

BP EXPLORATION (AZERBAIJAN) LIMITED

(Registered No.2160234)

ANNUAL REPORT AND ACCOUNTS 2005

Board of Directors: R L Paniguan
D K Woodward
M J Skitmore

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2005.

Principal activity

The company is engaged in the exploration for and exploitation of oil and natural gas.

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

Review of activities and future developments

The company is a party to two Production Sharing Agreements (the "PSAs") in the Azerbaijan sector of the Caspian Sea (Shah Deniz and Alov PSAs) and holds an interest in the Hyde Gas field on the UK Continental Shelf.

After the sanction of the Stage 1 development of the Shah Deniz field on 27 February 2003, the project has been progressing satisfactorily to its target for first gas delivery in September 2006. The TPG 500 platform construction was completed in March 2006 and installed Offshore in April 2006. A large portion of the Offshore Pipelines have been laid and the Onshore Terminal at Sangachal has already commenced commissioning of its systems. During 2005 an additional pre-drill well was drilled to accelerate the sale of gas once the platform is operational. An additional Appraisal and Exploration well will be drilled during 2006 to assess a Stage 2 development.

During the year the company continued to carry out some technical work in respect of the Alov field, pending inter-governmental agreement on borders in the Caspian Sea amongst the Caspian Littoral States. In the fourth quarter of 2005 a decision was made to impair the signature bonus on the Alov field as there is no evidence of timely resolution of the border dispute.

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

Results and dividends

The loss for the year after taxation was US \$12,443,658, when added to the retained deficit brought forward at 1 January 2005 of US \$72,728,038, gives a total retained deficit carried forward at 31 December 2005 of US \$85,171,696. The directors do not propose the payment of a dividend.



BP EXPLORATION (AZERBAIJAN) LIMITED

REPORT OF THE DIRECTORS

Directors

The present directors are listed on page 1.

R D Kelly, R L Paniguan and D K Woodward, served as directors throughout the financial year. Changes since 1 January 2005 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
R D Kelly		1 May 2005
M J Skitmore	1 May 2005	

Directors' interests

The interests of the directors holding office at 31 December 2005, and their families, in the US \$0.25 ordinary shares of BP p.l.c., were as set out below:

	<u>31 December 2005</u>	<u>1 January 2005</u> <u>(or date of appointment)</u>
R L Paniguan	202,681	190,601
D K Woodward	330,803	305,842
M J Skitmore	49,005	47,209

In addition, rights to subscribe for US \$0.25 ordinary shares in BP p.l.c. were granted to, or exercised by, those directors between 1 January 2005 or date of appointment and 31 December 2005 as follows:

	<u>Granted</u>	<u>Exercised</u>
R L Paniguan	-	-
D K Woodward	-	-
M J Skitmore	1,199	1,084

BP EXPLORATION (AZERBAIJAN) LIMITED

REPORT OF THE DIRECTORS

Auditors

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

By order of the Board

Rebecca Wright
Assistant Secretary

18th August 2006

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

BP EXPLORATION (AZERBAIJAN) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and of the loss of the company for that period. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements, and having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

BP EXPLORATION (AZERBAIJAN) LIMITED

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

We have audited the company's accounts for the year ended 31 December 2005 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, accounting policies and the related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom General Accepted Accounting Practice.

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2005 and of the loss of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
London.

18th August 2006

ACCOUNTING POLICIES

Accounting Standards

These accounts are prepared in accordance with applicable UK accounting standards. In preparing the financial statements for the current year, the company has adopted Financial Reporting Standards No. 21 'Events after the Balance Sheet Date' (FRS 21) and No. 28 'Corresponding Amounts' (FRS 28). The adoption of FRS 21 has resulted in changes in accounting policy for dividends. Dividends proposed or declared on equity instruments after the balance sheet date are now not recognised as a liability at the balance sheet date.

In addition to the requirements of accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001.

These accounts have been prepared in accordance with the provisions of the SORP except that the SORP recommends that oil and gas reserve quantities be disclosed. The company is a wholly owned subsidiary of BP p.l.c. and, as such, the oil and gas reserve quantities of the company are included in the consolidated oil and gas reserve quantities disclosed in the Annual Report and Accounts of BP p.l.c. Consequently the directors have elected not to publish this information for the Company.

Accounting convention

The accounts are prepared under the historical cost convention.

Statement of cash flows

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

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 228(1) of the Companies Act 1985. The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, BP p.l.c., a company registered in England and Wales. The accounts present information about the company as an individual undertaking and not about the group.

ACCOUNTING POLICIES

Investments policy

Fixed asset investments in subsidiaries, joint ventures and associates are included in the financial statements at cost less provisions for impairment.

Stock valuation

Stocks are valued at cost to the company, using the first-in first-out method or at net realisable value, whichever is the lower. Stores are valued at cost to the company mainly using the average method or net realisable value, whichever is the lower.

Revenue recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products and all other items are recognised when title passes to the customer. Generally, revenues from the production of natural gas and oil properties in which the company has an interest with other producers are recognised on the basis of the company's working interests in those properties (the entitlement method). Differences between the production sold and the company's share of production are not significant.

Foreign currency transactions

Foreign currency transactions in currencies other than United States dollars are recorded at the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities in currencies other than dollars are translated into dollars at rates of exchange ruling at the balance sheet date. All exchange gains and losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of loss for the year.

Oil and natural gas exploration and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised as an intangible asset until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. 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. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets.

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within tangible production assets.

ACCOUNTING POLICIES

Decommissioning

Provision for decommissioning is recognised in full on the installation of oil and natural gas production facilities. The amount recognised is the present value of the estimated future expenditure determined in accordance with the local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Depreciation

Oil and gas production assets are depreciated using a unit-of-production method. The cost of producing wells is amortised over proved developed reserves. Licence acquisition, decommissioning and field development costs are amortised over total proved reserves. The field development costs subject to amortisation are expenditures incurred to date together with sanctioned future development expenditure.

Other tangible and intangible assets, other than freehold land, are depreciated on the straight line method over their estimated useful lives. The company undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is, the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Maintenance expenditure

Expenditure on major maintenance, refits or repairs is capitalised where it enhances the performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and is then written off; or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to income as incurred.

Changes in unit-of-production factors

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

Research

Expenditure on research is written off in the year in which it is incurred.

Interest

Interest is capitalised gross of related tax relief during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

BP EXPLORATION (AZERBAIJAN) LIMITED

ACCOUNTING POLICIES

Discounting

The unwinding of the discount on provisions is included within interest expense. Any change in the amount recognised for environmental and other provisions arising through changes in discount rates is included within interest expense.

Comparative figures

Certain prior year figures have been restated to conform with the 2005 presentation.

BP EXPLORATION (AZERBAIJAN) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

		<u>2005</u>	<u>2004</u>
	Note	US \$	US \$
Turnover	1	5,343,833	4,224,313
Cost of sales		<u>(3,878,718)</u>	<u>(4,288,710)</u>
Gross profit / (loss)		1,465,115	(64,397)
Exploration expense		(5,857,325)	(4,987,499)
Administration expenses		(185,455)	(368,422)
Foreign Exchange gain		-	5,010,921
		<u>(4,577,665)</u>	<u>(409,397)</u>
Other income	3	228,209	75,473
Operating loss	2	<u>(4,349,456)</u>	<u>(333,924)</u>
Loss on ordinary activities before interest and tax		(4,349,456)	(333,924)
Interest payable and similar charges	4	<u>(8,094,202)</u>	<u>(13,511,477)</u>
Loss before taxation		<u>(12,443,658)</u>	<u>(13,845,401)</u>
Taxation	5	-	-
Loss for the year		<u>(12,443,658)</u>	<u>(13,845,401)</u>
Retained loss for the year	15	<u>(12,443,658)</u>	<u>(13,845,401)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2005

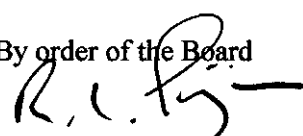
	<u>2005</u>	<u>2004</u>
	US \$	US \$
Loss for the year	(12,443,658)	(13,845,401)
Currency translation differences	-	1,267,513
Total recognised losses for the year	<u>(12,443,658)</u>	<u>(12,577,888)</u>

BP EXPLORATION (AZERBAIJAN) LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

		2005	2004
	Note	US \$	US \$
Fixed assets			
Intangible assets	7	4,249,796	6,619,369
Tangible assets	8	762,986,039	528,868,803
Investments	9	40,800	40,800
		<u>767,276,635</u>	<u>535,528,972</u>
Current assets			
Stocks	10	6,173,785	2,975,692
Debtors - amounts falling due:	11		
<i>Within one year</i>		8,251,106	20,895,351
<i>After more than one year</i>		382,402	-
		<u>14,807,293</u>	<u>23,871,043</u>
Creditors: amounts falling due within one year			
Other creditors	12	(741,430,464)	(544,552,746)
		<u>(726,623,171)</u>	<u>(520,681,703)</u>
Net current liabilities			
		<u>40,653,464</u>	<u>14,847,269</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
Creditors: amounts falling due after more than one year	12	-	(5,115,965)
Provisions for liabilities and charges			
Deferred tax		-	-
Other provisions	13	(3,143,712)	(11,277,894)
NET ASSETS/ LIABILITIES		<u>37,509,752</u>	<u>(1,546,590)</u>
Represented by			
Capital and reserves			
Called up share capital	14	122,681,448	71,181,448
Profit and Loss account	15	(85,171,696)	(72,728,038)
SHAREHOLDERS' FUNDS - EQUITY INTERESTS	16	<u>37,509,752</u>	<u>(1,546,590)</u>

By order of the Board



Director

18th August 2006



BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, customs duties and sales taxes represent amounts invoiced to third parties, all of which falls within the UK geographic area.

Turnover is attributable to one continuing activity, the purchasing and selling of petroleum products.

2. Operating loss

This is stated after charging / (crediting):

	<u>2005</u>	<u>2004</u>
	US\$	US\$
Exchange (gain) on foreign currency borrowings less deposits	-	(5,010,921)
Expenditure on research	871,294	2,829,746
Depreciation of owned fixed assets (including amortisation of intangibles)	8,233,843	6,277,825
Auditors' remuneration:		
Audit fees – current year		
UK	13,265	12,816
Overseas	27,700	25,000
Fees for other services		
Overseas	11,000	12,000

The 2005 charge for depreciation and amortisation includes asset write-downs and impairment charges of US \$4,617,843 in total specifically related to the impairment of the signature bonus on the Alov field.

3. Other income

	<u>2005</u>	<u>2004</u>
	US\$	US\$
Interest income from parent and fellow subsidiary undertakings	228,209	75,473

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

4. Interest payable and similar charges

	<u>2005</u>	<u>2004</u>
Interest expense on:	US\$	US\$
Loans from fellow subsidiary undertakings	30,780,160	19,900,031
Capitalised at 5.22% (2004: 3%)	<u>(22,708,654)</u>	<u>(6,394,956)</u>
	8,071,506	13,505,075
Unwinding of discount on provisions	<u>22,696</u>	<u>6,402</u>
Total charged against profit	<u>8,094,202</u>	<u>13,511,477</u>

5. Taxation

The Company is a member of a group for the purposes of relief under Section 402 of the Income & Corporation Taxes Act 1988.

No corporation tax has been provided in respect of the company's oil extraction activity in the UK and UK Continental Shelf because another group company, BP Exploration Operating Company Limited, has undertaken to provide for any current or deferred tax that arises.

In respect of the company's other activities, no corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of group relief to the extent it is required and to provide for any current or deferred tax that arises without charge.

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate on profit before taxation.

	<u>2005</u>	<u>2004</u>
	US\$	US\$
Loss before taxation	(12,443,658)	(13,845,401)
Current taxation	-	-
Effective current tax rate	<u>0%</u>	<u>0%</u>
	<u>2005</u>	<u>2004</u>
	%	%
UK statutory corporation tax rate:	30	30
Increase/(decrease) resulting from:		
Timing differences	161	71
UK supplementary tax at 10% on North Sea profits	(3)	(3)
Non deductible expenditure / non taxed income	10	-
IRF tax provided in BP Exploration Operating Company Ltd	12	11
Group relief	<u>(210)</u>	<u>(109)</u>
Effective current tax rate	<u>0</u>	<u>0</u>

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

6. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2004 US \$Nil).

(b) Employee costs

There were no employees during the year (2004 Nil).

7. Intangible assets

	Exploration expenditure US \$
Cost	
At 1 January 2005	27,409,635
Additions	2,248,270
At 31 December 2005	<u>29,657,905</u>

Depreciation

At 1 January 2005	20,790,266
Charge for the year	4,617,843
At 31 December 2005	<u>25,408,109</u>

Net book amount

At 31 December 2005	<u>4,249,796</u>
At 31 December 2004	<u>6,619,369</u>

Principal rates of depreciation*	16%
----------------------------------	-----

* The principal rate of depreciation indicated above is inclusive of the Alov field signature bonus write off of US \$4,617,843.

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

8. Tangible assets

	Buildings	Oil & gas Properties	Fixtures & Fittings	Total	Of which Assets under Construction
	US \$	US \$	US \$	US \$	US \$
Cost					
At 1 January 2005	-	548,597,570	2,562,250	551,159,820	502,352,450
Additions	234,778	239,290,832	2,833,466	242,359,076	248,050,256
Deletions	-	(4,625,840)	-	(4,625,840)	-
At 31 December 2005	<u>234,778</u>	<u>783,262,562</u>	<u>5,395,716</u>	<u>788,893,056</u>	<u>750,402,706</u>
Depreciation					
At 1 January 2005	-	22,291,017	-	22,291,017	-
Charge for the year	-	3,616,000	-	3,616,000	-
At 31 December 2005	<u>-</u>	<u>25,907,017</u>	<u>-</u>	<u>25,907,017</u>	<u>-</u>
Net book amount					
At 31 December 2005	<u>234,778</u>	<u>757,355,545</u>	<u>5,395,716</u>	<u>762,986,039</u>	<u>750,402,706</u>
At 31 December 2004	<u>-</u>	<u>526,306,553</u>	<u>2,562,250</u>	<u>528,868,803</u>	<u>502,352,450</u>
Principal rates of dep'n	N/A (still under construction)	Unit of Production	N/A (still under construction)		

Of the assets held above, capitalised interest is included as follows:

	Cost US\$	Net book amount US\$
Capitalised interest		
At 31 December 2005	31,903,610	31,903,610
At 31 December 2004	9,194,956	9,194,956

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

9. Fixed assets - investments

Cost and Net book amount	Associate Undertaking shares US\$
At 31 December 2005	40,800
At 31 December 2004	40,800

The investment in the associated undertaking is unlisted.

The associated undertaking of the company at 31 December 2005 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.

Associated Undertakings	%	Country of incorporation	Issued Share capital	Principal activity
Azerbaijan Gas Supply Company	20.4	Cayman Islands	200,000	Natural Gas Supply

10. Stocks

	2005	2004
	US\$	US\$
Drilling Stocks	6,173,785	2,975,692

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

11. Debtors

	2005	2005	2004	2004
	Within	After	Within	After
	1 year	1 year	1 year	1 year
	US \$	US \$	US \$	US \$
Parent and fellow subsidiary undertakings	2,081,113	49,433	6,757,656	-
Prepayments and accrued income	4,907,330	332,969	12,903,961	-
VAT recoverable	621,190	-	678,262	-
Other	641,473	-	555,472	-
	8,251,106	382,402	20,895,351	-

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

12. Creditors

	2005	2004	2004
	<u>Within</u>	<u>Within</u>	<u>After</u>
	<u>1 year</u>	<u>1 year</u>	<u>1 year</u>
	<u>US \$</u>	<u>US \$</u>	<u>US \$</u>
Parent and fellow subsidiary undertakings	(678,769,775)	(475,135,951)	(5,115,965)
Accruals and deferred income	(48,947,417)	(47,802,414)	
Other	(13,713,272)	(21,614,381)	
	<u>(741,430,464)</u>	<u>(544,552,746)</u>	<u>(5,115,965)</u>

13. Provisions for liabilities and charges

	Decommissioning	Other	Total
	<u>US \$</u>	<u>US\$</u>	<u>US \$</u>
At 1 January 2005	(7,103,144)	(4,174,750)	(11,277,894)
Unwinding of discount	(22,696)	-	(22,696)
Change in estimate	(643,712)	-	(643,712)
Utilised / deleted during the year	4,625,840	4,174,750	8,800,590
At 31 December 2005	<u>(3,143,712)</u>	<u>-</u>	<u>(3,143,712)</u>

The group makes full provision for the future cost of decommissioning oil and natural gas production facilities and related pipelines on a discounted basis on the installation of those facilities. At 31 December 2005, the provision for the costs of decommissioning these production facilities and pipelines at the end of their economic lives was US\$3,143,712 (2004: US\$7,103,144). The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 4.5% (2004: 2.5%). These costs are expected to be incurred over the next 12 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

The Company's interest in Alov Production Sharing Agreement has committed to a rigslot on "Lider" rig. A provision of \$4,174,750 for 50% of total rig commitment was recorded at the year-end of 2004 but due to the continuing Iran - Azerbaijan border dispute, the rigslot could not be used. Since dates and amounts for rig payments were formally agreed with the supplier in 2005 there is no uncertainty about the timing or amount of the future expenditure required in this settlement, a specific accrual for \$4,664,435 was recorded and the provision was deleted in 2005.

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

14. Called up share capital

	<u>2005</u>	<u>2004</u>
Authorised share capital:		
100,000,000 Ordinary shares of £1 each	£100,000,000	£100,000,000
	<u>2005</u>	<u>2004</u>
	US\$	US\$
Allotted, called up and fully paid:		
2 ordinary shares of £1 each at exchange rate of		
£1=US \$1.87 on date of issue ;	4	4
39,444,444 ordinary shares of £1 each at exchange		
rate of £1=US \$1.8046 at date of issue and	71,181,444	71,181,444
29,487,546 ordinary shares of £1 each at exchange		
rate of £1=US \$1.7465 at date of issue	51,500,000	
	<u>122,681,448</u>	<u>71,181,448</u>

15. Reconciliation of shareholders' funds and movements on reserves

	<u>Equity share capital</u>	<u>Profit & loss account</u>	<u>Total</u>
	US \$	US \$	US \$
At 1 January 2004	71,181,448	(72,728,038)	(1,546,590)
Shares issued	51,500,000	-	51,500,000
Loss for the year	-	(12,443,658)	(12,443,658)
At 31 December 2005	<u>122,681,448</u>	<u>(85,171,696)</u>	<u>37,509,752</u>

16. Reconciliation of movements in shareholders' interest

	<u>2005</u>	<u>2004</u>
	US \$	US \$
Loss for the year	(12,443,658)	(13,845,401)
Currency translation differences	-	1,267,513
Issue of ordinary share capital	51,500,000	71,181,444
Net increase in shareholders' interests	<u>39,056,342</u>	<u>58,603,556</u>
Shareholders' interest at 1 January	(1,546,590)	(60,150,146)
Shareholders' interest at 31 December	<u>37,509,752</u>	<u>(1,546,590)</u>

BP EXPLORATION (AZERBAIJAN) LIMITED

NOTES TO THE ACCOUNTS

17. Capital commitments

Authorised and partially contracted future capital expenditure by the company for which contacts had been placed at 31 December 2005 is estimated at US \$375m (2004 US \$462m).

18. Financial Commitments

Pursuant to agreements governing the sales and purchase of natural gas and its transportation, the Company has undertaken the following commitments as a direct party to gas sales and transportation contracts, or as a guaranteeing and indemnifying party thereto:

In accordance with the Upstream Sales and Purchase Agreement, the Company agreed to sell the entire Stage I gas to Azerbaijan Gas Supply Company ("AGSC"). AGSC then ships the gas to redelivery points on the Georgian-Turkish border via the SCP system.

AGSC has a Minimum Monthly Payment ("MMP") obligation to the SCP Co for the transportation capacity reserved by the latter for AGSC's needs under the ARC Deed. The Company guaranteed to indemnify AGSC for MMP payable to SCP Co. In turn, participants under Shah Deniz PSA agreed to indemnify the Company for those costs.

19. Related party transactions

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

20. Pensions

The company does not directly employ any staff and therefore does not directly bear any pension charge.

21. Ultimate parent undertaking

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