BP GAS MARKETING LIMITED

Registered No 00908982

ANNUAL REPORT AND ACCOUNTS 2012

Board of Directors A H Haywood
P J Reed
D W Knipe

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 £183,087,000 which, when added to the retained deficit brought forward at 1 January 2012 of £556,600,000 together with exchange adjustments taken directly to reserves of £51,895,000, gives a total retained deficit carried forward at 31 December 2012 of £791,582,000

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

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

	2012	2011	Variance
	£000	£000	%
Turnover	4,454,319	3,005,050	48
Operating loss	(177,754)	(150,744)	18
Loss after taxation	(183,087)	(154 572)	18
Shareholders' funds	273,970	508,952	(46)

	2012	Restated 2011	Variance
	%	%	
Quick ratio*	106	118	12

*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, compliance and control, safety and operational, and financial risk management In addition, we have also set out two

Principal risks and uncertainties (continued)

further categories of risk for your attention – those resulting from the 2010 Gulf of Mexico oil spill (the Incident) and those related to the general macroeconomic outlook.

Gulf of Mexico oil spill

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

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 risks

Access and renewal

Successful execution of the company's strategy depends on implementing activities to renew and reposition its portfolio The challenges to renewal of the company's upstream portfolio are growing due to increasing competition for access to opportunities globally and heightened political and economic risks in certain countries where significant hydrocarbon bases are located Lack of material positions in new markets could impact the company's future hydrocarbon production.

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

Prices and markets

Oil, gas and product prices are subject to international supply and demand Political developments and the outcome of meetings of OPEC can particularly affect world supply and oil prices. Previous oil price

Principal risks and uncertainties (continued)

Strategic Risks (continued)

Prices and markets (continued)

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.

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

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

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)

Strategic Risks (continued)

Business continuity and disaster recovery
Contingency plans are required to continue or recover operations following a disruption or incident. Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect business and operations

Crisis management
Crisis management plans and capability are essential to deal with emergencies at every level of the company's operations If the company does not respond, or is perceived not to respond, in an appropriate manner to either an external or internal crisis, its business and operations could be severely disrupted

People and capability
Successful recruitment of new staff, employee training, development and continuing enhancement of skills are key to implementing the company's plans Inability to develop human capacity and capability, both across the organisation and in specific operating locations, could jeopardise performance delivery The company relies on recruiting and retaining high-quality employees to execute its strategic plans and to operate its business The reputational damage suffered by the company as a result of the Incident and any consequent adverse impact on its business could affect employee recruitment and retention.

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.

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

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

Following the Gulf of Mexico oil spill, Moody's Investors Service, Standard and Poor's and Fitch Ratings downgraded the group's long-term credit ratings Since that time, the group's credit ratings have improved somewhat but are still lower than they were immediately before the Gulf of Mexico oil spill The impact that a significant operational incident can have on the group's credit ratings, taken together with the reputational consequences of any such incident, the ratings and assessments published by analysts and investors' concerns about the group's costs arising from any such incident, on-going contingencies, liquidity, financial performance and volatile credit spreads, could increase the group's financing costs and limit the group's, and consequently also the company's, access to financing.

Principal risks and uncertainties (continued)

Compliance and control risks (continued)

Treasury and trading activities (continued)
The BP group's ability to engage in its trading activities could also be impacted due to counterparty concerns about the BP group's financial and business risk profile in such circumstances Such counterparties could require that the group provide collateral or other forms of financial security for its obligations, particularly if the group's credit ratings are downgraded Certain counterparties for the group's non-trading businesses could also require that the group provide collateral for certain of its contractual obligations, particularly if the group's credit ratings were downgraded below investment grade or where a counterparty had concerns about the group's financial and business risk profile following a significant operational incident In addition, the BP group may be unable to make a drawdown under certain of its committed borrowing facilities in the event that the BP group is aware that there are pending or threatened legal, arbitration or administrative proceedings which, if determined adversely, might reasonably be expected to have a material adverse effect on its ability to meet the payment obligations under any of these facilities Credit rating downgrades could trigger a requirement for the company to review its funding arrangements with the BP pension trustees. Extended constraints on the group's ability to obtain financing and to engage in its trading activities on acceptable terms (or at all) would put pressure on the group's liquidity In addition, this could occur at a time when cash flows from business operations would be constrained following a significant operational incident, and the group could be required to reduce planned capital expenditures and/or increase asset disposals in order to provide additional liquidity, as the group did following the Gulf of Mexico oil spill This in turn could also have adverse effects for the company's own financing requirements

Further information on the risks of Treasury and Trading activities are included within the BP group Annual Report and Form 20-F for the year ended 31 December 2012

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

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, pipelines, 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.

Principal risks and uncertainties (continued)

Safety and operational risks (continued)

Transportation
All modes of transportation of hydrocarbons mvolve mherent nsks. An explosion or fire or loss of contamment of hydrocarbons or other hazardous matenal could occur dunng transportation by road, rail. sea or pipelme This is a significant nsk due to the potential impact of a release on people and the environment and given the high volumes involved

Financial risk management

The mam financial nsks faced by the company through its normal busmess activities. as well as its use of financial instruments. are market nsk, commodity pnce nsk. foreign currency exchange nsk and credit nsk. 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 appropnate 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 nsk or uncertainty ansing from possible market pnce 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 pnces will adversely affect the value of the company's financial assets, liabilities or expected future cash flows The management of such nsks 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 denvatives for nsk management purposes

Commodity price risk
The group's integrated supply and trading function uses conventional financial and commodity instruments and physical cargoes available in the related commodity markets Oil and natural gas swaps, options and futures are used to mitigate pnce nsk Power trading is undertaken using a combination of over-the-counter forward contracts and other denvative contracts including options and futures This activity is on both a standalone basis and in conjunction with gas denvatives in relation to gas-generated power margin

Foreign currency exchange risk
Fluctuations in foreign exchange rates can have significant effects on the company's reported results The company's financial assets and liabilities give nse to transactional currency exposures Such exposures anse from transactions in a currency other than the company's functional currency The management of such nsks 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 ansing from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange nsks centrally. by netting off naturally occurring opposite exposures wherever possible and then dealing with any matenal residual foreign exchange nsks 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 pnces are generally set in US dollars. while sales of refined products may be in a vanety of currencies Fluctuations in exchange rates can therefore give nse 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

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 H Haywood, P J Reed and S P Cattle served as directors throughout the financial year. Changes since 1 January 2013 are as follows

	Appointed	Resigned
S P Cattle		10/01/13
D W Knipe	20/05/13	

Directors' indemnity

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

Policy and practice on payment of creditors

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

The number of days' purchases represented by trade creditors at the year-end was 38.

BP GAS MARKETING LIMITED

REPORT OF THE DIRECTORS

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

16 September 2013

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

BP GAS MARKETING 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.

BP GAS MARKETING LIMITED

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

We have audited the financial statements of BP Gas Marketing Limited for the year ended 31 December 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 21 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 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
18 September 2013

BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Accounting standards

The financial statements of BP Gas Marketing Limited were approved for issue by the Board of Directors on 12 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, except for certain financial instruments which are accounted for at fair value (see accounting policy on derivative financial instruments below)

Statement of cash flows

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

Revenue recognition

Revenues associated with the sale of oil, natural gas liquids, liquefied natural gas, petroleum and chemical products, oil and natural gas forward sales/purchase contracts and sales/purchases of trading inventory are included on a net basis in sales and other operating revenues

Foreign currency transactions

Assets and liabilities of foreign currency branches are translated into sterling at rates of exchange ruling at the balance sheet date The profit and loss account is translated into sterling using average rates of exchange Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into sterling are taken directly to reserves and reported in the statement of total recognised gains and losses Exchange gains and losses arising on long-term foreign currency borrowings, to the extent that they are used to finance or to provide hedge against the company's foreign currency investments, are also dealt with in reserves

All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit or loss for the year

Derivative and other financial instruments

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

The company uses derivative financial instruments (derivatives) to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates, and to manage some of its margin exposure from changes in oil, natural gas and power prices

All derivatives which are held for trading purposes and all oil price and natural gas price derivatives held for risk management purposes are held on the balance sheet at fair value ('marked to market') with changes in that value recognised in earnings for the year

BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Interest

Interest is charged in the profit and loss account in the year in which it is incurred.

Interest income

Interest income is recognised on an accruals basis

Tangible fixed assets

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

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

Impairment of 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

BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Investments

All other fixed asset investments are stated in the accounts at cost less provisions for permanent diminution in value

Stock valuation

Gas and LNG awaiting regasification inventory is held at fair value LNG cargos are valued at cost to the company 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, 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

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.

BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

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 GAS MARKETING LIMITED

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£000	£000
Turnover	1	4,454,319	3,005,050
Cost of sales		(4,083,949)	(2,827,745)
Gross profit		370,370	177,305
Distribution and marketing expenses		(652,726)	(229,161)
Administration expenses		(96,753)	(123,679)
		(379,109)	(175,535)
Gain / (loss) on derivatives		201,355	24,791
Operating loss	2	(177,754)	(150,744)
Interest payable and similar charges	4	(9,633)	(9,732)
Interest receivable and similar income	5	4,300	5,904
Loss before taxation		(183,087)	(154,572)
Taxation	6	-	-
Loss for the year		(183,087)	(154,572)

The loss of £183,087,000 for the year ended 31 December 2012 was derived in its entirety from continuing operations

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

	2012	2011
	£000	£000
Loss for the year	(183,087)	(154,572)
Currency translation differences	(51,895)	70
Total recognised gains and losses for the year	(234,982)	(154,502)

BP GAS MARKETING LIMITED
Registered No 00908982
BALANCE SHEET AT 31 DECEMBER 2012

	Note	2012 £000	Restated 2011 £000
Fixed assets			
Tangible assets	8	32,715	21,562
Investments	9	7,286	-
		40,001	21,562
Current assets			
Stocks	10	134,168	69,100
Debtors – amounts falling due			
within one year	11	1,033,394	1,222,740
after one year	11	702,794	703,950
Derivatives and other financial instruments due	14		
within one year		148,479	216,133
after one year		27,065	46,163
Cash at bank and in hand		520	1,803
		2,046,420	2,259,889
Creditors: amounts falling due within one year	12	(846,875)	(783,938)
Derivatives and other financial instruments due within one year	14	(273,107)	(434,123)
Net current assets		926,438	1,041,828
TOTAL ASSETS LESS CURRENT LIABILITIES		966,439	1,063,390
Creditors: amounts falling due after more than one year	12	(209)	(1,329)
Derivatives and other financial instruments due after one year	14	(336,176)	(532,372)
Provisions for liabilities and charges			
Other provisions	15	(356,084)	(20 737)
NET ASSETS		273,970	508,952
Represented by			
Capital and reserves			
Called up share capital	16	1,065,000	1,065,000
Share premium account	17	552	552
Profit and loss account	17	(791,582)	(556,600)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		273,970	508,952

On behalf of the board

A H Haywood
Director
16 SEPTEMBER 2013

BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

An analysis of turnover by geographical market is given below

	2012	2011
	£000	£000
By geographical area		
UK	1,630,585	1,046,615
Rest of Europe	1,413,680	1,144,748
USA	60,899	25,775
Rest of World	1,349,155	787,912
Total	4,454,319	3,005,050

Turnover is attributable to one continuing activity, trading of gas and other energy products in the UK and overseas

2. Operating loss

This is stated after charging

	2012	2011
	£000	£000
Hire charges under operating leases		
Land & buildings	5,970	2,851
Currency exchange (gain) and losses	8,383	(2,237)
Depreciation of owned fixed assets	4,892	4,168

3. Auditor's remuneration

	2012	2011
	£000	£000
Fees for the audit of the company	25	40

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

4. Interest payable and similar charges

	2012	2011
	£000	£000
Interest expense on		
Loans from group undertakings	9,447	9,465
Other loans	186	267
	9,633	9,732

5. Interest receivable and similar income

	2012	2011
	£000	£000
Interest income from group undertakings	4,297	5,904
Other interest	3	-
	4,300	5,904

6. Taxation

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

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

	2012	2011
	£000	£000
Loss before taxation	(183,087)	(154,572)
Current taxation	-	-
Effective current tax rate	0%	0%

	2012	2011
	%	%
UK statutory corporation tax rate	24	26
Increase / (decrease) resulting from.		
Other timing differences	-	-
Free group relief	(24)	(26)
Effective current tax rate	-	-

7. Directors and employees

(a) Remuneration of directors

The total remuneration for all serving directors for their period of directorship to the company amounted to £295,000 (2011 £227,000) A number of directors are senior executives of the BP p.l c Group and received no remuneration for services to this company or its subsidiary undertakings

One director was a member of the defined benefit section of the BP Pension Fund at 31 December 2012. (2011. one)

The highest paid director received £295 000 (2011 £227,000) The accrued pension of the highest paid director at 31 December 2012 was £64,000 (2011 £105,000) The highest paid director did not exercise share options over BP p l c shares during the year.

BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

8. Tangible Assets

	Plant & machinery
	£000
Cost	
At 1 January 2012	53,403
Additions	16,045
At 31 December 2012	69 448
Depreciation and impairment	
At 1 January 2012	(31,841)
Charge for this year	(4,892)
At 31 December 2012	(36,733)
Net book value	
At 31 December 2012	32,715
At 31 December 2011	21,562
Principal rate of depreciation	25%

9. Investments

	2012	2011
	£000	£000
Unlisted	7,286	-
	7,286	-

10. Stocks

	2012	2011
	£000	£000
Raw materials and consumables	134,168	69,100

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

11. Debtors

	2012	2012	Restated 2011	2011
	Within 1 year	After 1 year	Within 1 year	After 1 year
	£000	£000	£000	£000
Trade debtors	737 048	-	448,128	-
Amounts owed by group undertakings	268,223	685,000	769,532	685,000
Other debtors	27,677	-	-	-
Prepayments and accrued income	446	17,794	5,080	18,950
	1,033,394	702,794	1,222,740	703,950

12. Creditors

	2012 Within 1 year £000	2012 After 1 year £000	Restated 2011 Within 1 year £000	2011 After 1 year £000
Trade creditors	688,454	-	557,567	-
Amounts owed to group undertakings	131,709	-	200,042	-
Other creditors	16,503	-	17	-
Other taxes and social security costs	-	-	6,731	-
Accruals and deferred income	10,209	209	19,581	1,329
	846,875	209	783,938	1,329

13. Obligations under leases

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

	2012 Other £000	2011 Other £000
Operating leases which expire		
Within 1 year	-	542
Between 2 to 5 years	-	-
Thereafter	6,649	5,028

14. Derivatives and other financial instruments

In the normal course of business the company enters into derivative financial instruments (derivatives), to manage its normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt consistent with risk management policies and objectives

Derivatives held for trading

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

Embedded derivatives

Prior to the development of an active gas trading market, UK gas contracts were priced using a basket of available price indices, primarily relating to oil products, power and inflation. After the development of an active UK gas market, certain contracts were entered into or renegotiated using pricing formulae not directly rèlated to gas prices, for example, oil product and power prices In these circumstances, pricing formulae have been determined to be derivatives, embedded within the overall contractual arrangements that are not clearly and closely related to the underlying commodity. The resulting fair value relating to these contracts is recognised on the balance sheet with gains or losses recognised in the profit and loss account All embedded derivatives are valued using inputs that

Derivatives and other financial instruments (continued)

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

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

	2012	2012	2011	2011
	Fair value asset	Fair value liability	Fair value asset	Fair value liability
	£000	£000	£000	£000
Derivatives held for trading				
- Natural gas price derivatives	91,756	(109,655)	194,760	(264,287)
- Power price derivatives	83,788	(67,965)	67,536	(69,190)
Embedded derivative commodity contracts				
- Natural gas contracts	-	(431,663)	-	(633,018)
	175,544	(609,283)	262,296	(966,495)
Of which				
– current	148,479	(273,107)	216,133	(434,123)
– non-current	27,065	(336,176)	46,163	(532,372)
	175,544	(609,283)	262,296	(966,495)

15. Other provisions

	Other	Legal	Total
	£000	£000	£000
At 1 January 2012	20,737	-	20,737
New or increased provisions	357,375	-	357,375
Deletions	(2,937)	-	(2,937)
Utilised	(19,090)	-	(19,090)
At 31 December 2012	356,084	-	356,084

The progression of the Eurozone crisis during 2012 has had a significant impact on the economic outlook for Europe and has decreased spreads between markets and reduced commodity price volatility This has had an adverse impact on the predicted future returns of the company's Bierwang and Viking storage assets and its Spain-France interconnector assets versus the original business case This resulted in a total provision of £351,346,000 for onerous contracts

A disputed VAT payables provision of £17 8m from the prior year was increased by £3 8m to cover additional interest and possible penalties. HMRC disallowed the recovery of VAT made by BP Gas Marketing Limited in relation to the purchase of credits from the spot emissions market in July 2009 During the year £19 1m was paid to HMRC This amount has been subsequently returned to BPGM by HMRC in 2013, this receipt will be included in the 2013 accounts

Other Provision (continued)

A provision of £2,220,000 is provided for the dispute of a pricing mechanism in a LNG supply contract between the company and a third party. Prior dispute of £2 9m from 2011 was resolved in 2012 and written back to the P&L

16. Called up share capital

	2012	2011
	£000	£000
Allotted, called up and fully paid		
1,065,000,000 Ordinary shares of £1 each for a total nominal value of £1,065,000,000	1,065,000	1,065,000

17. Capital and reserves

	Called up share capital	Share premium account	Profit and loss account	Total
	£000	£000	£000	£000
At 1 January 2012	1,065,000	552	(556,600)	508,952
Currency translation differences	-	-	(51,895)	(51,895)
Loss for the year	-	-	(183,087)	(183,087)
At 31 December 2012	1,065,000	552	(791,582)	273,970

18. Reconciliation of movements in shareholders' funds

	2012	2011
	£000	£000
Loss for the year	(183,087)	(154,572)
Currency translation differences	(51,895)	70
Net decrease in shareholders' funds	(234,982)	(154,502)
Shareholders' funds at 1 January	508,952	663,454
Shareholders' funds at 31 December	273,970	508,952

BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

19. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into, and trading balances outstanding at 31 December, are as follows:

Related party	Relationship	Description	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
			£000	£000	£000	£000
BP Trinidad and Tobago LLC	Subsidiary	Gas				
2012			-	27,558	-	-
2011			-	37,705	-	-
Atlantic 2/3 Holdings LLC	Joint Venture	Gas				
2012			-	50,644	-	16,503
2011			-	45,870	-	17

20. Prior year adjustments

In 2011 a balance sheet methodology was used that split credit and debit balances from BP Finance, in 2012 these balances have been shown as a net debtor balance and the 2011 comparatives adjusted accordingly The effect on balance sheet is a £1,142m reduction in creditor and debtors This also affected the quick ratio for prior year

21. Immediate and ultimate parent undertaking

The immediate parent undertaking of this company is BP Exploration Operating Company Limited, a company registered in England and Wales The ultimate parent undertaking of the group of undertakings for which group accounts are drawn up, and of which the company is a member, is BP p.l c , a company registered in England and Wales Copies of BP p l c 's accounts can be obtained from 1 St James' Square, London, SW1Y 4PD