). These balances are all related to future cash flows to which the company is entitled and have been recognized in these accounts as other financial instruments at fair value through profit and loss account. The balances are fair valued quarterly based on an estimate of future oil and gas prices and applying a 7% discount rate to the cash flows. Magnus cash flows are linked to the underlying field cash flow generation. Serica shares related to Bruce, Keith and Rhum disposals were sold in 2022.

20. Other provisions

	Decom-missioning $000	Other $000	Legal Provision $000	Total $000
At 1 January 2022	2,715,038	27,953	19,493	2,762,484
Exchange adjustments	—	(773)	(2,011)	(2,784)
New or increased provision:				
Charged to profit and loss account	(125,028)	19,532	—	(105,496)
Recognized within tangible and intangible assets (Note 11 and Note 12)	(413,396)	—	—	(413,396)
Utilization	(11,842)	(3,598)	—	(15,440)
Unwinding of discount (Note 7)	55,851	—	—	55,851
Write-back of unused provisions	—	(2,484)	(11,807)	(14,291)
At 31 December 2022	2,220,623	40,630	5,675	2,266,928
At 31 December 2022				
Current	48,888	10,043	5,675	64,606
Non-current	2,171,735	30,587	—	2,202,322
	2,220,623	40,630	5,675	2,266,928
At 31 December 2021				
Current	47,710	9,194	—	56,904
Non-current	2,667,328	18,759	19,493	2,705,580
	2,715,038	27,953	19,493	2,762,484

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

The company makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis upon installation of those facilities. For details of increase of $413 million recognized through tangible and intangible assets please refer to Note 11 and Note 12. The total balance contains $417.2 million increase in decommissioning movement connected to owned assets and $3.8 million decrease in decommissioning movement relates to right-of-use assets.

Utilization of provision is mainly related to Magnus and Foinaven.

The other provision balance represents contractual disputes.

21. Called up share capital

	2022 $000	2021 $000
Issued and fully paid:		
42,089,650,267 ordinary shares of $1 each for a total nominal value of $42,089,650,267	42,089,650	42,089,650
	42,089,650	42,089,650

22. 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.

Cash flow hedge reserve
The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. For further information on the accounting for cash flow hedges see Note 2 - Derivative financial instruments and hedging activities.

Foreign currency translation reserve
The foreign currency translation reserve is used to record the currency fluctuations in relation to the foreign currency branches.

Other reserves
The balance held on this reserve represents the share-based payment contribution from the parent company.

Profit and loss account
The balance held on this reserve is the retained profit of the company and $4,200,000,000 dividend paid to BP Exploration Company Limited.

In 2022, the company paid ordinary interim dividends of $4,200,000,000 (2021: $3,708,000,000). The dividend per share was $0.10 (2021: $0.09).

23. Capital commitments

Authorized and contracted future capital expenditure (excluding right-of-use assets) by the company for which contracts had been placed but not provided in the financial statements at 31 December 2022 is estimated at $87 million (2021: $103 million).

24. Guarantees and other financial commitments

The company has issued guarantees, under which amounts outstanding at 31 December 2022 were $12,965 million (2021: $13,079 million) in respect of liabilities of other third parties. No material losses are likely to arise from these guarantees.

25. Related party transactions

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

26. Post balance sheet events

On 17 February 2023, the company subscribed to 4,000,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $4,000,000.

On 28 February 2023, the company completed the sale of bp's upstream business in Algeria to ENI.

On 22 March 2023, the company subscribed to 200,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $200,000.

On 22 March 2023, the company subscribed to 2,300,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $2,300,000.

On 19 April 2023, the company subscribed to 1,500,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $1,500,000.

On 24 April 2023, the company subscribed to 750,000,000 ordinary shares of $1 each in Atlantic 2/3 UK Holdings Limited for cash consideration of $750,000,000.

On 15 May 2023, the company subscribed to 147,000 ordinary shares of $1 each in BP Exploration (Morocco) Limited for a total consideration of $147,000.

On 19 May 2023, the company subscribed to 3,000,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $3,000,000.

On 29 June 2023, the company approved the liquidation of BP Exploration (Morocco) Limited and BP Exploration (Psi) Limited.

On 20 December 2022, Britoil Limited entered into a Sale and Purchase Agreement with the intent to acquire DNO's 10% share in East Foinaven field and 0.5% share of WOSPS pipeline. The deal was completed on 14 July 2023 and as a result bp entities now own 100% in East Foinaven field and 68.3% in West of Shetland Pipeline System.

On 18 August 2023, the company subscribed to 2,300,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $2,300,000.

On 22 August, 2023 the company acquired 150,000,000 ordinary shares of $1 each for a total nominal value of $150,000,000 of BP Mauritania Investments Limited.

On 19 September 2023, the company subscribed for 5,200,000 ordinary shares of $1 each in BP Brazil Tracking, LLC for a total consideration of $5,200,000.

27. Pensions

The company is a participating employer in the BP Pension Fund. The BP Pension Fund is separately funded and provides benefits that are computed based on an employee's years of service and final pensionable salary. The plan was closed to new joiners in 2010 and was closed to future accrual on 30 June 2021.

The obligation and the cost of providing pensions are assessed annually using the projected unit credit method. The most recent formal actuarial valuation for the BP Pension Fund was as at 31 December 2020. The date of the most recent actuarial review was 31 December 2022.

The BP Pension Fund is operated in a way that does not allow the individual participating employing companies in the Pension Fund to identify their share of the underlying assets and liabilities of the fund. Therefore the company's payments in respect of pension current service cost have been accounted for as an expense as if they were contributions to a defined contribution scheme and no further FRS 101 disclosures made in these accounts.

The results of the most recent formal actuarial valuation of the BP Pension Fund as at 31 December 2020, have been reflected into the disclosures required by FRS 101 for the year ended 31 December 2022, and are included within the accounts of the ultimate parent undertaking BP p.l.c.

In the BP p.l.c. accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest) are recognized within this company's statement of total recognized gains and losses in the period in which they occur.

28. Prior year restatement

In 2021, Aker BP, an investment in associate held by the company, announced proposed acquisition of Lundin Energy's oil and gas business. This transaction, which completed in June 2022, resulted in a dilution of the company's interest in Aker BP from 27.85% to 15.9%. In 2021, the company presented $595 million of the investment as an asset held for sale mirroring the equity-accounted treatment in the consolidated financial statements of BP p.l.c, the ultimate parent of the company. In the individual financial statements of the entity the investment should have been held at cost. The 2021 comparative balance sheet has been restated to present the respective amounts in investments rather than as an asset held for sale.

	2021	2021	2021
	$000	$000	$000
	As previously reported	Adjustment	As restated
Investments in associates	1,107,442	595,468	1,702,910
Assets held for sale	595,468	(595,468)	—

29. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Exploration Company Limited, a company registered in Scotland. 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.