LUBRICANTS UK LIMITED
(Registered No.00097216)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

Board of Directors: A M Moore
C J Lockett
S C Gupte

The directors present the strategic report, their report and the audited financial statements for the year ended 31 December 2022.

STRATEGIC REPORT

Results

The loss for the year after taxation was £1,338,835,000 which, when added to the accumulated loss brought forward at 1 January 2022 of £652,187,000 together with the net actuarial gain of £5,755,000 and the income tax relating to cumulative actuarial gains and losses of £1,977,000 gives a total accumulated loss carried forward at 31 December 2022 of £1,987,244,000.

Principal activity and review of the business

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

The new operating model came into effect on 1st of January 2021, whereby local country affiliates earn a 5% return on sales in addition to any supply chain margin, with the residual profit, calculated based on the trading partners' EBITDA, transferred to the entity.

On 31 December 2021 the entity and Castrol Limited entered into a 10 year period agreement whereby Castrol Limited provides to the entity right of use for certain intellectual property (IP) of Castrol Limited including copyright, registered designs and design applications, unregistered designs, registered trademarks, trademark applications, trade names, patents and patent applications.

The IP payment of £2,879,000,000 from the entity to Castrol Limited at the end of 2021 replaces the royalty for the next ten years (2022 to 2031). Starting with 2022 and over a 10 year period an yearly amortisation expense will incur.

On 15 December 2022 Lubricants UK Limited entered a loan agreement with BP International Limited to fund with an intercompany loan of £2,879,000,000 the settlement of the intellectual property (IP) asset.

A recoverable amount has been assessed for IP asset. As a result an impairment of £862,000,000 was recognised for 2022. During the year, the long term plan for the global Castrol business was updated. As a result of factors the company now expects to derive lower income from the IP intangible asset than was expected upon its initial recognition. Recoverable amount of the IP intangible asset was determined based on a discounted cash flow model. For further details see Note 13.

Expenditure on research and development is undertaken on behalf of Castrol Limited and in 2022 amounted to £48,406,274 (2021 £54,186,329). These activities include the research and development of new additives, in association with additives manufacturers, and new formulations of lubricants and the testing of these under normal and extreme conditions.

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

	2022	2021	Variance
	£000	£000	%
Turnover	362,478	394,266	(8)
Operating loss	(1,290,520)	(36,722)	>100%
Loss for the year	(1,338,835)	(32,388)	>100%
Total equity	(1,144,690)	190,367	>100%

Turnover decrease is mainly due to lower services and residual profit turnover total. These recharges provided turnover last year in amount of £295m, however the total amount was £243m in the current year. The recharge of certain head office type of costs was ceased from 2022 which resulted in a £66m turnover reduction, however the residual profit increase was only £14m. Trading turnover increased by £20m as a result of slight increase in volumes due to Covid-19 bounce back.

Operating loss increase is mainly attributable to the impairment of IP intangible asset and the depreciation of this asset.

Loss for the year includes interest expense in addition to the operating result. Interest expense has significantly increased due to the loan of £2,879m from BP International Limited.

Movement in equity is due to losses in the fiscal year.

Section 172 (1) statement

This section describes how the directors of the company have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (the ”Section 172 factors”), and forms the statement required under section 414CZA of the Companies Act 2006.

In performing their duties throughout the year the directors have had regard to the Section 172 factors as follows:

(a) The likely long-term consequences of the decision

When setting and delivering on the company’s strategy, the directors of the company have regard to the evolving environment in which the company operates and aims to promote the long term success and sustained economic viability of the company.

b) The interests of the company’s employees

The directors of the company recognise that employees are vital to the long term success of the company and, as such, engage with employees, and keep them informed on matters of concern to them. The directors of the company acknowledge the key interests of the employees, which include job security and career development, when making decisions. This includes reviewing the key performance indicators on employee engagement measured by employee ‘Pulse’ surveys.’

Employee share ownership is encouraged and there are a number of employee share plans in place at bp group level to which employees of the company can participate in. For example, the bp group operates a ShareMatch plan in more than 50 countries, matching BP p.l.c. shares purchased by employees.

In 2022 the bp group launched the ‘Who we are’ framework of beliefs representing what we stand for at bp and to inspire our employees to and a new learning platform, Grow@bp to enable employees to take ownership of their career and develop skills both for their current roles and future options as bp evolves.

(c) The need to foster the company’s business relationships with suppliers, customers and others

During 2022, the directors of the company reiterated their focus on engagement and fostering relationships with suppliers and customers, with the need to consider partners, customers and

suppliers and how we can help them, specifically addressed in the 'Who we are' belief, 'Care for others'.
In addition, the board reviewed and considered the company's Modern Slavery Statement and disclosed its practices in respect of the same on an annual basis.
Furthermore, the board reviewed and considered the company's prompt payment reporting performance and disclosed its practices in respect of the same on a bi-annual basis.

(d) The impact of the company's operations on the community and the environment
The directors of the company are committed to the bp group's sustainability aims and objectives – 10 aims to get bp to net zero and help the world get there too, 5 aims to improve people's lives and 5 aims to care for our planet. In 2022 each business prepared a sustainability plan, identifying its priority aims and detailing the actions it will take to meet those.

(e) The desirability to maintain the company's reputation for high standards of business conduct
In 2022, bp continued to make progress against its sustainability aims which set out the areas where bp believes it can make the biggest difference for bp, its stakeholders and society. bp's commitment to safety, having a positive impact and doing the right thing were further enshrined in the new bp 'Who we are' beliefs which also emphasise the importance of following the bp code of conduct.

bp's code of conduct sets clear expectations for how bp, the company and the board operate. The directors of the company continued to adhere, in good faith, to the bp code of conduct during the year and oversee adherence to the bp code of conduct by the company's employees to ensure the board and the company maintain a reputation for high standards of business conduct.

The board considered its impact and decision making in light of the war in Ukraine and bp's announcement of its position in Russia.

(f) The need to act fairly between members of the company
The company is a wholly owned subsidiary with one member and the directors aim to maximise long term shareholder value.

Stakeholder engagement

By understanding the company's key stakeholders, the board can consider and address the needs of these stakeholders and foster good business relationships with them. The board has taken time to identify the key interests of the stakeholders and establish regular engagement methods to help the board to consider and balance stakeholder interests when making decisions.

In addition to the stakeholders set out above, the company considers its key stakeholders groups to include:

(a) Government/Regulators

The company recognises the need to create valued relationships with the Government and Regulators centred around ethics and transparency, and the need to discuss relevant regulations and guidance where necessary.

The board is provided with updates on changes in regulation and/or legislation impacting the company and is committed to keeping the Government and Regulators informed of any significant changes to the company.

(b) Shareholders

The company is committed to maximising long term shareholder value in, whatever form, when making decisions.

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The company operates in accordance with the bp group's System of Internal Control to promote long term success of the company for the shareholder.

The company's principal decisions

During the period the directors of the company continued to monitor progress against the company's strategy, as highlighted in the principal activities section of the Strategic Report of the company, and decisions made by the directors of the company were in respect of routine board matters, in furtherance of the bp group's purpose and were not considered to be principal in nature.

Principal risks and uncertainties

The bp group manages, monitors and reports on the principal risks and uncertainties that can impact the group's ability to deliver its strategy. The group's system of internal control includes policies, processes, management systems, organizational structures, culture and standards of conduct employed to manage bp's business and associated risks.

Throughout the year, bp management, the leadership team, the board and relevant committees provide oversight of how principal risks to bp are identified, assessed and managed. They support appropriate governance of risk management including having relevant policies in place to help manage risks. Such oversight may include internal audit reports, group risk reports and reviews of the outcomes of business processes including strategy, planning and resource and capital allocation. bp's group risk team analyses the group's risk profile and maintains the group's risk management system. bp's internal audit team provides independent assurance to the chief executive and board as to whether the group's system of internal control is adequately designed and operating effectively to respond appropriately to the risks that are significant to bp.

The company aims to deliver sustainable value by identifying and responding successfully to risks in line with the group's risk management process.

The risks listed below, separately or in combination, could have a material adverse effect on the implementation of the company's strategy, business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation. Unless stated otherwise, further details on these risks are included within the risk factors in the Strategic Report of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

Strategic and commercial risks

Prices and markets

The company's financial performance is subject to fluctuating prices of oil, gas, petrochemicals and refined products, technological change, exchange rate fluctuations and the general macroeconomic outlook. Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply of oil and gas or alternative low carbon energy sources, technological change, global economic conditions, public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) and the influence of OPEC+ can impact supply and demand and prices for our products.

Decreases in oil, gas or product prices could have an adverse effect on revenue, margins, profitability and cash flows. If these reductions are significant or for a prolonged period, bp management may have to write down assets and reassess the viability of certain projects, which may impact future cash flows, profit, capital expenditure, the ability to maintain the company's long-term investment programme. Conversely, an increase in oil, gas and product prices may not improve margin performance as there could be increased fiscal take, cost inflation and more onerous terms for access to resources.

Exchange rate fluctuations can create currency exposures and impact underlying costs and revenues.

Major project delivery

Poor investment choice, efficiency or delivery, or operational challenges at any major project that underpins production or production growth, could adversely affect our financial performance.

The company seeks to manage this risk through the bp group projects organization which includes the centre of expertise for appraisal and optimization, expertise to manage the design and build of projects and programmes to ensure project objectives are met. This process is systematically reviewed and continuously improved.

Geopolitical

The company is exposed to a range of political, economic and social developments and consequent changes to the operating and regulatory environment which could cause business disruption. Political instability, changes to the regulatory environment or taxation, international trade disputes and barriers to free trade, international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism, acts of war and public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) may disrupt or curtail our operations, business activities or investments. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets and our related earnings and cash flow or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

Liquidity, financial capacity and financial, including credit, exposure

Failure to work within the financial framework set by the bp group could impact the bp group as well as the company’s ability to operate and result in financial loss. Credit rating downgrades could potentially increase financing costs and limit access to financing or engagement in the company's trading activities on acceptable terms, which could put pressure on the group’s liquidity.

Joint arrangements and contractors

The company may have varying levels of control over the standards, operations and compliance of its partners, contractors and sub-contractors which could result in legal liability and reputational damage.

Digital infrastructure and cybersecurity

The energy industry is subject to fast-evolving risks, including ransomware, from cyber threat actors, including nation states, criminals, terrorists, hacktivists and insiders. Current geopolitical factors have increased these risks. There is also growing regulation around data protection and data privacy. A breach or failure of our or third parties’ digital infrastructure – including control systems – due to breaches of our cyber defences, or those of third parties, negligence, intentional misconduct or other reasons, could seriously disrupt our operations. This could result in the loss or misuse of data or sensitive information, including employees’ and customers’ personal data, injury to people, disruption to our business, harm to the environment or our assets, legal or regulatory breaches, legal liability and significant costs including fines, cost of remediation or reputational consequences. Furthermore, the rapid detection of attempts to gain unauthorized access to our digital infrastructure, often through the use of sophisticated and co-ordinated means, is a challenge and any delay or failure to detect could compound these potential harms.

Climate change and the transition to a lower carbon economy

Laws, regulations, policies, obligations, government actions, social attitudes and customer preferences relating to climate change and the transition to a lower carbon economy, including the pace of change to any of these factors, and also the pace of the transition itself, could have adverse impacts on our business including on our access to and realization of competitive opportunities in any of our strategic focus areas, a decline in demand for, or constraints on our ability to sell certain products, constraints on production and supply, adverse litigation and regulatory or litigation outcomes, increased costs from compliance and increased provisions for environmental and legal liabilities.

Changes in investor preferences and sentiment could affect our access to capital markets and our attractiveness to potential investors, potentially resulting in reduced access to financing, increased financing costs and impacts upon our business plans and financial performance.

Competition
The bp group strategic progress and performance could be impeded if we are unable to control our development and operating costs and margins, if we fail to scale our businesses at pace, or to sustain, develop and operate a high-quality portfolio of assets efficiently. Furthermore, as the bp group transitions from an international oil company to an integrated energy company, we face an expanded and rapidly evolving range of competitors in the sectors in which we operate.

Talent and capability
The sectors in which the bp group operates face increasing challenges to attract and retain diverse, skilled and capable talent. An inability to successfully recruit, develop and retain core skills and capabilities and to reskill existing talent could negatively impact delivery of our strategy.

Crisis management and business continuity
The bp group's reputation and business activities could be negatively impacted if the management does not respond, or is perceived not to respond, in an appropriate manner to any major crisis.
Insurance
The bp group generally purchases insurance only in situations where this is legally and contractually required. Some risks are insured with third parties and reinsured by group insurance companies. Uninsured losses could have a material adverse effect on the bp group financial position which in turn could adversely affect the company.

Safety and operational risks

Process safety, personal safety and environmental risks
The company is exposed to a wide range of health, safety, security and environmental risks. There can be no certainty that our operating management system or other policies and procedures will adequately identify all process safety, personal safety and environmental risks or that all our operating activities will be conducted in conformance with these systems.

Such events or conditions could cause harm to people, the environment and the company's assets and could result in regulatory action, legal liability, business interruption, increased costs, damage to the company's reputation and potentially denial of its licence to operate.

Security
Acts of terrorism, piracy, sabotage, activism and similar activities directed against the company's operations could cause harm to people and severely disrupt operations. The company's activities could also be severely affected by conflict, civil strife or political unrest.

Product quality
Supplying customers with off-specification products could damage the company's reputation, lead to regulatory action and legal liability, and potentially impact its financial performance.

Compliance and control risks
Ethical misconduct and non-compliance
Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including anti-bribery and corruption, competition and antitrust, and anti-fraud laws, trade restrictions or other sanctions, could damage the company's reputation, and result in litigation, regulatory action, penalties and potentially affect our licence to operate.

In relation to trade restrictions or other sanctions, current geopolitical factors have increased these risks.

Regulation
Changes in the law and regulation, including how they are interpreted and enforced, could increase costs, constrain the company's operations and affect its business plans and financial performance.

Treasury and treasury trading activities

Ineffective oversight of treasury and trading activities could lead to business disruption, financial loss, regulatory intervention, fines or damage to the company's reputation

Reporting

External reporting of financial and non-financial data relies on the integrity of the control environment, bp group's systems and people operating them. Failure to report data accurately and in compliance with applicable standards could result in regulatory action, legal liability and reputational damage.

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk. Further details on these financial risks are included within Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Andrew Moore
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A M Moore
Director

September 29, 2023

Registered Office:

Chertsey Road
Sunbury on Thames
Middlesex
TW16 7BP
United Kingdom

DIRECTORS' REPORT

LUBRICANTS UK LIMITED

Directors

The present directors are listed on page 1.

A M Moore and C J Lockett served as director throughout the financial year. Changes since 1 January 2022 are as follows:

	Appointed	Resigned
S C Gupte	1 January 2023	
R A Subramaniam		31 August 2022

Directors' indemnity

The company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Such qualifying third party indemnity provisions for the benefit of the company's directors remain in force at the date of this report.

Dividends

The company has not declared any dividends during the year (2021 £0). The directors do not propose the payment of a dividend (2021 £0).

Financial instruments

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 6.1) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in the Strategic Report under Financial risk management.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 4-7.

The majority of the transactions of the entity are with other bp group companies (group recharges, group dividend payments and income), and the company is funded via the IFA (intercompany funding account - handled by bp Treasury), hence the company mostly relies on other bp group entities in this matter. A smaller, but important part of the entity's transaction is the trading activity which is carried out with auto, industrial and marine industry participants.

In assessing the prospects of Lubricants UK Limited, the directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

Having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Future developments

At 31 December 2022 the company’s balance sheet had total net liabilities amounting to £1,144,690,000. The directors note the net liabilities of the company at year end and forecast expenditure for the subsequent 12 months. Having considered the overdraft facility in place with another bp group company, and a planned capital injection from the parent company, the directors consider the company to be in operational existence for at least the next 12 months from the date these financial statements were approved. The funds are expected to be used to repay the loan with BP International still within 2023 (see Note 17).

Research and development

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

Financial risk management

The company is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including market risks relating to commodity prices, foreign currency exchange rates and interest rates; credit risk; and liquidity risk. Further details on these financial risks are included within Note 29 of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

Disabled employees

The company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.
Where existing employees become disabled, it is the company’s policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Stakeholder statements

Employee engagement statement
The directors of the company recognise that employees are vital to the long term success of the company and engage with employees, and keep them informed on matters of concern to them. The company’s section 172(1) statement in the Strategic Report demonstrates how the directors have engaged with employees throughout the year, and how the directors of the company have had regard to their interests when making decisions.

Statement of engagement with suppliers, customers and others in a business relationship with the company

The board recognises the importance of considering and having regard to key stakeholders and their interests when making decisions. By understanding the company's key stakeholders, the board can consider and address the needs of these stakeholders and foster good business relationships with them.

The board is committed to doing business ethically and transparently, using bp's values and code of conduct to guide them when engaging and working with business partners. The company's activities, and the decisions of the board, affect a wide variety of individuals and organisations. The directors engage with the company's stakeholders, listening to their differing needs and priorities as part of their role as a senior leader at bp and use the feedback received to inform the board's decision-making.

The company's section 172(1) statement in the Strategic Report demonstrates how the directors have had regard to the need to foster business relationships with suppliers, customers and other stakeholders when making decisions on behalf of the company.

Streamlined Energy & Carbon Reporting (SECR)

As a UK subsidiary of a UK parent company which prepares a group directors' report, SECR reporting details are included in the strategic report of the bp group Annual Report and Form 20-F for the year ended 31 December 2022.

Corporate Governance Statement

In 2022, the bp group continued to operate under the corporate governance framework (the "Framework") implemented in 2020. The Framework closely aligns with bp's purpose - reimagining energy for people and our planet - and strategy. The Framework also defines bp's role, to promote the long-term sustainable success of the company, generating value for its shareholders while having regard to its other stakeholders, the impact of its operations on the communities within which it operates and the environment.

The core of the company's governance arrangements come from bp's System of Internal Control, Global Subsidiary Corporate Governance Policy (the "Policy") and Code of Conduct, details of which are set out below.

System of Internal Control

The System of Internal Control is the holistic set of management systems, organisational structures, processes, standards and behaviours that are employed to conduct the bp group's business. These processes enable the company to achieve its objectives and purpose by ensuring that it responds appropriately to business, operational, financial and other risks and opportunities.

Further, the System of Internal Control requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation which helps to ensure the quality of internal and external reporting. The System of Internal Control helps to ensure compliance with laws and regulations, bp's Code of Conduct and other internal policies.

The Policy

The Policy has been established by BP p.l.c. and implemented by its subsidiaries, including the company, to establish common standards in corporate governance across the group. These standards cover the role and responsibilities of the board and the directors, its processes and its relationship with executive management, shareholders and other stakeholders.
The Policy is reviewed on a regular basis both in respect of compliance and alignment with best practice governance and the content of formal corporate governance codes for private companies. It is a

comprehensive set of rules and recommendations designed to standardise and promote best practice subsidiary governance through:

i. The mitigation of legal and reputational risk and preserving the integrity of the bp group's corporate structure;
ii. The selection and training of directors to ensure that they understand and execute their statutory duties in a manner that promotes the success of the company for the benefit of its shareholders whilst having regard to the company's other stakeholders;
iii. Requiring any decisions in respect of the formation and change of entity form, financing of intra-group activities, transfer of ownership and dissolution to be made pursuant to bp's System of Internal Controls; and
iv. Specifying which of the bp group's businesses and functions are accountable for the various aspects of administration, internal controls and corporate governance of subsidiaries.

The Policy sets out the responsibilities of all directors and officers of each of the bp group's subsidiaries and the primary tasks of the board, including consideration and execution of long-term strategy, monitoring of the subsidiary's performance and ensuring that the principal risks to the subsidiary are identified and that appropriate systems of risk management and control are in place. As a result, the company has not considered it necessary to adopt a formal corporate governance code.

The Policy requires directors to:

i. Attend induction training upon appointment and are recommended to refresh their training annually;
ii. Not engage in any activity that is, or could reasonably be perceived to be, in conflict with the interests of the company and are further required to act in the best interests of the company, which may not necessarily coincide with the best interest of the bp group;
iii. Consult in advance of conflicts of duties in order to identify and implement steps to avoid or mitigate such conflicts; and
iv. Retain responsibility for the approval of financial statements.

Decision making rests with the directors of the company and delegation of specific powers or decisions is documented in writing, setting out the reasons for the scope as well as limitation of such delegation, supported by a form of bp group authority. Delegations are monitored and reviewed by the board on a regular basis.

The Code of Conduct

bp's code of conduct is based on bp's values and beliefs, and sets clear expectations for how all employees at bp should work, including directors of the company. The code is designed to be a clear set of expectations to enable all employees to make choices in a consistent way.

The code of conduct includes sections covering:

i. Safety and sustainability, including operating safely and securely and delivering bp's sustainability frame;
ii. People, including diversity, equity and inclusion;
iii. Business partners, including building and maintaining strong relationships and proactively managing conflicts of interest;
iv. Governments and communities, including human rights, community engagement and public communications; and
v. Assets and financial integrity, including the need to record and maintain accurate and complete information.

Application of the system of governance

The directors have applied this system of governance by:

a. Regularly reviewing its board's composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and ensuring that individual directors have sufficient capacity to make valuable contributions. The board, where appropriate, and in accordance with the Policy, retains a minimum of three directors, promotes independent and objective challenge through the appointment of directors who are not directly or indirectly responsible for the management function of the company and may nominate a designated Chair to provide leadership of the board.
b. Undertaking training on a regular basis to ensure that they have a clear understanding of their responsibilities and accountabilities. To support effective decision-making in their capacity as directors, the board considers the System of Internal Control, the bp Code of Conduct and the company's purpose and how it furthers the bp group's purpose, aims and ambitions.
c. In accordance with the Policy, the board is supported by the System of Internal Control to identify opportunities to create and preserve value. Refer to the principal risks and uncertainties in the Strategic Report.
d. Having regard to and fostering good stakeholder relationships. Refer to the company's section 172 statement in the Strategic Report for further information.

Auditors

Pursuant to section 487 of the Companies Act 2006, Deloitte LLP have expressed their willingness to continue in office as auditors and are therefore deemed reappointed as auditors.

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

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

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

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

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Andrew Moore
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A M Moore
Director
September 29, 2023

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

LUBRICANTS UK LIMITED

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that they have complied with these requirements. Details of the directors' assessment of going concern are provided in the directors' report.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LUBRICANTS UK LIMITED

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Lubricants UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK companies act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as impairment specialist regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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

DocuSigned by:
David Holtam
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David Holtam FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London, United Kingdom
September 29, 2023

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PROFIT AND LOSS ACCOUNT

THE YEAR ENDED 31 DECEMBER 2022

LUBRICANTS UK LIMITED

	Note	2022 £000	2021 £000
Turnover	**3**	362,478	394,266
Cost of sales		(89,340)	(67,808)
Gross profit		273,138	326,458
Dividend income		—	1
Distribution and marketing expenses		(701,192)	(404,692)
Administrative expenses		(79,401)	(53,671)
Other operating income	**4**	78,935	96,429
Loss on disposal of fixed assets		—	(1,247)
Impairment of intangible asset	**13**	(862,000)	—
Operating loss	**5**	(1,290,520)	(36,722)
Interest receivable and similar income	**8**	234	3
Interest payable and similar expenses	**9**	(7,040)	(52)
Other finance expense	**10**	(434)	(388)
Loss before taxation		(1,297,760)	(37,159)
Tax on loss	**11**	(41,075)	4,771
Loss for the year		**(1,338,835)**	**(32,388)**

The loss of £1,338,835,000 for the year ended 31 December 2022 was derived in its entirety from continuing operations.

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

LUBRICANTS UK LIMITED

	Note	2022 £000	2021 £000
Loss for the year		(1,338,835)	(32,388)
Items that will not be reclassified to profit or loss			
Remeasurements of the net pension and other post-retirement benefit liability or asset	**22**	5,755	3,259
Tax on actuarial gain relating to pensions	**11**	(1,977)	(743)
Other comprehensive income for the year net of tax		3,778	2,516
Total comprehensive loss for the year		(1,335,057)	(29,872)

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BALANCE SHEET

AS AT 31 DECEMBER 2022

LUBRICANTS UK LIMITED

(Registered No.00097216)

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	**13**	1,837,883	2,920,588
Tangible assets	**14**	36,067	30,729
		1,873,950	2,951,317
Current assets			
Stocks	**15**	5,932	5,439
Debtors - amounts falling due:			
within one year	**16**	250,661	407,507
after one year	**16**	6,381	17,277
Deferred tax assets		—	24,088
Cash at bank and in hand		632	3,570
		263,606	457,881
Creditors: amounts falling due within one year	**17**	(359,102)	(3,165,378)
Other provisions - current	**18**	(199)	(2,281)
Net current liabilities		(95,695)	(2,709,778)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,778,255	241,539
Creditors: amounts falling due after more than one year	**17**	(2,879,116)	(128)
Other provisions - non current	**18**	(26,392)	(27,130)
Other post-retirement benefit plan deficit	**22**	(17,437)	(23,914)
NET (LIABILITIES) / ASSETS		(1,144,690)	190,367
Capital and reserves			
Called up share capital	**19**	750,000	750,000
Share premium account	**20**	894	894
Profit and loss account	**20**	(1,987,244)	(652,187)
Other distributable reserve	**20**	91,660	91,660
TOTAL EQUITY		(1,144,690)	190,367

Approved by the board of directors and signed on behalf of the board by:

DocuSigned by:
Andrew Moore
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A M Moore
Director
September 29, 2023

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

LUBRICANTS UK LIMITED

	Called up share capital (Note 19)	Share premium account (Note 20)	Other reserves (Note 20)	Profit and loss account (Note 20)	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2021	750,000	894	85,206	(622,315)	213,785
Loss for the year	—	—	—	(32,388)	(32,388)
Other comprehensive income for the year	—	—	—	2,516	2,516
Total comprehensive loss for the year	—	—	—	(29,872)	(29,872)
Capital contribution for equity-settled share-based payments	—	—	6,454	—	6,454
Balance at Balance at 1 January 2022	750,000	894	91,660	(652,187)	190,367
Loss for the year	—	—	—	(1,338,835)	(1,338,835)
Other comprehensive income for the year	—	—	—	3,778	3,778
Total comprehensive loss for the year	—	—	—	(1,335,057)	(1,335,057)
Balance at 31 December 2022	750,000	894	91,660	(1,987,244)	(1,144,690)

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

LUBRICANTS UK LIMITED

1. Authorisation of financial statements and statement of compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)

The financial statements of Lubricants UK Limited for the year ended 31 December 2022 were approved by the board of directors on 20 September 2023 and the balance sheet was signed on the board's behalf by A M Moore. Lubricants UK Limited is a private limited company, limited by shares incorporated, domiciled and registered in England and Wales (registered number 00097216). The company's registered office is at Chertsey Road,Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the provisions of the Companies Act 2006.

2. Significant accounting policies, judgements, estimates and assumptions

The significant accounting policies and critical accounting judgements, estimates and assumptions of the company are set out below.

Basis of preparation

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies that follow have been consistently applied to all years presented, except where otherwise indicated.

These financial statements are separate financial statements. The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of BP p.l.c. Details of the parent in whose consolidated financial statements the company is included are shown in Note 23 to the financial statements.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared under the historical cost convention in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and the Companies Act 2006. As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

(a) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements; ;
(b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    i. paragraph 79(a)(iv) of IAS 1;
    ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    iii. paragraph 118(e) of IAS 38 Intangible Assets;
(c) the requirements of IAS 7 Statement of Cash Flows;
(d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
(e) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
(f) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

(g) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c)-135(e) of IAS 36, Impairment of Assets;
(h) *the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';*
(i) the requirements of IFRS 7 Financial Instruments: Disclosures
(j) the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;

Where required, equivalent disclosures are given in the group financial statements of BP p.l.c. The group financial statements of BP p.l.c. are available to the public and can be obtained as set out in Note 23.

The financial statements are presented in GBP sterling and all values are rounded to the nearest thousand pounds (£000), except where otherwise indicated.

Significant accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used.

The accounting judgements and estimates that have a significant impact on the results of the company are set out within the boxed text below, and should be read in conjunction with the information provided in the Notes to the financial statements.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: the recoverability of asset carrying values.

Judgements and estimates, not all of which are significant, made in assessing the current economic and geopolitical environment, and climate change and the transition to a lower carbon economy on the financial statements are also set out in boxed text below. Where an estimate has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year this is specifically noted within the boxed text.

Judgements and estimates made in assessing the impact of climate change and the transition to a lower carbon economy

Climate change, the energy transition, bp's strategy to 2030 and ambition to become a net-zero company by 2050 or sooner were considered in preparing the financial statements. These issues may also have significant impacts on the currently reported amounts of the company's assets and liabilities discussed below as well as similar assets and liabilities that may be recognized in the future. bp's assumptions for investment appraisal help create an investment decision making framework for currently unsanctioned future capital expenditure on property, plant and equipment, and intangibles including exploration and appraisal assets, that is designed to support the effective and resilient implementation of bp's strategy. The price assumptions used for investment appraisal include oil and gas price assumptions, which are producer prices and are therefore net of any future carbon prices that the purchaser may be required to pay, and an assumption of a single carbon emissions cost imposed on the producer in respect of operational greenhouse gas (GHG) emissions (carbon dioxide and methane) in order to incentivize engineering solutions to mitigate GHG emissions on projects. bp's oil and gas price assumptions for value-in-use impairment testing are aligned with those investment appraisal assumptions, except for 2023 oil and gas prices which reflect near-term market conditions. The assumptions for future carbon emissions costs in value-in-use impairment testing differ from the investment appraisal assumptions and are described below.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant accounting policies

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The current economic and geopolitical environment were considered as part of the going concern assessment.

Liquidity and financing is managed within the bp group under pooled group-wide arrangements which include the company. As part of the going concern basis of preparation for the company, the ability and intent of the bp group to support the company has also been taken into consideration. The most recent bp group financial statements continue to be prepared on a going concern basis. Forecast liquidity of the bp group has been assessed under a number of stressed scenarios, including a significant decline in oil prices over the 12-month period from the date these financial statements were approved. Reverse stress tests performed indicated that the bp group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements even if the Brent price fell to zero. In addition, bp group management have confirmed the existing intra-group funding and liquidity arrangements as currently constituted are expected to be maintained for the foreseeable future, being no less than twelve months from the approval of these financial statements. No material uncertainties over going concern or significant judgements or estimates on the assessment were identified. Accordingly, the company will be able to draw on support from the bp group for the foreseeable future and these financial statements have therefore been prepared on a going concern basis. For further information on financial risk factors, including credit risk and liquidity risk, see pages 4-7.

The majority of the transactions of the entity are with other bp group companies (group recharges, group dividend payments and income), and the company is funded via the IFA (intercompany funding account - handled by bp Treasury), hence the company solely relies on other bp group entities in this matter.

In assessing the prospects of Lubricants UK Limited, the directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

Having a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next 12 months from the date these financial statements were approved, the directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currency

The functional and presentation currency of the financial statements is GBP sterling. The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Where this is not practical and exchange rates do not fluctuate materially the average rate has been used. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot exchange on the balance sheet date. Any resulting exchange differences are included in the profit and loss account, unless hedge accounting is applied. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Investments

Fixed asset investments in subsidiaries are held at cost. The company assesses investments for an impairment indicator annually. If any such indication of possible impairment exists, the company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

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

All other fixed asset investments are stated in the financial statements at cost less provisions for impairment.

Intangible assets

Intangible assets, which include intellectual property and digital assets, are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

Intangible assets are carried initially at cost unless acquired as part of a business combination. Any such asset is measured at fair value at the date of the business combination and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. For patents, licences and trademarks, expected useful life is the shorter of the duration of the legal agreement and economic useful life, and can range from three to fifteen years. Digital asset costs generally have a useful life of three to five years.

The expected useful lives of assets and the amortization method are reviewed on an annual basis and, if necessary, changes in useful lives or the amortization method are accounted for prospectively.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible assets

Tangible assets owned by the company 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 the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, directly-attributable finance 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.

Exchanges of assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Tangible assets (continued)

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 is replaced and it is probable that future economic benefits associated with the item will flow to the company, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.
Tangible assets are depreciated on a straight-line basis over their expected useful lives. The typical useful lives of the company's tangible assets are as follows:

Land and buildings	
Land improvements	15 to 25 years
Buildings	20 to 50 years
Fixtures and fittings	
Fixtures and fittings	5 to 15 years
Plant and machinery	1 to 25 years

The expected useful lives and depreciation method of tangible assets are reviewed on an annual basis and, if necessary, changes in useful lives or the depreciation method are accounted for prospectively.

The carrying amounts of tangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of tangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss account in the period in which the item is derecognized.

Impairment of intangible and tangible assets

The company assesses assets or groups of assets, called cash-generating units (CGUs) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in the company's business plans, or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the company makes an estimate of the asset's recoverable amount. 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. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. If it is probable that the value of the CGU will primarily be recovered through a disposal transaction, the expected disposal proceeds are considered in determining the recoverable amount. 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.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, refinery throughputs, sales volumes for various types of refined products (e.g. lubricants), revenues, costs and capital expenditure. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, natural gas prices, power prices, refining margins, refined product margins and cost inflation rates are set by senior management. These assumptions take account of existing prices, other macroeconomic factors and historical trends and variability.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of intangible and tangible assets (continued)

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group that are not reflected in the discount rate and are discounted to their present value typically using a pre-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU 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 recognized for the asset or CGU in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's or CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Significant judgements and estimates: recoverability of asset carrying values

Determination as to whether, and by how much, an asset, CGU, or group of CGUs containing goodwill is impaired involves management estimates on highly uncertain matters such as the effects of inflation and deflation on operating expenses, discount rates, capital expenditure, production profiles, reserves and resources, and future commodity prices, including the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products. Judgement is required when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. Fair value less costs of disposal may be determined based on expected sales proceeds or similar recent market transaction data.

Details of impairment charges recognized in the profit and loss account and details of the carrying amounts of the asset are shown in Note 13.

The estimates for assumptions made in impairment tests in 2022 relating to discount rates and oil and gas properties are discussed below. Changes in the economic environment including as a result of the energy transition or other facts and circumstances may necessitate revisions to these assumptions and could result in a material change to the carrying values of the company's assets within the next financial year.

Discount rate assumptions

The discount rates used for impairment testing and provisions were reassessed during the year in light of changing economic and geopolitical outlooks. Impairment discount rates were increased from those reported in 2021. See significant judgements and estimates: recoverability of asset carrying values and provisions for further information.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Stocks

Stocks, other than stocks held for trading purposes, are stated at the lower of cost and net realizable value. Cost is typically determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

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

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

Leases

Agreements that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases. The right to control is conveyed if bp has both the right to obtain substantially all of the economic benefits from, and the right to direct the use of, the identified asset throughout the period of use. An asset is identified if it is explicitly or implicitly specified by the agreement and any substitution rights held by the lessor over the asset are not considered substantive.

Agreements that convey the right to control the use of an intangible asset including rights to explore for or use hydrocarbons are not accounted for as leases. See significant accounting policy: intangible assets.

A lease liability is recognized on the balance sheet on the lease commencement date at the present value of future lease payments over the lease term. The discount rate applied is the rate implicit in the lease if readily determinable, otherwise an incremental borrowing rate is used. For the majority of the leases in the group, there is not sufficient information available to readily determine the rate implicit in the lease, and therefore the incremental borrowing rate is used. The incremental borrowing rate is determined based on factors such as the group's cost of borrowing, lessee legal entity credit risk, currency and lease term. The lease term is the non-cancellable period of a lease together with any periods covered by an extension option that bp is reasonably certain to exercise, or periods covered by a termination option that bp is reasonably certain not to exercise. The future lease payments included in the present value calculation are any fixed payments, payments that vary depending on an index or rate, payments due for the reasonably certain exercise of options and expected residual value guarantee payments.

Payments that vary based on factors other than an index or a rate such as usage, sales volumes or revenues are not included in the present value calculation and are recognized in the income statement. The lease liability is recognized on an amortized cost basis with interest expense recognized in the income statement over the lease term

The right-of-use asset is recognized on the balance sheet as property, plant and equipment at a value equivalent to the initial measurement of the lease liability adjusted for lease prepayments, lease incentives, initial direct costs and any restoration obligations. The right-of-use asset is depreciated typically on a straight-line basis, over the lease term. The depreciation charge is recognized in the income statement. Right-of-use assets are assessed for impairment in line with the accounting policy for impairment of property, plant and equipment, intangible assets, and goodwill.

Agreements may include both lease and non-lease components. Payments for lease and non-lease components are allocated on a relative stand-alone selling price basis.

If the lease term at commencement of the agreement is less than 12 months, a lease liability and right-of-use asset are not recognized, and a lease expense is recognized in the income statement on a straight-line basis.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Leases (continued)
If a significant event or change in circumstances, within the control of bp, arises that affects the reasonably certain lease term or there are changes to the lease payments, the present value of the lease liability is remeasured using the revised term and payments, with the right-of use asset adjusted by an equivalent amount.
Modifications to a lease agreement beyond the original terms and conditions are accounted for as a re-measurement of the lease liability with a corresponding adjustment to the right-of-use asset. Any gain or loss on modification is recognized in the income statement. Modifications that increase the scope of the lease at a price commensurate with the stand-alone selling price are accounted for as a separate new lease.
The company recognizes the full lease liability, rather than its working interest share, for leases entered into on behalf of a joint operation if the company has the primary responsibility for making the lease payments. In such cases, the company's working interest share of the right-of-use asset is recognized if it is jointly controlled by the company and the other joint operators, and a receivable is recognized for the share of the asset transferred to the other joint operators. If the company is a non-operator, a payable to the operator is recognized if they have the primary responsibility for making the lease payments and the company has joint control over the right-of-use asset, otherwise no balances are recognized.

Financial assets
Financial assets are recognized initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification, as set out below. The company derecognizes financial assets when the contractual rights to the cash flows expire or the rights to receive cash flows have been transferred to a third party along with either substantially all of the risks and rewards or control of the asset. This includes the derecognition of receivables for which discounting arrangements are entered into. The company classifies its financial assets as measured at amortized cost or fair value through profit or loss. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost
Financial assets are classified as measured at amortized cost when they are held in a business model the objective of which is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in profit or loss when the assets are derecognized or impaired and when interest income is recognized using the effective interest method. This category of financial assets includes trade and other receivables.

Cash equivalents
Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and generally have a maturity of three months or less from the date of acquisition. Cash equivalents are classified as financial assets measured at amortized cost or, in the case of certain money market funds, fair value through profit or loss.

Impairment of financial assets measured at amortized cost
The company assesses on a forward-looking basis the expected credit losses associated with financial assets measured at amortized cost at each balance sheet date. Expected credit losses are measured based on the maximum contractual period over which the company is exposed to credit risk. As lifetime expected credit losses are recognized for trade receivables and the tenor of substantially all other in-scope financial assets is less than 12 months there is no significant difference between the measurement of 12-month and lifetime expected credit losses for the company. The measurement of expected credit losses is a function of the probability of default, loss given default and exposure at default. The expected credit loss is estimated as the difference between the asset's carrying amount and the present value of the future cash flows the company expects to receive, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is adjusted, with the amount of the impairment gain or loss recognized in the profit and loss account.

DTT

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of financial assets measured at amortized cost (continued)

A financial asset or group of financial assets classified as measured at amortized cost is considered to be credit-impaired if there is reasonable and supportable evidence that one or more events that have a detrimental impact on the estimated future cash flows of the financial asset (or group of financial assets) have occurred. Financial assets are written off where the company has no reasonable expectation of recovering amounts due.

Financial liabilities

The measurement of financial liabilities is as follows:

Financial liabilities measured at amortized cost
Financial liabilities are initially recognized at fair value, net of directly attributable transaction costs. For interest-bearing loans and borrowings this is typically equivalent to the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest receivable and similar income and interest payable and similar charges. This category of financial liabilities includes trade and other payables and finance debt.

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

Provisions and contingent liabilities
Provisions are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized in the profit and loss account. Provisions are discounted using a nominal discount rate of 3.5% (2021 2.0%).

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the company, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed, if material, unless the possibility of an outflow of economic resources is considered remote.

Restructuring provisions
Restructuring provisions are recognized where a detailed formal plan exists, and a valid expectation of risk of redundancy has been made to those affected but where the specific outcomes remain uncertain. Where formal redundancy offers have been made, the obligations for those amounts are reported as payables and, if not, as provisions if unpaid at the year-end.

DTT

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Significant judgements and estimates: provisions

The provision for environmental liabilities is estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from current estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the company. The accounting policies for share-based payments and for pensions and other post-retirement benefits are described below.

Equity-settled transactions

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

Cash-settled transactions

The cost of cash-settled transactions is recognized as an expense over the vesting period, measured by reference to the fair value of the corresponding liability which is recognized on the balance sheet. The liability is re-measured at fair value at each balance sheet date until settlement, with changes in fair value recognized in the profit and loss account.

Pensions and Other Post-Retirement Benefits

The sponsoring employer for the BP Pension Fund is BP p.l.c. The directors have assessed in accordance with IAS 19 Employee Benefits that BP p.l.c applies defined benefit pension accounting for this defined benefit plan that shares risks between entities under common control. There is no contractual agreement or stated policy in place for charging to individual group entities. The net defined benefit cost for the plan as a whole is measured in accordance with IAS 19 and as a result, the company recognizes only a cost equal to the contribution payable for the period as if they were contributions to a defined contribution scheme. Relevant disclosures in relation to the plan are included in the accounts of BP p.l.c.

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

The cost of providing post-retirement benefits is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the post-retirement benefit obligation). Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognized immediately when the company becomes committed to a change.

Interest expense relating to pensions and other post-retirement benefits, which is recognized in the profit and loss account, represents the net change in present value of plan obligations, and is determined by applying

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Pensions and Other Post-Retirement Benefits (continued)

the discount rate to the present value of the benefit obligation at the start of the year, taking into account expected changes in the obligation during the year.

Re-measurements of the post-retirement benefit liability, comprising actuarial gains and losses, (excluding amounts included in interest described above) are recognized within other comprehensive income in the period in which they occur and are not subsequently reclassified to profit and loss.

The post-retirement benefit plan deficit recognized in the balance sheet comprises of the present value of the post-retirement benefit obligation (using a discount rate based on high quality corporate bonds).
The volatility in the financial markets during 2022 impacted the assumptions used for determining the fair value of plan assets and the present value of defined benefit obligations in the group's defined benefit pension plans.

Significant judgements and estimates: pensions and other post-retirement benefits

The defined benefit pension scheme is a scheme that shares risks between entities under common control and is administered by the ultimate parent company BP p.l.c. The company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so the scheme has been accounted for as a defined contribution scheme as allowed by FRS 101. Contributions to the scheme are charged through the company's profit and loss account in the year in which they become payable. Detailed disclosures have been made in the financial statements of the ultimate parent company.

Accounting for other post-retirement benefits involves making significant estimates when measuring the company's obligations. These estimates require assumptions to be made about many uncertainties.

Other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the liability recorded on the company's balance sheet, and other post-retirement benefit expense for the following year.

The assumptions that are the most significant to the amounts reported are the discount rate, inflation rate, healthcare cost inflation and mortality levels. Assumptions about these variables are based on the environment in the UK. The assumptions used vary from year to year, with resultant effects on expense and obligations. Changes to some of these assumptions, in particular the discount rate and healthcare cost inflation rate, could result in material changes to the carrying amounts of the company's other post-retirement benefit obligations within the next financial year. Any differences between these assumptions and the actual outcome 31 December 2022 and 2021 are provided in Note 24.

The values ascribed to these assumptions and a sensitivity analysis of the impact of changes in the assumptions on the benefit expense and obligation is provided in Note 24.

Taxation

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

Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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2. Significant accounting policies, judgements, estimates and assumptions (continued)

Taxation (continued)

Deferred tax is provided, using the balance sheet method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- Where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.; or
- In respect of taxable temporary differences associated with investments in group undertakings and associates and interests in joint arrangements, where the company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. An exception is where the deferred tax asset relates to the deductible temporary difference arising from the initial recognition of an asset or liability in a transaction that is not a business combination, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and, at the time of the transaction, does not give rise to equal taxable and deductive temporary differences.

In respect of deductible temporary differences associated with investments in group undertakings and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable or increased to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

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

Customs duties and sales taxes

Customs duties and sales taxes that are passed on or charged to customers are excluded from turnover and expenses. Assets and liabilities are recognized net of the amount of customs duties or sales tax except:

- Customs duties or sales taxes incurred on the purchase of goods and services which are not recoverable from the taxation authority are recognized as part of the cost of acquisition of the asset.

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Customs duties and sales taxes (continued)

- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Turnover

Revenue from contracts with customers is recognized when or as the company satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of lubricant products usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time; the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.
Revenue is recognized when the service is performed, in accordance with the terms of the contractual arrangements and in the accounting period in which the services are rendered.
When, or as, a performance obligation is satisfied, the company recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the company expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.
The company also provides management services to a number of other companies within the bp group.

The countries using new operating model are distributing residual profits to Lubricants UK Limited calculated based on the respective trading partner's EBITDA. Revenues from residual profit are recognised on an accrual basis.

Interest income

Interest income is recognized as the interest accrues using the effective interest rate – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

Dividend income from investments is recognized when the shareholders' right to receive the payment is established.

Research costs

Research costs are expensed as incurred.

Development costs

Development costs for internally developed intangible assets are expensed as incurred unless all of the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale.
- There is an intention and the ability to complete, and use or sell, the intangible asset.
- It can be demonstrated how the intangible asset will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

These costs are capitalized as an intangible asset and amortized over 3-15 years.

2. Significant accounting policies, judgements, estimates and assumptions (continued)

Finance costs

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

Updates to significant accounting policies

In the current year, the company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Impact of new International Financial Reporting Standards

There are no IASB standards, amendments or interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the company.

3. Turnover

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

	2022	2021
	£000	£000
Sales of goods	119,265	99,103
Rendering of services	17,685	82,946
Residual profit[a]	225,528	212,217
	362,478	394,266
Other operating income (Note 4)	78,935	96,429
Interest receivable and similar income (Note 7)	234	3
	441,647	490,698

[a]Residual profit is charged by Lubricants UK for the local country affiliates in scope for the new Castrol operating model

In prior year the above turnover analysis has not been presented correctly. This has been corrected to reflect the correct split of the natures. This had no impact on the prior year profit and loss or net assets.

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

	2022	2021
	£000	£000
Class of business:		
customers & products	362,478	394,266
Total	362,478	394,266

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3. Turnover (continued)

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

	2022	2021
	£000	£000
By geographical area:		
UK	123,280	109,223
Rest of Europe	45,597	143,843
USA	53,683	54,958
Rest of World	139,918	86,242
	362,478	394,266

4. Other operating income

	2022	2021
	£000	£000
Research and marketing costs recharged to group companies	75,953	92,549
Miscellaneous	2,982	3,880
	78,935	96,429

Other operating income represents amounts recharged to other BP p.l.c. group companies for research and marketing costs incurred by the company. Miscellaneous income represents the tax reclaims due to research and development activities and value in kind related income.

5. Operating profit

This is stated after charging / (crediting):

	2022	2021
	£000	£000
Net foreign exchange losses / (gains)	2,841	(884)
Research and development costs expensed	48,406	54,186
Amortization of intangible assets[a]	301,507	12,533
Depreciation of tangible assets	3,585	7,731
Impairment of intangible asset	862,000	—
Cost of stock recognized as an expense[b]	85,493	68,230
Loss on disposal of tangible assets[c]	—	1,247

[a]Amount is included in Distribution and Marketing expenses
[b]Amount is included in Cost of sales
[c]Amount is included in Loss on disposal of fixed assets

6. Auditor’s remuneration

	2022	2021
	£000	£000
Fees for the audit of the company	79	74

Fees paid to the company's auditor, Deloitte LLP, and its associates for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of Lubricants UK Limited’s ultimate parent, BP p.l.c., are required to disclose non-audit fees on a consolidated basis. The audit fees were borne by the company.

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7. Exceptional items

Exceptional items comprise as follows:

	2022	2021
	£000	£000
Environment costs provision	—	26,987
Exceptional items	—	26,987

Environmental cost is reflected for year 2021 relates to the accountability the company has for performing environmental remediation works at a former site.

8. Interest receivable and similar income

	2022	2021
	£000	£000
Interest income from amounts owed by group undertakings	234	3

9. Interest payable and similar charges

	2022	2021
	£000	£000
Interest expense on:		
Lease liabilities	3	4
Interest expense from amounts owned to group undertakings (Note 18)	6,893	16
Non Group interest	144	32
Total interest payable and similar expenses	7,040	52

10. Other finance expense

	2022	2021
	£000	£000
Interest on pension plan and other post-retirement benefits	434	388

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11. Taxation

The company is a member of a group for the purposes of relief within Part 5, Corporation Tax Act 2010.

The taxation charge / (credit) in the profit and loss account is made up as follows:

	2022	2021
Current tax	£000	£000
UK tax (overprovided) / underprovided in prior years	—	—
Overseas tax on income for the year	18,309	3,004
Total current tax charged / (credited)	18,309	3,004
Deferred tax		
Origination and reversal of temporary differences	—	(2,616)
Effect of increased / (decreased) tax rate on opening liability / asset	—	(5,904)
Adjustments in prior year temporary differences	—	284
Change in recognition of deferred tax asset	22,111	—
Total deferred tax charged / (credited)	22,111	(8,236)
Tax charged / (credited) on profit	40,420	(5,232)

In 2022 the total tax charge / (credit) recognized within other comprehensive income was £1,439,000 (2021 £743,000) and the total tax credit recognized directly in equity was £Nil (2021: £Nil).

(a) Reconciliation of the effective tax rate

The tax assessed on the loss for the year is lower than the standard rate of corporation tax in the UK of 19% for the year ended 31 December 2022 (2021 19%). The differences are reconciled below:

	2022	2021
	£000	£000
(Loss) before tax	(1,297,760)	(37,159)
Tax charge / (credit)	40,420	(5,232)
Effective tax rate	(-3)%	14%

	2022	2021
	UK	UK
	%	%
UK corporation tax rate:	19	19
Overseas corporation tax rate:	—	—
Increase / (decrease) resulting from:		
Non-deductible expenditure / (non-taxable income)	(4)	(5)
Transfer pricing adjustment	(1)	—
Overseas tax	(1)	(7)
Free group relief	(14)	(9)
Deferred tax provided at lower rates	—	17
Adjustments to tax charge in respect of previous years	—	(1)
Change in recognition of deferred tax asset	(2)	—
Effective tax rate	(3)	14

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

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11. Taxation (continued)

Change in corporation tax rate

On 3 March 2021, the UK Government announced an increase in the UK's main corporation tax rate from 19% to 25%, effective from 1 April 2023. This will increase the company's future current tax charge accordingly. The rate change was substantively enacted on 24 May 2021 and has therefore been applied when calculating the company's deferred tax balances at the balance sheet date.

(b) Provision for deferred tax

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

	Profit and loss account		Balance sheet	
Deferred tax asset	2022	2021	2022	2021
	£000	£000	£000	£000
Decommissioning and other provisions	—	(550)	—	6,585
Tax losses carried forward	—	(7,686)	—	17,502
Reversal of deferred tax asset	22,111	—	—	—
Net credit for deferred tax (liabilities) / assets	22,111	(8,236)	—	24,088

Analysis of movements during the year

	2022
	£000
At 1 January 2022	24,088
Deferred tax charge / (credit) in the profit and loss account	(22,111)
Deferred tax charge / (credit) in equity	(1,977)
At 31 December 2022	—

Deferred tax has not been recognized on deductible temporary differences of £9,112,000 (2021 £9,112,000) in respect of capital losses which do not have an expiry date on the basis that they are not expected to give rise to any future tax benefit.

Deferred tax asset previously recognised was written off in 2022 since as per current forecasts the company does not expect future taxable profits in the near future against which it can utilise the deferred tax asset.

12. Directors and employees

(a) Remuneration of directors

None of the directors received any fees or remuneration for qualifying services as a director of the company during the financial year (2021 £Nil).

(b) Employee costs

	2022	2021
	£000	£000
Wages and salaries	52,568	11,511
Social security costs	6,650	1,199
Other pension costs	—	1,661
Share-based payment charge	—	7,258
	59,218	21,629

The employee costs noted above relate to those employees with contracts of employment in the name of Lubricants UK Limited.

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12. Directors and employees (continued)

(c) The average monthly number of employees during the year was 276 (2021 62).

Average number of employees	2022	2021
	No.	No.
customers & products	276	62
	276	62

The increase in employee costs and average number of employees is mainly due to the change in May 2022 when all Castrol UK employees were transferred to Lubricants UK Limited from other bp group entities.

13. Intangible assets

	Software & other	Intellectual Property[a]	Total	Of which AUC[b]
Cost	£000	£000	£000	£000
At 1 January 2022	125,122	2,879,000	3,004,122	18,287
Addition - other intangible assets	17,788	38,599	56,387	—
Additions - purchase of software	20,551	—	20,551	20,551
Additions - internal development of software	21,652	—	21,652	21,652
Disposals	(3,747)	—	(3,747)	—
Transfers	(17,788)	—	(17,788)	(17,788)
At 31 December 2022	163,578	2,917,599	3,081,177	42,702
Amortization				
At 1 January 2022	83,534	—	83,534	—
Disposals	(3,747)	—	(3,747)	—
Charge for the year	13,607	287,900	301,507	—
Impairment	—	862,000	862,000	—
At 31 December 2022	93,394	1,149,900	1,243,294	—
Net book value				
At 31 December 2022	70,184	1,767,699	1,837,883	42,702
At 31 December 2021	41,588	2,879,000	2,920,588	18,287

[a]On 31 December 2021 Lubricants UK Limited and Castrol Limited entered into a 10 year period agreement whereby Castrol Limited provides to the entity right of use to certain intellectual property (IP) of Castrol Limited.
[b]AUC = assets under construction. Assets under construction are not depreciated.

During the year, the long term plan for the global Castrol business was updated. As a result of factors including geopolitical conflict, acceleration of EV vehicles usage and increased central costs, the company now expects to derive lower income from the IP intangible asset than was expected upon its initial recognition. Recoverable amount of the IP intangible asset was determined based on a discounted cash flow model which used a 9-years discounted cash flows forecast and 7% post-tax discount rate.

Recoverable amount of £1,729m was lower than the asset book value of £2,591m as at 31 December 2022, so accordingly £862m impairment has been recognized.

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13. Intangible assets (continued)

Recoverable amount was calculated based on the most recent forecast approved by management at Castrol and at bp. Several sensitivity scenarios have been tested which demonstrate the effect of changes in the turnover and costs assumptions for the value of the IP. The objective of the sensitivity analysis is to test whether a reasonably possible change to a key assumption on which management has based its determination of recoverable amount would cause the carrying amount to exceed its recoverable amount. Management considers Head Office costs, Recharges, Turnover and RCOP to be the key sources of estimation uncertainty in determining the recoverable amount of the investment.

Key elements for determining recoverable amount are the following:

1. Head Office costs: 10% decrease would increase the recoverable amount from base case £1,729m to £1,768m, while 10% increase would decrease the recoverable amount to £1,690m.
2. Recharges: 10% decrease would increase the recoverable amount from base case £1,729m to £1,822m, while 10% increase would decrease the recoverable amount to £1,636m.
3. Turnover of the regions: 10% decrease would increase the recoverable amount from base case 1,729m to £1,778m, while 10% increase would decrease the recoverable amount to £1,680m.
4. RCOP of the regions: 10% decrease would decrease the recoverable amount from base case 1,729m to £1,372m, while 10% increase would increase the recoverable amount to £2,088m.

14. Tangible assets

	Land & buildings	Fixtures & fittings	Plant & machinery	Total	Of which AUC*
Cost - owned tangible assets	£000	£000	£000	£000	£000
At 1 January 2022	25,792	11,847	29,759	67,398	12,167
Additions	922	719	7,288	8,929	8,929
Additions - other	—	25	9,969	9,994	—
Disposals	(1,890)	—	(1,008)	(2,898)	7
Transfers	—	(25)	(9,969)	(9,994)	(9,994)
At 31 December 2022	24,824	12,566	36,039	73,429	11,109
Depreciation - owned tangible assets					
At 1 January 2022	15,094	9,839	11,871	36,804	—
Charge for the year	718	634	2,233	3,585	—
Disposals	(1,890)	—	(1,015)	(2,905)	
At 31 December 2022	13,922	10,473	13,089	37,484	—
Owned tangible assets - net book value					
At 31 December 2022	10,902	2,093	22,950	35,945	—
Right-of-use assets - net book value					
At 31 December 2022	122	—	—	122	—
Total tangible assets net book value					
At 31 December 2022	11,024	2,093	22,950	36,067	11,109
Total net book value					
At 31 December 2021	10,833	2,008	17,888	30,729	5,381
Depreciation charge for the year on right-of-use assets					
2022	13	—	—	13	—
2021	13	—	—	13	—

Lubricants UK Limited has a £1 investment in Castrol Offshore Limited which represents 100% of the ordinary share capital. Castrol Offshore Limited's registered address is: Chertsey Road, Sunbury on Thames, Middlesex, TW16 7BP, United Kingdom.

15. Stocks

	2022	2021
	£000	£000
Trading stocks	5,932	5,439
	5,932	5,439

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

DTT

16. Debtors

Amounts falling due within one year:

	2022	2021
	£000	£000
Trade debtors	16,484	8,559
Amounts owed from fellow subsidiaries	199,893	372,869
Other debtors	5,971	5,457
Prepayments and accrued income	28,313	20,061
Taxation	—	561
	250,661	407,507

The amounts owed from fellow subsidiaries comprise mainly Residual, Market support and Procurement fee open items (£83m), Marketing and Technology recharge (£76m) and other open intercompany invoices from various partners (£19m).

Amounts falling due after one year:

	2022	2021
	£000	£000
Amounts falling due after one year:		
Prepayments and accrued income	6,381	17,277
	6,381	17,277
Total debtors	257,042	424,784

17. Creditors

Amounts falling due within one year:

	2022	2021
	£000	£000
Trade creditors	25,715	26,673
Amounts owed to parent undertakings	123	123
Amounts owed to fellow subsidiaries	312,372	3,116,791
Other creditors	3,197	4,867
Taxation	1,011	—
Accruals and deferred income	16,671	16,911
Obligations under leases	13	13
	359,102	3,165,378

Materially all of the company's trade payables have payment terms in the range of 30 to 60 days and give rise to operating cash flows.

The amounts owed to fellow subsidiaries comprise a variable rate Internal Financing Account (IFA) of £91,435,836 (2021 £122,854,162 receivable). This balance forms a key part of the bp group’s liquidity and funding arrangements under its centralised treasury funding model. Whilst IFA credit balances are legally repayable on demand, in practice they have no termination date. Interest is accrued on a monthly basis primarily based on GBP LIBOR.

The category also includes open group recharges and residual income related items (£96m) and 2022 related IP right of £39m that needs to be paid to Castrol Limited.

DTT

17. Creditors (continued)

The decrease in the amounts owed to fellow subsidiaries is mainly due to the settlement toward Castrol Limited for the liability related to the right of use of the IP asset of £2,879,000,000.

Amounts falling due after one year:

	2022	2021
	£000	£000
Amounts owed to fellow subsidiaries	2,879,000	—
Obligations under leases	116	128
Total creditors	3,238,218	3,165,506

Amounts owed to fellow subsidiaries comprises a variable rate loan of £2,879,000,000 with interest being charged based on a 3-month IBOR rate plus one hundred and four basis points which started on 15 December 2022 with a maturity date in 2027.

18. Other provisions

	Environmental	Other	Restructuring	Total
	£000	£000	£000	£000
At 1 January 2022	27,130	257	2,024	29,411
Exchange Adjustments	(1,421)	—	—	(1,421)
New or increased provisions:				
Charged to profit and loss account	683	—	3,131	3,814
Write-back of unused provisions	—	(58)	—	(58)
Utilisation	—	—	(5,155)	(5,155)
At 31 December 2022	26,392	199	0	26,591
At 31 December 2022				
Current	—	199	0	199
Non-current	26,392	—	—	26,392
	26,392	199	—	26,591
At 31 December 2021				
Current	—	257	2,024	2,281
Non-current	27,130	—	—	27,130
	27,130	257	2,024	29,411

Environmental provision is related to the accountability the company has for performing environmental remediation works to a site located in the UK.
Other provision relates to a legal case regarding a commission fee payment to a customer expected to be settled by end Dec 2023.

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19. Called up share capital

	2022	2021
	£000	£000
Issued and fully paid:		
750,000,000 ordinary shares of £1 each for a total nominal value of £750,000,000	750,000	750,000
	750,000	750,000

20. Reserves

Called up share capital
The balance on the called up share capital account represents the aggregate nominal value of all ordinary shares in issue.

Share premium account
The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary shares.

Other reserves
The balance on the other reserve account represents the effect of share-based payment equity settled transactions that arise from BP p.l.c. These are distributable reserves.
In 2022, the company paid interim ordinary dividends of £nil (2021 £nil).

Profit and loss account
The balance held on this reserve is the accumulated losses of the company.

21. Related party transactions

The company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel.

22. Pension and Other Post-Retirement Benefits

The company operates a post-retirement benefit plan. The employment contract of certain present and former employees of the company entitles them to free private medical insurance post retirement. The company pays these premiums on behalf of the former employees.

The obligation and the cost of providing post-retirement benefits are assessed annually using the projected unit credit method. The most recent formal actuarial valuation for the Burmah Castrol Post-retirement Healthcare Plan was as at 31 December 2020. The date of the most recent actuarial review was 31 December 2022.

The material financial assumptions used to estimate the benefit obligations are set out below. The assumptions are reviewed by management at the end of each year, and are used to evaluate the accrued benefit obligation at 31 December and pension expense for the following year:

		%
	2022	**2021**
Financial assumption used to determine benefit obligation		
Discount rate for other post-retirement pension plan liabilities	**5**	**1.9**

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22. Pension and Other Post-Retirement Benefits (continued)

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

		%
	2022	**2021**
Financial assumption used to determine benefit obligation		
Initial healthcare cost trend rate	**5.10**	**5.10**
Ultimate healthcare cost trend rate	**5.10**	**5.10**
Year in which ultimate trend rate is reached	**2024**	**2022**

In addition to the financial assumptions, we regularly review the demographic and mortality assumptions. The mortality assumptions reflect best practice in the UK, and have been chosen with regard to the latest available published tables adjusted where appropriate to reflect experience of the company and an extrapolation of past longevity improvements in the future. Our mortality assumptions as follows:

		Years
	2022	**2021**
Mortality assumptions		
Life expectancy at age 60 for a male currently aged 60	**26.9**	**26.9**
Life expectancy at age 60 for a male currently aged 40	**28.4**	**28.4**
Life expectancy at age 60 for a female currently aged 60	**28.8**	**28.9**
Life expectancy at age 60 for a female currently aged 40	**30.4**	**30.5**

		£000
	2022	**2021**
Analysis of the amount charged to profit before interest and taxation		
Interest on plan liabilities	**431**	**388**
Other finance expense	**431**	**388**

	2022	**2021**
Analysis of the amount recognized in other comprehensive income		
Changes in demographic assumptions	**87**	**25**
Change in financial assumptions underlying the present value of the plan liabilities	**3,237**	**1,291**
Experience gains and losses arising on the plan liabilities	**2,430**	**1,943**
Remeasurements recognized in other comprehensive income	**5,754**	**3,259**

		£000
	2022	**2021**
Movements in benefit obligation during the year		
Benefit obligation at 1 January	**(23,913)**	**(27,979)**
Interest cost on other post-retirement benefit liabilities	**(431)**	**(388)**
Benefit payments	**1,153**	**1,195**
Remeasurements	**5,754**	**3,259**
Benefit obligation at 31 December	**(17,437)**	**(23,913)**

Sensitivity analysis

The discount rate assumption and assumed healthcare cost trend rate have a significant effect on the amounts reported. A one-percentage point change, in isolation, in certain assumptions as at 31 December 2022 for the company's plan would have had the effects shown in the table below. The effects shown for the expense in 2023 represent the finance expense.

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22. Pension and Other Post-Retirement Benefits (continued)

	One percentage point	
	Increase	Decrease
Discount rate		
Effect on pension and post-retirement benefit expense in 2023	**82**	**(101)**
Effect on pension and post-retirement benefit obligation at 31 December 2022	**1,486**	**1,743**
Healthcare cost trend rate		
Effect on pension and post-retirement benefit expense in 2023	**86**	**(75)**
Effect on pension and post-retirement benefit obligation at 31 December 2022	**1,787**	**(1,551)**

One additional year of longevity in the mortality assumptions would increase the 2023 pension and other post-retirement benefit expense by £2,000 and the pension benefit obligation at 31 December 2022 by £1,079,000.

Estimated future benefit payments and the weighted average duration of defined benefit obligations
The expected benefit payments, which exclude plan expenses, up until 2032 and the weighted average duration of the post-retirement benefit obligations at 31 December 2022 are as follows:

Estimated future benefit payments	
2023	**1,222**
2024	**1,307**
2025	**1,354**
2026	**1,358**
2027	**1,357**
2028-2032	**6,626**
	years
Weighted average duration	**9.2**

The company is a participating employer in the BP Pension Fund. The BP Pension Fund is separately funded and provides benefits that are computed based on an employee's years of service and final pensionable salary. The plan was closed to new joiners in 2010 and was closed to future accrual on 30 June 2021.

The obligation and the cost of providing pensions are assessed annually using the projected unit credit method. The most recent formal actuarial valuation for the BP Pension Fund was as at 31 December 2020. The date of the most recent actuarial review was 31 December 2022.

The BP Pension Fund is operated in a way that does not allow the individual participating employing companies in the Pension Fund to identify their share of the underlying assets and liabilities of the fund. Therefore the company's payments in respect of pension current service cost have been accounted for as an expense as if they were contributions to a defined contribution scheme and no further FRS 101 disclosures are made in these accounts.

The results of the most recent actuarial valuation of the BP Pension Fund as at 31 December 2020, have been reflected in the disclosures required by FRS 101 for the year ended 31 December 2022, and are included within the accounts of the ultimate parent undertaking BP p.l.c.

In the BP p.l.c. accounts, pension plan assets are measured at fair value and pension plan liabilities are measured on an actuarial basis using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the plan liabilities. Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest) are recognised within this company's statement of total recognised gains and losses in the period in which they occur.

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23. Immediate and ultimate controlling parent undertaking

The immediate parent undertaking is Burmah Castrol Plc, a company registered in Scotland. The ultimate controlling parent undertaking is BP p.l.c., a company registered in England and Wales, which is the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of BP p.l.c. can be obtained from its registered address: 1 St James's Square, London, SW1Y 4PD.

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