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BP GAS MARKETING LIMITED

(Registered No 908982)

ANNUAL REPORT AND ACCOUNTS 2006

Board of Directors	S P Cattle
	B Gilvary
	A H Haywood

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2006.

Principal activity

The company's principal activity during the year was the trading of gas and other energy products in the UK and overseas

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

Review of activities and future developments

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

Results

The profit for the year after taxation was £197,276,000, which, when added to the adjusted retained deficit brought forward at 1 January 2006 of £1,089,979,000, together with exchange adjustments taken directly to reserves of £22,947,000, gives a total retained deficit carried forward at 31 December 2006 of £915,650,000 The directors do not propose the payment of a dividend

Directors

The present directors are listed above

Mr B Gilvary served as a director throughout the financial year Changes since 1 January 2006 are as follows

	Appointed	Resigned
S P Cattle	1 February 2006	
I Springett		7 July 2006
P J Reed	7 July 2006	1 April 2007
W P M M Donkers		30 November 2006
A H Haywood	1 May 2007	

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BP GAS MARKETING LIMITED

REPORT OF THE DIRECTORS

Directors' Indemnity

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 309 of the Companies Act, 1985

Risks

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

The main risks faced by the company through its normal business activities are market risk, credit risk and liquidity risk

Market risk
Market risk is the possibility that changes in currency exchange rates, interest rates or natural gas and power prices will adversely affect the value of the group's financial assets, liabilities or expected future cash flows The company has developed policies aimed at managing the market risk inherent in its natural business activities and, in accordance with these policies, the group enters into various transactions using derivative financial and commodity instruments (derivatives) Derivatives are contracts whose value is derived from one or more underlying financial instruments, indices or prices that are defined in the contract The company also trades derivatives in conjunction with these risk management activities

Currency risk
Fluctuations in exchange rates can have significant effects on the company's reported profit 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 ("Group") level
BP's foreign exchange management policy is to minimize 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 to reduce the risks, and then dealing with any material residual foreign exchange risks Significant residual non-dollar exposures are managed using a range of derivatives

Natural gas and power prices
The company uses financial and commodity derivatives to manage exposures to price fluctuations on natural gas and power transactions

Credit risk
Credit risk is the potential exposure of the company to loss in the event of non-performance by a counter party. The management of such risks is performed at BP Group level The group controls the related credit risk through credit approvals, limits, use of netting arrangements and monitoring procedures Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment

Concentrations of credit risk
The primary activities of the company are gas and power trading The company's principal customers, suppliers and financial institutions with which it conducts business are located throughout the world The credit ratings of interest rate and currency swap counterparties are all of at least investment grade The credit quality is actively managed over the life of the swap

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Liquidity risk
Liquidity risk is the risk that 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 Aa1 and AA+, assigned respectively by Moody's and Standard & Poor's

Key performance indicators

The Companies Act requires directors to disclose the company's Key Performance Indicators (KPIs) BP manages its KPIs at a segment and geographical level As a result the directors have taken the decision not to disclose KPIs in individual subsidiary accounts The BP Group KPIs are included within the accounts of the ultimate parent undertaking BP p l c

Policy and practice with respect to payment of suppliers

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 15

Post balance sheet events

After the balance sheet date, 630,000,000 ordinary shares of £1 each were issued to the immediate parent company at par value

Auditors

Ernst & Young LLP will continue in office as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985

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BP GAS MARKETING 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 confirm 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

ASSISTANT Secretary

26 September 2007

Registered Office

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the accounts in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company In preparing these accounts, the directors are required

- To select suitable accounting policies and then apply them consistently,
- To make judgements and estimates that are reasonable and prudent,
- To state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts,
- To prepare the accounts 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 disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985 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 company's accounts for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the accounting policies and the related notes 1 to 22 These accounts have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 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

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited accounts This other information comprises only the directors' report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts

Opinion

In our opinion

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the accounts

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
27 September 2007

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BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Accounting standards

These accounts are prepared in accordance with applicable UK accounting standards In preparing the financial statements for the current year, the company has adopted Financial Reporting Standard No 26 'Financial Instruments. Measurement'

Accounting convention

The accounts are prepared under the historical cost convention

Basis of preparation

At 31 December 2006 the company's balance sheet had net liabilities amounting to £463,527,000. The directors consider it appropriate to prepare the accounts on a going concern basis because since the balance sheet date the company received an injection of cash from its immediate parent of £630,000,000

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 natural gas liquids, liquefied natural gas and all other items are recognised when title passes to the customer

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 used to finance 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 for the year

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BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

Derivative financial instruments

All financial instruments are initially recognised on the balance sheet at fair value as soon as the company becomes a party to the contractual provisions of the instrument.

All financial instruments are measured at amortised cost using the effective interest rate method The effective interest rate is the rate that exactly discounts the expected stream of future cash payments, including all fees and points paid or received, over the period to maturity to the instrument's net carrying amount

The company's debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They do not qualify as trading assets, and have not been designated as either fair value through profit and loss or available-for-sale.

The company has taken advantage of the exemption granted by the Financial Reporting Standard No 25 from the disclosure requirements of this standard Disclosures which comply with this standard are included in the Group accounts of the company's ultimate parent undertaking

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 property, plant and equipment

Tangible assets, with the exception of freehold land, 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 Overhaul costs for major maintenance programmes are expensed as incurred All other maintenance costs are expensed as incurred

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BP GAS MARKETING LIMITED

ACCOUNTING POLICIES

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

Stock valuation

Stocks comprising gas in storage are valued at cost to the company, using the first-in first-out method or at 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

Stocks held for trading purposes are marked to market and any gains or losses are recognised in the income statement rather than the statement of total recognised gains and losses The directors consider that the nature of the company's trading activities is such that, in order for the accounts to show a true and fair view of the state of the affairs of the company and the result for the year, it is necessary to depart from the requirements of Schedule 4 to the Companies Act 1985 Had the treatment in Schedule 4 been followed, the profit and loss account reserve would have been reduced by £13,733,000 (2005 £26,992,000)

Provisions

Provisions are recognised when the group 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

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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,
- 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 tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates enacted or substantively enacted at the balance sheet date

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

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BP GAS MARKETING LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	2005
		£000	£000
Turnover	1	12,203,257	7,721,784
Cost of sales		(12,127,357)	(7,645,910)
Gross profit		75,900	75,874
Distribution and marketing expenses		(144,884)	(51,456)
Administration expenses		(4,856)	(923,131)
		(73,840)	(898,713)
Gain on derivatives		253,740	-
Other interest receivable and similar income	4	40,931	14,568
Operating profit / (loss)	2	220,831	(884,145)
Profit on disposal of fixed assets	5	-	33,478
Profit / (loss) on ordinary activities before interest and tax		220,831	(850,667)
Interest payable and similar charges	6	(23,555)	(6,630)
Profit / (loss) before taxation		197,276	(857,297)
Taxation	7	-	-
Profit / (loss) for the year		197,276	(857,297)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005
	£000	£000
Profit / (loss) for the year	197,276	(857,297)
Currency translation differences	(22,947)	6,536
Total recognised gains and losses for the year	174,329	(850,761)
Transition adjustment - as explained in note 21	340,169	
Total gains and losses recognised since last annual report	514,498	

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BP GAS MARKETING LIMITED

BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	9	12,422	16,037
Current assets			
Stocks	10	84,051	296,158
Debtors	11	1,061,329	2,849,987
Derivative financial instruments			
- current	14	1,776,922	-
- non-current	14	176,352	-
Cash at bank and in hand		1,410	375
		3,100,064	3,146,520
Creditors: amounts falling due within one year			
Derivative financial instruments	14	(1,845,591)	-
Other creditors	12	(1,076,961)	(2,934,224)
		(2,922,552)	(2,934,224)
Net current assets		177,512	212,296
TOTAL ASSETS LESS CURRENT LIABILITIES		189,934	228,333
Creditors: amounts falling due after more than one year			
Derivative financial instruments	14	(610,474)	-
Provisions for liabilities and charges	13	(59,558)	(1,322,929)
NET LIABILITIES		(480,098)	(1,094,596)
Represented by			
Capital and reserves			
Called up share capital	15	435,000	335,000
Share premium account	16	552	552
Profit and loss account	16	(915,650)	(1,430,148)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		(480,098)	(1,094,596)

On behalf of the Board

Director

26 September 2007

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BP GAS MARKETING LIMITED

NOTES TO THE ACCOUNTS

1. Turnover

Turnover, which is stated net of value added tax, represent amounts invoiced to third parties Turnover is attributable to one continuing activity, the selling of gas and power purchased for resale

An analysis of turnover by geographical market is given below

	2006	2005
	£000	£000
By geographical area		
UK	8,605,474	6,057,259
Rest of Europe	3,319,726	1,282,698
USA	87,642	195,185
Rest of World	190,415	186,642
Total	12,203,257	7,721,784

2. Operating profit / (loss)

This is stated after charging

	2006	2005
	£000	£000
Exchange loss on foreign currency borrowings less deposits	2,636	727
Depreciation of owned fixed assets	6,567	4,522

3. Auditor's remuneration

	2006	2005
	£000	£000
Fees for the audit of the company	25	20

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 the parent of BP Gas Marketing Ltd, BP p l c , are required to disclose non-audit fees on a consolidated basis

4. Other income

	2006	2005
	£000	£000
Interest income from fellow subsidiary undertakings	26,169	12,494
Other interest	(94)	-
Miscellaneous income	14,856	2,074
	40,931	14,568

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5. Exceptional items

	2006	2005
	£000	£000
Profit on disposal of fixed assets	-	33,478

6. Interest payable and similar charges

	2006	2005
	£000	£000
Interest expense on		
Loans from fellow subsidiary undertakings	22,918	6,387
Other loans	637	243
Total charged against profit	23,555	6,630

7. Taxation

The Company is a member of a group for the purposes of relief under Section 402 of the Income & Corporation Taxes Act 1988 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

	2006	2005
	£000	£000
Profit before taxation	197,276	(857,297)
Current taxation	-	-
Effective current tax rate	0%	0%

	2006	2005
	%	%
UK statutory corporation tax rate	30	30
Increase / (decrease) resulting from		
Timing differences	(1)	-
Non deductible expenditure / non taxed income	43	-
Group relief	(72)	(31)
Permanent differences		1
Effective current tax rate	-	-

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8. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for services as a director of the company during the financial year (2005 £Nil)

(b) Employee costs

The company does not directly employ any staff (2005 Nil)

9. Tangible assets

	Plant & machinery
	£000
Cost	
At 1 January 2006	34,929
Additions	2,952
Disposals	(2,571)
At 31 December 2006	35,310
Depreciation	
At 1 January 2006	(18,892)
Charge for the year	(6,567)
Disposals	2,571
At 31 December 2006	(22,888)
Net book value	
At 31 December 2006	12,422
At 31 December 2005	16,037
Principal rates of depreciation	33 33%

10. Stocks

	2006	2005
	£000	£000
Raw materials and consumables	84,051	296,158

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

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11. Debtors

	2006	2005
	£000	£000
Trade debtors	537,143	432,562
Parent and fellow subsidiary undertakings	4,618	597,720
Prepayments and accrued income	512,328	1,801,057
Other	7,240	18,648
	1,061,329	2,849,987

12. Creditors

	2006	2005
	Within 1 year	Within 1 year
	£000	£000
Bank loans and overdraft	24	1
Trade creditors	490,409	337,151
Parent and fellow subsidiary undertakings	134,186	528,970
Social security & other taxes	15,433	-
Accruals and deferred income	436,739	2,031,929
Other	170	36,173
	1,076,961	2,934,224

13. Provisions for liabilities and charges

	Total
	£000
At 1 January 2006 as previously reported	1,322,929
Adoption of FRS26 – see note 21	(1,027,213)
At 1 January 2006	295,716
Reversal	(92,372)
Utilised during the year	(143,786)
At 31 December 2006	59,558

Provisions for losses on certain gas supply sales contracts have been made for future forecast losses estimated to occur over the remaining lives of the contracts

As at 31 December 2005 the provision included provision for losses on certain contracts deemed to use pricing formulae that have been determined to be derivatives, embedded within the overall contractual arrangements

Following the adoption of FRS26 for the year ended 31 December 2006 these embedded derivatives are now recognised on the balance sheet as derivative financial instruments with gains or losses being recognised in the income statement (see note 14)

Reversals to the provision brought forward at 1 January 2006 have occurred due to movements in gas prices

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14. Derivatives financial instruments

The fair value of the company's natural gas and power price contracts (future contracts, swap agreements, options and forward contracts) is based on market prices

In the normal course of business the company is a party to derivative financial instruments (derivatives) to manage certain of its exposures to movements in natural gas and power prices The fair values of derivative financial instruments at 31 December are set out below

	2006 Fair value asset £000	2006 Fair value liability £000	2005 Fair value asset £000	2005 Fair value liability £000
Derivatives held for trading				
- Natural gas derivatives	732,834	(697,198)	655,912	(637,954)
- Power derivatives	1,164,486	(1,162,814)	1,069,774	(1,086,522)
- Other derivatives	1,127	-	(197,534)	-
	1,898,447	(1,860,012)	1,528,152	(1,724,476)
Embedded derivatives held for trading				
- Natural gas contracts	54,827	(596,053)	340,169	(1,027,213)
	1,953,274	(2,456,065)	1,868,321	(2,751,689)
Of which				
- current	1,776,922	(1,845,591)	1,503,946	(1,784,122)
- non-current	176,352	(610,474)	364,375	(967,567)

Derivatives held for trading

The company maintains active trading positions in a variety of derivatives This activity is undertaken in conjunction with risk management activities Derivatives held for trading purposes are marked-to-market and any gain or loss recognized in the income statement For traded derivatives, many positions have been neutralized, with trading initiatives being concluded by taking opposite positions to fix a gain or loss, thereby achieving a zero net market risk The fair values at the year end are not materially unrepresentative of the position throughout the year

The majority of derivatives held by the company relate to forward sales and purchases of gas and power

Derivatives held for trading are denominated in the following currencies

	2006 Assets £000	2006 Liabilities £000	2005 Assets £000	2005 Liabilities £000
Functional currency				
- US dollar	100,886	(21,419)	15,733	-
- Sterling	660,878	(622,647)	641,271	(842,050)
- Euros	1,136,220	(1,215,853)	871,148	(882,426)
- Other	463	(93)	-	-
	1,898,447	(1,860,012)	1,528,152	(1,724,476)

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14. Derivatives financial instruments (cont)

Embedded derivatives held for trading

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 Post the development of an active UK gas market, certain contracts were entered into or renegotiated using pricing formulae not directly related 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 income statement

These contracts are valued using price curves for each of the different products that are built up from active market pricing data and extrapolated to 2018 using the maximum available external pricing information Additionally, where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships The fair values of embedded derivatives are included on the balance sheet within the following headings.

	2006 Current £000	2006 Non-current £000	2006 Total £000
Derivative financial assets	54,827	-	54,827
Derivative financial liabilities	(134,874)	(461,179)	(596,053)
	(80,047)	(461,179)	(541,226)

Embedded derivatives are denominated in the following currencies

	2006 Assets £000	2006 Liabilities £000	2005 Assets £000	2005 Liabilities £000
Functional currency				
- US dollar	54,827	-	45,958	-
- Sterling	-	(596,053)	294,211	(1,027,213)
	54,827	(596,053)	340,169	(1,027,213)

15. Called up share capital

	2006 £000	2005 £000
Authorised share capital		
1,000,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called up and fully paid		
435,000,000 Ordinary shares of £1 each	435,000	335,000

On 7 August 2006 100,000,000 ordinary shares of £1 each, were issued fully paid at par value to the parent company

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16. Capital and reserves

	Equity share capital	Share premium account	Profit and loss account	Total
	£000	£000	£000	£000
At 1 January 2006 as previously reported	335,000	552	(1,430,148)	(1,094,596)
Transition adjustment (see note 21)	-	-	340,169	340,169
At 1 January 2006 restated	335,000	552	(1,089,979)	(754,427)
Currency translation differences	-	-	(22,947)	(22,947)
Issue of ordinary share capital	100,000	-	-	100,000
Profit for the year	-	-	197,276	197,276
At 31 December 2006	435,000	552	(915,650)	(480,098)

17. Reconciliation of movements in shareholders' funds

	2006	2005
	£000	£000
Profit / (loss) for the year	197,276	(857,297)
Currency translation differences	(22,947)	6,536
Transition adjustment (see note 21)	340,169	-
Issue of ordinary share capital	100,000	135,000
Net increase/ (decrease) in shareholders' interests	614,498	(715,761)
Shareholders' interest at 1 January	(1,094,596)	(378,835)
Shareholders' interest at 31 December	(480,098)	(1,094,596)

18. 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 with group companies There were no other related party transactions in the year

19. Post balance sheet event

After the balance sheet date, 630,000,000 ordinary shares of £1 each were issued to the immediate parent company at par value

20. Pensions

The company does not directly employ any staff and therefore does not directly bear any pension charge

£64

21. Change in accounting policy

Comparative information has not been restated to comply with FRS26 'Financial instruments, recognition and measurement'

The main adjustment that would be required for this information to comply with FRS26 would be the recognition of derivative financial assets and liabilities existing at the balance sheet date and inclusion of any change in the fair value of these assets and liabilities in the profit and loss account

FRS26 has been applied prospectively from 1 January 2006 The following adjustments were required to the opening balance sheet, as previously reported, to comply with the requirements of FRS26

	As previously reported	Recognition of derivative financial instruments	Reclassification of provision for onerous contracts now classified as embedded derivatives	Restated
	1 Jan 2006			1 Jan 2006
	£000	£000	£000	£000
Current assets	3,146,520	340,169	-	3,486,689
Current liabilities	(2,934,224)	-	(336,291)	(3,270,515)
Net current assets	212,296	340,169	(336,291)	216,174
Long-term liabilities	-	-	(690,922)	(690,922)
Provisions	(1,322,929)	-	1,027,213	(295,716)
Net liabilities	(1,094,596)	340,169	-	(754,427)

22. 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's Square, London, SW1Y 4PD

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