# BP GAS MARKETING LIMITED

Registered No 00908982

## ANNUAL REPORT AND ACCOUNTS 2011

Board of Directors S P Cattle
A H Haywood
P J Reed

## REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2011

**Results and dividends**

The loss for the year after taxation was £154,572,000 which, when added to the retained deficit brought forward at 1 January 2011 of £402,098,000 together with exchange adjustments taken directly to reserves of £70,000, gives a total retained deficit carried forward at 31 December 2011 of £556,600,000

The company has not declared any dividends during the year (2010 £Nil) The directors do not propose the payment of a dividend

**Principal activity and review of the business**

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

The key financial and other performance indicators during the year were as follows

| | 2011 | 2010 | Variance |
|---|---|---|---|
| | £000 | £000 | % |
| Turnover | 3,005,050 | 2,767,003 | 9 |
| Operating loss | (150,744) | (237,838) | 37 |
| Loss after taxation | (154,572) | (259,732) | 40 |
| Shareholders' funds | 508,952 | 663,454 | (23) |

| | 2011 | 2010 | Variance |
|---|---|---|---|
| | % | % | |
| Current assets as % of current liabilities (quick ratio) | 112 | 131 | (15) |

**Principal risks and uncertainties**

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

Consider carefully the risks described below and the potential impact of their occurrence on the business, financial condition and results of operations for the company

Company level risks have been categorised against the following areas strategic, compliance and control, safety and operational, and financial risk management In addition, we have also set out two further categories of risk for your attention – those resulting from the 2010 Gulf of Mexico oil spill (the Incident) and those related to the general macroeconomic outlook

**Principal risks and uncertainties (continued)**

**Gulf of Mexico oil spill**

The Gulf of Mexico oil spill has had and could continue to have a material adverse impact on BP as a group, and consequently may also have an adverse impact on BP Gas Marketing Limited

There is significant uncertainty in the extent and timing of costs and liabilities relating to the Incident, the impact of the Incident on the reputation of the BP group and the resulting possible impact on the company's ability to access new opportunities There is also significant uncertainty regarding potential changes in applicable regulations and the operating environment that may result from the Incident These increase the risks to which the group and therefore the company are exposed to These uncertainties are likely to continue for a significant period Thus, the Incident has had, and could continue to have, a material adverse impact on the group's business, competitive position, financial performance, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US

The BP Group recognized charges totalling $40 9 billion in 2010 and a credit of $3 7 billion in 2011 as a result of the Incident The total amounts that will ultimately be paid by BP in relation to all obligations relating to the Incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors Furthermore, the amount of claims that become payable by BP, the amount of fines ultimately levied on BP (including any potential determination of BP's negligence or gross negligence), the outcome of litigation, and any costs arising from any longer-term environmental consequences of the oil spill, will also impact upon the ultimate cost for BP Although the provision recognized is the current best estimate of expenditures required to settle certain present obligations at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligation reliably The risks associated with the Incident could also heighten the impact of the other risks to which the group is exposed as further described below Further information on the Incident, is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2011

**General macroeconomic outlook**

The general macroeconomic outlook can affect BP group results, and consequently may affect BP Gas Marketing Limited given the nature of the company's business

In the continuing uncertain financial and economic environment, certain risks may gain more prominence either individually or when taken together Oil and gas prices can be very volatile, with average prices and margins influenced by changes in supply and demand This is likely to exacerbate competition in all businesses, which may impact costs and margins At the same time, governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal and regulatory frameworks of the oil and gas industry, including the risk of increased taxation, nationalisation and expropriation The global financial and economic situation may have a negative impact on third parties with whom we do, or may do, business
The exit of one or more countries from the Eurozone could exacerbate any recession, leading to lower demand and lower oil prices Any of these factors may affect the company's results of operations, financial condition, business prospects and liquidity

**Strategic risks**

***Access and renewal***
Successful execution of the company's strategy depends on implementing activities to renew and reposition its portfolio The challenges to renewal of the company's upstream portfolio are growing due to increasing competition for access to opportunities globally and heightened political and

**Principal risks and uncertainties (continued)**

**Strategic risks (continued)**

*Access and renewal (continued)*

economic risks in certain countries where significant hydrocarbon bases are located Lack of material positions in new markets could impact the company's future hydrocarbon production

Moreover, the Gulf of Mexico oil spill has damaged BP's reputation, which may have a long-term impact on the company's ability to access new opportunities Adverse public, political and industry sentiment towards BP Companies, and towards oil and gas drilling activities generally, could damage or impair the company's existing commercial relationships and could impair the company's access to new investment opportunities In addition, responding to the Incident has placed, and will continue to place, a significant burden on the BP group's cash flow over the next several years, which could also impede BP group's ability to invest in new opportunities and deliver long-term growth, which in turn may impact the company More stringent regulation of the oil and gas industry could increase this risk

*Prices and markets*

Oil, gas and product prices are subject to international supply and demand Political developments and the outcome of meetings of OPEC can particularly affect world supply and oil prices Previous oil price increases have resulted in increased fiscal take, cost inflation and more onerous terms for access to resources As a result, increased oil prices may not improve margin performance In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to further reviews for impairment of the group's oil and natural gas properties Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the company's results of operations in the period in which it occurs Rapid material or sustained change in oil, gas and product prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the ensuing actions derived from those decisions may no longer be appropriate Periods of global recession could impact the demand for the company's products, the prices at which they can be sold and affect the viability of the markets in which the company operate

*Competition*

The company's strategy depends upon continuous innovation in a highly competitive market

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, while ensuring safety and operational risk is not compromised The implementation of the BP group strategy requires continued technological advances and innovation including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage The company's performance could be impeded if competitors developed or acquired intellectual property rights to technology that it required or if its innovation lagged the industry

**Compliance and control risks**

*Regulatory*

The oil industry in general, and in particular the US industry following the Gulf of Mexico oil spill, faces increased regulation that could increase the cost of regulatory compliance and limit the company's access to new exploration properties
After the Gulf of Mexico oil spill, it is likely that there will be more stringent regulation of oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls

## BP GAS MARKETING LIMITED

## REPORT OF THE DIRECTORS

**Principal risks and uncertainties (continued)**

**Compliance and control risks (continued)**

***Regulatory (continued)***

and oversight of drilling operations, as well as access to new drilling areas Regulatory or legislative action may impact the industry as a whole and could be directed specifically towards BP group New regulations and legislation, as well as evolving practices, could increase the cost of compliance and may require changes to the company's drilling operations, exploration, development and decommissioning plans, and could impact its ability to capitalise on its assets and limit its access to new exploration properties or operatorships In addition, increases in taxes, royalties and other amounts payable to governments or governmental agencies, or restrictions on availability of tax relief, could also be imposed as a response to the Incident

In addition, the oil 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, health and safety 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 The company buys, sells and trades oil and gas products in certain regulated commodity markets Failure to respond to changes in trading regulations could result in regulatory action and damage to the company's reputation 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, or we could incur additional costs

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

The code of conduct, which applies to all employees, defines the company's commitment to integrity, compliance with all applicable legal requirements, high ethical standards and the behaviours and actions the company expects of its businesses and people wherever it operates The renewed values, which were launched in 2011, are intended to guide the way the company and its employees behave and do business Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including non-compliance with anti-bribery, anti-corruption and other applicable laws could be damaging to the company's reputation and shareholder value Multiple events of non-compliance could call into question the integrity of our operations

***Liabilities and provisions***

The company remains exposed to changes in the external environment, such as new laws and regulations (whether imposed by international treaty or by national or local governments in the jurisdictions in which we operate), changes in tax or royalty regimes, price controls, government actions to cancel or renegotiate contracts, market volatility or other factors Such factors could reduce the company's profitability from operations in certain jurisdictions, limit its opportunities for new access, require it to divest or write-down certain assets or affect the adequacy of its provisions for pensions, tax, environmental and legal liabilities Potential changes to pension or financial market regulation could also impact funding requirements of the company

***Reporting***

External reporting of financial and non-financial data is reliant on the integrity of systems and people Failure to report data accurately and in compliance with external standards could result in regulatory action, legal liability and damage to the company's reputation

**Principal risks and uncertainties (continued)**

**Safety and operational risks**

***Treasury and trading activities***
In the normal course of business, the company is subject to operational risk around its treasury and trading activities Control of these activities is highly dependent on the company's ability to process, manage and monitor a large number of complex transactions across many markets and currencies Shortcomings or failures in the company's systems, risk management methodology, internal control processes or people could lead to disruption of its business, financial loss, regulatory intervention or damage to its reputation

Following the Gulf of Mexico oil spill, Moody's Investors Service, Standard and Poor's and Fitch Ratings downgraded the BP group's long-term credit ratings Since that time, the BP group's credit ratings have improved somewhat but are still lower than they were immediately before the Gulf of Mexico oil spill The impact that a significant operational incident can have on the BP group's credit ratings, taken together with the reputational consequences of any such incident, the ratings and assessments published by analysts and investors' concerns about the BP group's costs arising from any such incident, ongoing contingencies, liquidity, financial performance and volatile credit spreads, could increase the BP group's financing costs and limit the BP group's access to financing The company's ability to engage in its trading activities could also be impacted due to counterparty concerns about the group's financial and business risk profile in such circumstances Such counterparties could require that the group provide collateral or other forms of financial security for its obligations, particularly if the BP group's credit ratings are downgraded Further information on the risks of Treasury and Trading activities are included within the BP group Annual Report and Form 20-F for the year ended 31 December 2011

**Financial risk management**

The main financial risks faced by the company through its normal business activities are market risk, commodity price risk, foreign currency exchange risk, and credit risk The management of these financial risks is performed at BP group level The company seeks to maintain a financial framework to ensure that it is able to maintain an appropriate level of liquidity and financial capacity This framework constrains the level of assessed capital at risk for the purposes of positions taken in financial instruments Failure to accurately forecast or maintain sufficient liquidity and credit to meet these needs could impact the company's ability to operate and result in a financial loss

***Market risk***
Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business This includes the possibility that changes in foreign currency exchange rates, interest rates or oil, natural gas and power prices will adversely affect the value of the company's financial assets, liabilities or expected future cash flows The management of such risks is performed at BP group level The group has developed a control framework aimed at managing the volatility inherent in certain of its natural business exposures In accordance with this control framework the group enters into various transactions using derivatives for risk management purposes

***Commodity price risk***
The group's integrated supply and trading function uses conventional financial and commodity instruments and physical cargoes available in the related commodity markets Oil and Natural gas swaps, options and futures are used to mitigate price risk Power trading is undertaken using a combination of over-the-counter forward contracts and other derivative contracts, including options

**Principal risks and uncertainties (continued)**

**Financial risk management (continued)**

*Commodity price risk (continued)*

and futures This activity is on both a standalone basis and in conjunction with gas derivatives in relation to gas-generated power margin

***Foreign currency exchange risk***
Fluctuations in foreign exchange rates can have significant effects on the company's reported results 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 minimise 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 and then dealing with any material residual foreign exchange risks For highly probable forecast capital expenditures the group locks in the US dollar cost of non US dollar supplies by using currency forwards and futures

Crude oil prices are generally set in US dollars, while sales of refined products may be in a variety of currencies Fluctuations in exchange rates can therefore give rise to foreign exchange exposures, with a consequent impact on underlying costs and revenues

***Credit risk***
Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the company It arises from cash and cash equivalents, derivative financial instruments and principally from credit exposures to customers relating to outstanding receivables The management of such risks is performed at BP group level The group has a credit policy that is designed to ensure that consistent processes are in place throughout the group to measure and control credit risk Credit risk is considered part of the risk-reward balance of doing business On entering into any business contract, the extent to which the arrangement exposes the group to credit risk is considered Before trading with a new counterparty, its creditworthiness is assessed and a credit rating allocated that indicates the probability of default, along with a credit exposure limit Creditworthiness continues to be evaluated after transactions have been initiated and a watchlist of higher-risk counterparties is maintained

Commercial credit risk is measured and controlled to determine the company's total credit risk Inability to determine adequately the company's credit exposure could lead to financial loss A credit crisis affecting banks and other sectors of the economy could impact the ability of counterparties to meet their financial obligations to the company It could also affect the company's ability to raise capital to fund growth and to meet its obligations

**Going Concern**

The directors consider that, despite the uncertainties deriving from the current economic environment and the loss reported for the year, the company has adequate resources to continue in operational existence for the foreseeable future

**BP GAS MARKETING LIMITED**

**REPORT OF THE DIRECTORS**

**Directors**

The present directors are listed on page 1

There have been no director appointments or resignations since 1 January 2011

**Directors' indemnity**

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

**Policy and practice on payment of creditors**

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 38

**Auditor**

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be re-appointed as the company's auditor for the next year

**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

For and on behalf of
Sunbury Secretaries Limited
Company Secretary

10 SEPTEMBER 2012

Registered Office
Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

**BP GAS MARKETING**

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable 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) 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 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 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 proper 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 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

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

We have audited the financial statements of BP Gas Marketing Limited for the year ended 31 December 2011 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 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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

Ernst & Young LLP

William Testa (Senior Statutory Auditor)
**for and on behalf of Ernst & Young LLP, Statutory Auditor**

London
17 September 2012



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## BP GAS MARKETING LIMITED

## ACCOUNTING POLICIES

### Accounting standards

The financial statements of BP Gas Marketing Limited were approved for issue by the Board of Directors on 3 SEPTEMBER 2012

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)

### 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

### 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

### 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 profit or loss for the year

### Derivative and other financial instruments

The company is exempt from the disclosure requirements of section 2D (a) of FRS 29 The company is included in the consolidated accounts of the ultimate parent undertaking, BP p l c , which include the disclosures on a group basis that comply with this standard

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 price 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



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## BP GAS MARKETING LIMITED

## ACCOUNTING POLICIES

**Derivatives and other financial instruments (continued)**

Interest rate swap agreements, options and futures contracts are used to manage interest rate exposures Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contracts

As part of exchange rate risk management, foreign currency swap agreements and forward contracts are used to convert non-US dollar borrowings into US dollars Gains and losses on those derivatives are deferred and recognised on maturity of the underlying debt, together with the matching loss or gain on the debt Foreign currency forward contracts and options are used to hedge significant non-US dollar firm commitments for fair-value hedges or highly probable anticipated transactions Gains and losses on these contracts and option premium paid are also deferred and recognised in the profit and loss account or as adjustments to carrying amounts, as appropriate, when the hedged transaction occurs

**Interest**

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

**Interest income**

Interest income is recognised on an accruals basis

**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

**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



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## BP GAS MARKETING LIMITED

## ACCOUNTING POLICIES

**Impairment of tangible fixed assets (continued)**

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 are valued at cost to the company, using the first-in first-out method or 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

**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 company 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

**Provisions**

Provisions are recognised when the company 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 a 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

**Leases**

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term

**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



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**Use of estimates (continued)**

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 & LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 | Restated 2010 |
|---|---|---|---|
| | | £000 | £000 |
| **Turnover** | 1 | 3,005,050 | 2,767,003 |
| Cost of sales | | (2,827,745) | (2,539,936) |
| **Gross profit** | | 177,305 | 227,067 |
| Distribution and marketing expenses | | (229,161) | (231,503) |
| Administration expenses | | (123,679) | (103,565) |
| | | (175,535) | (108,001) |
| Gain / (loss) on derivatives | | 24,791 | (129,837) |
| **Operating loss** | 2 | (150,744) | (237,838) |
| Interest payable and similar charges | 4 | (9,732) | (21,897) |
| Interest receivable and similar income | 5 | 5,904 | 3 |
| **Loss before taxation** | | (154,572) | (259,732) |
| Taxation | 6 | - | - |
| **Loss for the year** | | (154,572) | (259,732) |

The loss of £154,572,000 for the year ended 31 December 2011 has derived in its entirety from continuing operations

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## FOR THE YEAR ENDED 31 DECEMBER 2011

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| **Loss for the year** | (154,572) | (259,732) |
| Currency translation differences | 70 | 40,134 |
| **Total recognised gains and losses for the year** | (154,502) | (219,598) |



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**BP GAS MARKETING LIMITED**
**Registered No. 00908982**

# BALANCE SHEET
## AT 31 DECEMBER 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | £000 | £000 |
| **Fixed assets** | | | |
| Tangible assets | 8 | 21,562 | 15,729 |
| | | 21,562 | 15,729 |
| **Current assets** | | | |
| Stocks | 9 | 69,100 | 89,674 |
| Debtors – amounts falling due | | | |
| within one year | 10 | 2,364,842 | 1,951,276 |
| after one year | 10 | 703,950 | 685,000 |
| Derivatives and other financial instruments due | 13 | | |
| within one year | | 216,133 | 264,026 |
| after one year | | 46,163 | 85,436 |
| Cash at bank and in hand | | 1,803 | 20 |
| | | 3,401,991 | 3,075,432 |
| **Creditors:** amounts falling due within one year | 11 | (1,926,040) | (1,307,717) |
| Derivatives and other financial instruments due within one year | 13 | (434,123) | (447,549) |
| **Net current assets** | | 1,041,828 | 1,320,166 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 1,063,390 | 1,335,895 |
| **Creditors:** amounts falling due after more than one year | 11 | (1,329) | - |
| Derivatives and other financial instruments due after one year | 13 | (532,372) | (664,566) |
| **Provisions for liabilities and charges** | | | |
| Deferred Tax | | - | - |
| Other provisions | 14 | (20,737) | (7,875) |
| **NET ASSETS** | | 508,952 | 663,454 |
| **Represented by** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 15 | 1,065,000 | 1,065,000 |
| Share premium account | 16 | 552 | 552 |
| Profit and loss account | 16 | (556,600) | (402,098) |
| **SHAREHOLDERS' FUNDS – EQUITY INTERESTS** | | 508,952 | 663,454 |

On behalf of the board

Simon Cattle
Director
10 SEPTEMBER 2012



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## BP GAS MARKETING LIMITED

## NOTES TO THE ACCOUNTS

### 1. Turnover

An analysis of turnover by geographical market is given below

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| By geographical area | | |
| UK | 1,046,615 | 641,828 |
| Rest of Europe | 1,144,748 | 1,283,759 |
| USA | 25,775 | 185,164 |
| Rest of World | 787,912 | 656,252 |
| Total | 3,005,050 | 2,767,003 |

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

### 2. Operating loss

This is stated after charging

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Hire charges under operating leases | | |
| Land & buildings | 2,851 | 7,627 |
| Currency exchange (gain) and losses | (2,237) | 9,211 |
| Depreciation of owned fixed assets | 4,168 | 3,647 |

### 3. Auditor's remuneration

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Fees for the audit of the company | 40 | 38 |

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

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Interest expense on | | |
| Loans from group undertakings | 9,465 | 13,787 |
| Other loans | 267 | 8,110 |
| | 9,732 | 21,897 |



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## 5. Interest receivable and similar income

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Interest income from group undertakings | 5,904 | - |
| Other interest | - | 3 |
| | 5,904 | 3 |

## 6. Taxation

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

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Loss before taxation | (154,572) | (259,732) |
| Current taxation | - | - |
| Effective current tax rate | 0% | 0% |

| | 2011 | 2010 |
|---|---|---|
| | % | % |
| UK statutory corporation tax rate | 26 | 28 |
| Increase / (decrease) resulting from | | |
| Other timing differences | - | 1 |
| Free group relief | (26) | (29) |
| Effective current tax rate | - | - |

## 7. Directors and employees

(a) Remuneration of directors

The total remuneration for all serving directors for their period of directorship to the company amounted to £227,000 (2010 £264,000) A number of directors are senior executives of the BP Plc Group and received no remuneration for services to this company or its subsidiary undertakings

One director was a member of the defined benefit section of the BP Pension Fund at 31 December 2011 (2010 one)

The highest paid director received £227,000 (2010 £264,000) The accrued pension of the highest paid director at 31 December 2011 was £73,000 (2010 £90,000) The highest paid director exercised share options over BP p l c shares during the year



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## 8. Tangible Assets

| | Plant & machinery |
|---|---|
| **Cost** | £000 |
| At 1 January 2011 | 43,402 |
| Additions | 10,001 |
| At 31 December 2011 | 53,403 |
| | |
| **Depreciation and impairment** | |
| At 1 January 2011 | (27,673) |
| Charge for this year | (4,168) |
| At 31 December 2010 | (31,841) |
| | |
| **Net book value** | |
| At 31 December 2011 | 21,562 |
| | |
| At 31 December 2010 | 15,729 |
| | |
| Principal rate of depreciation | 25% |

## 9. Stocks

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Raw materials and consumables | 69,100 | 89,674 |

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

## 10. Debtors

| | 2011 | 2011 | 2010 | 2010 |
|---|---|---|---|---|
| | Within 1 year | After 1 year | Within 1 year | After 1 year |
| | £000 | £000 | £000 | £000 |
| Trade debtors | 448,128 | - | 378,264 | - |
| Amounts owed by group undertakings | 1,911,634 | 685,000 | 1,560,521 | 685,000 |
| Other debtors | - | - | 445 | - |
| Prepayments and accrued income | 5,080 | 18,950 | 12,046 | - |
| | 2,364,842 | 703,950 | 1,951,276 | 685,000 |

## 11. Creditors

| | 2011 Within 1 year £000 | 2011 After 1 year £000 | 2010 Within 1 year £000 | 2010 After 1 year £000 |
|---|---|---|---|---|
| Trade creditors | 557,567 | - | 473,807 | - |
| Amounts owed to group undertakings | 1,342,144 | - | 798,083 | - |
| Other creditors | 17 | - | 7,140 | - |
| Other taxes and social security costs | 6,731 | - | 8,788 | - |
| Accruals and deferred income | 19,581 | 1,329 | 19,899 | - |
| | 1,926,040 | 1,329 | 1,307,717 | - |

## 12. Obligations under leases

Annual commitments under non-cancellable operating leases are set out below

| | 2011 Other £000 | 2010 Other £000 |
|---|---|---|
| Operating leases which expire | | |
| Within 1 year | 542 | 1,753 |
| Between 2 to 5 years | - | - |
| Thereafter | 5,028 | - |

## 13. 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

*Derivatives held for trading*
The company maintains active trading positions in a variety of derivatives The contracts may be entered into for risk management purposes, to satisfy supply requirements or for entrepreneurial trading Certain contracts are classified as held for trading, regardless of their original business objective, and are recognised at fair value with changes in fair value recognised in the profit and loss account Trading activities are undertaken by using a range of contract types in combination to create incremental gains by arbitraging process between markets, locations and time period The net of these exposures is monitored using market value-at-risk techniques

*Embedded derivatives*
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, power and inflation After 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 profit and loss account All embedded derivatives are valued using inputs that



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**Derivatives and other financial instruments (continued)**

include price curves for each of the different products that are built up from active market pricing data Where necessary, these are extrapolated to the expiry of the contracts (the last of which is in 2018) using all available external pricing information Additionally, where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships

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

| | 2011 Fair value asset £000 | 2011 Fair value liability £000 | 2010 Fair value asset £000 | 2010 Fair value liability £000 |
|---|---|---|---|---|
| Derivatives held for trading | | | | |
| - Natural gas price derivatives | 194,760 | (264,287) | 308,588 | (424,983) |
| - Power price derivatives | 67,536 | (69,190) | 28,864 | (17,313) |
| Embedded derivative commodity contracts | | | | |
| - Natural gas contracts | - | (633,018) | 12,010 | (669,819) |
| | 262,296 | (966,495) | 349,462 | (1,112,115) |
| Of which | | | | |
| – current | 216,133 | (434,123) | 264,026 | (447,549) |
| – non-current | 46,163 | (532,372) | 85,436 | (664,566) |
| | 262,296 | (966,495) | 349,462 | (1,112,115) |

## 14. Other provisions

| | Other £000 | Total £000 |
|---|---|---|
| At 1 January 2011 | (7,875) | (7,875) |
| New or increased provisions | (17,800) | (17,800) |
| Deletions | 4,938 | 4,938 |
| At 31 December 2011 | (20,737) | (20,737) |

A provision of £2,937,000 is provided for the dispute of a pricing mechanism in a LNG supply contract between the company and a third party

A provision of £17,800,000 is provided for the VAT reclaimed on the purchase of Carbon Credits HMRC have disallowed the recovery of VAT made by BP Gas Marketing Limited in relation to the purchase of credits from the spot emissions market in July 2009

## 15. Called up share capital

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Allotted, called up and fully paid | | |
| 1,065,000,000 Ordinary shares of £1 each for a total nominal value of £1,065,000,000 | 1,065,000 | 1,065,000 |



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## 16. Capital and reserves

| | Called up share capital | Share premium account | Profit and loss account | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| At 1 January 2011 | 1,065,000 | 552 | (402,098) | 663,454 |
| Currency translation differences | - | - | 70 | 70 |
| Loss for the year | - | - | (154,572) | (154,572) |
| At 31 December 2011 | 1,065,000 | 552 | (556,600) | 508,952 |

## 17. Reconciliation of movements in shareholders' funds

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Loss for the year | (154,572) | (259,732) |
| Currency translation differences | 70 | 40,134 |
| Net decrease in shareholders' funds | (154,502) | (219,598) |
| Shareholders' funds at 1 January | 663,454 | 883,052 |
| Shareholders' funds at 31 December | 508,952 | 663,454 |

## 18. Related party transactions

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

## 19. Prior year adjustments

Distribution and marketing expenses in 2010 of £61 million have been reclassified to Administration expenses to reflect the true nature of the cost

The adjustments had no impact on the profit for the year or net assets

## 20. Guarantees and other financial commitments

On 16th November 2010 BP Exploration Operating Company Limited suspended production at the Rhum field in order to comply with EU regulation on restrictive measures against Iran This field was used by BP Gas Marketing Limited ('BPGM') to supply gas to Saltend Cogeneration Company Limited ('SCCL') and under the long term gas sales agreement BPGM exercised it rights to declare force majeure SCCL challenged this force majeure and served a Statement of Claim The amount claimed by SCCL is $30,000,000 (£19,491,910), with an estimated future legal spend by BPGM of $3,900,000 (£2,533,948) Negotiations are still ongoing and no present obligation exists to fulfil this claim from SCCL



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## BP GAS MARKETING LIMITED

## NOTES TO THE ACCOUNTS

### 21. 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' Square, London, SW1Y 4PD



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