LUBRICANTS UK LIMITED
(Registered No 00097216)

ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors: P J Mather
R R Hewins
J J Carey
A W Ahmad
A G S Row
N P Harley

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2012

Results and dividends

The loss for the year after taxation was £7,392,000 which, when deducted from the retained deficit brought forward at 1 January 2012 of £616,730,000, net actuarial loss of £20,436,000 gives a total retained deficit carried forward at 31 December 2012 of £644,558 000

The company has not declared any dividends during the year (2011 £Nil) The directors do not propose the payment of a dividend

Principal activity and review of the business

The company is involved in the blending and marketing of lubricants for many applications, which are sold mainly under the Castrol brand, as well as undertaking research and product development on behalf of Castrol Limited and recovering these costs as other income The company also provides management services to a number of other companies in the BP Group

The company has had a satisfactory year although the underlying trading environment remained challenging with high crude oil prices persisting throughout the year This trend is expected to continue

The review of the resources required to undertake the company's activities continues and has resulted in a net impact for rationalisation costs of £1,448,000 relating principally to redundancy costs Utilisation in 2012 amounted to £1,697,000 leaving an outstanding provision of £106,000 at 31 December 2012 (2011 £1,554,000)

Expenditure on research and development is undertaken on behalf of Castrol Limited and in 2012 amounted to £58,999 000 (2011 £62,439 000) These activities include the research and development of new additives, in association with additives manufacturers, and new formulations of lubricants and the testing of these under normal and extreme conditions

LUBRICANTS UK LIMITED

REPORT OF THE DIRECTORS

Principal activity and review of the business (continued)

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

	2012	2011	Variance
	£000	£000	%
Turnover	218,555	226,815	(3 64)
Operating loss	(3,801)	(9,938)	(61 75)
Loss after taxation	(7,392)	(3,896)	89 73
Shareholders' funds	136,249	159 212	(14 42)

	2012	2011	Variance
	%	%	
Quick ratio*	139	167	(28 00)

*Quick ratio is defined as current assets, excluding stock and debtors receivable after one year, as a percentage of current liabilities

Principal risks and uncertainties

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

We urge you to consider carefully the risks described below The potential impact of the occurrence or reoccurrence of any of the risks described below could have a material adverse effect on the company's business, financial position, results of operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda

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

Principal risks and uncertainties (continued)

Gulf of Mexico oil spill

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

Whilst the BP group recognised significant charges in the income statement since the Incident occurred in 2010 there is significant uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Incident, the potential changes in applicable regulations and the operating environment that may result from the Incident, the impact of the Incident on the reputation of the group and the resulting possible impact on the group's licence to operate including its ability to access new opportunities The amount of claims that become payable by the BP group the amount of fines ultimately levied on the BP group (including any potential determination of the BP group's negligence or gross negligence), the outcome of litigation, the terms of any further settlements including the amount and timing of any payments thereunder, and any costs arising from any longer-term environmental consequences of the Incident, will also impact upon the ultimate cost for the BP group

Although the provisions recognised represent the current best estimates of expenditures required to settle certain present obligations that can be reasonably estimated at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligations reliably and the total amounts payable by the BP group in relation to all obligations relating to the Incident are subject to significant uncertainty These uncertainties are likely to continue for a significant period, increase the risks to which the group is exposed and may cause costs to increase Thus, the Incident has had, and could continue to have, a material adverse impact on the group's business, competitive position, financial performance, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US. The risks associated with the Incident could also heighten the impact of the other risks to which the group is exposed as further described below Further information on the Incident, is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012

Strategic and commercial risks

Prices and markets

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

Governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal and regulatory frameworks of the oil and gas industry, including the risk of increased taxation, nationalisation and expropriation.

LUBRICANTS UK LIMITED

REPORT OF THE DIRECTORS

Principal risks and uncertainties (continued)

Strategic and commercial risks (continued)

The global financial and economic situation may have a negative impact on third parties with whom the company does, or may do, business with. In particular, on-going instability in or a collapse of the Eurozone could trigger a new wave of financial crises and push the world back into recession, leading to lower demand and lower oil and gas prices

Socio-political
The diverse nature of the company's operations around the world exposes it to a wide range of political developments and consequent changes to the operating environment, regulatory environment and law

The company has operations in countries where political, economic and social transition is taking place Some countries have experienced or may experience in the future political instability, changes to the regulatory environment, expropriation or nationalisation of property, civil strife, strikes, acts of war and insurrections Any of these conditions occurring could disrupt or terminate the company's operations, causing its development activities to be curtailed or terminated in these areas or its production to decline, could limit the company's ability to pursue new opportunities, could affect the recoverability of its assets and could cause it to incur additional costs

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

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home Competition puts pressure on the terms of access to new opportunities, licence costs and product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency, while ensuring safety and operational risk is not compromised The implementation of the BP group strategy requires continued technological advances and innovation including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage The company's performance could be impeded if competitors developed or acquired intellectual property rights to technology that it required or if its innovation lagged the industry, or by its failure to adequately protect the company's brands and trademarks The company's competitive position could be adversely affected if it fails to control its operating costs or manage its margins, or if it fails to sustain, develop and operate efficiently a high quality portfolio of assets

Digital infrastructure
The reliability and security of the company's digital infrastructure are critical to maintaining the availability of its business applications, including the reliable operation of technology in its various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information A breach of the company's digital security, either due to intentional actions or due to negligence could cause serious damage to business operations and, in some circumstances, could result in the loss of data or sensitive information, injury to people, damage to assets, harm to the environment, reputational damage, breaches of regulations, litigation, legal liabilities and reparation costs

Principal risks and uncertainties (continued)

Compliance and control risks

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

Liabilities and provisions
The BP group's potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Gulf of Mexico oil spill, together with the potential cost and burdens of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had, and are expected to continue to have, a material adverse impact on the group's business and consequently may also impact the company's business Further information is included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012.

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

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

Safety and operational risks

Process safety, personal safety and environmental risks
The nature of the company's operations exposes it to a wide range of significant health, safety, security and environmental risks The scope of these risks is influenced by the geographic range, operational diversity and technical complexity of the company's activities

There are risks of technical integrity failure as well as risk of natural disasters and other adverse conditions in many of the areas in which the company operates, which could lead to loss of containment of hydrocarbons and other hazardous material as well as the risk of fires, explosions or other incidents

In addition, inability to provide safe environments for the company's workforce and the public while at the company's facilities or premises could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to the company's reputation

Principal risks and uncertainties (continued)

Safety and operational risks (continued)

Process safety, personal safety and environmental risks (continued)

The company's operations are often conducted in difficult or environmentally sensitive locations, in which the consequences of a spill, explosion, fire or other incident could be greater than in other locations These operations are subject to various environmental and safety laws, regulations and permits and the consequences of failure to comply with these requirements can include remediation obligations, penalties, loss of operating permits and other sanctions Accordingly, inherent in the company's operations is the risk that if it fails to abide by environmental and safety and protection standards, such failure could lead to damage to the environment and could result in regulatory action, legal liability, material costs and damage to the company's reputation or licence to operate

BP's group-wide operating management system (OMS) intends to address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the group can analyse the performance of its activities and identify and remediate shortfalls There can be no assurance that OMS will adequately identify all process safety, personal safety and environmental risk or provide the correct mitigations, or that all operations will be in conformance with OMS at all times

Security

Security threats require continuous oversight and control Acts of terrorism, piracy, sabotage, cyber-attacks and similar activities directed against the company's operations and offices, transportation or computer systems could cause harm to people and could severely disrupt business and operations The company's business activities could also be severely disrupted by, amongst other things, conflict, civil strife or political unrest in areas where the company operates

Product quality

Supplying customers with on-specification products is critical to maintaining the company's licence to operate and its reputation in the marketplace Failure to meet product quality standards throughout the value chain could lead to harm to people and the environment and loss of customers

Transportation

All modes of transportation of hydrocarbons involve inherent risks An explosion or fire or loss of containment of hydrocarbons or other hazardous material could occur during transportation by road, rail, sea or pipeline This is a significant risk due to the potential impact of a release on people and the environment and given the high volumes involved

Financial risk management

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

Principal risks and uncertainties (continued)

Financial risk management (continued)

Market risk

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

Foreign currency exchange risk

Fluctuations in foreign exchange rates can have significant effects on the company's reported results The company's financial assets and liabilities give rise to transactional currency exposures Such exposures arise from transactions in a currency other than the company's functional currency The management of such risks is performed at BP group level The main underlying economic currency of the BP group's cash flows is the US dollar This is because the BP group's major product, oil, is priced internationally in US dollars The BP group's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements against the US dollar The group co-ordinates the handling of foreign exchange risks centrally by netting off naturally occurring opposite exposures wherever possible and then dealing with any material residual foreign exchange risks. For highly probable forecast capital expenditures the group locks in the US dollar cost of non US dollar supplies by using currency forwards and futures

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

Credit risk

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

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

LUBRICANTS UK LIMITED

REPORT OF THE DIRECTORS

Research and development

The research and development activity is undertaken in the interest of developing the Castrol brand. These costs are charged to Castrol Limited.

Going concern

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

Directors

The present directors are listed on page 1

A W Ahmad, J J Carey, R R Hewins and P J Mather served as directors throughout the financial year Changes since 1 January 2012 are as follows

	Appointed	Resigned
A G S Row	13 January 2012	-
P J Russell	-	13 January 2012
M C Hodgson	-	23 April 2013
N P Harley	23 April 2013	-

Directors' indemnity

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

Disabled employees

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate

Employee involvement

During the year, the BP group continued its policy of providing employees with information on matters of concern to them Executive team members hold regular town halls and webcasts to communicate with our employees around the world. We conduct an employee engagement survey to monitor employee attitudes and identify areas for improvement In particular, information relating to group performance and group policies has been readily available to employees through the 'One BP' intranet web-site.

We encourage employee share ownership For example, through the ShareMatch plan run in around 50 countries, we match BP shares purchased by our employees

LUBRICANTS UK LIMITED

REPORT OF THE DIRECTORS

Policy and practice on payment of creditors

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

The number of days' purchases represented by trade creditors at the year-end was 30 days

Auditor

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

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

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

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware, and

- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information

By Order of the Board

For and on behalf of
Sunbury Secretaries Limited
Company Secretary

17 September 2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

LUBRICANTS UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period In preparing these accounts, the directors are required to

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

The directors are responsible for keeping 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 accounts

LUBRICANTS UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LUBRICANTS UK LIMITED

We have audited the financial statements of Lubricants UK Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

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

London
17 September 2013

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of Lubricants UK Limited were approved for issue by the Board of Directors on 17 SEPTEMBER 2013

These accounts are prepared on a going concern basis and in accordance with the Companies Act 2006 and applicable UK accounting standards

Accounting convention

The accounts are prepared under the historical cost convention

Statement of cash flows

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

Group accounts

Group accounts are not submitted as the company is exempt from the obligation to prepare group accounts under Section 400 (1) of the Companies Act 2006 The results of subsidiary and associated undertakings are dealt with in the consolidated accounts of the ultimate parent undertaking, BP p l c , a company registered in England and Wales These accounts present information about the company as an individual undertaking and not about the group

Revenue recognition

Revenue arising from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes

Foreign currency transactions

Foreign currency transactions are initially recorded in sterling by applying the exchange rate ruling on the date of transaction Foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date Exchange differences are included in the profit and loss account

Research

Expenditure on research is written off in the year in which it is incurred

Interest income

Interest income is recognised on an accruals basis

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the purchase consideration of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired Goodwill has an indefinite useful life and as a result no amortisation is charged Impairment review is performed annually

Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset The capitalised value of a finance lease is also included within tangible fixed assets

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

Impairment of intangible and tangible fixed assets

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

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

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

Investments

Fixed asset investments in subsidiaries are held at cost The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable If any such indication of impairment exists, the company makes an estimate of its recoverable amount Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount

Where these circumstances have reversed the impairment previously made is reversed to the extent of the original cost of the investment

Stock valuation

Stocks are valued at cost to the company, using the first-in first-out method or net realisable value, whichever is the lower Stores are valued at cost to the company mainly using the average method or net realisable value, whichever is the lower

Trade and other debtors

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

Trade and other creditors

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

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain The expense relating to any provision is presented in the profit and loss account net of any reimbursement If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate

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

Environmental liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites The amount recognised is the best estimate of the expenditure required Where the time value of money is material, the amount recognised is the present value of the estimated future expenditure

Deferred tax

Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future. In particular

- Provision is made for tax on gains arising on disposals of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the replacement assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that at the balance sheet date, dividends have been accrued as receivable, and
- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

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 The accounting policy for pensions and other post-retirement benefits is described below

Pensions

The defined benefit pension scheme is a multi-employer scheme administered by the ultimate parent company, BP p l c The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so the scheme has been accounted for as a defined contribution scheme as allowed by FRS 17 Contributions to the scheme are charged through the company's profit and loss account in the year in which they become payable Detailed disclosures have been made in the financial statements of the ultimate parent company

For defined benefit pension and other post-retirement benefit schemes, scheme assets are measured at fair value and scheme liabilities are measured on an actuarial basis using the projected unit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities Full actuarial valuations are obtained at least every three years and are updated at each balance sheet date The resulting surplus or deficit, net of taxation thereon, is presented separately above the total for net assets on the face of the balance sheet

The service cost of providing pension and other post-retirement benefits to employees for the year is charged to the profit and loss account The cost of making improvements to pension and other post-retirement benefits is recognised in the profit and loss account on a straight-line basis over the period during which the increase in benefits vests To the extent that the improvements in benefits vest immediately, the cost is recognised immediately. These costs are recognised as an operating expense

A charge representing the unwinding of the discount on the scheme liabilities during the year is included within other finance expense

A credit representing the expected return on the scheme assets during the year is included within other finance expense This credit is based on the market value of the scheme assets, and expected rates of return, at the beginning of the year

Actuarial gains and losses may result from differences between the expected return and actual return on scheme assets, differences between actuarial assumptions underlying the scheme liabilities and actual experience during the year, or changes in the actuarial assumptions used in the valuation of the scheme liabilities Actuarial gains and losses, and taxation thereon, are recognised in the statement of total recognised gains and losses

LUBRICANTS UK LIMITED

ACCOUNTING POLICIES

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value. and failure to meet a non-vesting condition is treated as a cancellation. where this is within the control of the employee

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting. the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or. in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

When the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the profit and loss account for the award is expensed immediately

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value and recognised as an expense over the vesting period, with a corresponding liability recognised on the balance sheet

Use of estimates

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

LUBRICANTS UK LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£000	£000
Turnover	1	218,555	226,815
Cost of sales		(105,812)	(113,500)
Gross profit		112,743	113,315
Distribution and marketing expenses		(200,565)	(192,294)
Administration expenses		(3,991)	(5,876)
Other operating income	4	88,012	74,917
Operating loss	2	(3,801)	(9,938)
Loss on disposal of fixed assets	5	-	(2)
Profit on liquidation and sale of investments	5	-	10,053
(Loss)/profit on ordinary activities before interest and taxation		(3,801)	113
Interest payable and similar charges	6	(731)	(5,763)
Interest receivable and similar income	7	-	2,092
Other finance (expense) / income	8	(920)	709
Loss before taxation		(5,452)	(2,849)
Taxation	9	(1,940)	(1,047)
Loss for the year		(7,392)	(3,896)

The loss of £7,392 000 for the year ended 31 December 2012 was derived in its entirety from continuing operations

LUBRICANTS UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£000	£000
Loss for the year	(7,392)	(3,896)
Actuarial (loss)/gain relating to pensions and other post-retirement benefits	(20,436)	8,898
Deferred tax relating to actuarial gain on defined benefit pension scheme	-	9,653
Total recognised gains and losses for the year	(27,828)	14,655

LUBRICANTS UK LIMITED
(Registered No. 00097216)

BALANCE SHEET AT 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Fixed assets			
Intangible assets	11	789	789
Tangible assets	12	46,299	37,397
Investments	13	146	146
		47,234	38,332
Current assets			
Stocks	14	13,923	17,342
Debtors	15	391,824	303,509
Cash at bank and in hand		10,973	1,146
		416,720	321,997
Creditors: amounts falling due within one year	16	(287,666)	(178,984)
Net current assets		129,054	143,013
TOTAL ASSETS LESS CURRENT LIABILITIES		176 288	181,345
Other provisions	17	(717)	(1,965)
Net assets excluding pension and other post-retirement benefit balances		175,571	179,380
Other post-retirement benefit plan deficit	25	(39,322)	(20,168)
NET ASSETS		136 249	159,212
Represented by			
Capital and reserves			
Called up share capital	19	750,000	750,000
Share premium account	20	894	894
Other distributable reserve	20	29,913	25,048
Profit and loss account	20	(644,558)	(616,730)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		136 249	159,212

On behalf of the Board

Peter Mather
Director

17 September 2013

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, customs duties and sales taxes represents amounts invoiced to third parties and group companies

	2012	2011
	£000	£000
By business		
Oil products	165,356	170,185
Management services	53,199	56,630
Total	218,555	226,815

An analysis of turnover by geographical market is given below

	2012	2011
	£000	£000
By geographical area		
UK	155,727	161,384
Rest of Europe	39,838	48,881
USA	8,148	5,652
Rest of World	14,842	10,898
Total	218,555	226,815

2. Operating loss

This is stated after charging

	2012	2011
	£000	£000
Expenditure on research	58,999	62,439
Movement in restructuring provision (Note 17)	249	(232)
Depreciation of owned fixed assets (including amortisation of intangibles)	4,842	3,563

3. Auditor's remuneration

	2012	2011
	£000	£000
Fees for the audit of the company	159	183

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

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

4. Other operating income

	2012	2011
	£000	£000
Miscellaneous income	88,012	74,917

Other operating income represents amounts recharged to other BP p l c group companies for research and marketing costs incurred by the company

5. Exceptional items

Exceptional items comprise the profit on disposal of fixed assets and the profit / (loss) on sale of operations as follows

	2012	2011
	£000	£000
Loss on disposal of fixed assets	-	(2)
Profit on liquidation and sale of investment	-	10,053
Exceptional items (net of tax)	-	10,051

During 2011 certain subsidiary companies were liquidated, all their distributable reserves were paid up to Lubricants UK Limited and their share capital cancelled. The liquidation of subsidiary undertakings and the sales of 50% shares in Veedol International Limited resulted in a total net profit on liquidation and sales of investments of £10 million

6. Interest payable and similar charges

	2012	2011
	£000	£000
Interest expense on loans from group undertakings	731	5,763

7. Interest receivable and similar income

	2012	2011
	£000	£000
Interest income from group undertakings	-	2,092

8. Other finance (expense) / income

	2012	2011
	£000	£000
Interest on pension plan and other post-retirement benefits	(920)	(15,251)
Expected return on pension plan assets	-	15,960
	(920)	709

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

9. Taxation

The Company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010 No UK corporation tax has been provided because another group company, BP International Limited, has undertaken to procure the claim or surrender of group relief to the extent it is required and to provide for any current or deferred UK tax that arises without charge

The following table provides a reconciliation of the UK statutory corporation tax rate to the effective current tax rate on profit before taxation

	2012	2011
	£000	£000
Deferred Taxation	-	1,023
Current taxation		
Tax on income for the year	1,940	24
Total tax charge for the year	1,940	1,047

Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 24% for the year ended 31 December 2012 (2011 – 26%). The differences are reconciled below

	2012	2011
	£000	£000
Loss before taxation	(5,452)	(2,849)
Current taxation	1,940	24
Effective current tax rate	(36)%	(1)%

	2012	2011
	%	%
UK statutory corporation tax rate	24	26
Increase / (decrease) resulting from		
Withholding tax	(36)	(28)
Fixed asset timing differences	13	6
Other timing differences	3	63
Non-deductible expenditure / non-taxable income	(139)	(151)
Transfer pricing adjustment	9	12
Free group relief	90	16
Double tax relief	-	28
Adjustments to tax charge in respect of previous years	-	27
Effective current tax rate	(36)	(1)

10. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for services as directors of the company during the financial year

(b) Employee costs

	2012	2011
	£000	£000
Wages and salaries	103.070	75,635
Social security costs	7,424	3,749
Pension costs	-	1,578
Share based payment charge (see note 18)	5.849	4.965
	116 343	85,927

(c) The average monthly number of employees during the year was 703 (2011 47), all of whom were employed within the United Kingdom

11. Intangible assets

	Goodwill
Cost	£000
At 1 January and at 31 December 2012	789
Amortisation	
At 1 January and at 31 December 2012	-
Net book value	
At 31 December 2012 and 2011	789

The directors consider this goodwill will have an indefinite useful life and as a result no amortisation will be charged An impairment review is performed annually

12. Tangible assets

	Land & buildings	Fixtures & fittings	Plant & machinery	Total	Of which AUC*
Cost	£000	£000	£000	£000	£000
At 1 January 2012	16.624	55,923	22,598	95,145	13.846
Additions	265	14.684	2,759	17.708	14,730
Disposals	(65)	(2,206)	(2)	(2,273)	(1,584)
Transfers	1 993	(4,961)	(732)	(3.700)	(18.316)
At 31 December 2012	18,817	63,440	24.623	106,880	8.676
Depreciation and impairment					
At 1 January 2012	6,352	39,176	12.220	57,748	-
Disposals	(65)	(2,201)	(2)	(2,268)	-
Charge for the year	826	2.844	1,172	4.842	-
Transfers	696	(1.089)	652	259	-
At 31 December 2012	7.809	38.730	14 042	60.581	-
Net book value					
At 31 December 2012	11 008	24.710	10.581	46 299	8.676
At 31 December 2011	10.272	16 747	10.378	37 397	13.846
Principal rates of depreciation	2%-10%	10%-20%	5%-33%		

*AUC = assets under construction Assets under construction are not depreciated

The transfer line includes assets transferred between classes following a review of the presentation of the tangible assets and group recharges to another group undertaking There is no impact of the revised categorisation on the net book value

The company recharged to other group undertakings total capitalised costs of £3 7m (2011 £11 2 m). recorded within fixture and fittings, as part of an on-going project

Assets under construction of £8 7m (2011 £13 8m) were mainly related to an on-going project on upgrading of global financial template of Lubricants UK Limited Costs of £14 6m in relation to a section of this template were transferred out of assets under construction during the period when the section was completed and put into use

The company's land and buildings were re-valued at 31 December 1999 by external valuers Messrs Richard Ellis St Quentin With the exception of specialised properties. valuations were made on the basis of existing use or, in the case of properties not expected to be retained for the foreseeable future. on the basis of open market value

The company adopted the transitional provisions of FRS15. Tangible Fixed Assets The re-valued assets continue to be stated at their valuation which has not been updated

There were no assets held under finance leases or capitalised interest included above

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

13. Investments

	Subsidiary shares
	£000
Cost	
At 1 January and 31 December 2012	146
Impairment losses	
At 1 January and 31 December 2012	-
Net book amount	
At 31 December 2011 and 2012	146

The subsidiary undertakings, of the company at 31 December 2012 and the percentage of equity capital held set out below are the investments which principally affected the profits or net assets of the company To avoid a statement of excessive length. details of investments which are not significant have been omitted The principal country of operation is generally indicated by the company's country of incorporation or by its name

Subsidiary undertakings	Class of share held	%	Country of Incorporation	Principal activity
Castrol Offshore Limited	Ordinary	100	England and Wales	Dormant
Expandite Contract Services Limited	Ordinary	100	England and Wales	Dormant
Alexander Duckham & Co Limited	Ordinary	100	England and Wales	Holding

14. Stocks

	2012	2011
	£000	£000
Raw materials and consumables	415	464
Trading stocks	13,508	16,878
	13,923	17,342

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

15. Debtors

	2012 Within 1 year £000	2012 After 1 year £000	2011 Within 1 year £000	2011 After 1 year £000
Trade debtors	25,243	-	22 970	-
Amounts owed by group undertakings	356,322	-	270,563	-
Other debtors	-	-	602	-
Prepayments and accrued income	5,964	4,295	4,080	5,294
	387,529	4,295	298,215	5 294

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

16. Creditors

	2012 Within 1 year £000	2011 Within 1 year £000
Trade creditors	8,791	19,266
Amounts owed to group undertakings	240.888	126,658
Other creditors	1,491	5,813
Other taxes and social security costs	220	1.865
Accruals and deferred income	36,276	23,360
Bank overdraft	-	2.022
	287,666	178,984

17. Other provisions

	Restructuring £000	Other £000	Total £000
At 1 January 2012	1 554	411	1.965
New or increased provisions	639	200	839
Write-back of unused provisions	(390)	-	(390)
Utilisation	(1,697)	-	(1.697)
At 31 December 2012	106	611	717

The restructuring provision relates to the outcome of a detailed review of the operations of the business which have been simplified and streamlined. This has resulted in resources being reduced at all levels The balance of the cost is to be incurred over the following year

Other provision relates to a legal case regarding a commission fee payment to a customer

18. Share based payments

Effect of share-based payment transactions on the group's result and financial position	2012 £000	2011 £000
Total expense recognised for equity-settled share-based payment transactions	6,027	4.745
Total expense (credit) recognised for cash-settled share-based payment transactions	(177)	220
Total expense recognised for share-based payment transactions	5 850	4.965
Closing balance of liability for cash-settled share-based payment transactions	16	191
Total intrinsic value for vested cash-settled share-based payments	-	-

For ease of presentation, options and share holdings detailed in the tables within this note are stated as UK ordinary share equivalents in US dollars US employees are granted American Depositary Shares (ADSs) or options over the company's ADSs (one ADS is equivalent to six ordinary shares) The share-based payment plans that existed during the year are detailed below

18. Share-based payments (continued)

Plans for senior employees

The group operates a number of equity-settled share plans under which share units are granted to its senior leaders and certain employees These plans typically have a three-year performance or restricted period during which the units accrue net notional dividends which are treated as having been reinvested Leaving employment during the three-year period will normally preclude the conversion of units into shares, but special arrangements apply if a participant leaves for a qualifying reason.

Grants are settled in cash where participants are located in a country whose regulatory environment prohibits or makes difficult, the holding of BP shares

Performance unit plans
The number of units granted is made by reference to level of seniority of the employees The number of units converted to shares is determined by reference to performance measures over the three-year performance period The main performance measure used is BP's Total Shareholder Return (TSR) compared against the other oil majors Plans included in this category are the Competitive Performance Plan (CPP) and, in part, the Performance Share Plan (PSP)

Restricted share unit plans
Share unit grants under BP's restricted plans typically take into account the employee's performance in either the current or the prior year, track record of delivery, business and leadership skills and long-term potential One restricted share unit plan used in special circumstances for senior employees, such as recruitment and retention, normally has no performance conditions Plans included in this category are the Executive Performance Plan (EPP), the Restricted Share Plan (RSP),the Deferred Annual Bonus Plan (DAB) and, in part, the Performance Share Plan (PSP)

BP Share Option Plan (BPSOP)
Share options with an exercise price equivalent to the closing market price of a share on the day immediately preceding the grant date were granted annually until 2006 There were no performance conditions and the options are exercisable until the tenth anniversary of the grant date

BP Plan 2011
Share options with an exercise price equivalent to the closing market price of a share on the day immediately preceding the grant date were granted in 2011 There were no performance conditions The options will be exercisable between the third and tenth anniversaries of the grant date

Savings and matching plans

BP ShareSave Plan
This is a savings-related share option plan under which employees save on a monthly basis, over a three- or five-year period, towards the purchase of shares at a fixed price determined when the option is granted This price is usually set at a 20% discount to the market price at the time of grant The option must be exercised within six months of maturity of the savings contract, otherwise it lapses The plan is run in the UK and options are granted annually, usually in June Participants leaving employment for a qualifying reason have six months in which to use their savings to exercise their options on a pro-rated basis

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

18. Share-based payments (continued)

BP ShareMatch Plans

These are matching share plans under which BP matches employees' own contributions of shares up to a predetermined limit The plans are run in the UK and in more than 50 other countries The UK plan is run on a monthly basis with shares being held in trust for five years before they can be released free of any income tax and national insurance liability In other countries the plan is run on an annual basis with shares being held in trust for three years The plan is operated on a cash basis in those countries where there are regulatory restrictions preventing the holding of BP shares When the employee leaves BP all shares must be removed from trust and units under the plan operated on a cash basis must be encashed

Share option transactions	2012 Number Of Options	2012 Weighted average exercise price $	2011 Number of options	2011 Weighted average exercise price $
Outstanding at 1 January	6,925,197	7 24	3,319 133	8 81
Transferred out	430,032	7 33	353,821	8 66
Transferred in	(701,432)	6 87	(126 191)	9 96
Granted	992,745	6 05	4,020 339	5 95
Forfeited	(502,350)	6 70	(323,590)	6 81
Exercised	(148,732)	6 99	(83,556)	7 93
Expired	(474,067)	8 55	(234 759)	8 32
Outstanding at 31 December	6,521,393	7 06	6,925,197	7 24
Exercisable at 31 December	1,986 277	9 80	2,266,397	9 54

The weighted average share price at the date of exercise was $7 16 (2011 $7 71) per ordinary share Exercise price ranges and weighted average remaining contractual lives for options outstanding at 31 December 2012 are shown below

Range of exercise Prices	Number of shares	Weighted average remaining life Years	Options outstanding Weighted average exercise price $	Number of shares	Options exercisable Weighted average exercise price $
$6 08-$ 6 53	4 672,237	7 18	5 84	193,040	6 38
$6 54-$ 8 46	404,509	1 12	7 67	404,509	7 67
$8 47-$ 10 19	772,227	1 98	9 96	716 308	10 04
$10 20-$ 11 92	672,420	3 13	11 80	672 420	11 80
	6,521,393	5 77	7 06	1,986 277	9 80

18. Share-based payments (continued)

The BP group uses a valuation model to determine the fair value of options granted The model uses the implied volatility of ordinary share price for the quarter within which the grant date of the relevant plan falls The fair value is adjusted for the expected rates of early cancellation Management is responsible for all inputs and assumptions in relation to the model. including the determination of expected volatility

Fair values and associated details for restricted share units granted

Shares granted in 2012	CPP	EPP	RSP	DAB
Number of equity instruments granted	9 615	1,025,146	217.919	209,646
Weighted average fair value	$8 96	$7 78	$7 21	$7.78
Fair value measurement basis	Monte Carlo	Market value	Market value	Market value

Shares granted in 2011	CPP	EPP	RSP	DAB	PSP
Number of equity instruments granted	40.500	214.500	19 381	196.869	241.250
Weighted average fair value	$11 99	$7 51	$6 86	$7 51	$7 51
Fair value measurement basis	Monte Carlo	Market value	Market value	Market value	Market Value

The observable market price for ordinary shares on the date of grant was used to determine the fair values of non-TSR restricted share unit awards.

A Monte Carlo simulation model was used to measure the fair values of the TSR element of the 2011 and 2010 CPP grants In accordance with the plan's rules. the model simulates BP's TSR and compares it against BP's principal strategic competitors over the three-year period of the plan The model takes into account the historical dividends. share price volatilities and covariances of BP and each comparator company to produce a predicted distribution of relative share performance This is applied to the reward criteria to give an expected value of the TSR element

Accounting expense does not necessarily represent the actual value of share-based payments made to recipients. which are determined by the remuneration committee according to established criteria.

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

19. Called up share capital

	2012	2011
	£000	£000
Allotted, called up and fully paid		
750,000,000 Ordinary shares of £1 each for a total nominal value of £750,000,000	750,000	750,000
	750,000	750,000

20. Capital and reserves

	Called up share capital	Share premium account	Other distributable reserve	Profit and loss account	Total
	£000	£000		£000	£000
At 1 January 2012	750,000	894	25 048	(616,730)	159,212
Loss for the year	-	-	-	(7,392)	(7,392)
Actuarial loss	-	-	-	(20,436)	(20,436)
Share based payments	-	-	4,865	-	4,865
At 31 December 2012	750,000	894	29,913	(644,558)	136,249

21. Reconciliation of movements in shareholders' funds

	2012	2011
	£000	£000
Loss for the year	(7,392)	(3,896)
Actuarial (loss)/gain relating to pensions and other post-retirement benefits	(20,436)	8,898
Movements on deferred tax relating to Pensions Surplus	-	9,653
Share based payments	4 865	3,693
Net (decrease)/increase in shareholders' (deficit)/funds	(22,963)	18,348
Shareholders' funds at 1 January	159,212	140,864
Shareholders' funds at 31 December	136,249	159,212

22. Capital commitments

Authorised and contracted future capital expenditure by the company for which contracts had been placed but not provided in the accounts at 31 December 2012 was £7 1m (2011 £4 9m)

23. Related party transactions

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

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

24. Pensions

On 31 March 2011, the Burmah Castrol Pension Fund was merged into the main BP Pension Fund. As at that date the assets of the Burmah Castrol Pension Fund were transferred to the BP Pension Fund, and in return the BP Pension Fund will provide the pension benefits which would otherwise have been provided under the Burmah Castrol Pension Fund As at this date Lubricants UK Limited became a participating employer of the BP Pension Fund.
The BP Pension Fund is operated in a way that does not allow the individual participating employing companies in the Pension Fund to identify their share of the underlying assets and liabilities of the fund Therefore, from 1 April, 2011, the company's payments in respect of pension current service cost have been accounted for as an expense as if they were contributions to a defined contribution scheme and no further FRS 17 disclosures are made in these accounts

The results of the most recent actuarial valuation of the BP Pension Fund as at 31 December 2011, have been reflected into the disclosures required by FRS 17 for the year ended 31 December 2012, and are included within the accounts of the ultimate parent undertaking BP p l c

In the BP p l c accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities Actuarial gains and losses are recognised in full in this company's statement of total recognised gains and losses in the period in which they occur

The date of the most recent actuarial review for the BP Pension Fund was 31 December 2012 During 2012, employer contributions of £550 million (2011. £259 million) and member contributions of £23 million (2011 £19 million) were made to the BP Pension Fund Most of the contributions made by the plan participants into the BP Pension Fund were made under salary sacrifice

Analysis of the amount charged to operating profit

	2012 £ million	2011 £ million
Current service cost	-	2
Past service cost	-	-
Settlements, curtailments and special termination benefits	-	-
Total operating charge	-	2

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

24. Pensions (continued)

Analysis of the amount credited (charged) to other finance income

	2012 £ million	2011 £ million
Expected return on pension plan assets	-	16
Interest on pension plan liabilities	-	(15)
Other finance income	-	1

Analysis of the amount recognised in the statement of total recognised gains and losses

	2012 £ million	2011 £ million
Actual return less expected return on assets	-	(9)
Experience gains and losses on liabilities	-	-
Changes in assumptions	-	18
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	-	9

History of surplus / (deficit) and of experience gains and losses	2012	2011	2010	2009	2008
			£ million		
Fair value of scheme assets at 31 December	-	-	1 084	998	907
Benefit obligation at 31 December	-	-	1.054	965	861
Surplus at 31 December	-	-	30	33	46
Deferred Tax liability recognised in the accounts	-	-	(8)	(9)	(13)
Net Pension Asset	-	-	22	24	33
Experience gains and losses on plan liabilities	-	-	1	3	(5)
Actual return less expected return on pension plan assets	-	(9)	62	82	(227)
Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses	-	9	(8)	(7)	(179)
Cumulative amount recognised in Statement of Total Recognised Gains and Losses	(23)	(23)	(32)	(24)	(17)

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

25. Other post-retirement benefits

The employment contract of certam present and former employees of the company entitles them to free pnvate medical msurance post retirement The company pays these premiums on behalf of the former employees The provision relates to the company's expected future liability for these premiums calculated using the projected unit credit method

The date of the latest actuanal valuation of the scheme was 31 December 2011 and the date of the most recent actuanal review was 31 December 2012

At 31 December 2012 the obligation for post-retirement benefits was assessed as £39 million (2011 £20million)

	2012 £ million	2011 £ million
Post-retirement benefit liability before deferred tax at 31 December	(39)	(20)
Deferred tax asset not recognised in these accounts	9	5

The discount rate used to assess the obligation at 31 December 2012 of the plans was 4 43% (2011 4 80%)

Our assumption for the future healthcare cost trend rate for the first year (ie the year after the balance sheet date) reflects the rate of actual cost increases seen in recent years The ultimate trend rate reflects our long-term expectations of what cost inflation will stabilise at based on past healthcare cost inflation seen over a longer period of time The assumed future healthcare cost tiend rate assumptions are as follows

	2012	2011	2010
Initial healthcare cost trend rate	6 0	6 0	7 0
Ultimate healthcare cost trend rate	6 6	4 7	4 7
Year in which ultimate trend rate is reached	2016	2014	2014

The assumed healthcare cost trend rate has a significant effect on the amounts reported A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects

	One percentage point	
	Increase £ million	Decrease £ million
Effect on post-retirement obligation at 31 December 2012	2 7	2 5

Analysis of the amount charged to other finance income

	2012 £ million	2011 £ million
Interest on pension plan liabilities	1	1

LUBRICANTS UK LIMITED

NOTES TO THE ACCOUNTS

25. Other post-retirement benefits (continued)

Analysis of the amount recognised in the statement of total recognised gains and losses

	2012 £ million	2011 £ million
Experience gains and losses on liabilities	-	-
Changes in assumptions	(20)	(1)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(20)	(1)

Movement in deficit during the year

	2012 £ million	2011 £ million
Deficit in scheme at 1 January	(20)	(20)
Movement in year.		
Interest on other post-retirement benefit liabilities	(1)	(1)
Benefit Payments	2	2
Actuarial loss	(20)	(1)
Deficit in scheme at 31 December	(39)	(20)

History of deficit and of experience gains and losses

£ million	2012	2011	2010	2009	2008
Benefit obligation at 31 December	(39)	(20)	(20)	(20)	(18)
Experience gains and losses on plan liabilities	-	-	-	-	(2)
Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses	(20)	(1)	-	(2)	(2)
Cumulative amount recognised in Statement of Total Recognised Gains and Losses	(26)	(6)	(5)	(5)	(3)

26. Contingent liability

The Environmental Agency (EA) has determined that the company is liable for remediation works at a former site The extent of the company's potential liability remains uncertain until the results of the initial inspection and tests to ascertain the extent of necessary remediation works are received. Consequently. no provision has been made in these accounts In the meantime, the EA remains accountable for the management of contamination issues at the site

27. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is Burmah Castrol PLC, 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 1 St James's Square, London, SW1Y 4PD