BP GAS MARKETING LIMITED
(Registered No 908982)

ANNUAL REPORT AND ACCOUNTS 2007

Board of Directors	S P Cattle
	B Gilvary
	A H Haywood

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2007

Principal activity

The company's principal activity is the trading of gas and other energy products in the UK and overseas

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 directors believe that there are unlikely to be any changes in the principal business activities of the Company

Results

The loss for the year after taxation was £205,746,000, which when added to the retained deficit brought forward at 1 January 2007 of £915,650,000, together with exchange adjustments taken directly to reserves of £3,632,000, gives a total retained deficit carried forward at 31 December 2007 of £1,125,028,000 The directors do not propose the payment of a dividend

Directors

The present directors are listed above

Messrs S P Cattle and B Gilvary served as directors throughout the financial year Changes since 1 January 2007 are as follows

	Appointed	Resigned
P J Reed		1 April 2007
AH Haywood	1 May 2007	

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BP GAS MARKETING LIMITED

REPORT OF THE DIRECTORS

Directors' Indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 309 of the Companies Act, 1985 (effective for the period up to 30 September 2007) and section 232 of the Companies Act, 2006 (effective for the period from 1 October 2007)

Risks

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

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

Strategic risks

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

Prices and markets
Oil, gas and product prices are subject to international supply and demand Political developments (especially in the Middle East) and the outcome of meetings of OPEC can particularly affect world supply and oil prices In addition to the adverse effect on revenues, margins and profitability from any future fall in oil and natural gas price, a prolonged period of low prices or other indicators would lead to a review for impairment of the group's oil and natural gas properties This review would reflect management's view of long-term oil and natural gas prices Such a review could result in a charge for impairment that could have a significant effect on the group's results of operations in the period in which it occurs

Refining profitability can be volatile, with both periodic oversupply and supply tightness in various regional markets

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

Compliance and ethics risks

Regulatory
The oil and gas industry is subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalization, expropriation, cancellation or non-renewal of contract rights We buy, sell and trade oil and gas products in certain regulated commodity markets The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law As a result of new laws and regulations or other factors, we could be required to curtail or cease certain operations, causing our production to decrease, or we could incur additional costs

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

Financial Risk Management

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

Market risk
Market risk is the possibility that changes in currency exchange rates, interest rates or oil, natural gas and power prices will adversely affect the value of the group's financial assets, liabilities or expected future cash flows The management of such risks is performed at BP Group level The group has developed policies aimed at managing the market risk inherent in its natural business activities and, in accordance with these policies, the group enters into various transactions using derivative financial and commodity instruments (derivatives) Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices that are defined in the contract The group also trades derivatives in conjunction with these risk management activities

Currency risk
Fluctuations in exchange rates can have significant effects on the company's reported profit / (loss) The company's financial assets and liabilities give rise to transactional currency exposures Such exposures arise from transactions in a currency other than the company's functional currency The management of such risks is performed at BP Group level
BP's foreign exchange management policy is to minimize economic and significant transactional exposures arising from currency movements against the US dollar The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible to reduce the risks, and then dealing with any material residual foreign exchange risks Significant residual non-dollar exposures are managed using a range of derivatives

Credit risk

Credit risk is the potential exposure of the company to loss in the event of non-performance by a counter party The management of such risks is performed at BP Group level The group controls the related credit risk through credit approvals, limits, use of netting arrangements and monitoring procedures Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment

Concentrations of credit risk

The primary activities of the company are gas and power marketing and trading The company's principal customers, suppliers and financial institutions with which it conducts business are located throughout the world The credit ratings of natural gas and power price contract counterparties are all of at least investment grade The credit quality is actively managed over the life of the contract

Liquidity risk

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

Key performance indicators

The Companies Act 1985 requires directors to disclose the company's Key Performance Indicators (KPIs) BP manages its KPIs at a segment and geographical level As a result the directors have taken the decision not to disclose KPIs in individual subsidiary accounts The BP Group KPIs are included within the accounts of the ultimate parent undertaking BP p l c

Policy and practice with respect to payment of suppliers

It is the company's policy to follow the CBI's prompt payment code of practice for all suppliers to the company with payments made in accordance with the relevant contractual payment terms A copy of the code of practice may be obtained from the CBI

The number of days' purchases represented by trade creditors at the year-end was 21

Auditors

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

BP GAS MARKETING LIMITED

REPORT OF THE DIRECTORS

Directors' statement as to 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 inquiries of fellow directors and of the company's auditor, each of these directors confirm 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

7 October 2008

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

BP GAS MARKETING 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,
- 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 GAS MARKETING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BP GAS MARKETING LIMITED

We have audited the company's accounts for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 21 These financial statements 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 2007 and of its loss for the year then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the accounts

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
17 October 2008

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BP GAS MARKETING 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, except for certain financial instruments which are accounted for at fair value (see accounting policy on derivative financial instruments below)

Basis of Preparation

The directors consider it appropriate to prepare the accounts on a going concern basis, since the parent undertaking agreed to provide sufficient finance, whether directly or through one of its subsidiaries to enable the company to meet its liabilities as they fall due for the foreseeable future

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 Financial Reporting Standard No 1 (Revised), whereby it is not required to publish its own cash flow statement

Revenue recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products, oil and natural gas forward sales/purchase contracts and sales/purchases of trading inventory are included on a net basis in sales and other operating revenues, and are recognized when title passes to the customer

Foreign currency transactions

Assets and liabilities of foreign currency branches are translated into sterling at rates of exchange ruling at the balance sheet date The profit and loss account is translated into sterling 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 sterling are taken directly to reserves and reported in the statement of total recognised gains and losses Exchange gains and losses arising on long-term foreign currency borrowings used to finance the company's foreign currency investments are also dealt with in reserves

All other exchange gains or 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

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BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Derivative financial instruments

The company uses derivative financial instruments (derivatives) to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates, and to manage some of its margin exposure from changes in oil, natural gas and power prices

All derivatives which are held for trading purposes and all oil price and natural gas derivatives held for risk management purposes are held on the balance sheet at fair value ('marked to market') with changes in that value recognised in earnings for the year

Tangible fixed assets

Tangible fixed assets 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 operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing 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 The capitalised value of a finance lease is also included within tangible fixed assets

Tangible assets, with the exception of freehold land and assets under construction, are depreciated on the straight line method over their estimated useful lives

Maintenance expenditure

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 and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised Overhaul costs for major maintenance programmes are expensed as incurred All other maintenance costs are expensed as incurred

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ACCOUNTING POLICIES

Impairment of tangible fixed assets

The company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable 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 If any such indication of impairment exists or when annual impairment testing for an asset group is required, the company makes an estimate of its recoverable amount An asset group's recoverable amount is the higher of its net realisable value and its value in use Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money

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

Stock valuation

Stocks comprising gas in storage 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

Stocks held for trading purposes are marked to market and any gains or losses are recognised in the income statement rather than the statement of total recognised gains and losses The directors consider that the nature of the company's trading activities is such that, in order for the accounts to show a true and fair view of the state of the affairs of the company and the result for the year, it is necessary to depart from the requirements of Schedule 4 to the Companies Act 1985 Had the treatment in Schedule 4 been followed, the profit and loss account reserve would have been reduced by £1,465,000 (2006 £13,733,000)

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

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BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) 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 the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as separate asset, but only when the reimbursement is virtually certain The expense relating to any provision is presented in the profit and loss account net of any reimbursement 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 rate

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period Actual outcomes could differ from those estimates

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BP GAS MARKETING LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007	2006
		£000	£000
Turnover	1	12,051,944	12,203,257
Cost of sales		(11,908,625)	(12,127,357)
Gross profit		143,319	75,900
Distribution and marketing expenses		(96,219)	(144,884)
Administration expenses		(377,866)	(4,856)
		(330,766)	(73,840)
Gain on derivatives		68,927	253,740
Other income		44,657	14,856
(Loss) / profit on ordinary activities before interest and tax	2	(217,182)	194,756
Interest payable and similar charges	4	(24,224)	(23,555)
Interest receivable	5	35,660	26,075
(Loss) / profit before taxation		(205,746)	197,276
Taxation	6	-	-
(Loss) / profit for the year		(205,746)	197,276

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007	2006
	£000	£000
Loss for the year	(205,746)	197,276
Currency translation differences	(3,632)	(22,947)
Total recognised gains and losses for the year	(209,378)	174,329

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BP GAS MARKETING LIMITED

BALANCE SHEET AT 31 DECEMBER 2007

	Note	2007 £000	Restated 2006 £000
Fixed assets			
Tangible assets	8	9,418	12,422
Current assets			
Stocks	9	74,559	84,051
Debtors	10	1,473,618	954,895
Derivative financial instruments	13	358,184	658,448
Cash at bank and in hand		1,427	1,410
		1,907,788	1,698,804
Creditors: amounts falling due within one year			
Derivative financial instruments	13	(368,085)	(629,673)
Other creditors	11	(879,337)	(970,527)
		(1,247,422)	(1,600,200)
Net current assets		660,366	98,604
TOTAL ASSETS LESS CURRENT LIABILITIES		669,784	111,026
Creditors: amounts falling due after more than one year			
Derivative financial instruments	13	(524,830)	(531,566)
Provisions for liabilities and charges	12	(204,430)	(59,558)
NET ASSETS/ (LIABILITIES)		(59,476)	(480,098)
Represented by			
Capital and reserves			
Called up share capital	14	1,065,000	435,000
Share premium account	15	552	552
Profit and loss account	15	(1,125,028)	(915,650)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		(59,476)	(480,098)

Director

7 October 2008

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BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties Turnover is attributable to one continuing activity, the selling of gas and power purchased for resale

An analysis of turnover by geographical market is given below

	2007	2006
	£000	£000
By geographical area		
UK	8,326,153	8,605,474
Rest of Europe	3,134,823	3,319,726
USA	219,164	87,642
Rest of World	371,804	190,415
Total	12,051,944	12,203,257

2. (Loss) / profit on ordinary activities before interest and tax

This is stated after charging

	2007	2006
	£000	£000
Exchange loss on foreign currency borrowings less deposits	6,876	2,636
Depreciation of owned fixed assets	6,196	6,567
Loss on disposal of fixed assets	6	-

3. Auditor's remuneration

	2007	2006
	£000	£000
Fees for the audit of the company	29	25

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

4. Interest payable and similar charges

	2007	2006
	£000	£000
Interest expense on		
Loans from fellow subsidiary undertakings	23,691	22,918
Other loans	533	637
Total charged against loss	24,224	23,555

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BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

5. Interest receivable

	2007	2006
	£000	£000
Interest income from fellow subsidiary undertakings	35,660	26,169
Other interest	-	(94)
	35,660	26,075

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

	2007	2006
	£000	£000
(Loss) / profit before taxation	(205,746)	197,276
Current taxation	-	-
Effective current tax rate	0%	0%

	2007	2006
	%	%
UK statutory corporation tax rate	30	30
Increase / (decrease) resulting from		
Timing differences	-	(1)
Permanent differences	(4)	43
Group relief	(25)	(72)
Transfer pricing adjustments	(1)	-
Effective current tax rate	-	-

7. 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 (2006 £Nil)

(b) Employee costs

The company does not directly employ any staff (2006 £Nil)

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8. Tangible assets

	Plant & machinery
	£000
Cost	
At 1 January 2007	35,310
Additions	3,442
Disposals	(9,716)
At 31 December 2007	29,036
Depreciation	
At 1 January 2007	(22,888)
Charge for the year	(6,196)
Disposals	9,466
At 31 December 2007	19,618
Net book value	
At 31 December 2007	9,418
At 31 December 2006	12,422

9. Stocks

	2007	2006
	£000	£000
Raw materials and consumables	74,559	84,051

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

10. Debtors

	2007 Within 1 year	2007 After 1 year	2006 Within 1 year	2006 After 1 year
	£000	£000	£000	£000
Trade debtors	375,406	-	430,709	-
Parent and fellow subsidiary undertakings	273,703	685,048	4,618	-
Prepayments and accrued income	132,992	-	512,328	-
Other	6,469	-	7,240	-
	788,570	685,048	954,895	-

During the current year, a classification error amounting to £106,434,000 was discovered in relation to 2006, as a result of netting adjustments The comparative asset and liability (refer note 11) figures have been restated to reflect the correct values at 31 December 2006 as detailed in note 20

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11. Creditors

	2007	2006
	Within 1 year £000	Within 1 year £000
Bank loans and overdraft	13	24
Trade creditors	394,382	383,975
Parent and fellow subsidiary undertakings	402,915	134,186
Social security & other taxes	16,505	15,433
Accruals and deferred income	65,522	436,739
Other	-	170
	879,337	970,527

During the current year, a classification error amounting to £106,434,000 was discovered in relation to 2006, as a result of netting adjustments The comparative liability and asset (refer note 10) figures have been restated to reflect the correct values at 31 December 2006 as detailed in note 20

12. Provisions for liabilities and charges

	Total
	£000
At 1 January 2007 as previously reported	59,558
Charge for the year	216,833
Utilised during the year	(71,961)
At 31 December 2007	204,430

Provisions for losses on certain gas supply sales contracts have been made based on future forecast losses estimated to occur over the remaining lives of the contracts

13. Derivatives and other financial instruments

Derivative financial instruments

The fair value of the company's natural gas and power price contracts (future contracts, swap agreements, options and forward contracts) is based on market prices

In the normal course of business the company is a party to derivative financial instruments (derivatives) to manage certain of its exposures to movements in natural gas and power prices The fair values of derivative financial instruments at 31 December are set out below

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13. Derivatives and other financial instruments (continued)

Derivative financial instruments

	2007 Fair value asset £000	2007 Fair value liability £000	Restated 2006 Fair value asset £000	Restated 2006 Fair value liability £000
Derivatives held for trading				
- Natural gas derivatives	154,579	(188,478)	299,750	(264,114)
- Power derivatives	173,011	(176,432)	302,744	(301,072)
- Other derivatives	-	-	1,127	-
	327,590	(364,910)	603,621	(565,186)
Embedded derivatives held for trading				
- Natural gas contracts	30,594	(528,005)	54,827	(596,053)
	358,184	(892,915)	658,448	(1,161,239)
Of which				
- current	305,829	(368,085)	561,004	(629,673)
- non-current	52,355	(524,830)	97,444	(531,566)

During the current year, a valuation error amounting to £385,853,000 was discovered in relation to the power derivatives held for trading at 31 December 2006 In addition, the company decided to correct the comparatives for all trading derivatives by reporting these items on a net basis where there was a legal right of offset and the intention to settle net The comparative asset and liability figures have been restated to reflect the correct values at 31 December 2006 as detailed in note 20

Derivatives held for trading

The company maintains active trading positions in a variety of derivatives This activity is undertaken in conjunction with risk management activities Derivatives held for trading purposes are marked-to-market and any gain or loss recognised in the income statement For traded derivatives, many positions have been neutralised, with trading initiatives being concluded by taking opposite positions to fix a gain or loss, thereby achieving a zero net market risk The following table shows the fair value at 31 December of derivatives and other financial instruments held for trading purposes

The majority of derivatives held by the company relate to forward sales and purchases of gas and power
Derivatives held for trading are denominated in the following currencies

	2007 Assets £000	2007 Liabilities £000	Restated 2006 Assets £000	Restated 2006 Liabilities £000
Functional currency				
- US dollar	-	42,000	-	(11,375)
- Sterling	252,058	(249,067)	394,410	(338,758)
- Euros	75,532	(157,843)	209,211	(214,999)
- Other	-	-	-	(54)
	327,590	(364,910)	603,621	(565,186)

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13. Derivatives financial instruments (continued)

Embedded derivatives held for trading

Prior to the development of an active gas trading market, UK gas contracts were priced using a basket of available price indices, primarily relating to oil products Post the development of an active UK gas market, certain contracts were entered into or renegotiated using pricing formulae not directly related to gas prices, for example, oil product and power prices In these circumstances, pricing formulae have been determined to be derivatives, embedded within the overall contractual arrangements that are not clearly and closely related to the underlying commodity The resulting fair value relating to these contracts is recognised on the balance sheet with gains or losses recognised in the income statement

These contracts are valued using price curves for each of the different products that are built up from active market pricing data and extrapolated to 2018 using the maximum available external pricing information Additionally, where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships The fair values of embedded derivatives are included on the balance sheet within the following headings

	2007 Current £000	2007 Non-current £000	2007 Total £000
Derivative financial assets	30,594	-	30,594
Derivative financial liabilities	(81,949)	(446,056)	(528,005)
	(51,355)	(446,056)	(497,411)

	2006 Current £000	2006 Non-current £000	2006 Total £000
Derivative financial assets	54,827	-	54,827
Derivative financial liabilities	(134,874)	(461,179)	(596,053)
	(80,047)	(461,179)	(541,226)

Embedded derivatives are denominated in the following currencies

	2007 Assets £000	2007 Liabilities £000	2006 Assets £000	2006 Liabilities £000
Functional currency				
- US dollar	30,594	-	54,827	-
- Sterling		(528,005)	-	(596,053)
	30,594	(528,005)	54,827	(596,053)

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14. Called up share capital

	2007	2006
	£000	£000
Authorised share capital		
1,500,000,000 Ordinary shares of £1 each	1,500,000	1,000,000
Allotted, called up and fully paid		
1,065,000,000 Ordinary shares of £1 each	1,065,000	435,000

On 19 September 2007, the authorised share capital of the company was increased to £1,500,000,000 On the same date, 630,000,000 ordinary shares of £1 each, were issued fully paid at par value to the parent company

15. Capital and reserves

	Equity share capital	Share premium account	Profit and loss account	Total
	£000	£000	£000	£000
At 1 January 2007	435,000	552	(915,650)	(480,098)
Currency translation differences	-	-	(3,632)	(3,632)
Issue of ordinary share capital	630,000	-	-	630,000
Loss for the year	-	-	(205,746)	(205,746)
At 31 December 2007	1,065,000	552	(1,125,028)	(59,476)

16. Reconciliation of movements in shareholders' funds

	2007	2006
	£000	£000
(Loss) / profit for the year	(205,746)	197,276
Currency translation differences	(3,632)	(22,947)
Transition adjustment	-	340,169
Issue of ordinary share capital	630,000	100,000
Net increase in shareholders' interests	420,622	614,498
Shareholders' interest at 1 January	(480,098)	(1,094,596)
Shareholders' interest at 31 December	(59,476)	(480,098)

17. 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

18. Pensions

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

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19. Prior year adjustment

During the current year, a valuation error amounting to £385,853,000 was discovered in relation to the power derivatives held for trading at 31 December 2006 The error resulted from the erroneous inclusion of stock in the mark-to-market calculation of emission contracts The stock was also marked-to-market separately and, as a result, the derivative asset and liability were each overstated by above value There was no impact on the profit and loss or net derivative comparatives

In addition, during the current year, the company decided to correct the comparatives for all trade debtors, trade creditors and trading derivatives by reporting these items on a net basis where there was a legal right of offset and the intention to settle net This was applied to all transactions that fell within the terms of the company's Master Netting Agreement Prior to 2007, transactions within the same legal entity were settled on a net basis in practice, but were reported on a gross basis i e the assets and liabilities were reflected separately There was no impact on the profit and loss or net derivative comparatives, as shown below

	As previously reported	Revaluation of derivative asset and liability due to emissions contracts mark-to-market error	Revaluation of trade debtors and creditors and derivatives due to netting adjustments	Restated
	31 Dec 2006			31 Dec 2006
	£000	£000	£000	£000
Derivatives held for trading				
- Asset	1,898,447	(385,853)	(908,972)	1,512,594
- Liability	(1,860,012)	385,853	908,972	(1,474,159)
Trade debtors	537,143		(106,434)	430,709
Trade creditors	(490,409)		106,434	(383,975)
Net	85,169	-	-	85,169

20. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP Exploration Operating Company Limited, 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

21. Comparative figures

Certain prior year figures have been reclassified to conform with the 2007 presentation This had no impact on the profit and loss for the year or net assets

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