# BP EASTERN MEDITERRANEAN LIMITED
(Registered No. 02239062)

## ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors
C Lambrou
D I Gilmour
J J Carey
D C Goosey
L P Waterman

## REPORT OF THE DIRECTORS

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

### Results and dividends

The profit for the year after taxation was £2,320,589, which, when added to the retained profit brought forward at 1 January 2012 of £2,223,218 together with exchange adjustments and an actuarial loss taken directly to reserves of £9,651 and £450,043 respectively, gives a total retained profit carried forward at 31 December 2012 of £4,084,113

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 engaged in the purchasing and selling of petroleum products in Cyprus It also provides services to other group undertakings within the BP group

The company has had a satisfactory year and the directors believe that the trend will continue

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

| | 2012 | 2011 | Variance |
|---|---|---|---|
| | £ | £ | % |
| Turnover | 104,303,029 | 115,455,324 | (10) |
| Operating profit | 2,760,237 | 3,107,681 | (11) |
| Profit after taxation | 2 320 589 | 2,412,683 | (4) |
| Shareholders' funds | 9,304 115 | 7,443,220 | 25 |

| | 2012 | 2011 | Variance |
|---|---|---|---|
| | % | % | % |
| Quick ratio* | 151 | 60 | 152 |

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

The main factors contributing to the decreased turnover and operating profit is the decrease in sales volume of aviation fuel and lubricants

## BP EASTERN MEDITERRANEAN LIMITED

## REPORT OF THE DIRECTORS

**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)

**Gulf of Mexico oil spill**

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

**Principal risks and uncertainties (continued)**

**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

Periods of global recession could impact the demand for the company's products, the prices at which they can be sold and affect the viability of the markets in which the company operates.

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

The global financial and economic situation may have a negative impact on third parties with whom 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

***Climate change and carbon pricing***

Compliance with changes in laws, regulations and obligations relating to climate change could result in substantial capital expenditure, taxes, reduced profitability from changes in operating costs, and revenue generation and strategic growth opportunities being impacted.

***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, and is seeking new opportunities, 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

**Principal risks and uncertainties (continued)**

**Strategic and commercial risks (continued)**

***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 competitors offer superior terms for access rights or licences, 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.

**Compliance and control risks**

***Regulatory***
Due to the Gulf of Mexico oil spill, it is likely that there will be more stringent regulation of the BP group's oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new drilling areas

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

In addition, the oil industry in general is subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalisation, expropriation, cancellation or non-renewal of contract rights

Failure to respond to changes in trading regulations could result in regulatory action and damage to the company's reputation The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law As a result of new laws and regulations or other factors, the company could be required to curtail or cease certain operations, or could incur additional costs

## BP EASTERN MEDITERRANEAN LIMITED

## REPORT OF THE DIRECTORS

**Principal risks and uncertainties (continued)**

**Compliance and control risks (continued)**

***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 In addition, in many of the company's major projects and operations, risk allocation and management is shared with third parties, such as contractors, sub-contractors, joint venture partners and associates.

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)**

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

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

*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

## Principal risks and uncertainties (continued)

### Financial risk management (continued)

***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.

***Liquidity risk***

Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available This risk is managed by the BP group on the company's behalf and as such the company has access to the resources of the group The group has long-term debt ratings of A2 (stable outlook) assigned by Moody's consistently throughout the year and A (positive outlook) assigned by Standard & Poor's since July 2012, strengthened from A (stable outlook) in force at the start of the year

## Future developments

The directors aim to maintain the management policies which have resulted in the company's growth in recent years They believe that the company is in a good position to take advantage of any opportunities which may arise in the future

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

## Post balance sheet events

Please refer to note 24 for information on post balance sheet events concerning the current economic conditions in Cyprus

## BP EASTERN MEDITERRANEAN LIMITED

## REPORT OF THE DIRECTORS

**Directors**

The present directors are listed on page 1

M Johnson, D I Gilmour, C Lambrou and J J Carey served as directors throughout the financial year. Changes since 1 January 2012 are as follows

| | Appointed | Resigned |
|---|---|---|
| D C Goosey | 01 November 2012 | - |
| L P Waterman | 22 July 2013 | - |
| L Tedesco | - | 31 October 2012 |
| M Johnson | - | 22 July 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

**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 nil

**Auditors**

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

**BP EASTERN MEDITERRANEAN LIMITED**

**REPORT OF THE DIRECTORS**

**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

26 September 2013

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

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

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts

## BP EASTERN MEDITERRANEAN LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BP EASTERN MEDITERRANEAN LIMITED

We have audited the financial statements of BP Eastern Mediterranean Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the accounting policies and the related notes 1 to 24 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 auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

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 the 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 profit 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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company 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
26 September 2013

## BP EASTERN MEDITERRANEAN LIMITED

## ACCOUNTING POLICIES

**Accounting standards**

The financial statements of BP Eastern Mediterranean Limited were approved for issue by the Board of Directors on 20 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

**Revenue recognition**

Revenue arising from the sale of fuels and lubricants 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 euros by applying the exchange rate ruling on the date of transaction Foreign currency monetary assets and liabilities are translated into euros at the rate of exchange ruling at the balance sheet date Exchange differences are included in the profit and loss account

In order to present the accounts in sterling, the presentation currency of the accounts, the assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date The profit and loss account is translated into sterling using average rates of exchange Exchange differences arising on this translation are reported in the statement of total recognised gains and losses

**Capitalisation of finance costs and interest**

Interest costs are not capitalised and are charged in the profit and loss account in the year in which they are incurred.

**Interest income**

Interest income is recognised on an accruals basis

## BP EASTERN MEDITERRANEAN LIMITED

## ACCOUNTING POLICIES

**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

**Maintenance expenditure**

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalised All other maintenance costs are expensed as incurred

**Impairment of tangible fixed assets**

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

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

# BP EASTERN MEDITERRANEAN LIMITED

## ACCOUNTING POLICIES

**Stock valuation**

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

**Trade and other debtors**

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

**Trade and other creditors**

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

**Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as 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

## BP EASTERN MEDITERRANEAN LIMITED

## ACCOUNTING POLICIES

### 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

### Leases

Assets held under leases which transfer to the company substantially all risks and rewards incidental to ownership of the leased item are classified as finance leases, and are capitalised at inception of the lease at the fair value of the leased property or, if significantly lower, at the estimated present value of the minimum lease payments Lease payments are apportioned between the finance charges and the reduction of the lease liability The total finance charge is charged over the lease term so as to achieve a constant rate of interest on the remaining balance of the liability

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term

All other lease arrangements are classified as operating leases Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

### 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

# BP EASTERN MEDITERRANEAN LIMITED

## ACCOUNTING POLICIES

**Pensions**

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

**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

## BP EASTERN MEDITERRANEAN LIMITED

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2012

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **Turnover** | 1 | 104,303,029 | 115,455,324 |
| Cost of sales | | (95,686,823) | (105,483,497) |
| **Gross profit** | | 8,616,206 | 9,971,827 |
| Distribution and marketing expenses | | (5,855,969) | (6,864,146) |
| **Operating profit** | 2 | 2,760,237 | 3,107,681 |
| Reorganisation / restructuring costs | 5 | - | (207,443) |
| **Profit on ordinary activities before interest and taxation** | | 2,760,237 | 2,900,238 |
| Interest payable and similar charges | 6 | (92,010) | (202,410) |
| Interest receivable and similar income | 7 | 44,163 | 43,354 |
| Other finance expense | 8 | (108,447) | (49,553) |
| **Profit before taxation** | | 2,603,943 | 2,691,629 |
| Taxation | 9 | (283,354) | (278 946) |
| **Profit for the year** | | 2,320,589 | 2,412,683 |

The profit of £2 320,589 for the year ended 31 December 2012 was derived in its entirety from continuing operations Comparative information is provided in note 4

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

| | 2012 £ | 2011 £ |
|---|---|---|
| **Profit for the year** | 2,320,589 | 2,412,683 |
| Actuarial loss relating to pensions and other post-retirement benefits - gross | (500,048) | (878,267) |
| - related tax | 50 005 | 87,827 |
| Currency translation differences | (9,651) | (42,219) |
| **Total recognised gains for the year** | 1,860,895 | 1,580,024 |

## BP EASTERN MEDITERRANEAN LIMITED
## (Registered No. 02239062)

## BALANCE SHEET AT 31 DECEMBER 2012

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 11 | 972,796 | 1,412,088 |
| **Current assets** | | | |
| Stocks | 12 | 6,768,782 | 7,361,780 |
| Debtors – amounts falling due | | | |
| within one year | 13 | 9,703,148 | 7,233,834 |
| after one year | 13 | - | 6,252,840 |
| Cash at bank and in hand | | 636,036 | 1,840,409 |
| | | 17,107,966 | 22,688,863 |
| **Creditors** - amounts falling due within one year | 14 | (6,869,809) | (15,183,736) |
| **Net current assets** | | 10,238,157 | 7,505,127 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 11,210,953 | 8,917,215 |
| **Provisions for liabilities and charges** | | | |
| Deferred tax | 9 | (10,877) | (19,272) |
| **Net assets excluding pension and other post-retirement benefits balances** | | 11,200,076 | 8,897,943 |
| Pension scheme liabilities | 21 | (574,354) | (278,108) |
| Other post-retirement benefits liabilities | 22 | (1,321,607) | (1,176,615) |
| **NET ASSETS** | | 9,304,115 | 7,443,220 |
| **Represented by** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 16 | 5,220,002 | 5,220,002 |
| Profit and Loss account | 17 | 4,084,113 | 2,223,218 |
| **SHAREHOLDERS' FUNDS – EQUITY INTEREST** | | 9,304,115 | 7,443,220 |

On behalf of the Board

D C Goosey
Director
26 September 2013

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 1. Turnover

Turnover is stated net of value added tax and associated petroleum revenue duties and taxes and it represents amounts invoiced to third parties

An analysis of turnover by geographical market is given below

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| By geographical area | | |
| UK | - | - |
| Rest of Europe | 99,060,216 | 109,129,492 |
| Rest of World | 5,242,813 | 6,325,832 |
| Total | 104,303,029 | 115,455,324 |

Turnover is attributable to continuing operations (note 4), related to the production and selling of petroleum products

### 2. Operating profit

This is stated after charging / (crediting)

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Hire charges under operating leases | | |
| Land & buildings | 188,493 | 202,948 |
| Plant & machinery | 558,722 | 629 534 |
| Currency exchange losses / (gains) | 347,229 | (191,150) |
| Depreciation of owned tangible fixed assets | 317,774 | 414,931 |
| Impairment of fixed assets | - | 281 942 |

### 3. Auditor's remuneration

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Fees for the audit of the company | 37,646 | 43,974 |

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

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 4. Discontinued operations – comparative figures

The analysis between continued and discontinued operations for the year ended 31 December 2011 is shown below No further activities were discontinued during the year ended 31 December 2012.

| | 2011 Continuing operations £ | 2011 Discontinued operations £ | 2011 Total £ |
|---|---|---|---|
| Turnover | 115,210,019 | 245,305 | 115,455,324 |
| Cost of sales | (105,408,539) | (74,958) | (105,483,497) |
| **Gross profit** | 9,801,480 | 170,347 | 9,971,827 |
| Distribution and marketing expenses | (6,370,774) | (493,372) | (6,864,146) |
| **Operating profit** | 3,430,706 | (323,025) | 3,107,681 |
| Reorganisation / restructuring costs | (238,136) | 30,693 | (207,443) |
| **Profit on ordinary activities before interest and tax** | 3,192,570 | (292,332) | 2,900,238 |

Discontinued operations concern the commercial fuels business which management decided to terminate on 31 December 2010 and was actually terminated by 31 March 2011 Separately identifiable assets and liabilities concerning commercial fuels discontinued operations, which were not absorbed by continuing operations, were impaired in 2011

### 5. Exceptional items

| | 2012 £ | 2011 £ |
|---|---|---|
| Fundamental reorganisation and restructuring costs | - | 207,443 |

Exceptional items comprise of fundamental reorganisation and restructuring costs incurred in the prior year in respect of redundancies

### 6. Interest payable and similar charges

| | 2012 £ | 2011 £ |
|---|---|---|
| Interest on loans from group undertakings | 43,762 | 144,584 |
| Non-group bank interest and charges | 48,248 | 57,826 |
| | 92,010 | 202,410 |

BP EASTERN MEDITERRANEAN LIMITED

NOTES TO THE ACCOUNTS

## 7. Interest receivable and similar income

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Bank and other interest | 8,380 | 10,082 |
| Interest on deposit account with group undertaking | 35,783 | 33,272 |
| | 44,163 | 43,354 |

## 8. Other finance expense

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Interest on pension and other post-retirement benefits plan liabilities | 424,123 | 459,765 |
| Expected return on pension assets | (315,676) | (410,212) |
| | 108,447 | 49,553 |

## 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 tax charge is made up as follows

| | 2012 | 2011 |
|---|---|---|
| Current tax | £ | £ |
| Overseas tax on income for the year | 293,685 | 301,708 |
| Total current tax charged | 293,685 | 301,708 |
| | | |
| Deferred tax | | |
| Origination and reversal of timing differences | (10,331) | (22,762) |
| Total deferred tax credited | (10,331) | (22,762) |
| | | |
| Tax charged on profit on ordinary activities | 283 354 | 278,946 |

## 9. Taxation (continued)

### (a) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower 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 |
|---|---|---|
| | £ | £ |
| Profit on ordinary activities before tax | 2,603,943 | 2,691,629 |
| Current taxation | 293,685 | 301,708 |
| Effective current tax rate | 11% | 11% |

| | 2012 | 2011 |
|---|---|---|
| | % | % |
| UK corporation tax rate | 24 | 26 |
| Increase / (decrease) resulting from | | |
| Fixed asset timing differences | 1 | 4 |
| Other timing differences | 2 | - |
| Current overseas tax | 11 | 11 |
| Double tax relief | (11) | (11) |
| Free group relief | (16) | (19) |
| Effective current tax rate | 11 | 11 |

The permanent and timing difference shown in the current tax rate reconciliation above are those that arise for UK corporation tax purposes, rather than overseas tax purposes

### (b) Deferred tax

The deferred tax included in the balance sheet is as follows

| *Provision for deferred tax* | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Accelerated capital allowances | 10,877 | 19,272 |
| | 10,877 | 19,272 |

| | 2012 |
|---|---|
| | £ |
| At 1 January 2012 | 19,272 |
| Exchange adjustments | 1,936 |
| Credited to the profit and loss account | (10,331) |
| At 31 December 2012 | 10,877 |

9. **Taxation (continued)**

**(b) Deferred tax (continued)**

| *Deferred tax asset relating to pension and other post-retirement benefit liabilities* | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Pensions (note 21) | 63,818 | 30,902 |
| Other post-retirement benefits (note 22) | 146,846 | 130,735 |
| | 210,664 | 161,637 |

| | 2012 |
|---|---|
| | £ |
| At 1 January 2012 | 161,637 |
| Exchange adjustments | (978) |
| Deferred tax credited to the statement of total recognised gains and losses | 50,005 |
| At 31 December 2012 | 210,664 |

The deferred tax asset of £210,664 (2011 £161,637) has been deducted in arriving at the net pension deficit and other post-retirement benefit liabilities on the balance sheet

10. **Directors and employees**

(a) Remuneration of directors

The total remuneration for all serving directors for their period of directorship to the company amounted to £108,695 (2011 £132,500) A number of directors are senior executives of the BP Plc Group and received no remuneration for services to this company or its subsidiary undertakings

(b) Employee costs

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Wages and salaries | 1,625,449 | 1,777,103 |
| Social insurance and similar costs | 175,200 | 190,893 |
| Pension costs | 198,037 | 175,013 |
| Share based payment charge | 18 393 | 22,246 |
| Other benefits and contributions | 55,625 | 59,190 |
| Redundancies | - | 207,443 |
| | 2 072 704 | 2,431 888 |

(c) The average monthly number of employees during the year was 41 (2011 42)

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 11. Tangible assets

| | Land & Buildings | Computer software and hardware | Plant & machinery | Total | Of which AUC* |
|---|---|---|---|---|---|
| **Cost** | £ | £ | £ | £ | £ |
| At 1 January 2012 | 52,114 | 664,883 | 4,181,803 | 4,898,800 | 16,647 |
| Exchange adjustments | (1,282) | (16,352) | (102,851) | (120,485) | (410) |
| Additions | - | 4,479 | 78,691 | 83,170 | 34,125 |
| Disposals | - | - | (207,145) | (207,145) | - |
| Transfers | - | - | - | - | (41,268) |
| At 31 December 2012 | 50,832 | 653,010 | 3,950,498 | 4,654,340 | 9,094 |
| **Depreciation and impairment** | | | | | |
| At 1 January 2012 | 37,575 | 649,211 | 2,799,926 | 3,486,712 | - |
| Exchange adjustments | (875) | (15,893) | (65,892) | (82,660) | - |
| Charge for the year | 5,034 | 7,682 | 305,058 | 317,774 | - |
| Disposals | - | - | (40,282) | (40,282) | - |
| At 31 December 2012 | 41,734 | 641,000 | 2,998,810 | 3,681,544 | - |
| **Net book value** | | | | | |
| At 31 December 2012 | 9,098 | 12,010 | 951,688 | 972,796 | 9,094 |
| At 31 December 2011 | 14,539 | 15,672 | 1,381 877 | 1,412,088 | 16,647 |
| Principal rates of depreciation | 10% | 25 - 33% | 10% | | |

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

The net book value of land and buildings comprises

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Long leasehold | 9,098 | 14,539 |

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 12. Stocks

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Raw materials and consumables - lubricants | 77 | 118 |
| Finished goods and goods for resale - fuels and lubricants | 6,768,705 | 7,361,662 |
| | 6,768,782 | 7,361,780 |

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

### 13. Debtors

| | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| | Within 1 year | After 1 year | Within 1 year | After 1 year |
| | £ | £ | £ | £ |
| Trade debtors | 3,781,152 | - | 4,596,053 | - |
| Amounts owed by group undertakings | 4,982,642 | - | 1,097,951 | 6,252,840 |
| Other debtors | 135,403 | - | 367,627 | - |
| Prepayments and accrued income | 745,918 | - | 907,525 | - |
| VAT recoverable | 58,033 | - | 264,678 | - |
| | 9,703,148 | - | 7,233,834 | 6 252,840 |

### 14. Creditors

| | 2012 | 2011 |
|---|---|---|
| | Within 1 year | Within 1 year |
| | £ | £ |
| Trade creditors | - | 122,341 |
| Amounts owed to group undertakings | 5,772,764 | 13 579,501 |
| Accruals and deferred income | 373,841 | 648,716 |
| Other creditors | 585,569 | 771,414 |
| Taxation payable | 137,635 | 61 764 |
| | 6,869,809 | 15,183,736 |

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 15. Obligations under leases

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

| | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| | Land and Buildings | Plant and Machinery | Land and Buildings | Plant and Machinery |
| | £ | £ | £ | £ |
| Operating leases which expire | | | | |
| Within 1 year | 227,807 | 335,363 | 228,663 | 607,090 |
| Between 2 to 5 years | - | 2,663 | - | 2,730 |
| Thereafter | - | - | - | - |
| | 227,807 | 338,026 | 228,663 | 609,820 |

### 16. Called up share capital

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Allotted, called up and fully paid. | | |
| 5,220,002 Ordinary shares of £1 each for a total nominal value of £5,220 002 | 5,220,002 | 5,220 002 |

### 17. Capital and reserves

| | Called up share capital | Profit and loss account | Total |
|---|---|---|---|
| | £ | £ | £ |
| At 1 January 2012 | 5,220,002 | 2,223,218 | 7,443,220 |
| Currency translation differences | - | (9,651) | (9,651) |
| Profit for the year | - | 2,320,589 | 2,320,589 |
| Actuarial loss, net of tax | - | (450,043) | (450 043) |
| At 31 December 2012 | 5,220,002 | 4,084,113 | 9,304,115 |

### 18. Reconciliation of movements in shareholders' funds

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| Profit for the year | 2,320,589 | 2 412,683 |
| Currency translation differences | (9,651) | (42,219) |
| Actuarial loss, net of tax | (450,043) | (790,440) |
| Net increase in shareholders' funds | 1,860,895 | 1,580 024 |
| Shareholders' funds at 1 January | 7,443 220 | 5,863,196 |
| Shareholders' funds at 31 December | 9 304 115 | 7,443 220 |

## 19. Contingent liabilities

*Customs case*

In 2007, the company received a claim by the Customs & Excise Department in Cyprus for the amount of £711,286 plus a penalty of £71,129 and interest at a rate of 9% per annum, regarding the supply of Jet-A1 fuel to one of its customers on which no VAT and excise duty was charged during the period 1 May 2004 to 30 September 2007

On 25 October 2010, the Court decided that VAT should be charged but excise duty should not be charged. Both the Customs & Excise Department and the customer appealed this decision. The case is still pending. The directors of the company believe that no outflow of resources embodying economic benefits are expected in respect of this claim and accordingly no provision for any liability has been made in these accounts

*Parnas case*

In 2012, the company received a claim by Parnas Ltd for the amount of £1,412,620 (NIS 8,521,068) plus court expenses and legal fees due to alleged breach of agreement by the company regarding distribution rights of Parnas Ltd for the sale of the company's products in Israel. The company rejects the allegations of Parnas Ltd since the company did not sign an exclusivity agreement with Parnas Ltd. The case is in the preliminary stage of the proceedings The directors of the company believe that no outflow of resources embodying economic benefits are expected in respect of this claim and accordingly no provision for any liability has been made in these accounts

*Other contingent liabilities*

In addition, the company is contingently liable in respect of guarantees and indemnities provided to third parties of £1,065,541 (2011 £1,107,501) entered into as part of the ordinary course of the company's business

Further to the above, there are a number of claims made against the company arising from the ordinary course of its business from which no material losses are likely to arise.

## 20. 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

## 21. Pensions

The retirement benefit schemes comprise of one scheme of a defined contribution type and three schemes of an overall defined benefit type

The charge to the profit and loss account during the year for the defined contribution scheme amounted to £50,114 (2011 £55 338)

"The Non Contributory Pension Fund" is the main retirement defined benefit scheme and provides benefits based on final pensionable pay The assets of the scheme are held separately from those of the company, the majority of which are invested with financial institutions

The company has commissioned an actuarial valuation of its scheme liabilities as at 31 December 2012 The valuation was carried out by a qualified independent actuary on an on-going valuation basis using the projected unit credit valuation method

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

**21. Pensions (continued)**

The pension assumptions are set out below The assumptions used to evaluate accrued pension benefits at 31 December in the year are used to determine pension expense for the following year, that is, the assumptions at 31 December 2012 are used to determine the pension liabilities at that date and the pension cost for 2013

| | 2012 | 2011 |
|---|---|---|
| | % p a. | % p a. |
| Price inflation | 2.0 | 2 0 |
| Total salary increases | 4 0 | 4 5 |
| Discount rate | 3.5 | 5 1 |
| Pension increases | | |
| - up to 2016 | 0 | 2 0 |
| - from 2017 | 2.0 | 2 0 |
| Expected return on assets | 4 18 | 4 57 |

Under the current scheme rules, there is no obligation to grant increases to pensions. The company had previously decided to provide the discretionary practice of pension increases in line with the inflation for previous years, and therefore was accounting for this assumption in its actuarial valuation of prior years However, due to recent legislation voted by Parliament in Cyprus, in order to comply with the Cyprus Bail-out Programme signed by the Government and the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) - the so called 'Troika' - which puts into suspension any Cost of Living Allowance (COLA) increases on salaries and pensions in the public sector and the broader public sector for the years 2012 -2016, the company has also decided not to provide any pension increases for the years 2012-2016, in line with the above mentioned legislation and the Social Insurance Department decision on state pensions It is also agreed that as from 2017, the method of calculating and the timescale of payment of the COLA will be reviewed and amended by the Government It should be noted that the company's intention is to continue to provide the discretionary practice pension increases from 2017 onwards, in line with any amendments that will be implemented by the Government to the method and time of calculating the COLA for the public and broader public sector

The valuation showed that the value of the company's scheme liabilities as at 31 December 2012 was £7,488,189 (2011 £7,664,315) The deficit in the company's schemes as at 31 December 2012, net of related deferred tax and as measured in accordance with the requirements of FRS17, is estimated at £574,354 (2011 deficit £278,108), as follows

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Reconciliation of plan deficit to balance sheet* | | |
| Total market value of assets | 6,850 017 | 7,355,305 |
| Present value of scheme liabilities | (7,488,189) | (7 664,315) |
| Deficit at 31 December | (638,172) | (309,010) |
| Related deferred tax asset | 63 818 | 30,902 |
| **Liability recognised in the balance sheet** | (574 354) | (278,108) |

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

**21. Pensions (continued)**

The market values of the various categories of assets held by the pension plan at 31 December are set out below

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Fair value of plan assets* | | |
| Property | 1,773,604 | 1,997,652 |
| Equities | 1,289,207 | 999,708 |
| Bonds | 2,949,808 | 1,132,988 |
| Cash | 837,398 | 3,224,957 |
| Fair value of plan assets 31 December | 6,850,017 | 7,355,305 |

According to the 2012 actuarial valuation, the total funding contribution rate for the future years is estimated at 14 6% of pensionable pay (2011 15 8%), assuming that discretionary pension increases of 2% will be payable from 2017 onwards

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Analysis of the amount charged to operating profit* | | |
| Current service cost | 105,004 | 131,906 |
| Total operating charge | 105,004 | 131,906 |

| | 2012 | 2011 |
|---|---|---|
| *Analysis of the amount charged/(credited) to other finance expense/(income)* | | |
| Expected return on pension scheme assets | (315,676) | (410,213) |
| Interest on pension scheme liabilities | 361 667 | 396,863 |
| Other finance expense/(income) | 45,991 | (13 350) |

| | 2012 | 2011 |
|---|---|---|
| *Analysis of amount recognised in statement of total recognised gains and losses (STRGL)* | | |
| Actual return less expected return on pension scheme assets | (50 662) | (643 706) |
| Experience gains/(losses) arising on the schemes liabilities | 136 072 | (271,480) |
| Changes in assumptions underlying the present value of scheme liabilities | (420,145) | 68,842 |
| Actuarial loss recognised in the STRGL | (334 735) | (846,344) |

# BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 21. Pensions (continued)

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Movement in the benefit obligation during the year* | | |
| Benefit obligation on 1 January | 7,664,315 | 7,997,485 |
| Exchange adjustment | (188,384) | 11,273 |
| Current service cost | 105,004 | 131,906 |
| Interest cost | 361,667 | 396,863 |
| Benefit payments | (738,486) | (1,075,850) |
| Actuarial loss on obligation | 284,073 | 202,638 |
| Benefit obligation at 31 December | 7,488,189 | 7,664,315 |
| *Movements in the fair value of plan assets during the year* | | |
| Fair value of plan assets at 1 January | 7,355,305 | 8,506,125 |
| Exchange adjustment | (184,034) | 38,972 |
| Expected return on plan assets | 315,676 | 410,213 |
| Contributions by employer | 152,218 | 119,551 |
| Benefit payments | (738,486) | (1,075,850) |
| Actuarial loss on plan assets | (50,662) | (643,706) |
| Fair value of plan assets 31 December | 6 850,017 | 7,355,305 |
| Deficit at 31 December | (638,172) | (309,010) |

| *History of experience gains and losses* | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| *Difference between expected and actual return on scheme assets* | | | | | |
| Amount (£) | (50,662) | (643,706) | (920,068) | 438,050 | (2,304,819) |
| Percentage of scheme assets | (0 7)% | (8 8)% | (10 5)% | 4 3% | (26 1)% |
| *Experience gains/(losses) on scheme liabilities* | | | | | |
| Amount (£) | 136,072 | (271 480) | 251,041 | (32 022) | 12 213 |
| Percentage of scheme liabilities | 1 8% | (3 5)% | 3 1% | (0 4)% | 0 2% |
| *Total amount recognised in STRGL* | | | | | |
| Amount (£) | (334,735) | (846,344) | 1 156 804 | 406,028 | (1,766,458) |
| Percentage of scheme liabilities | (4 5)% | (11 0)% | 14 1% | 4 8% | (23 1)% |

## BP EASTERN MEDITERRANEAN LIMITED

## NOTES TO THE ACCOUNTS

### 22. Other post-retirement benefits

The company provides post-retirement medical benefits to its retired employees and dependants The cost of providing post-retirement benefits is assessed by independent actuaries using the projected unit method. The date of the latest actuarial valuation was 31 December 2012

The key financial assumptions used for the medical fund are set out below. The assumptions used to evaluate medical fund benefits at 31 December in the year are used to determine medical fund expense for the following year, that is, the assumptions at 31 December 2012 are used to determine the medical fund liabilities at that date and the medical fund cost for 2013.

| | 2012 | 2011 |
|---|---|---|
| | % p a | % p a |
| Discount rate | 3 5 | 5 1 |
| Medical inflation rate | 3 5 | 3 5 |
| Medical incidence claim increase | 1 5 | 1 5 |
| Price inflation | 2 0 | 2 0 |

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Reconciliation of plan deficit to balance sheet* | | |
| Total market value of assets | - | - |
| Present value of scheme liabilities | (1,468,453) | (1,307,350) |
| Deficit at 31 December | (1,468,453) | (1,307,350) |
| Related deferred tax asset | 146,846 | 130,735 |
| Liability recognised in the balance sheet | (1 321,607) | (1 176,615) |
| *Analysis of the amount charged to operating profit* | | |
| Current service cost | 19,444 | 19,014 |
| Total operating charge | 19,444 | 19,014 |
| *Analysis of the amount charged to other finance expense* | | |
| Interest on scheme liabilities | 62,456 | 62 902 |
| Other finance expense | 62,456 | 62 902 |
| *Analysis of amount recognised in statement of total recognised gains and losses (STRGL)* | | |
| Experience gains/(losses) arising on the scheme liabilities | 115,654 | (48,662) |
| Changes in assumptions underlying the present value of scheme liabilities | (280,967) | 16,739 |
| Actuarial loss recognised in STRGL | (165,313) | (31 923) |

## 22. Other post-retirement benefits (continued)

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| *Movement in the benefit obligation during the year* | | |
| Benefit obligation on 1 January | 1,307,350 | 1,289,919 |
| Exchange adjustment | (30,297) | (37,441) |
| Current service cost | 19,444 | 19,014 |
| Interest cost | 62,456 | 62,902 |
| Benefit payments | (55,813) | (58,967) |
| Actuarial loss on obligation | 165,313 | 31,923 |
| Benefit obligation at 31 December | 1,468,453 | 1,307,350 |

| *History of experience gains and losses* | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| *Experience gains / (losses) on scheme liabilities* | | | | | |
| Amount (£) | 115,654 | (48,662) | 12,986 | (57,905) | (57,905) |
| Percentage of scheme liabilities | 7 9% | (3 7)% | (1 0%) | (4 8)% | (4 8)% |
| *Total amount recognised in STRGL* | | | | | |
| Amount (£) | (165,313) | (31,923) | (104,944) | (57,905) | (57,905) |
| Percentage of scheme liabilities | (11 3)% | (2 4)% | (8 1)% | (4 8)% | (4 8)% |

## 23. Immediate and ultimate parent undertaking

The immediate and 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

## 24. Post balance sheet events

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected

The negotiations of the Cyprus Government with the European Commission the European Central Bank and the International Monetary Fund (the 'Troika'), in order to obtain financial support, resulted in an agreement and decision of the Eurogroup on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion The programme aims to address the exceptional economic challenges that Cyprus is facing, and to restore the viability of the financial sector, with a view to restoring sustainable economic growth and sound public finances in the coming years

Cyprus and the Troika reached an agreement on the final terms of a memorandum of understanding in order to implement the agreement The memorandum was approved on 12 April 2013 and the first inflow of funds was in May 2013

**24. Post balance sheet events (continued)**

The package of measures includes the following

- Restructuring the financial sector As part of the agreement with Eurogroup, Cyprus local banks disposed of their Greek operations The main terms of the program include the resolution of Cyprus Popular Bank (Laiki) and the recapitalisation of Bank of Cyprus (BoC) All 'insured depositors' (deposits of less than €100,000) in all banks are fully protected in accordance with the relevant EU legislation.
- Temporary restrictions on money transfers The Cypriot authorities have introduced short term administrative measures, appropriate in light of the present unique and exceptional situation of Cyprus's financial sector and which allowed for the reopening of the banks These administrative measures include restrictions on cash withdrawals, compulsory renewal of maturing deposits and restrictions on capital movements The measures are temporary and are constantly being revised and relaxed
- Tax and other fiscal measures One of the measures is the increase in the corporate income tax rate from 10% to 12 5% as of 1 January 2013

The company's cash held with banks that is affected from the above measures amounted to €49,110 as at the relevant date for implementation of the decisions Based on information available until the date of issue of the financial statements, there is a significant risk that part of these funds will not be recoverable Management is not able to estimate the amount of potential losses at the date of approval of these financial statements, however it does not consider this amount to be significant

Furthermore, the proposals detailed above and the current situation of the economy in Cyprus could affect the company's customers and suppliers and consequently the company's operations and its recoverability of trade debtor balances Since this is a non-adjusting post balance sheet event, any associated impairment has not been assessed in this reporting period

The company's management is currently unable to predict all developments which could have an impact on the Cyprus economy and consequently what effect, if any, they could have on the future financial performance, cash flows and financial position of the company However, the company's management believes that it is taking all the necessary measures for the development of its business in the current business and economic environment