

BP ENERGY EUROPE LIMITED

(Registered No.SC107896)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

Board of Directors: A L Vinuesa
R J Harrison
J K Tate

The directors present the strategic report, their report and the financial statements for the year ended 31 December 2016.

STRATEGIC REPORT**Results**

The loss for the year after taxation was €5,133,897 which, when added to the accumulated loss brought forward at 1 January 2016 of €25,018,033, gives a total accumulated loss carried forward at 31 December 2016 of €30,151,930.

Principal activities and review of the business

The company's principal activity is the trading of gas in Europe. It is also engaged in the purchasing and selling of power in the UK.

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

	2016	2015	Variance
	€	€	%
Turnover	230,489,077	361,801,151	(36)
Operating loss	(6,791,163)	(9,142,685)	(26)
Loss for the year	(5,133,897)	(9,292,026)	(45)
Total equity	38,305,862	43,439,759	(12)

	2016	2015	Variance
	%	%	
Quick ratio	200	71	129

The reduction in turnover in 2016 is mainly due to lower storage capacity being available in Italy to support sales volumes. Reduced flow through the Trans Austria Gas pipeline into Italy has also contributed to lower sales in Italy. These have been partially offset by increased sales to final customers in the civil and power plant sectors. The lower operating loss is attributable to a reduction in administrative expenses, since foreign exchange losses related to LNG sales have reduced as transactions with other group companies have been settled in Euros. The loss for the year was further reduced by a movement from net interest expense to net interest income. The decrease in total equity is attributable to the loss for the year.

The improvement in the quick ratio is mainly attributed to a reduction in the amounts owed to other group companies.

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STRATEGIC REPORT

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 for the group.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the strategic report of the BP group Annual Report and Form 20-F for the year ended 31 December 2016.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas, refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook.

Liquidity, financial capacity and financial, including credit, exposure

Failure to work within the group's financial framework could impact the company's ability to operate and result in financial loss.

Digital infrastructure and cybersecurity

Breach of the company's digital security or failure of its digital infrastructure could damage its operations and reputation.

Climate change and carbon pricing

Public policies could increase costs and reduce future turnover and strategic growth opportunities.

Competition

Inability to remain efficient, innovate and retain an appropriately skilled workforce could negatively impact delivery of the company's strategy in a highly competitive market.

Crisis management and business continuity

Potential disruption to the company's business and operations could occur if it does not address an incident effectively.

Insurance

The BP group's insurance strategy could expose the BP group to material uninsured losses which in turn could adversely affect the company.

Safety and operational risks

Process safety, personal safety and environmental risks

The company is exposed to a wide range of health, safety, security and environmental risks that could result in regulatory action, legal liability, increased costs, damage to its reputation and potentially denial of its licence to operate.

Security

Hostile acts against the company's staff and activities could cause harm to people and disrupt its operations.

Product quality

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

STRATEGIC REPORT

Compliance and control risks

Ethical misconduct and non-compliance

Ethical misconduct or breaches of applicable laws by the company's businesses or its employees could be damaging to its reputation and could result in litigation, regulatory action and penalties.

Treasury and trading activities

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

Reporting

Failure to accurately report the company's data could lead to regulatory action, legal liability and reputational damage.

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk. Further details on these financial risks are included within Note 28 of the BP group Annual Report and Form 20-F for the year ended 31 December 2016.

By order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

28 September 2017

Registered Office:

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB
United Kingdom

DIRECTORS' REPORT

BP ENERGY EUROPE LIMITED

Directors

The present directors are listed on page 1.

A L Vinuesa served as a director throughout the financial year. Changes since 1 January 2016 are as follows:

	<u>Appointed</u>	<u>Resigned</u>
R J Harrison	5 October 2016	—
J K Tate	26 January 2016	—
R Wheatley	—	26 January 2016
D Wood	—	5 October 2016

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

Dividends

The company has not declared any dividends during the year (2015: €Nil). The directors do not propose the payment of a dividend.

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the strategic report under Financial risk management.

Future developments

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.

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

Branches

The company has an overseas branch in Italy, which is a European Union member state.

DIRECTORS' REPORT

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

28 September 2017

Registered Office:

1 Wellheads Avenue
Dyce
Aberdeen
AB21 7PB
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT
OF THE FINANCIAL STATEMENTS
BP ENERGY EUROPE LIMITED

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

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

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

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

The directors confirm that they have complied with these requirements 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 financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP ENERGY EUROPE LIMITED

We have audited the financial statements of BP Energy Europe Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 18. 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) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 6, 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). Those 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 Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

Jacqueline Ann Geary (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

28 September 2017

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016
BP ENERGY EUROPE LIMITED

	Note	2016 €	2015 €
Turnover	3	230,489,077	361,801,151
Cost of sales		<u>(173,170,365)</u>	<u>(295,066,760)</u>
Gross profit		57,318,712	66,734,391
Distribution and marketing expenses		(59,488,531)	(67,831,499)
Administrative expenses		<u>(4,621,344)</u>	<u>(8,045,577)</u>
Operating loss	4	(6,791,163)	(9,142,685)
Interest receivable and similar income	6	420,557	—
Interest payable and similar charges	7	<u>(82,680)</u>	<u>(617,884)</u>
Loss before taxation		(6,453,286)	(9,760,569)
Taxation	8	<u>1,319,389</u>	<u>468,543</u>
Loss for the year		<u><u>(5,133,897)</u></u>	<u><u>(9,292,026)</u></u>

The loss of €5,133,897 for the year ended 31 December 2016 was derived in its entirety from continuing operations.

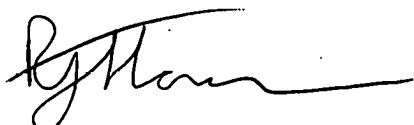
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

There is no comprehensive income attributable to the shareholders of the company other than the loss for the year.

BALANCE SHEET**AT 31 DECEMBER 2016****BP ENERGY EUROPE LIMITED****(Registered No.SC107896)**

	Note	2016 €	2015 €
Current assets			
Stocks	10	3,336,959	52,449,449
Debtors – amounts falling due:			
within one year	11	66,582,717	47,433,677
after one year	11	31,500	24,483,155
Derivatives and other financial instruments:			
within one year	13	6,593,934	28,639,082
after one year	13	102,789	21,250
Cash at bank and in hand		172,488	283,661
		<u>76,820,387</u>	<u>153,310,274</u>
Creditors: amounts falling due within one year	12	(31,330,369)	(104,976,926)
Derivatives and other financial instruments due within one year	13	(5,301,605)	(2,168,763)
Net current assets		<u>40,188,413</u>	<u>46,164,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>40,188,413</u>	<u>46,164,585</u>
Creditors: amounts falling due after more than one year	12	(45,020)	(159,735)
Derivatives and other financial instruments due after more than one year	13	(1,061,524)	—
Provisions for liabilities and charges			
Deferred tax liability	8	(759,340)	(2,548,424)
Other provisions	14	(16,667)	(16,667)
NET ASSETS		<u>38,305,862</u>	<u>43,439,759</u>
Capital and reserves			
Called up share capital	15	68,457,792	68,457,792
Profit and loss account	16	(30,151,930)	(25,018,033)
TOTAL EQUITY		<u>38,305,862</u>	<u>43,439,759</u>

On behalf of the Board


R J Harrison
Director

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

BP ENERGY EUROPE LIMITED

	Called up share capital (Note 15) €	Profit and loss account (Note 16) €	Total €
Balance at 1 January 2015	68,457,792	(15,726,007)	52,731,785
Loss for the year, representing total comprehensive loss	—	(9,292,026)	(9,292,026)
Balance at 31 December 2015	68,457,792	(25,018,033)	43,439,759
Loss for the year, representing total comprehensive loss	—	(5,133,897)	(5,133,897)
Balance at 31 December 2016	<u>68,457,792</u>	<u>(30,151,930)</u>	<u>38,305,862</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

BP ENERGY EUROPE LIMITED

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

The financial statements of BP Energy Europe Limited for the year ended 31 December 2016 were approved by the board of directors on ~~28 September~~ 2017 and the balance sheet was signed on the board's behalf by R J Harrison. BP Energy Europe Limited is a limited company incorporated and registered in Scotland. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

The significant accounting policies and critical accounting judgements, estimates and assumptions of the company are set out below.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies that follow have been consistently applied to all years presented.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- (c) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- (d) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- (e) the requirements of IAS 7 Statement of Cash Flows;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- (g) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures; and
- (h) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 18.

The financial statements are presented in euros and all values are rounded to the nearest whole number in euros (€).

NOTES TO THE FINANCIAL STATEMENTS

Critical accounting policies: use of judgements, estimates and assumptions

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

Impairment of financial assets

Judgements are required in assessing the recoverability of overdue trade debtors and determining whether a provision against the future recoverability of those debtors is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment.

Deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the net effect of future tax planning strategies.

Significant accounting policies

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

Foreign currency

The functional and presentation currency of the financial statements is euros. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction, where this is not practical and exchange rates do not fluctuate materially the average rate has been used. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the profit and loss account. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

Stock

Stock, other than stock held for trading purposes, is stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

Stock held for trading purposes is stated at fair value less costs to sell and any changes in fair value are recognised in the profit and loss account.

Supplies are valued at cost to the company mainly using the average method or net realisable value, whichever is the lower.

NOTES TO THE FINANCIAL STATEMENTS

Financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. Financial assets may include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Financial assets at fair value through profit or loss

Financial assets, including financial guarantees, at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the profit and loss account.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities may include trade and other payables, accruals, most items of finance debt and derivative financial instruments. The company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities, including financial guarantees, at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the profit and loss account. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

NOTES TO THE FINANCIAL STATEMENTS

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, these financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest receivable and similar income and interest payable and similar charges. This category of financial liabilities includes trade and other payables and finance debt.

Derivative financial instruments and hedging activities

The company is exempt from the disclosure requirements of IFRS 7 “Financial Instruments: Disclosures” as the company is included in the consolidated financial statements of the ultimate parent undertaking, BP p.l.c., which include the disclosures on a group basis that comply with this standard. Relevant disclosures as required by the Companies Act 2006 in relation to other instruments held at fair value have been included in these financial statements (except for financial liabilities that are held at fair value that are part of a trading portfolio or are derivatives, where these are not required).

The company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as well as for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives relating to unquoted equity instruments are carried at cost where it is not possible to reliably measure their fair value subsequent to initial recognition. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The company categorises assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or BP group’s assumptions about pricing by market participants.

NOTES TO THE FINANCIAL STATEMENTS

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the company currently has a legally enforceable right to set off the recognised amounts; and the company intends to either settle on a net basis or realise the asset and settle the liability simultaneously. If both of the criteria are met, the amounts are set off and presented net.

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 appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised in the profit and loss account. Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company. Deferred bonus arrangements that have a vesting date more than 12 months after the period end are valued on an actuarial basis using the projected unit credit method and amortised on a straight-line basis over the service period until the award vests.

Pensions

Contributions to defined contribution plans are recognised in the profit and loss account in the period in which they become payable.

Taxation

Taxation expense represents the sum of current tax and deferred tax. Taxation is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is recognised in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises on the initial recognition of goodwill or on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off taxation assets against taxation liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Customs duties and sales taxes

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

- Where the customs duty or sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognised as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

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

Turnover

Turnover associated with the sale of power, natural gas forward sales / purchase contracts and sales / purchases of trading stock are included on a net basis in turnover and other operating revenues.

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, customs duties and sales taxes.

Interest income

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

Finance costs

All finance costs are recognised in the profit and loss account in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover

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

	2016	2015
	€	€
Sales of goods	230,489,077	361,801,151
	<u>230,489,077</u>	<u>361,801,151</u>
Interest receivable and similar income (Note 6)	420,557	—
	<u>230,909,634</u>	<u>361,801,151</u>

An analysis of turnover by class of business is set out below:

	2016	2015
	€	€
Class of business:		
Upstream	230,489,077	361,450,904
Downstream	—	350,247
Total	<u>230,489,077</u>	<u>361,801,151</u>

An analysis of turnover by geographical market is set out below:

	2016	2015
	€	€
By geographical area:		
UK	—	350,247
Rest of Europe	230,489,077	361,450,904
Total	<u>230,489,077</u>	<u>361,801,151</u>

4. Operating loss

This is stated after charging:

	2016	2015
	€	€
Net foreign exchange losses	<u>135,678</u>	<u>2,779,936</u>

5. Auditor's remuneration

	2016	2015
	€	€
Fees for the audit of the company	<u>53,621</u>	<u>53,621</u>

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

The fees were borne by another group company.

NOTES TO THE FINANCIAL STATEMENTS

6. Interest receivable and similar income

	2016	2015
	€	€
Interest income from other loans and receivables	420,557	—

7. Interest payable and similar charges

	2016	2015
	€	€
Interest expense on:		
Loans from group undertakings	82,572	571,657
Other loans	108	46,227
Total interest payable and similar charges	82,680	617,884

8. Taxation

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

The taxation charge / (credit) in the profit and loss account is made up as follows:

	2016	2015
	€	€
<u>Current tax</u>		
UK corporation tax on income for the year	—	—
UK tax (overprovided) / underprovided in prior years	—	—
Overseas tax on income for the year	480,000	725,001
Overseas tax (underprovided) in prior years	(10,305)	(170,335)
Total current tax charged	469,695	554,666
<u>Deferred tax</u>		
Overseas deferred tax	(1,789,084)	(1,023,209)
Total deferred tax (credited)	(1,789,084)	(1,023,209)
Tax (credited) on profit	(1,319,389)	(468,543)

In 2016 the total tax charge / credit recognised within other comprehensive income was €Nil (2015: €Nil) and the total tax charge / credit recognised directly in equity was €Nil (2015: €Nil).

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower than the standard rate of corporation tax in the UK of 20% for the year ended 31 December 2016 (2015: 20%). The differences are reconciled below:

	2016	2015
	UK	UK
	€	€
Loss before tax	(6,453,286)	(9,760,569)
Tax credit	(1,319,389)	(468,543)
Effective tax rate	20%	5%

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	UK	UK
	%	%
UK corporation tax rate:	20	20
Overseas corporation tax rate:	-	-
Increase / (decrease) resulting from:		
Double tax relief	—	1
Overseas tax	—	5
Free group relief	—	(21)
Deferred tax provided at lower rates	(6)	—
Movements in respect of overseas deferred tax	30	—
Movements in unrecognised deferred tax	(24)	—
Effective tax rate	<u>20</u>	<u>5</u>

The reconciling items shown above are those that arise for UK corporation tax purposes, rather than overseas tax purposes.

Change in corporation tax rate

The UK corporation tax rate reduced to 19% with effect from 1 April 2017, and will further reduce to 17% from 1 April 2020. Deferred tax has been measured using these rates, which have been substantively enacted at 31 December 2016.

(b) Provision for deferred tax

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

	2016	2015	2016	2015
	€	€	€	€
Accelerated capital allowances	—	—	—	—
Derivative financial instruments	—	—	—	—
Other taxable temporary differences	(1,789,084)	(1,023,209)	(759,340)	(2,548,424)
Net credit / provision for deferred tax	<u>(1,789,084)</u>	<u>(1,023,209)</u>	<u>(759,340)</u>	<u>(2,548,424)</u>

Analysis of movements during the year

	2016
	€
At 1 January 2016	(2,548,424)
Deferred tax credited in the profit and loss account	<u>1,789,084</u>
At 31 December 2016	<u>(759,340)</u>

(a) Change in corporation tax rate:

The UK corporation tax rate reduced to 19% with effect from 1 April 2017, and will further reduce to 17% from 1 April 2020. Deferred tax has been measured using these rates, which have been substantively enacted at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

(b) A deferred tax asset have not been recognised in respect of unutilised overseas tax credits, trade losses and other timing differences of €2,162,049 with no fixed expiry date on the basis they are unlikely to have value in the future.

9. Directors and employees

(a) Remuneration of directors

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

Directors who received remuneration for their services to the company

The total remuneration for all serving directors for their period of directorship to the company amounted to €133,100 (2015: €133,000).

None of these directors were members of the defined benefit section of the BP Pension Fund at 31 December 2016 (2015: One).

(b) Employee costs

	2016	2015
	€	€
Wages and salaries	1,024,882	1,893,692
Social security costs	4,016	3,990
Other pension costs	396,737	483,820
Share-based payment charge	22,024	22,647
	<u>1,447,659</u>	<u>2,404,149</u>

Included in other pension costs is €Nil (2015: €Nil) in respect of defined benefit scheme and €396,737 (2015: €483,820) in respect of defined contribution scheme.

(c) The average monthly number of employees during the year was 13 (2015: 13).

10. Stocks

	2016	2015
	€	€
Natural gas	<u>3,336,959</u>	<u>52,449,449</u>

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

NOTES TO THE FINANCIAL STATEMENTS

11. Debtors

Amounts falling due within one year:

	2016	2015
	€	€
Trade debtors	8,633,618	2,498,687
Amounts owed by group undertakings	31,355,932	7,263,173
Other debtors	7,135,690	3,488,789
Prepayments and accrued income	19,162,257	33,423,026
Taxation	295,220	760,002
	<u>66,582,717</u>	<u>47,433,677</u>

Amounts falling due after one year:

	2016	2015
	€	€
Other debtors	<u>31,500</u>	<u>24,483,155</u>
Total debtors	<u>66,614,217</u>	<u>71,916,832</u>

Included within the amounts owed from group undertakings are intercompany derivative assets of €3,953,204 (2015: €Nil). Derivative assets due within one year are €3,953,204 (2015: €Nil), and due after one year €Nil (2015: €Nil).

12. Creditors

Amounts falling due within one year:

	2016	2015
	€	€
Trade creditors	20,265,814	34,636,924
Amounts owed to group undertakings	10,813,824	69,784,508
Accruals and deferred income	250,731	555,494
	<u>31,330,369</u>	<u>104,976,926</u>

Amounts falling due after one year:

	2016	2015
	€	€
Accruals and deferred income	<u>45,020</u>	<u>159,735</u>
Total creditors	<u>31,375,389</u>	<u>105,136,661</u>

Included within the amounts owed to group undertakings are intercompany derivative liabilities of €Nil (2015: €9,182,365). Derivative liabilities due within one year are €Nil (2015: €9,182,365), and due after one year €Nil (2015: €Nil).

NOTES TO THE FINANCIAL STATEMENTS

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.

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 taking arbitrage opportunities between markets, locations and time period. The net of these exposures is monitored using market value-at-risk techniques.

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

	2016	2016	2015	2015
	Fair value asset €	Fair value liability €	Fair value asset €	Fair value liability €
Derivatives held for trading				
- Natural gas price derivatives	6,696,723	(6,363,129)	28,660,332	(2,168,763)
	<u>6,696,723</u>	<u>(6,363,129)</u>	<u>28,660,332</u>	<u>(2,168,763)</u>
Of which:				
– current	6,593,934	(5,301,605)	28,639,082	(2,168,763)
– non-current	102,789	(1,061,524)	21,250	—
	<u>6,696,723</u>	<u>(6,363,129)</u>	<u>28,660,332</u>	<u>(2,168,763)</u>

Derivative gains and losses

Gains and losses on derivative contracts are included within 'Net trading gain' in the profit and loss account. The total amount relating to these derivative contracts was a net loss of €8,295,000 (2015: net gain of €13,152,000).

14. Other provisions

	Other €	Total €
At 1 January 2016	16,667	16,667
At 31 December 2016	<u>16,667</u>	<u>16,667</u>

NOTES TO THE FINANCIAL STATEMENTS

15. Called up share capital

	<u>2016</u>	<u>2015</u>
	€	€
Issued and fully paid:		
100 ordinary shares of £1 each for a total nominal value of £100	119	119
68,457,673 ordinary shares of €1 each for a total nominal value of €68,457,673	<u>68,457,673</u>	<u>68,457,673</u>
	<u>68,457,792</u>	<u>68,457,792</u>

16. Reserves

Called up share capital

The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

Profit and loss account

The balance held on this reserve is the accumulated losses of the company.

17. Related party transactions

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

18. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is BP Global Investments Limited, a company registered in England and Wales. The ultimate controlling parent undertaking is BP p.l.c., a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP p.l.c. can be obtained from its registered address: 1 St James's Square, London, SW1Y 4PD.