

# **BP EXPLORATION (ALOV) LIMITED**

(Registered No.3196342)

## **ANNUAL REPORT AND ACCOUNTS 2008**

Board of Directors: J H Bartlett  
P Clyne  
W G Schrader

### **REPORT OF THE DIRECTORS**

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

#### **Results and dividends**

The company incurs costs on an agency basis on behalf of the parties to the Alov PSA and accordingly makes neither profit nor loss. The directors do not propose the payment of a final dividend.

#### **Principal activity and review of the business**

The company is the operator for the exploration block including the Araz, Alov and Sharg prospective structures in the Azerbaijan sector of the Caspian Sea on behalf of the parties to a Production Sharing Agreement dated 20 July 1998 ("Alov PSA").

During the year the company has maintained licenses pending inter-governmental agreement on borders in the Caspian Sea amongst the Caspian Littoral States. Amendment Agreement to the Protocol relating to the Alov PSA exploration period extension and suspension of acreage fee payments was entered on 19th February of 2008 by and between the State Oil Company of Azerbaijan Republic and BP Exploration (Alov) Limited. According to this Amendment the Protocol will expire on 23<sup>rd</sup> March 2011.

#### **Principal risks**

The company aims to deliver sustainable value by identifying and responding successfully to risks. Risk management is integrated into the process of planning and performance management at a group level. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

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

#### **Strategic risks**

##### ***Access and renewal***

Successful execution of our group plan depends critically on implementing activities to renew and reposition our portfolio. The challenges to the renewal of our upstream portfolio are growing due to increasing competition for access to opportunities globally. Inability to complete planned disposals and/or lack of material positions in new markets could result in an inability to capture above-average market growth.



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## **BP EXPLORATION (ALOV) LIMITED**

### **REPORT OF THE DIRECTORS**

#### ***Socio-political***

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

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

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

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

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

#### **Operations risks**

##### **Operations – enterprise systems, security and continuity**

##### ***Digital infrastructure***

The reliability and security of our digital infrastructure are critical to maintaining our business applications availability. A breach of our digital security could cause serious damage to business operations and, in some circumstances, could result in injury to people, damage to assets, harm to the environment and breaches of regulations.

##### ***Security***

Security threats require continual oversight and control. Acts of terrorism that threaten our plants, offices, pipelines, transportation or computer systems would severely disrupt business and operations and could cause harm to people.

##### ***Business continuity and disaster recovery***

Contingency plans are required to continue or recover operations following a disruption or incident. Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect business and operations.

##### ***Crisis management***

Crisis management plans and capability are essential to deal with emergencies at every level of our operations. If we do not respond or are perceived not to respond in an appropriate manner to either an external or internal crisis, our business and operations could be severely disrupted.

#### **Future developments**

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

**BP EXPLORATION (ALOV) LIMITED**

**REPORT OF THE DIRECTORS**

**Directors**

The present directors are listed on page 1.

Mr J H Bartlett, Mr P Clyne, Mr W G Schrader and Ms A Drinkwater served as directors throughout the financial year. Changes since 1 January 2008 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
A Drinkwater	01 January 2008	31 December 2008
R L Paniguan		01 January 2008

**Directors' indemnity**

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

**Auditors**

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

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

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

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

By order of the Board



Secretary

6 July 2009

Registered Office:

Chertsey Road  
Sunbury on Thames  
Middlesex  
TW16 7BP

## **BP EXPLORATION (ALOV) LIMITED**

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

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

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

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

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

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

**BP EXPLORATION (ALOV) LIMITED**

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

We have audited the company's accounts for the year ended 31 December 2008 which comprise the Balance Sheet, the accounting policies and the related notes 1 to 11. These accounts have been prepared under the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

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

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

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

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

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion:

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

**Ernst & Young LLP**

Ernst & Young LLP

Registered auditor

London

9th July 2009

## **BP EXPLORATION (ALOV) LIMITED**

### **ACCOUNTING POLICIES**

#### **Accounting standards**

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

#### **Accounting convention**

The accounts are prepared under the historical cost convention.

The company incurs costs on an agency basis on behalf of Alov PSA participants and accordingly makes neither profit nor loss. No profit and loss account has therefore been prepared.

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

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

#### **Foreign currency transactions**

Foreign currency transactions are initially recorded in dollars by applying the exchange rate ruling on the date of transaction. Foreign currency monetary assets and liabilities are translated into dollars at the rate of exchange ruling at the balance sheet date. Exchange differences are charged to Alov PSA participants.

#### **Trade and other debtors**

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

#### **Trade and other creditors**

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

**BP EXPLORATION (ALOV) LIMITED**

**BALANCE SHEET AT 31 DECEMBER 2008**

		2008	2007
	Note	US\$	US\$
<b>Current assets</b>			
Debtors	4	311,030	286,070
<b>Creditors: amounts falling due within one year</b>	5	(311,027)	(286,067)
<b>NET ASSETS</b>		<u>3</u>	<u>3</u>
<b>Represented by</b>			
<b>Capital and reserves</b>			
Called up share capital	6	<u>3</u>	<u>3</u>
<b>SHAREHOLDERS' FUNDS -- EQUITY INTERESTS</b>		<u>3</u>	<u>3</u>

On behalf of the Board

  
Director

6 July 2009

**BP EXPLORATION (ALOV) LIMITED**

**NOTES TO THE ACCOUNTS**

**1. Auditor's remuneration**

	<u>2008</u>	<u>2007</u>
	US\$	US\$
Fees for the audit of the company	<u>10,771</u>	<u>20,708</u>

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

**2. Taxation**

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

The company is an operating company under Article 6 of the PSA. An operating company may only act upon instructions from the Alov PSA Participants, owns no assets or equipment, is not entitled to any share of Petroleum produced, and makes neither a gain nor loss. An operating company is not subject to Azeri Profits Tax, which liability is the obligation of the Participant. No Azeri Deferred Tax has therefore been provided.

**3. Directors and employees**

(a) Remuneration of directors

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

(b) Employee costs

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

**4. Debtors**

	<u>2008</u>	<u>2007</u>
	Within 1	Within 1
	year	year
	US\$	US\$
Amounts owed by group undertakings	271,873	281,604
Prepayments and accrued income	2,130	2,163
Alov PSA Partners	35,570	-
Other	1,457	2,303
	<u>311,030</u>	<u>286,070</u>



**BP EXPLORATION (ALOV) LIMITED****NOTES TO THE ACCOUNTS****5. Creditors**

	<u>2008</u>	<u>2007</u>
	Within 1	Within 1
	year	Year
	US\$	US\$
Amounts owed to group undertakings	(234,573)	(150,740)
Accruals	(50,643)	(33,528)
Alov PSA Partners	(8,916)	(86,686)
Other	(16,895)	(15,113)
	<u>(311,027)</u>	<u>(286,067)</u>

**6. Called up share capital**

	<u>2008</u>	<u>2007</u>
Authorised share capital:		
100 Ordinary shares of £1 each	£100	£100
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each, translated at the		
20 July 1999 exchange rate of £1 = US\$1.6464	<u>US\$3</u>	<u>US\$3</u>

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

	<u>2008</u>	<u>2007</u>
	US\$	US\$
Profit for the year	-	-
Net increase in shareholders' interests	-	-
Shareholders' interest at 1 January	3	3
	<u>3</u>	<u>3</u>
Shareholders' interest at 31 December	<u>3</u>	<u>3</u>

**8. Capital commitments**

Authorised and contracted future capital expenditure by the company for which contracts had been placed but not provided in the accounts at 31 December 2008 is estimated at \$Nil (2007: \$Nil).

**9. Contingent liabilities**

There were contingent liabilities at 31 December 2008 in respect of guarantees and indemnities entered into as part of the ordinary course of the company's business. No material losses are likely to arise from such contingent liabilities.

**BP EXPLORATION (ALOV) LIMITED****NOTES TO THE ACCOUNTS****10. 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.

The company incurs costs on an agency basis on behalf of the parties to the Alov PSA. The company receives funding for PSA operations from parties and makes payments to those parties for services received and other chargeable costs.

**2008**

	<u>Share</u> <u>of costs</u>	<u>Payments</u> <u>made</u>	<u>Funding</u> <u>received</u>	<u>Balance</u>
	US\$	US\$	US\$	US\$
Statoil Azerbaijan Alov A.S.	34,610	765	-	9,664
Exxon South Caspian Limited	38,825	765	-	14,496
Turkish Petroleum Overseas Company Limited	28,056	423	-	11,410
AEC Exploration & Production (Azerbaijan) Ltd	9,641	255	-	(8,916)

**2007**

	<u>Share</u> <u>of costs</u>	<u>Payments</u> <u>made</u>	<u>Funding</u> <u>received</u>	<u>Balance</u>
	US\$	US\$	US\$	US\$
Statoil Azerbaijan Alov A.S.	31,217	827	(77,083)	(25,711)
Exxon South Caspian Limited	31,217	39,883	(77,583)	(25,094)
Turkish Petroleum Overseas Company Limited	20,816	638	(51,389)	(17,069)
AEC Exploration & Production (Azerbaijan) Ltd	10,402	19,317	(27,362)	(18,812)

**11. Immediate and ultimate parent undertaking**

The immediate parent undertaking of this company is BP International Ltd, a company registered in England and Wales. 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.