

Consolidated financial statements of the BP group

Statement of directors' responsibilities in respect of the consolidated financial statements

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and IFRS as adopted by the European Union.

The directors are required to prepare financial statements for each financial year that present fairly the financial position of the group and the financial performance and cash flows of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosure when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance.
- State that the company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The group's business activities, performance, position and risks are set out in this report. The financial position of the group, its cash flows, liquidity position and borrowing facilities are detailed in Liquidity and capital resources on pages 58 to 60 and elsewhere in the notes on financial statements. The report also includes details of the group's risk mitigation and management. The group has considerable financial resources, and the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the group's auditors are unaware, and the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

The directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with IFRS as issued by the International Accounting Standards Board, IFRS as adopted by the European Union and in accordance with the provisions of the Companies Act 1985, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- The management report, which is incorporated in the directors' report, includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties.

Independent auditor's report to the members of BP p.l.c.

We have audited the consolidated financial statements of BP p.l.c. for the year ended 31 December 2008 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognized income and expense and the related notes 1 to 47. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of BP p.l.c. for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of directors' responsibilities in respect of the consolidated financial statements.

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

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report, including the business review, is consistent with the financial statements.

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

We review whether the BP board performance report reflects the company's compliance with the nine provisions of the 2006 Combined Code Principles of Good Governance and Code of Best Practice specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises the Additional information for US reporting, the Supplementary information on oil and natural gas and the BP board performance report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- The consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended.
- The consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The information given in the directors' report is consistent with the consolidated financial statements.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board

As explained in Note 1 to the consolidated financial statements, the group, in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRS as issued by the International Accounting Standards Board, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended.

Ernst & Young LLP

Registered auditor

London

24 February 2009

The maintenance and integrity of the BP p.l.c. website are the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Group income statement

For the year ended 31 December		\$ million		
Sales and other operating revenues		361,143	284,365	265,906
Earnings from jointly controlled entities – after interest and tax		3,023	3,135	3,553
Earnings from associates – after interest and tax		798	697	442
Interest and other revenues	7	736	754	701
Total revenues	6	365,700	288,951	270,602
Gains on sale of businesses and fixed assets	8	1,353	2,487	3,714
Total revenues and other income		367,053	291,438	274,316
Purchases		266,982	200,766	187,183
Production and manufacturing expenses		29,183	25,915	23,793
Production and similar taxes	9	6,526	4,013	3,621
Depreciation, depletion and amortization	10	10,985	10,579	9,128
Impairment and losses on sale of businesses and fixed assets	11	1,733	1,679	549
Exploration expense	17	882	756	1,045
Distribution and administration expenses	13	15,412	15,371	14,447
Fair value (gain) loss on embedded derivatives	34	111	7	(608)
Profit before interest and taxation from continuing operations		35,239	32,352	35,158
Finance costs	19	1,547	1,393	986
Net finance income relating to pensions and other post-retirement benefits	38	(591)	(652)	(470)
Profit before taxation from continuing operations		34,283	31,611	34,642
Taxation	20	12,617	10,442	12,331
Profit from continuing operations		21,666	21,169	22,311
Loss from Innovene operations	4	–	–	(25)
Profit for the year		21,666	21,169	22,286
Attributable to				
BP shareholders		21,157	20,845	22,000
Minority interest		509	324	286
		21,666	21,169	22,286
Earnings per share – cents				
Profit for the year attributable to BP shareholders				
Basic	22	112.59	108.76	109.84
Diluted	22	111.56	107.84	109.00
Profit from continuing operations attributable to BP shareholders				
Basic		112.59	108.76	109.97
Diluted		111.56	107.84	109.12



Group balance sheet

At 31 December			\$ million
Non-current assets			
Property, plant and equipment	23	103,200	97,989
Goodwill	24	9,878	11,006
Intangible assets	25	10,260	6,652
Investments in jointly controlled entities	26	23,826	18,113
Investments in associates	27	4,000	4,579
Other investments	29	855	1,830
Fixed assets		152,019	140,169
Loans		995	999
Other receivables	31	710	968
Derivative financial instruments	34	5,054	3,741
Prepayments		1,338	1,083
Defined benefit pension plan surpluses	38	1,738	8,914
		161,854	155,874
Current assets			
Loans		168	165
Inventories	30	16,821	26,554
Trade and other receivables	31	29,261	38,020
Derivative financial instruments	34	8,510	6,321
Prepayments		3,050	3,589
Current tax receivable		377	705
Cash and cash equivalents	32	8,197	3,562
		66,384	78,916
Assets classified as held for sale	4	-	1,286
		66,384	80,202
Total assets		228,238	236,076
Current liabilities			
Trade and other payables	33	33,644	43,152
Derivative financial instruments	34	8,977	6,405
Accruals		6,743	6,640
Finance debt	35	15,740	15,394
Current tax payable		3,144	3,282
Provisions	37	1,545	2,195
		69,793	77,068
Liabilities directly associated with the assets classified as held for sale	4	-	163
		69,793	77,231
Non-current liabilities			
Other payables	33	3,080	1,251
Derivative financial instruments	34	6,271	5,002
Accruals		784	959
Finance debt	35	17,464	15,651
Deferred tax liabilities	20	16,198	19,215
Provisions	37	12,108	12,900
Defined benefit pension plan and other post-retirement benefit plan deficits	38	10,431	9,215
		66,336	64,193
Total liabilities		136,129	141,424
Net assets		92,109	94,652
Equity			
Share capital	39	5,176	5,237
Reserves		86,127	88,453
BP shareholders' equity	40	91,303	93,690
Minority interest	40	806	962
Total equity	40	92,109	94,652

P D Sutherland Chairman

Dr A B Hayward Group Chief Executive



Group cash flow statement

For the year ended 31 December

\$ million

Operating activities				
Profit before taxation		34,283	31,611	34,642
Adjustments to reconcile profit before taxation to net cash provided by operating activities				
Exploration expenditure written off	17	385	347	624
Depreciation, depletion and amortization	10	10,985	10,579	9,128
Impairment and (gain) loss on sale of businesses and fixed assets	8,11	380	(808)	(3,165)
Earnings from jointly controlled entities and associates		(3,821)	(3,832)	(3,995)
Dividends received from jointly controlled entities and associates		3,728	2,473	4,495
Interest receivable		(407)	(489)	(473)
Interest received		385	500	500
Finance costs	19	1,547	1,393	986
Interest paid		(1,291)	(1,363)	(1,242)
Net finance income relating to pensions and other post-retirement benefits	38	(591)	(652)	(470)
Share-based payments		459	420	416
Net operating charge for pensions and other post-retirement benefits, less contributions and benefit payments for unfunded plans		(173)	(404)	(261)
Net charge for provisions, less payments		(298)	(92)	340
(Increase) decrease in inventories		9,010	(7,255)	995
(Increase) decrease in other current and non-current assets		2,439	5,210	3,596
Increase (decrease) in other current and non-current liabilities		(6,101)	(3,857)	(4,211)
Income taxes paid		(12,824)	(9,072)	(13,733)
Net cash provided by operating activities		38,095	24,709	28,172
Investing activities				
Capital expenditure		(22,658)	(17,830)	(15,125)
Acquisitions, net of cash acquired		(395)	(1,225)	(229)
Investment in jointly controlled entities		(1,009)	(428)	(37)
Investment in associates		(81)	(187)	(570)
Proceeds from disposal of fixed assets	5	918	1,749	5,963
Proceeds from disposal of businesses, net of cash disposed	5	11	2,518	291
Proceeds from loan repayments		647	192	189
Other		(200)	374	–
Net cash used in investing activities		(22,767)	(14,837)	(9,518)
Financing activities				
Net repurchase of shares		(2,567)	(7,113)	(15,151)
Proceeds from long-term financing		7,961	8,109	3,831
Repayments of long-term financing		(3,821)	(3,192)	(3,655)
Net increase (decrease) in short-term debt		(1,315)	1,494	3,873
Dividends paid				
BP shareholders	21	(10,342)	(8,106)	(7,686)
Minority interest		(425)	(227)	(283)
Net cash used in financing activities		(10,509)	(9,035)	(19,071)
Currency translation differences relating to cash and cash equivalents		(184)	135	47
Increase (decrease) in cash and cash equivalents		4,635	972	(370)
Cash and cash equivalents at beginning of year		3,562	2,590	2,960
Cash and cash equivalents at end of year		8,197	3,562	2,590



For the year ended 31 December	\$ million		
Currency translation differences	(4,362)	1,887	2,025
Exchange gain on translation of foreign operations transferred to gain or loss on sale of businesses and fixed assets	–	(147)	–
Actuarial (loss) gain relating to pensions and other post-retirement benefits	(8,430)	1,717	2,615
Available-for-sale investments marked to market	(994)	200	561
Available-for-sale investments – recycled to the income statement	526	(91)	(695)
Cash flow hedges marked to market	(1,173)	155	413
Cash flow hedges – recycled to the income statement	45	(74)	(93)
Cash flow hedges – recycled to the balance sheet	(38)	(40)	(6)
Tax on currency translation differences	100	139	(201)
Tax on actuarial (loss) gain relating to pensions and other post-retirement benefits	2,602	(427)	(820)
Tax on available-for-sale investments	50	(14)	108
Tax on cash flow hedges	194	26	(47)
Tax on share-based payments	(190)	213	26
Net (expense) income recognized directly in equity	(11,670)	3,544	3,886
Profit for the year	21,666	21,169	22,286
Total recognized income and expense for the year	9,996	24,713	26,172
Attributable to			
BP shareholders	9,562	24,365	25,837
Minority interest	434	348	335
	9,996	24,713	26,172