

BP ENERGY EUROPE LIMITED

(Registered No.SC107896)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

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 2017.

STRATEGIC REPORT

Results

The loss for the year after taxation was €6,089,175 which, when added to the accumulated loss brought forward at 1 January 2017 of €30,151,930, gives a total accumulated loss carried forward at 31 December 2017 of €36,241,105.

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 and Europe.

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

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
	€	€	%
Turnover	451,001,634	230,489,077	96
Operating loss	(5,214,024)	(6,791,163)	(23)
Loss for the year	(6,089,175)	(5,133,897)	19
Total equity	32,216,687	38,305,862	(16)

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
	%	%	
Quick ratio	114	200	(86)

The increase in turnover in 2017 has arisen from additional volumes being sold. This has resulted from a new strategy being introduced. In October 2017, the company started trading power and entered into power derivatives which remain open at the year end. The decrease in total equity is attributable to the loss for the year.

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



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 2017.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas and 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

Regulation

Changes in the regulatory and legislative environment could increase the cost of compliance and affect the company's provisions.

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 27 of the BP group Annual Report and Form 20-F for the year ended 31 December 2017.

By order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

1 September 2018

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.

There have been no director appointments or resignations since 1 January 2017.

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 (2016: €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 at least the next 12 months from the date these financial statements were approved.

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' 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 the auditor's 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.

DIRECTORS' REPORT

By order of the Board



For and on behalf of
Sunbury Secretaries Limited
Company Secretary

7 September 2018

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 at least the next 12 months from the date these financial statements were approved, continue to adopt the going concern basis in preparing the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BP ENERGY EUROPE LIMITED

Opinion

We have audited the financial statements of BP Energy Europe Limited for the year ended 31 December 2017 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Jacqueline Ann Geary (Senior Statutory Auditor)

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

London

12 September 2018

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017
BP ENERGY EUROPE LIMITED

	Note	2017 €	2016 €
Turnover	3	451,001,634	230,489,077
Cost of sales		(380,519,813)	(173,170,365)
Gross profit		70,481,821	57,318,712
Distribution and marketing expenses		(71,589,809)	(59,488,531)
Administrative expenses		(4,099,362)	(4,621,344)
Other operating income		(6,674)	—
Operating loss	4	(5,214,024)	(6,791,163)
Interest receivable and similar income	6	52,221	420,557
Interest payable and similar charges	7	(517,114)	(82,680)
Loss before taxation		(5,678,917)	(6,453,286)
Taxation	8	(410,258)	1,319,389
Loss for the year		(6,089,175)	(5,133,897)

The loss of €6,089,175 for the year ended 31 December 2017 was derived in its entirety from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

BALANCE SHEET**AT 31 DECEMBER 2017****BP ENERGY EUROPE LIMITED****(Registered No.SC107896)**

	Note	2017 €	2016 €
Current assets			
Stocks	10	12,358,037	3,336,959
Debtors – amounts falling due:			
within one year	11	139,499,996	66,582,717
after one year	11	84,021	31,500
Derivatives and other financial instruments:			
within one year	13	17,651,758	6,593,934
after one year	13	405,444	102,789
Cash at bank and in hand		940,091	172,488
		<u>170,939,347</u>	<u>76,820,387</u>
Creditors: amounts falling due within one year	12	(122,407,737)	(31,330,369)
Derivatives and other financial instruments due within one year	13	(16,135,703)	(5,301,605)
Net current assets		<u>32,395,907</u>	<u>40,188,413</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>32,395,907</u>	<u>40,188,413</u>
Creditors: amounts falling due after more than one year	12	(37,767)	(45,020)
Derivatives and other financial instruments due after more than one year	13	(124,786)	(1,061,524)
Provisions for liabilities and charges			
Deferred tax liability	8	—	(759,340)
Other provisions	14	(16,667)	(16,667)
NET ASSETS		<u>32,216,687</u>	<u>38,305,862</u>
Capital and reserves			
Called up share capital	15	68,457,792	68,457,792
Profit and loss account	16	(36,241,105)	(30,151,930)
TOTAL EQUITY		<u>32,216,687</u>	<u>38,305,862</u>

On behalf of the Board


J.K. Tate
Director

7 September 2018

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
BP ENERGY EUROPE LIMITED

	Called up share capital (Note 15) €	Profit and loss account (Note 16) €	Total €
Balance at 1 January 2016	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	68,457,792	(30,151,930)	38,305,862
Loss for the year, representing total comprehensive loss	—	(6,089,175)	(6,089,175)
Balance at 31 December 2017	68,457,792	(36,241,105)	32,216,687

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 were approved by the board of directors on 21 AUGUST 2018 and the balance sheet was signed on the board's behalf by J K Tate. BP Energy Europe Limited is a private company, limited by shares incorporated, domiciled and registered in Scotland (registered number SC107896). The company's registered office is at 1 Wellheads Avenue, Dyce, Aberdeen, AB21 7PB. 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.

Significant estimate or judgement: deferred tax

Management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. Details of deferred tax balances are provided in Note 8.

Significant accounting policies

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved 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 spot exchange on the balance sheet date. Any resulting exchange differences are included in the profit and loss account, unless hedge accounting is applied. 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 realizable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

Stock held for short-term trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

Supplies are valued at the lower of cost on a weighted average basis and net realizable value.

Financial assets

Financial assets are recognized 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 set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the financial asset is transferred to a third party.

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 recognized in the profit and loss account when the loans and receivables are derecognized or impaired and when interest is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

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 recognized 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 recognized in the profit and loss account.

Significant judgement: recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables 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.

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities, at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized 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.

Financial liabilities measured at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

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 recognized 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, except finance debt designated in a fair value hedge relationship.

Derivative financial instruments

The company is exempt from the disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair value measurement" 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 these standards.

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 recognized 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 (for example oil, oil products, gas and power) 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 recognized 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 recognized 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 recognized 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 recognized in the profit and loss account. Changes in valuation from the initial valuation are recognized 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 categorizes 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.

Significant judgement and estimate: valuation of derivatives

In some cases the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This applies to the company's longer-term derivative contracts. The majority of these contracts are valued using models with inputs that include price curves for each of the different products that are built up from available active market pricing data and modelled using the maximum available external pricing information. Additionally, where limited data exists for certain products, prices are determined using historic and long-term pricing relationships. Price volatility is also an input for

NOTES TO THE FINANCIAL STATEMENTS

options models. Changes in the key assumptions could have a material impact on the carrying amounts of derivative assets and liabilities in the next financial year. For more information see Note 13.

In some cases, judgement is required to determine whether contracts to buy or sell commodities meet the definition of a derivative.

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 recognized amounts; and the company intends to either settle on a net basis or realize the asset and settle the liability simultaneously. If both of the criteria are met, the amounts are set off and presented net. A right of set off is the company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Provisions and contingent liabilities

Provisions are recognized when the company has a present legal or constructive obligation 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 recognized in the profit and loss account. A provision is discounted using either a nominal discount rate of 2.5% (2016: 2%) or a real discount rate of 0.5% (2016: 0.5%), as appropriate. Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

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 recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

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 balance sheet date 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 recognized in the profit and loss account in the period in which they become payable.

Taxation

Income tax expense represents the sum of current tax and deferred tax.

NOTES TO THE FINANCIAL STATEMENTS

Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized 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 is provided, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill;
- where the deferred tax liability arises 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; or
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, where the company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for 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 utilized. An exception is where the deferred tax asset relates to the deductible temporary difference arising 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 nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized 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 tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Where tax treatments are uncertain, if it is considered probable that a taxation authority will accept the company's proposed tax treatment, income taxes are recognized consistent with the company's income tax filings. If it is not considered probable, the uncertainty is reflected using either the most likely amount or an expected value, depending on which method better predicts the resolution of the uncertainty.

NOTES TO THE FINANCIAL STATEMENTS

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 recognized 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 recognized 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 arising from the sale of goods is recognized when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the turnover can be reliably measured.

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 recognized 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 recognized in the profit and loss account in the period in which they are incurred.

3. Turnover

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

	2017	2016
	€	€
Sales of goods	454,832,792	238,783,583
Group (loss)/gain sharing arrangements	(5,294,277)	17,863,469
Held for trading gain/(loss)	1,463,119	(26,157,975)
	<u>451,001,634</u>	<u>230,489,077</u>
Other operating income	6,674	—
Interest receivable and similar income (Note 6)	52,221	420,557
	<u><u>451,060,529</u></u>	<u><u>230,909,634</u></u>

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

	2017	2016
	€	€
Class of business:		
Upstream	451,001,634	230,489,077
Total	<u><u>451,001,634</u></u>	<u><u>230,489,077</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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

	<u>2017</u>	<u>2016</u>
	€	€
By geographical area:		
Rest of Europe - Non-UK	451,001,634	230,489,077
Total	<u>451,001,634</u>	<u>230,489,077</u>

4. Operating loss

This is stated after charging:

	<u>2017</u>	<u>2016</u>
	€	€
Net foreign exchange (gains)/losses	<u>(1,324,848)</u>	<u>135,678</u>

5. Auditor's remuneration

	<u>2017</u>	<u>2016</u>
	€	€
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.

6. Interest receivable and similar income

	<u>2017</u>	<u>2016</u>
	€	€
Interest income from other loans and receivables	<u>52,221</u>	<u>420,557</u>

7. Interest payable and similar charges

	<u>2017</u>	<u>2016</u>
	€	€
Interest expense on:		
Loans from group undertakings	516,784	82,572
Other loans	330	108
Total interest payable and similar charges	<u>517,114</u>	<u>82,680</u>

NOTES TO THE FINANCIAL STATEMENTS

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:

	2017	2016
	€	€
<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	1,184,643	480,000
Overseas tax (overprovided) in prior years	(15,045)	(10,305)
Total current tax charged	1,169,598	469,695
<u>Deferred tax</u>		
Overseas deferred tax	(759,340)	(1,789,084)
Total deferred tax (credited)	(759,340)	(1,789,084)
Tax charged/(credited) on profit	410,258	(1,319,389)

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is higher than the standard rate of corporation tax in the UK of 19.25% for the year ended 31 December 2017 (2016: 20%). The differences are reconciled below:

	2017	2016
	UK	UK
	€	€
Loss before tax	(5,678,91)	(6,453,286)
Tax charge / (credit)	410,258	(1,319,389)
Effective tax rate	(7.22)%	20%
	2017	2016
	UK	UK
	%	%
UK corporation tax rate:	19.25	20
Increase / (decrease) resulting from:		
Non-taxable income	(0.01)	—
Free group relief	(28.32)	—
Deferred tax provided at lower rates	—	(6)
Adjustments to tax charge in respect of previous years	0.26	—
Movements in respect of overseas deferred tax	—	30
Movements in unrecognised deferred tax	1.60	(24)
Effective tax rate	(7.22)	20

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

NOTES TO THE FINANCIAL STATEMENTS

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 2017.

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
	2017	2016	2017	2016
	€	€	€	€
Other taxable temporary differences	(759,340)	(1,789,084)	—	(759,340)
Net credit / provision for deferred tax liabilities	<u>(759,340)</u>	<u>(1,789,084)</u>	<u>—</u>	<u>(759,340)</u>

Analysis of movements during the year

	2017
	€
At 1 January 2017	(759,340)
Deferred tax credited in the profit and loss account	759,340
At 31 December 2017	<u>—</u>

A deferred tax asset has not been recognised in respect of unutilised overseas tax credits of €2,162,604 and trade losses of €3,749,099 (gross) 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 €155,000 (2016: €133,100). None of these directors received non-cash benefits in relation to qualifying services.

None of these directors were active members of the defined benefit section of the BP Pension Fund at 31 December 2017 (2016: None). None of the directors exercised share options over BP p.l.c. shares during the year (2016: None).

NOTES TO THE FINANCIAL STATEMENTS

(b) Employee costs

	2017	2016
	€	€
Wages and salaries	1,731,426	1,024,882
Social security costs	4,450	4,016
Other pension costs	450,170	396,737
Share-based payment charge	—	22,024
	<u>2,186,046</u>	<u>1,447,659</u>

Included in other pension costs is €Nil (2016: €Nil) in respect of defined benefit scheme and €450,170 (2016: €396,737) in respect of defined contribution scheme.

(c) The average monthly number of employees during the year was 13 (2016: 13).

10. Stocks

	2017	2016
	€	€
Natural gas	<u>12,358,037</u>	<u>3,336,959</u>

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

11. Debtors

Amounts falling due within one year:

	2017	2016
	€	€
Trade debtors	67,591,103	8,633,618
Amounts owed from fellow subsidiaries	22,138,097	31,355,932
Other debtors	3,974,679	7,135,690
Prepayments and accrued income	45,796,117	19,162,257
Taxation	—	295,220
	<u>139,499,996</u>	<u>66,582,717</u>

Amounts falling due after one year:

	2017	2016
	€	€
Other debtors	<u>84,021</u>	<u>31,500</u>
Total debtors	<u>139,584,017</u>	<u>66,614,217</u>

Included within the amounts owed from fellow subsidiaries are intercompany derivative assets of €4,533,900 (2016: €3,953,204). Derivative assets due within one year are €4,533,900 (2016: €3,953,204), and due after one year €Nil (2016: €Nil).

NOTES TO THE FINANCIAL STATEMENTS

12. Creditors

Amounts falling due within one year:

	2017	2016
	€	€
Trade creditors	79,801,487	20,265,814
Amounts owed to fellow subsidiaries	41,540,890	10,813,824
Taxation	564,533	—
Accruals and deferred income	500,827	250,731
	<u>122,407,737</u>	<u>31,330,369</u>

Amounts falling due after one year:

	2017	2016
	€	€
Accruals and deferred income	<u>37,767</u>	<u>45,020</u>
Total creditors	<u>122,445,504</u>	<u>31,375,389</u>

Included within the amounts owed to fellow subsidiaries are intercompany derivative liabilities of €Nil (2016: €Nil). Derivative liabilities due within one year are €Nil (2016: €Nil), and due after one year €Nil (2016: €Nil).

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.

In certain less liquid markets, or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC financial swaps and physical commodity sale and purchase contracts are valued using internally developed methodologies that consider historical relationships between various commodities, and that result in management's best estimate of fair value. These contracts are categorized within level 3 of the fair value hierarchy.

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 recognized at fair value with changes in fair value recognized in the profit and loss account. Trading activities are undertaken by using a range of contract types in combination to create incremental gains by the arbitraging process between markets, locations and time periods. The net of these exposures is monitored using market value-at-risk techniques.

NOTES TO THE FINANCIAL STATEMENTS

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

	2017	2017	2016	2016
	Fair value asset	Fair value liability	Fair value asset	Fair value liability
	€	€	€	€
Derivatives held for trading				
- Natural gas price derivatives	17,962,232	(16,239,011)	6,696,723	(6,363,129)
- Power price derivatives	94,970	(21,478)	—	—
	<u>18,057,202</u>	<u>(16,260,489)</u>	<u>6,696,723</u>	<u>(6,363,129)</u>
Of which:				
– current derivatives with third parties	17,651,758	(16,135,703)	6,593,934	(5,301,605)
– non-current derivatives with third parties	405,444	(124,786)	102,789	(1,061,524)
	<u>18,057,202</u>	<u>(16,260,489)</u>	<u>6,696,723</u>	<u>(6,363,129)</u>

NOTES TO THE FINANCIAL STATEMENTS

2017	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	€	€	€	€	€	€	€
Fair value of derivative assets							
Level 3	17,651,758	405,444	—	—	—	—	18,057,202
	17,651,758	405,444	—	—	—	—	18,057,202
Less: netting by counterparty	—	—	—	—	—	—	—
	17,651,758	405,444	—	—	—	—	18,057,202
Fair value of derivative liabilities							
Level 3	(16,135,703)	(124,786)	—	—	—	—	(16,260,489)
	(16,135,703)	(124,786)	—	—	—	—	(16,260,489)
Less: netting by counterparty	—	—	—	—	—	—	—
	(16,135,703)	(124,786)	—	—	—	—	(16,260,489)
Net fair value	1,516,055	280,658	—	—	—	—	1,796,713

NOTES TO THE FINANCIAL STATEMENTS

2016

Fair value of derivative assets

Level 3

Less: netting

by counterparty

Fair value of derivative liabilities

Level 3

Less: netting

by counterparty

Net fair value

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	€	€	€	€	€	€	€
	6,593,934	102,789	—	—	—	—	6,696,723
	6,593,934	102,789	—	—	—	—	6,696,723
	—	—	—	—	—	—	—
	6,593,934	102,789	—	—	—	—	6,696,723
	(5,301,605)	(1,061,524)	—	—	—	—	(6,363,129)
	(5,301,605)	(1,061,524)	—	—	—	—	(6,363,129)
	—	—	—	—	—	—	—
	(5,301,605)	(1,061,524)	—	—	—	—	(6,363,129)
	1,292,329	(958,735)	—	—	—	—	333,594

NOTES TO THE FINANCIAL STATEMENTS

Level 3 derivatives

The following table shows the changes during the year in the net fair value of derivatives held for trading purposes within level 3 of the fair value hierarchy.

	Total €
Net fair value of contracts as at 1 January 2017	333,594
Gains / (losses) recognized in the profit and loss account	1,463,119
Net fair value of contracts as at 31 December 2017	<u>1,796,713</u>

	Total €
Net fair value of contracts as at 1 January 2016	26,491,569
Gains / (losses) recognized in the profit and loss account	(26,157,975)
Net fair value of contracts as at 31 December 2016	<u>333,594</u>

Derivative gains and losses

Gains and losses on derivative contracts are included within 'Turnover' in the profit and loss account. The total amount relating to these derivative contracts was a net loss of €3,831,000 (2016: net loss of €8,295,000).

Gains and losses relating to derivative contracts are included within Turnover in the profit and loss account depending upon the nature of the activity and type of contract involved. The contract types treated in this way include futures, options, swaps and certain forward sales and forward purchases contracts, and relate to both currency and commodity trading activities. Gains or losses arise on contracts entered into for risk management purposes, optimisation activity and entrepreneurial trading. They also arise on certain contracts that are for normal procurement or sales activity for the group but that are required to be fair valued under accounting standards. Also included within sales and other operating revenues are gains and losses on inventory held for trading purposes.

14. Other provisions

	Other €	Total €
At 1 January 2017	16,667	16,667
At 31 December 2017	<u>16,667</u>	<u>16,667</u>

NOTES TO THE FINANCIAL STATEMENTS

15. Called up share capital

	2017	2016
	€	€
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	68,457,673	68,457,673
	<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.