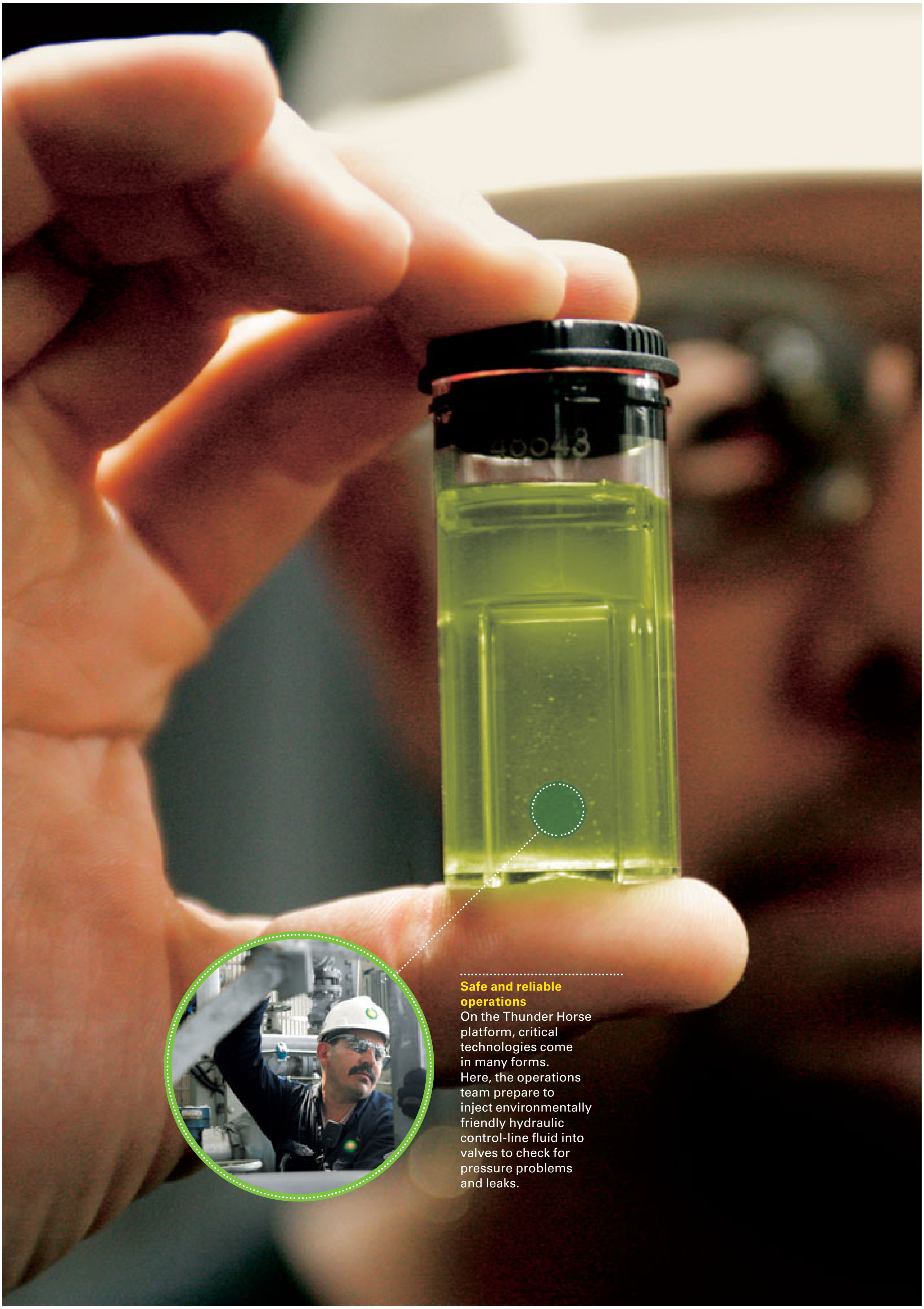
Annual Review 2008

bp.com/annualreview

Meeting the energy demands of today and tomorrow

Oil Natural gas Wind Solar Biofuels

First oil at Thunder Horse
After more than 10 million work hours, the Thunder Horse field in the Gulf of Mexico started production in 2008. By the end of the year, the team had brought four wells onstream, producing around 200,000 barrels of oil equivalent per day.



Safe and reliable operations
On the Thunder Horse platform, critical technologies come in many forms. Here, the operations team prepare to inject environmentally friendly hydraulic control-line fluid into valves to check for pressure problems and leaks.

Reconciliation of profit for the year to replacement cost profit

The Annual Review for the year ended 31 December 2008 includes the summary financial statement (on pages 1-5 and 10-41), which comprises summaries of the Directors' Report and the Directors' Remuneration Report and a summary of the information in the consolidated financial statements. The summary financial statement complies with the information required under the Companies (Summary Financial Statement) Regulations 1995. It does not contain sufficient information to allow as full an understanding of the results and the state of affairs of BP and of its policies and arrangements concerning directors' remuneration as *BP Annual Report and Accounts 2008*. Shareholders may obtain a copy of *BP Annual Report and Accounts 2008* online or on request, free of charge (*see page 41*). Outside the summarized financial statements (*see pages 32-35*), references within *BP Annual Review 2008* to 'profits', 'result' and 'return on average capital employed' are to those measures on a replacement cost basis unless otherwise indicated. The table below reconciles profit for the year to replacement cost profit. Comparative information presented here has been restated, where appropriate, to reflect the resegmentation, following transfers of businesses between segments, that was effective from 1 January 2008.

For the year ended 31 December			$ million
	2008	2007	2006
Profit before interest and taxation from continuing operations	**35,239**	32,352	35,158
Finance costs and net finance income relating to pensions and other post-retirement benefits	**(956)**	(741)	(516)
Taxation	**(12,617)**	(10,442)	(12,331)
Minority interest	**(509)**	(324)	(286)
Profit for the year from continuing operations attributable to BP shareholders	**21,157**	20,845	22,025
Profit (loss) for the year from Innovene operations	**–**	–	(25)
Inventory holding (gains) losses, net of tax	**4,436**	(2,475)	222
Replacement cost profit[a b]	**25,593**	18,370	22,222
Replacement cost profit from continuing operations attributable to BP shareholders	**25,593**	18,370	22,247
Replacement cost profit (loss) from Innovene operations	**–**	–	(25)
Replacement cost profit	**25,593**	18,370	22,222
Exploration and Production	**38,308**	27,602	31,026
Refining and Marketing	**4,176**	2,621	5,161
Other businesses and corporate	**(1,223)**	(1,209)	(841)
Consolidation adjustment – unrealized profit in inventory	**466**	(220)	65
Replacement cost profit before interest and taxation	**41,727**	28,794	35,411
Finance costs and net finance income relating to pensions and other post-retirement benefits	**(956)**	(741)	(516)
Taxation on a replacement cost basis	**(14,669)**	(9,359)	(12,362)
Minority interest	**(509)**	(324)	(286)
Replacement cost profit from continuing operations attributable to BP shareholders	**25,593**	18,370	22,247
Per ordinary share – cents			
Profit for the year attributable to BP shareholders	**112.59**	108.76	109.84
Replacement cost profit	**136.20**	95.85	110.95
Dividends paid per ordinary share – cents	**55.05**	42.30	38.40
– pence	**29.387**	20.995	21.104
Dividends paid per American depositary share (ADS) – dollars	**3.303**	2.538	2.304

[a] Replacement cost profit reflects the replacement cost of supplies. The replacement cost profit for the year is arrived at by excluding from profit inventory holding gains and losses and their associated tax effect. Inventory holding gains and losses, for this purpose, are calculated for all inventories except for those that are held as a part of a trading position and certain other temporary inventory positions. BP uses this measure to assist investors in assessing BP's performance from period to period. Replacement cost profit is not a recognized GAAP measure.

[b] Effective 1 January 2008, replacement cost profit for the year is determined by excluding from profit inventory holding gains and losses as well as their associated tax effect. Previously, replacement cost profit excluded inventory holding gains and losses while the tax charge remained unadjusted and included the tax effect on inventory holding gains and losses. Comparative amounts have been amended to the new basis and the impact of the change is shown in the table below. There is no impact on profit for the year.

For the year ended 31 December		$ million
	2007	2006
Replacement cost profit		
– as previously reported	17,287	22,253
– tax effect on inventory holding gains and losses	1,083	(31)
– as amended	18,370	22,222

BP p.l.c. is the parent company of the BP group of companies. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiaries.

The term 'shareholder' in this Annual Review means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and/or indirect.

BP Annual Report and Accounts 2008 and *BP Annual Review 2008* may be downloaded from *www.bp.com/annualreview*. No material on the BP website, other than the items identified as *BP Annual Report and Accounts 2008* and *BP Annual Review 2008*, forms any part of those documents.

As BP shares, in the form of ADSs, are listed on the New York Stock Exchange (NYSE), an Annual Report on Form 20-F will be filed with the US Securities and Exchange Commission (SEC) in accordance with the US Securities Exchange Act of 1934. When filed, copies may be obtained free of charge (*see page 41*). BP discloses in its *Annual Report on Form 20-F 2008* and on its website at *www.bp.com/NYSEcorporategovernancerules* significant ways (if any) in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.

Cautionary statement

BP Annual Review 2008 contains certain forward-looking statements, particularly those relating to timing and capacity of projects, demand for fossil fuels, world energy demand, global proved reserves, investment to meet future energy demand, realization of financial impacts of actions taken to create operational momentum, strategy, continuing priority of safety, people and performance, focus of investment, efficiency of cost base in Exploration and Production, sales growth for US refineries from US convenience retail franchise model, economic environment, headcount reductions, completion of planned petrochemicals projects, growth in biofuels market, dividends, dividend reinvestment plans and executive remuneration. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors including the timing of bringing new fields onstream, future levels of industry product supply, demand and pricing, operational problems, general economic conditions, political stability and economic growth in relevant areas of the world, changes in laws and governmental regulations, exchange rate fluctuations, development and use of new technology, changes in public expectations and other changes in business conditions, the actions of competitors, natural disasters and adverse weather conditions, wars and acts of terrorism or sabotage, and other factors discussed elsewhere in this document and in *BP Annual Report and Accounts 2008*.

The registered office of BP p.l.c. is 1 St James's Square, London SW1Y 4PD, UK. Tel +44 (0)20 7496 4000. Registered in England and Wales No. 102498. Stock exchange symbol 'BP'.

What’s inside?

Guide to icons
These boxes highlight sources of information you may find helpful. Green boxes refer to other content within *BP Annual Review 2008*; yellow boxes refer to general BP content available online, which does not form part of *BP Annual Review 2008*.

Other information
within *BP Annual Review 2008*

Other information
available on bp.com

Chairman's letter

Gathering pace

Peter Sutherland Chairman
24 February 2009

Highlights

- Dramatic change in business environment.
- BP in strong position.

2008 was a year we will all remember. There are few precedents in history for such a rapid and dramatic change in the business environment. In the space of a few months we went from a record oil price of more than $140 per barrel, and BP reporting two consecutive quarters of record profits for the group, to a recession in most of our major markets. Despite this changing environment, I am glad to say that BP is in an enviably strong position in terms of its balance sheet, its assets and its people.

That strength is in no small part due to the period of critical self-examination the group has undergone since 2005. The resulting strategy, devised by Tony Hayward and his team and endorsed by the board, is already bearing fruit and has put us in a much better position to weather the savage economic storms we now face.

The price of oil ended the year at its lowest level for more than four years. That has obviously affected our financial performance. The board understands the importance of the dividend to investors in these difficult times and, despite the weaker environment, we have held the quarterly dividend to be paid in March at 14 cents per share, compared with 13.525 cents per share for the same quarter of 2007. In sterling terms, the quarterly dividend is 9.818 pence per share, compared with 6.813 pence per share for the same quarter of 2007. During the year $2.9 billion of shares were repurchased for cancellation, compared with $7.5 billion in 2007. In response to feedback from investors we are now weighting shareholder returns towards dividends, as opposed to buybacks.

The search for my successor has unfortunately taken longer than originally expected, in part due to the turbulent business environment. It is important that we find the right person and we envisage making an announcement in the coming months. In the meantime I have agreed, at the board's request, to stay on as chairman and will seek re-election.

So, this will be my last annual general meeting. It has truly been an honour for me to serve 12 years as chairman – and before that as a director – of what is one of the world's great enterprises. During that time I have seen BP constantly evolve and, by most measures, nearly double in size. But the underlying principles of the international oil company's business model continue to endure. BP and its peers make the energy markets work, by forming partnerships with resource-holding governments and applying our technology to bringing supplies of energy to millions of customers, every day. 2008 has been a reminder that the world economy depends on our efforts.

BP and its peers make the energy markets work, by forming partnerships with resource-holding governments and applying our technology to bringing supplies of energy to millions of customers, every day. 2008 has been a reminder that the world economy depends on our efforts.

Throughout the year the board has supported Tony and his executive team in reforming the way in which the group works to ensure that everyone within BP is clear on its long-term purpose. It is vital that the role of the international oil company is defined and understood both inside and outside the organization. While sticking to its principles, BP needs to be flexible in the manner in which business is approached, developing a diverse portfolio of projects, with a robust cost structure, enabling the group to perform throughout the cycle.

All our activities need to take place against a very clear view of risk. Events during the year have powerfully reinforced the need for boards to have a very clear understanding of the risks their businesses face. I believe the BP board and its committees have set a high standard in this regard and we continue to improve the manner in which we understand and evaluate risks whether they be strategic, geopolitical, compliance or operational. No business can be without risk. Indeed it is by taking strategic and commercial risks that we earn a return.

We have had some notable operational and engineering successes in the year, which are described within this Annual Review. There are several I could mention, including restoring economic capability at the Texas City refinery, but I would particularly like to focus on the Gulf of Mexico, which is a proving to be a showcase for BP's deepwater skills and technology. BP is now the number one producer there and Thunder Horse, the world's largest semi-submersible platform, is on track to reach capacity of about 280,000 barrels of oil equivalent per day (boe/d) in 2009. Thunder Horse is expected to be the second biggest producing field in the US and is a powerful symbol of what BP can achieve.

I am pleased we have reached an amicable settlement with our partners in our Russian joint venture, TNK-BP. This means BP has retained 50% ownership of what is an important option in one of the world's most prolific hydrocarbon provinces.

I would not normally single out individual executives, but I do want to pay tribute to the work that Bob Dudley has done as chief executive of TNK-BP. During his five-year tenure he transformed TNK-BP and it now leads the Russian oil industry on the basis of production growth, reserves replacement and total shareholder return. I am delighted that Bob will join the BP board in April. As a managing director, he will assume responsibility for broad oversight of the group's activities in the Americas and Asia. We had a settled board for much of 2008, but we expect Bob to be the first of several new appointments as we refresh the cadre of non-executive directors through 2009.

In the past 12 years the energy industry has consolidated and taken major technical steps forward, beginning production in some of the more remote areas of the world, such as the deepwater Gulf of Mexico and the Russian Arctic. Our role has been defined and redefined and BP has led the way in accepting the need to tackle the threat of climate change. Throughout that time the BP board has had outstanding members and, without exception, I have worked with a group of extremely talented executives.

I would like to thank all my board and executive colleagues past and present, and all BP's employees. I would also like to thank the two company secretaries, Judith Hanratty and David Jackson, who have provided me with admirable support during my term. Finally, I thank all our shareholders for their support. During 2009 we are celebrating BP's centenary and I am confident that BP can face the next 100 years with pride and a renewed sense of purpose.

Our market
Read about key issues affecting the energy market on pages 6-9.

100 years of BP
bp.com/history

Group chief executive's review

Driving forward

Tony Hayward Group Chief Executive
24 February 2009

Highlights

- Progress with safe and reliable operations.
- Major projects delivered and revenues restored.
- Complexity and costs being reduced.

In a year that will be remembered for extremely volatile oil prices and exceptional stock market turbulence, BP delivered an excellent set of results. We made good progress on achieving safe and reliable operations, and delivered strong operational momentum that reduced the performance gap with our competitors.

During the year we benefited from record high oil prices. Replacement cost profit for the year was a record $25.6 billion, with a return on average capital employed greater than 20%. We outperformed the FTSE 100 by 17% and our ADSs outperformed the S&P 500 index of large cap US by 2%.

Q At the start of the year what priorities did you set out for BP?

Safety, people and performance, and these remain our priorities. Our number one priority was to do everything possible to achieve safe, compliant and reliable operations.

Good policies and processes are essential but, ultimately, safety is about how people think and act. That's critical at the front line but it is also true for the entire group. Safety must inform every decision and every action. The BP operating management system (OMS) turns the principle of safe and reliable operations into reality by governing how every BP project, site, operation and facility is managed.

Our work on safety has been acknowledged inside and outside the group. For instance, the board's independent expert, L Duane Wilson, continues to report on our progress in implementing the improvements recommended by the BP US Refineries Independent Safety Review Panel and identify areas that need more focused attention. Our most recent employee survey indicated employees are also seeing the results of our work to enhance safety. Clearly, there is more to do and safety remains at the front of our minds. Beyond safety, we are also committed to high ethical standards and legal compliance in all aspects of our business. We have continued to enhance and improve compliance programmes in areas such as our integrated supply and trading function.

In last year's Annual Review I described the forward agenda we were pursuing to close the competitive gap by making BP a simpler and more efficient organization. Throughout 2008 we maintained our focus on reducing cost and complexity, and embedding a strong performance culture throughout the group. We achieved success on both counts. Layers of management have been removed, there is accountability for performance at all levels and we have created a strong focus on leadership behaviours.

Q How have these priorities affected your people?

First, I would like to thank our employees for the part they have played in turning around BP's performance. Their determination and commitment have been truly remarkable and we have come a long way in a short time. At the same time, we continue to provide excellent support for employees. From learning and development to diversity and inclusion, we are enabling people to achieve sustained high performance. Less complexity means we can now clearly identify top performers – both businesses and individuals – and reward them appropriately.

Q How did Exploration and Production perform?

It was an excellent year, with major projects such as Thunder Horse in the Gulf of Mexico and Deepwater Gunashli in Azerbaijan coming onstream. That, together with safe and reliable performance from our existing operations, contributed to underlying production growth – in contrast to the falling output of our major competitors – and more than compensated for the effects of Hurricanes Ike and Gustav and other operational issues. Rigorous cost control and efficiency offset the significant cost inflation that hit our sector. The start of production at Thunder Horse was an important milestone in terms of recovery and renewal. It was also a good year for exploration with major new discoveries in Algeria, Angola, Egypt and the Gulf of Mexico. We also gained new access to oil sands in Canada and shale gas in the US, as well as gaining licences to explore in the Canadian Arctic. 2008 was our 15th consecutive year of delivering reported reserves replacement of more than 100%.

November 2008
Tony Hayward discusses operating priorities with employees at the BP Carson refinery, California, US.

How far has Refining and Marketing addressed its most critical problems?
We made good progress on achieving safe, compliant and reliable operations. We improved refining availability on an annualized basis from 83% to 89% and restored full economic capability at the Texas City and Whiting refineries. In our fuels value chains we are achieving greater integration between refineries, terminals, pipelines and retail sites. The international businesses, which include lubricants, petrochemicals, aviation and marine fuels and liquefied petroleum gas, have performed well. We have also started to address overhead cost by reducing senior level headcount and by simplifying the marketing footprint. Now it's about driving greater consistency and efficiency through the business to capitalize on the leadership positions we enjoy in the most valuable markets.

How is BP responding to the twin challenges of energy security and climate change?
Our job is to help meet the world's energy needs today, invest in the next generation of energy sources and support the transition to a low-carbon economy. Alternative energy production is growing but currently represents just 2% of global energy production, so the world will need fossil fuels for years to come – even if demand slows – and we will play an important role by meeting this need while developing options for the future.

In 2008 we responded to these challenges by investing nearly $22 billion[a] in our businesses – an increase of 13% on 2007. Along with supporting our work on exploration, appraisal, development and the turnaround in Refining and Marketing, we also invested $1.4 billion in alternative forms of energy such as wind, solar, biofuels and carbon capture and storage (CCS). Looking ahead, on the issue of greenhouse gas (GHG) emissions, we believe legislation is required to ensure that a cost of carbon is included in the price of everything. This would enable companies such as BP to make even greater investments in low-carbon energy. We favour cap-and-trade as it provides environmental certainty based on an absolute emissions cap. A global system is the ultimate objective, but progress must be made at national and regional levels first.

[a] Excluding acquisitions and asset exchanges and excluding the accounting for our transactions with Husky Energy Inc. and Chesapeake Energy Corporation.

It is getting tougher for BP and others to access new resources; do international oil companies really have a sustainable future?
International oil companies thrive at the frontiers of the energy industry taking on challenges others are either unwilling or unable to address. BP continues to agree significant new deals, from oil sands to the Beaufort Sea in Canada as well as making new discoveries in Algeria, Angola, Egypt and the Gulf of Mexico. We have also resolved the dispute with our TNK-BP joint venture partners in Russia.

We secure these agreements because we can build enduring relationships and have technical capabilities and experience distinct in our industry. Research and technology play a vital role here. By improving the efficiency of fossil fuel recovery and discovery, promoting fuel conversion and developing low-carbon alternatives, we are helping to provide affordable, sustainable energy for today and tomorrow.

What is the plan for Alternative Energy; what role will it play in BP's portfolio?
With both energy demand and carbon emissions rising, the world needs every sustainable, affordable energy source available. We invest a significant amount in alternative energy technology compared with our peers and, for us, the key question is which technologies will make the greatest contribution to meeting energy demand while providing BP with strong growth businesses. In 2008 we prioritized areas with significant long-term growth potential – wind, solar, biofuels and CCS – and directed the majority of our $1.4 billion investment in the year to these areas.

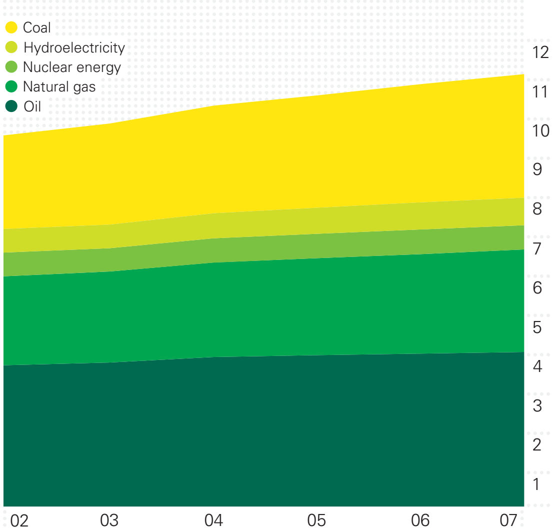
Is BP entering its centenary year in good shape?
On the basis of our 2008 performance, I believe we can declare that 'BP is back'. Clearly, however, we must continue to adjust to market conditions. Oil and gas prices go up and down; our job is to ensure we can compete and thrive through every part of the cycle, something we've been doing for 100 years. Despite the challenges ahead, I am confident that we now have the positive momentum and flexibility required to achieve success as we begin our next century.

Speeches by Tony Hayward
bp.com/speeches

Energy for a fast-moving world

Here we look at the key issues affecting the energy market and BP during a turbulent year for the world economy.

World energy consumption
(billion tonnes of oil equivalent)



Source: *BP Statistical Review of World Energy June 2008.*

Increasing demand

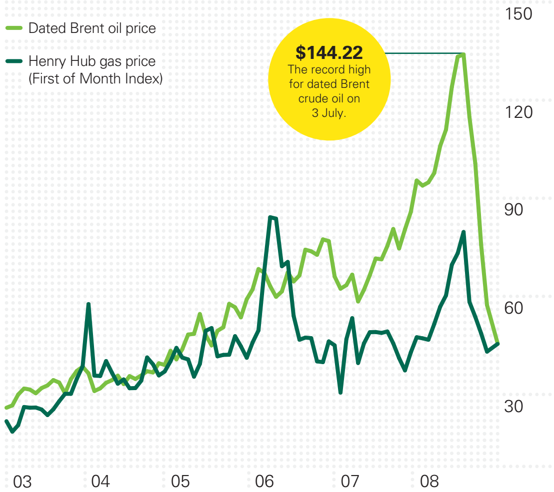
World primary energy consumption increased by 2.4% in 2007, the fifth consecutive year of above-average growth. Under a 'reference case' scenario, world energy demand could be 45% higher by 2030 than it is today and non-OECD countries are expected to contribute nearly 90% of total world energy demand growth, according to International Energy Agency (IEA) estimates. Fossil fuels are expected to provide the bulk of primary energy to 2030; however, renewables are expected to grow the fastest over this period. Two factors are driving these figures – population growth and mass industrialization in emerging economies. Estimates suggest the global population will increase from today's level of 6.7 billion to nine billion by 2050, and in China, India and other developing nations hundreds of millions of people are expected to move from a rural to an urban way of life. While short-term economic conditions may weaken global demand for primary energy temporarily, the long-term outlook remains one of substantial, sustained growth.

Volatile prices

2008 saw volatile energy price movements. Crude oil prices rose to record highs – dated Brent reached $144.22 per barrel on 3 July. Following this mid-year peak, the unsettled financial markets and wider economic uncertainty saw the price drop back to $36.55 at the end of the year. This volatility was also mirrored in the gas market, with the average US natural gas price[a] for 2008 increasing by 32% to $9.04 per million British thermal units (mmBtu), with a mid-year peak of $13.11/mmBtu, but by the end of the year it had fallen to $6.90/mmBtu from the mid-year high.

[a]Henry Hub First of Month Index.

Crude oil and gas prices
($ per barrel of oil equivalent)

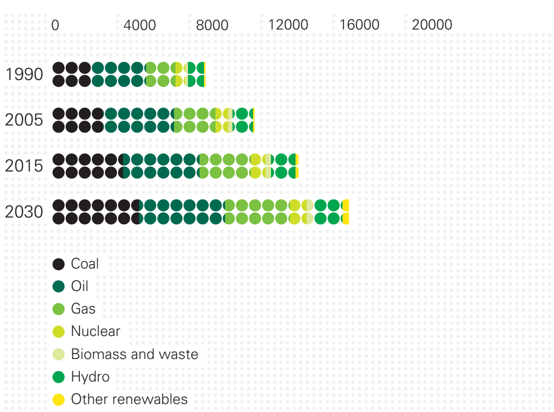


Source: Platts.

Energy diversity

All available primary energy sources will be needed to address the twin challenges of energy security and climate change. In the medium term, there is no economically viable substitute for oil in the transportation sector at scale. Coal will provide a secure energy source for many consuming countries but it is also a major source of GHG emissions. Gas produces lower emissions than coal, but gas reserves are concentrated in a few countries. Alternatives such as wind, solar and biofuels are growing fast, but these renewable sources, together with geothermal energy, account for just 2% of current primary energy supply. Conservation in all sectors can help reduce future energy demand.

Global energy demand by type
(million tonnes of oil equivalent)

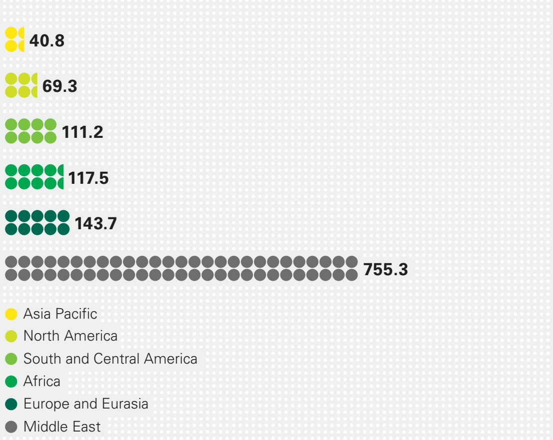


Source: Adapted from *World Energy Outlook 2008*. © OECD/IEA 2008.

Global reserves

The idea that the world has reached or passed the point of 'peak oil' has become commonplace, yet there are more than enough resources to meet oil demand for decades. At current consumption rates, global proved reserves are estimated to provide around 40 years of oil, 60 years of natural gas and 130 years of coal. Improved recovery factors and new discoveries have resulted in increased proved oil reserves in 22 of the past 25 years, growing in aggregate by more than 70% over that period. To meet demand, government, energy companies and industry must work together to bring further reserves of oil and gas to market. This requires companies such as BP to operate at the frontiers, as many resources are to be found in challenging environments – from the deserts of the Middle East and North Africa to the deep waters of the Gulf of Mexico, West Africa and Brazil to the Alaskan and Russian Arctic.

Global proved oil reserves at end 2007
(billion barrels)



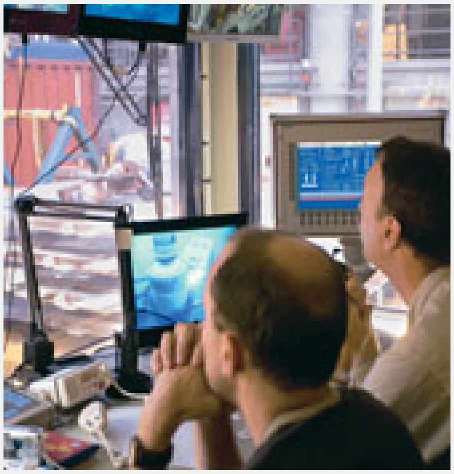
Source: *BP Statistical Review of World Energy June 2008.*

Energy security

Around 70% of the world's proved oil reserves are located in just seven countries and 55% of the world's proved gas reserves are found in three countries. While current levels of demand are being met, 2008 saw ongoing anxieties around the potential effects of political instability in key energy producing regions. This eased as OPEC spare capacity increased and prices fell in the second half of the year, although concerns remain that accidents or natural events could disrupt production and distribution. Individual consuming countries continue to face specific energy security issues related to cost, geography and political relationships with producers.

How BP is responding
Read about our strategy on pages 10-11.

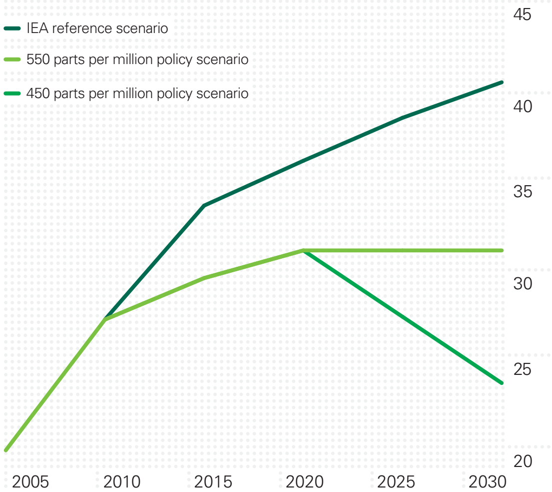
BP Statistical Review of World Energy
bp.com/statisticalreview



Climate concern

Fossil fuels will play an invaluable role in supplying the heat, light and mobility required by a growing population. But, while demand for energy grows, there is sufficient evidence that human activity and global warming are connected, particularly that the use of fossil fuels contributes about 60% of all GHG emissions. There is broad consensus that precautionary action is necessary to reverse this growth and stabilize atmospheric concentrations of GHG emissions. In order to achieve this goal, the world will have to 'decarbonize' future energy supplies using a variety of options – energy conservation, nuclear power and renewables such as wind, solar, biofuels and CCS. If the costs of GHG emissions were included in the price we pay for everyday activities – from travelling by train to switching on lights – consumer behaviour would begin to change. Market-based mechanisms such as cap-and-trade are necessary to ensure that a cap is placed on GHG emissions and cost-efficient methods are used to reduce them. There is also a need for transitional incentives to bring forward the development and deployment of low-carbon technologies, as some of these will initially require a higher carbon price than that created by a cap-and-trade system.

Range of carbon dioxide emission reduction trajectories
(gigatonnes)



Source: Adapted from *World Energy Outlook 2008*. © OECD/IEA 2008.

Investment and innovation

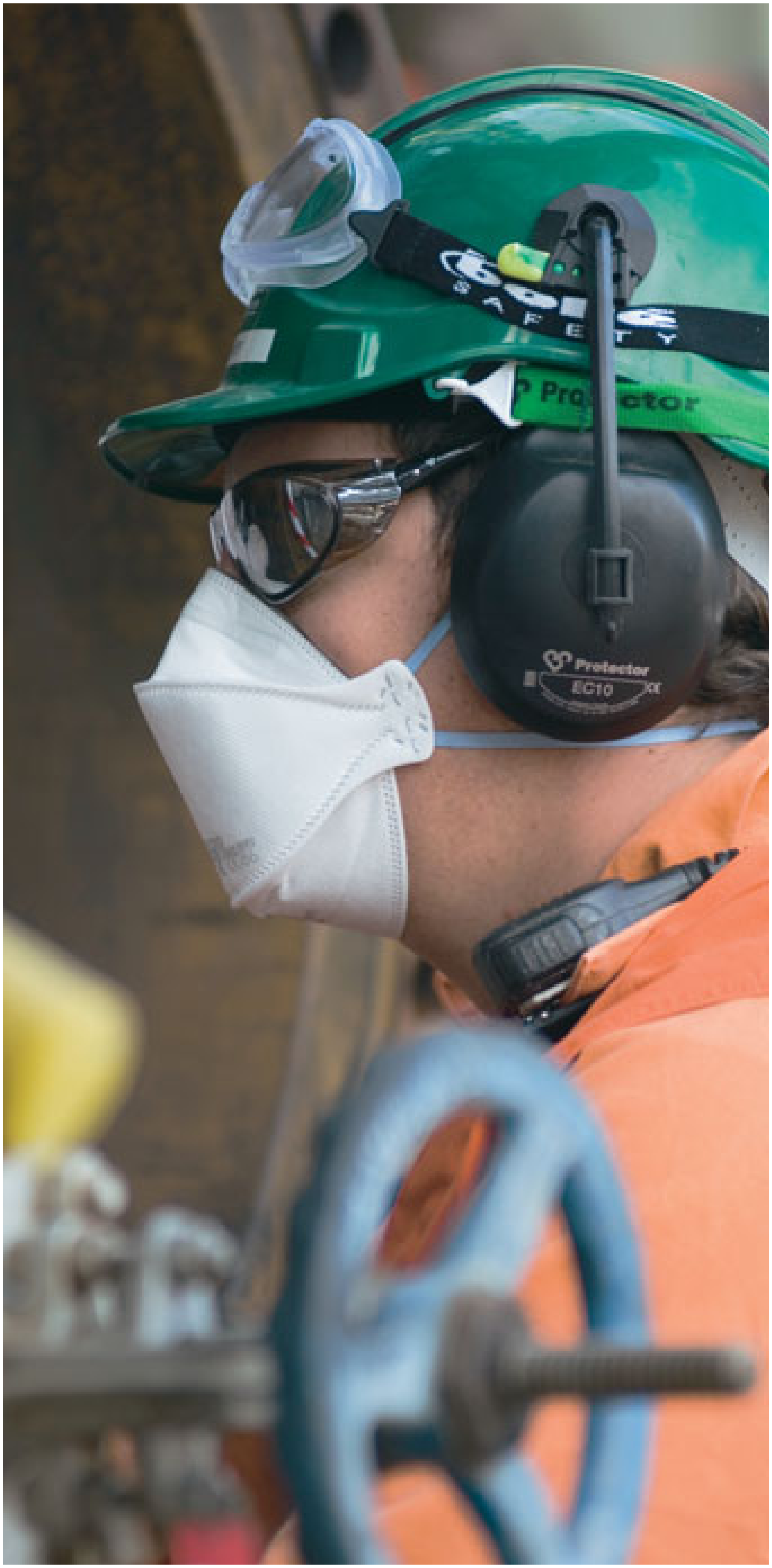
Investment of more than $26 trillion[a] is estimated to be required between now and 2030 to meet future energy demand – about $13 trillion in oil and gas production alone. While this appears to be a daunting figure, many oil and gas companies are already spending at a pace consistent with meeting this requirement. A significant proportion of investments will be required for the development, application and implementation of technologies and know-how – the new equipment, methods and skills needed to address increasingly demanding engineering and technical issues. Innovation will play an essential role in enabling energy companies to find reserves, get more from each new field, maximize the contribution from mature assets and enhance the way we transport, refine and distribute products.

[a]Adapted from *World Energy Outlook 2008*.
© OECD/IEA 2008.

Capability gap

Capability is one of the greatest issues facing the energy industry. Put simply, there is a shortage of scientists and engineers, with many of the qualified people currently in the industry nearing retirement and too few graduates having qualifications relevant to our sector. The industry must attract, inspire and develop new generations of energy experts if it is to meet the challenge of turning resources into reserves and reserves into energy.

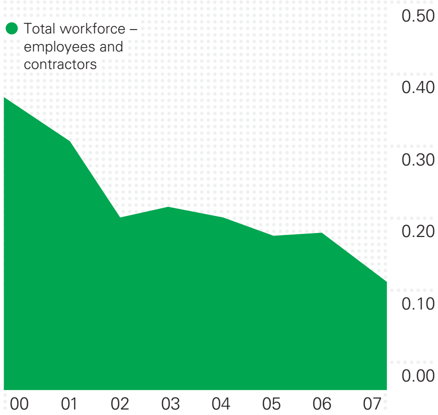
Addressing the capability gap
bp.com/ourpeople



Safety first

International oil companies must operate in tough conditions, engage with complex technical challenges and address significant risk – while putting safety first at all times. Our employees, investors, regulators and government partners expect us to put safety above all other concerns and, at BP, safety remains our number one priority.

Industry lost-time injury frequency
(per 200,000 work-hours)



Source: International Association of Oil and Gas Producers (OGP) *Safety Performance Indicators* – 2007 data. © OGP 2008.

Our safety performance
Read about our key measures of progress on pages 12-13.

Building and sustaining momentum

BP has a clear strategy that addresses the group's current and future opportunities and challenges. At the heart of this strategy sit our three priorities – safety, people and performance. Here we describe our approach and outline the actions we are taking to transform strategy into value.

Closing the competitive gap

- Competitive performance gap reduced.
- Progress with safe and reliable operations.
- Strong commitment to continuous improvement established.

Delivery against our forward agenda, which we outlined in 2007, has resulted in BP making significant progress towards closing the competitive performance gap with our peer group. Actions taken since the end of 2007 to restore revenues and reduce complexity and costs have created operational momentum through 2008; their full financial impact is expected to be realized from 2009.

Our forward agenda focus on safety, people and performance is paying off. BP is in the leading group for safety performance in the industry, we have more of the right people in the right place to make a difference and we are achieving real performance momentum in our operations. A commitment to continuous improvement will be the enduring legacy of the first phase of our forward agenda.

Sustaining momentum and growth

- Safety and integrity remain first priority.
- Exploration and Production to be core vehicle for growth.
- More investment in availability and integrity in Refining and Marketing.
- Focused investment in low-carbon energy businesses.

Looking forward, our strategy is to create value for shareholders by investing to deliver growth in our Exploration and Production business, together with high-quality earnings and returns throughout our operations. Our first priority continues to be to ensure the safety and integrity of our operations.

To sustain and build on the momentum created by our forward agenda, we intend to re-invest competitively in Exploration and Production to secure and grow high-quality oil and gas resources. We intend to continue to drive renewal through new access and exploration, but also through targeted acquisition and a renewed focus on increasing recovery from fields in which we already operate.

We expect Exploration and Production to be our core vehicle for growth. We expect to make investments across the full life cycle of our assets with an increased emphasis on technology as a source of productivity, access and competitive advantage. We expect to strengthen our position further by securing new access and achieving exploration success.

In Refining and Marketing, we expect to continue building our business around advantaged assets in material and significant energy markets. We intend to continue investing in improving the safety and reliability of our operations. Additionally, we intend to drive further operational performance and productivity by investing in the upgrade of manufacturing capabilities within our integrated fuels value chains. We also intend to invest selectively in international businesses, including lubricants and petrochemicals, where we believe there is the potential to deliver strong returns.

In our Alternative Energy business, we are creating long-term options for the future in new energy technology and low-carbon energy businesses. Investment will focus activity on wind, solar, biofuels and CCS as sources of energy and resource diversification and to create and grow value for BP.

Our present and future is dependent on our people and technology. We intend to invest to build capability in our business, ensuring we have the talent and experience required to meet all our objectives. We also intend to invest in technology to support the delivery of competitive business performance and new business development.

BP is committed to exploring, developing and producing more fossil fuel resources because the world needs them; manufacturing, processing and delivering better and more advanced products; and enabling the material transition to a lower carbon future. We will continue to do this by operating safely, reliably and in compliance with the law. And we will run our business within the discipline of a clear financial framework.

1. Angola
BP employees arrive safely at the Greater Plutonio offshore floating, production, storage and offloading vessel. We expect to have invested more than $15 billion in our Angolan business by 2010.

2. Brazil
Testing biofuels at one of Tropical BioEnergia S.A.'s laboratories. BP acquired a 50% stake in the company in 2008.

3. US
Safety inspection work at our Toledo, Ohio, refinery. We are implementing our operating management system at every BP site worldwide.

How we create value

Powerful partnerships grounded in mutual advantage.

Excellence in project delivery and the integration of technology.

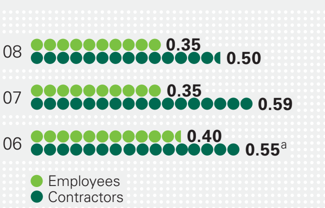
A highly diverse energy portfolio, pioneering energy efficiency and innovation.

Progress in 2008

Personal safety
Full personal safety equipment in use by a BP employee at our refinery in Castellón, Spain.

Safety

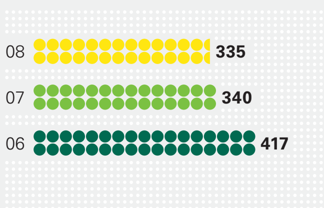
Personal safety – recordable injury frequency



Recordable injury frequency measures the number of reported work-related incidents that result in a fatality or injury (apart from minor first aid cases) per 200,000 hours worked.

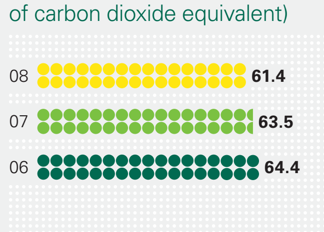
[a] 2006 contractor data corrected from 0.54 to 0.55.

Process safety – oil spills



All spills of hydrocarbon greater than or equal to one barrel (159 litres, 42 US gallons).

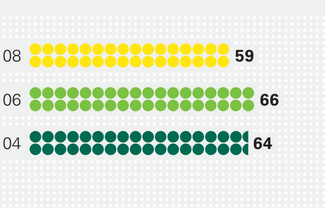
Environment – greenhouse gas emissions (million tonnes of carbon dioxide equivalent)



GHG emissions are emissions of CO_2 and methane in million tonnes of CO_2 equivalent. This is BP's share of direct GHG emissions, representing all consolidated subsidiaries and BP's share of equity-accounted entities except TNK-BP.

People

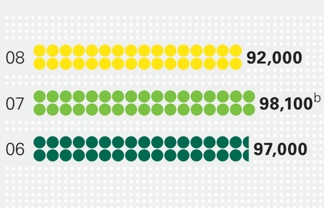
Employee satisfaction[a] (%)



The overall Employee Satisfaction Index comprises 10 key questions that provide insight into levels of employee satisfaction across a range of topics, such as pay.

[a] The People Assurance Survey, conducted in 2004 and 2006, used a census methodology and targeted the entire BP employee population. Based on the same set of questions, the Pulse Plus Survey, in 2008, adopted a sample-based approach, which achieved a representative view of BP.

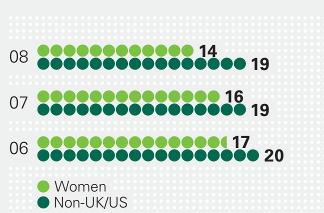
Number of employees[a]



Employees includes all individuals who have a contract of employment with a BP group entity.

[a] As at 31 December.
[b] 2007 data corrected from 97,600 to 98,100.

Diversity and inclusion (%)

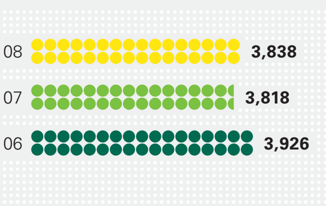


The percentage of women and individuals from countries other than the UK and US among BP's top 583 leaders (2007 624, 2006 625).

Here we present our key measures of progress in the three priority areas of safety, people and performance. While the measures we use to chart financial performance are well established, we continue to evolve safety and people measures to further enhance our reporting.

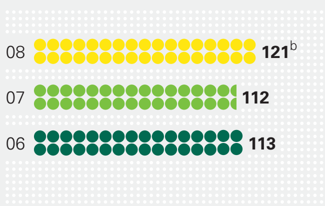
Performance

Production (thousand barrels of oil equivalent per day)



Crude oil, natural gas liquids (NGLs) and natural gas produced from subsidiaries and equity-accounted entities. Converted to barrels of oil equivalent (boe) at 1 barrel of NGL = 1boe and 5,800 standard cubic feet of natural gas = 1boe.

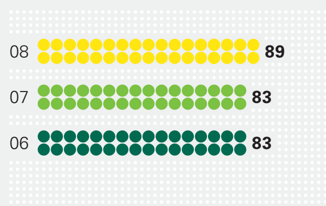
Reserves replacement ratio[a] (%)



Proved reserves replacement ratio (also known as the production replacement ratio) is the extent to which production is replaced by proved reserves additions. The ratio is expressed in oil equivalent terms and includes changes resulting from revisions to previous estimates, improved recovery and extensions and discoveries.

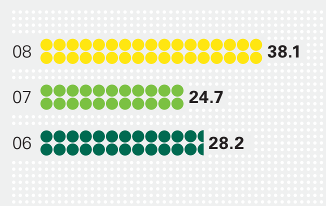
[a] Combined basis of subsidiaries and equity-accounted entities, excluding acquisitions and disposals.
[b] See page 16, footnote c.

Refining availability (%)



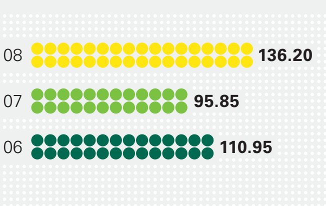
Refining availability represents Solomon Associates' operational availability, which is defined as the percentage of the year that a unit is available for processing after subtracting the annualized time lost due to turnaround activity and all planned mechanical, process and regulatory maintenance downtime.

Operating cash flow ($ billion)



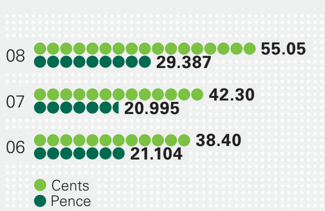
Operating cash flow is net cash flow provided by operating activities, from the group cash flow statement. Operating activities are the principal revenue-producing activities of the group and other activities that are not investing or financing activities.

Replacement cost profit per ordinary share (cents)



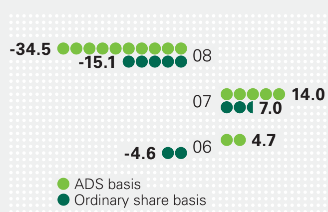
Replacement cost profit reflects the replacement cost of supplies. It is arrived at by excluding from profit inventory holding gains and losses and their associated tax effect. (*See footnotes a and b on inside front cover.*)

Dividends paid per ordinary share



The total dividend per share paid to ordinary shareholders in the year.

Total shareholder return (%)



Total shareholder return represents the change in value of a shareholding over a calendar year, assuming that dividends are re-invested to purchase additional shares at the closing price applicable on the ex-dividend date.

Financial performance in detail
See pages 30-35.

Non-financial performance in detail
bp.com/sustainability

Exploration and Production
Results ($ million)

08 38,308

07 27,602

Replacement cost profit before interest and tax is our key measure of profitability. The improvement in 2008, compared with 2007, was primarily driven by high oil and gas prices during the year and supported by strong underlying production growth and cost efficiency. This result was the highest ever achieved by our business.

At the frontiers

Alaska
250 miles north of the Arctic Circle, our Endicott field was the world s first offshore Arctic oilfield.

Exploration and Production

Exploration and Production delivered an excellent performance in 2008 driven by underlying production growth and strong cost management.

Highlights

- Replacement cost profit before interest and tax up 39%.
- Fifteenth consecutive year of reported reserves replacement of more than 100%.
- Thunder Horse and eight other major projects brought onstream.

BP's Exploration and Production business finds, produces and transports oil and gas to market. We operate in 29 countries and employ more than 20,000 people. Our strategy is to invest to grow production efficiently by:

- Focusing on accessing, finding and developing the largest fields in the world's most prolific hydrocarbon basins.
- Building leadership positions in these areas.
- Using technology to improve productivity and support new access.
- Managing the decline of existing producing assets.

Maintaining our focus on safety

Safety, both personal and process, remains our highest priority. 2008 was one of our best ever years for personal safety, with our performance expected to remain among the best in the industry. During the year we began migrating to the new BP OMS, which has an increased focus on process safety and continuous improvement. The majority of our operations in North America Gas, the Gulf of Mexico, Colombia and the Endicott field in Alaska all completed the migration to the OMS in 2008.

During the year Hurricanes Ike and Gustav caused disruption to our Gulf of Mexico operations. Ike was particularly destructive, but our teams responded rapidly, bringing all BP-operated production back online within 41 days of the storm passing.

E&P in more detail
bp.com/whatwedo

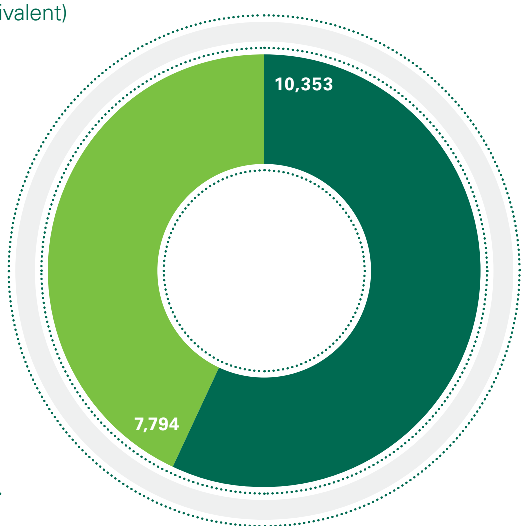
This was extraordinary given that more than 8,000 of our BP group employees were affected personally by hurricane damage. We supported employees through this time and provided more than $17 million to assist with relief and recovery efforts for the wider community.

Our financial performance in 2008

We delivered a strong performance in 2008, with replacement cost profit before interest and tax of $38 billion – a record for our business and a 39% increase compared with 2007. This result was primarily driven by higher oil and gas realizations, supported by strong underlying production growth of 5%[a] and cost efficiency. In 2008 production from our established centres – including the North Sea, Alaska, North America Gas and Trinidad & Tobago – was on plan and we had production growth from nine new projects, including Thunder Horse in the Gulf of Mexico and Deepwater Gunashli in Azerbaijan.

[a] Underlying production growth excludes the impact of lower entitlement in our production-sharing agreements, driven by higher oil and gas prices.

Total net proved reserves 2008[b c]
(million barrels of oil equivalent)



● **Liquids**[d]
● **Natural gas**

2008 was our 15th consecutive year of delivering reported reserves replacement of more than 100%.

[b] Combined basis of subsidiaries and equity-accounted entities, on a basis consistent with general industry practice.
[c] Under current SEC rules, BP's proved reserves estimates are based on prices and costs as of the date the estimate is made. There was a rapid and substantial decline in oil prices in the fourth quarter of 2008 that was not matched by a similar reduction in operating costs by the end of the year. BP does not expect that these economic conditions will continue. However, our 2008 reserves are calculated on the basis of operating activities that would be undertaken were year-end prices and costs to persist.
[d] Crude oil, condensate and natural gas liquids.

While higher oil and gas prices increased revenues they also drove activity growth in the oil and gas sector. This created higher demand for oil field goods and services, generating significant cost inflation. We were not immune from this but mitigated the impact of inflation through strong cost management and a focus on simplification and efficiency. We held production costs essentially flat from 2007 to 2008, significantly below the 20% annual cost growth between 2004 and 2007 and below sector inflation.

In 2008 we extended our track record of delivering reported reserves replacement of more than 100% by another year. We have a strong portfolio of assets and a clear strategy. Our focus on simplification and efficiency is removing unnecessary cost. We are well placed to respond quickly to changing market conditions and new opportunities.

Growing our resource base

Our oil and gas resource base provides the foundation for future growth. We continue to drive renewal through new access, exploration, targeted acquisitions and a renewed focus on increasing resources from fields we currently operate.

Each year we set out to replace more reserves of oil and gas than we produced in the previous 12 months. 2008 was the 15th consecutive year we achieved this, delivering reported reserves replacement of more than 100%.

In 2008 our exploration track record continued with one of our best years this decade for new discoveries. We were also successful in acquiring new resources – for example, the attractive gas shale resources from Chesapeake Energy Corporation – providing the potential for further growth of our North America Gas business.

Our ability to get more from fields is enormously valuable. By increasing the overall recovery rate by 1%, we believe we can add two billion boe to our reserves. To put that in context, when we started production at the Prudhoe Bay field in Alaska the recovery rate was expected to reach 40%. Using new technologies we have increased this to 60%. We now believe 70% is possible.

World-class start-ups

In 2008 we extended our track record of major project start-ups, with nine new major projects coming onstream. In the Gulf of Mexico production started at the Thunder Horse field (BP 75% and operator), with four wells in operation by the end of the year, producing around 200,000boe/d (gross). We are now the largest producer in the Gulf of Mexico.

In the Azerbaijan sector of the Caspian Sea we started oil production on our Deepwater Gunashli platform. Located in 175 metres of water, this platform completes the third phase of development of the Azeri-Chirag-Gunashli field.

Other significant successes in 2008 included the start of oil and gas production at the Saqqara and Taurt fields in Egypt. Taurt is a particularly important milestone – the first in a series of planned subsea developments in Egypt.

Andy Inglis

Chief Executive, Exploration and Production

"We had an outstanding year in 2008, safely increasing production and profitability and continuing to grow our resource base for the future."

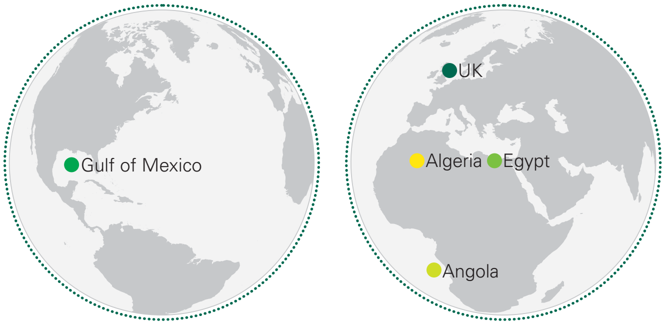
Safety culture

Safety is our top priority. While improved systems and processes are vital, another factor is even more important when it comes to safe and reliable operations – people. We continue to work to establish a strong safety culture, developing deep knowledge within every employee and sharing learning. This approach has been successful in building a world-class safety culture. In BP Trinidad & Tobago (bpTT), for example, the team has delivered an outstanding improvement in personal safety performance through the development of a comprehensive multi-year safety plan focused on developing safety leaders, workforce communication, standard implementation and continuous learning. At bpTT, the days away from work case injury frequency (per 200,000 work-hours) was reduced from 0.12 in 2003 to zero in 2008 while the recordable injury frequency more than halved in the same period.

Thunder Horse breaks new ground

On 14 June 2008 the world's largest floating platform processed oil for the first time. Within 48 hours export-quality oil and gas were being transported to shore 150 miles away through the largest capacity deepwater pipeline system yet built. This start to production is fitting for a project that has gone beyond established industry limits and recovered from serious setbacks. In technical terms, Thunder Horse has broken new ground – literally. With the seabed one mile below the ocean surface, the team drilled through three further miles of mud, rock and salt to access hydrocarbons. Reservoir pressures above 1,200 bar and temperatures up to 135 degrees Celcius have created enormous demands on equipment, but the Thunder Horse team succeeded in bringing four wells onstream to ramp up production to around 200,000boe/d by the end of the year. Getting to this point required more than 10 million work-hours, yet the project had just one day away from work case injury – a remarkable record.

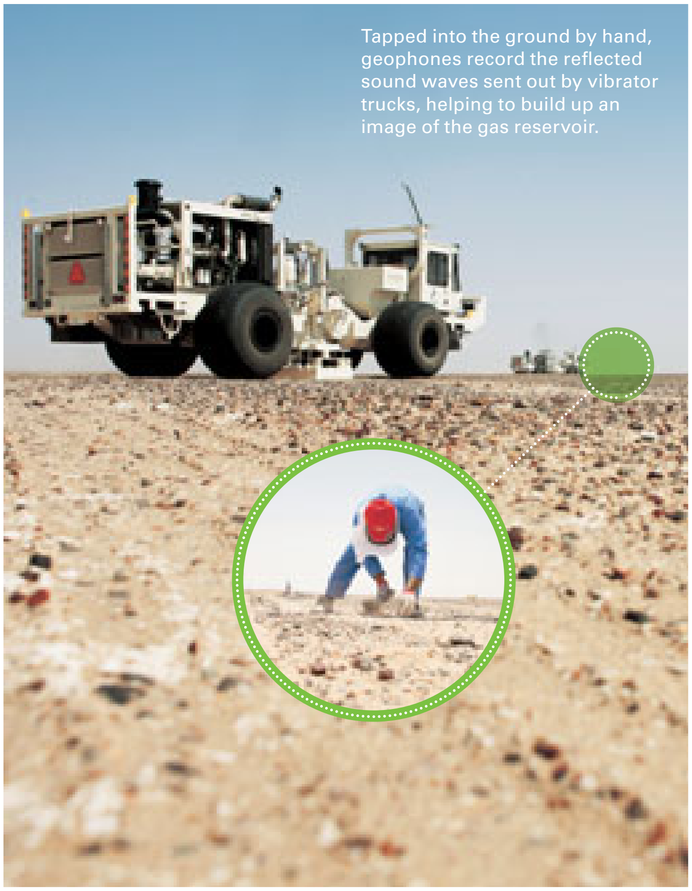
Exploration discoveries in 2008



- **Algeria:** Tin Zaouatene-1
- **Angola:** Dione
- **Egypt:** Satis
- **Gulf of Mexico:** Kodiak, Freedom
- **UK:** Kinnoull, South West Foinaven

2008 was an excellent year for exploration. BP participated in three of the 14 major discoveries reported globally in 2008, a leading position among our international oil company competitors. We strengthened our position in a number of our core growth areas, including the Gulf of Mexico, Egypt and Angola. Exploration success also played a significant role in the renewal of our more mature areas, with two discoveries in the UK North Sea. Progressing these discoveries into projects and then start-ups will enable us to extend our track record of reserves replacement.

Seeing the future



In the vast Omani desert, a 40-tonne truck lifts itself from the ground, shakes and vibrates vigorously for eight seconds, then sets itself down and moves on.

At exactly the same time, an identical scene takes place just a few kilometres away. This is distance-separated simultaneous sweeping – one of several BP innovations revolutionizing the quality of data gained from seismic surveys. In this case, the trucks are helping to produce some of the most accurate three-dimensional images of gas reservoirs ever seen. And this method is proving cheaper and faster with the Oman team surveying 2,700km^2 in the time conventional methods would require for 800km^2.

Equally impressive innovation can be seen in our offshore positions around the world, where we are gaining high resolution data from beneath thousands of feet of salt, and processing the information through unique new systems developed by our teams. This is seismic surveying as a competitive advantage.

Flagship technology

Developing flagship technologies

Developing and applying new technology is the key to increasing the overall recovery factor from our resource base. Technology also allows us to make distinctive offers when bidding for new access opportunities. Since 2006 we have increased investment in research and development and, in 2008, we went further, analyzing our portfolio to find new ways to make technology count. We identified 10 flagship technologies, each with the potential to add more than one billion boe of additional reserves, and we are prioritizing investment in these areas. These flagship technologies – three of which we discuss in more detail on these pages – cover every stage in the exploration and production process, from seismic imaging to advanced control systems.

Investing in people

While many industry observers have chosen to focus on 'peak oil', we believe a more important issue has been overlooked – peak capability. The world has enough resources to meet demand for decades, but the industry must attract and develop more engineers, geoscientists and other experts if it is to meet the challenges of energy demand and sustainability.

We are addressing this by building our human capability through recruitment and development. Our three-year graduate development programme currently has 1,200 participants from all over the world, and we are implementing an enhanced technical learning programme across BP.

Many governments expect greater local participation in the development of their country's resources and we have specific programmes to build local capability. By 2020 more than half our operations are expected to be in non-OECD countries and we see this as an opportunity to develop a new generation of experts and skilled employees.

Looking ahead

Our priorities remain the same – safety, people and performance, focusing on the delivery of safe, reliable and efficient operations while maintaining flexibility so we can respond to oil price volatility.

In 2009 we will aim to use the operational momentum generated in 2008 to continue to drive efficiency into the cost base while ensuring we maintain our priorities of safe and reliable operations, and build capability for the future. We intend to retain our rigour around capital investment, in particular pacing our development to take advantage of a deflationary cost base and supporting our strategy of growing the upstream. Our portfolio of assets is strong and well positioned to compete and grow in a range of external conditions.

Creating an ACE environment

Flagship technology

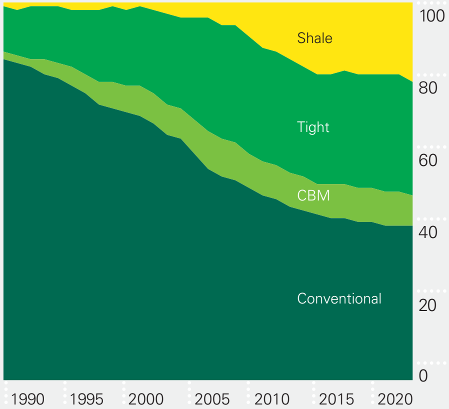
In a BP office, a team scrutinizes fast-changing numbers, colours and images on a wall of screens. They discuss the picture unfolding before them and put into play a series of actions that – in a matter of seconds – will adjust drilling operations beneath the seabed many kilometres offshore. This is a BP Advanced Collaborative Environment (ACE), one of seven global centres supporting our operations around the world where drilling, reservoir and process engineers analyze real-time data from fields and optimize production operations. The ACE is part of our FieldoftheFuture® programme, which is reducing the need to visit remote sites, improving the data and insight we gather and increasing our speed of response to changing conditions – making us more efficient.

Unconventional gas, unconventional growth

Flagship technology

Demand for gas is growing and unconventional gas will be essential in meeting future needs. Around 40% of the gas we produce is unconventional and that figure is set to increase. But what exactly is unconventional gas? It is gas that is difficult to find, produce and transport. It might sit in fine-grained shale basins, in hard 'tight' rock, in coalbed seams, in remote locations, or deep underground. And this is why innovation is vital. Using new technologies, BP has drilled in 17 unconventional coalbed methane (CBM) basins across the world, including some of the largest reservoirs in North America. By applying advanced drilling technologies we now produce more than 1% of the US domestic gas supply from the San Juan CBM deposits.

Projected demand for gas in North America
(% production)



Source: Adapted from *World Energy Outlook 2008*.
© OECD/IEA 2008.

Refining and Marketing
Results ($ million)

08	4,176
07	2,621

In 2008 our replacement cost profit before interest and tax was significantly affected by adverse market conditions. However, the marked improvement in our performance considerably mitigated these impacts.

Restoring revenues, transforming performance

Refining and Marketing

Texas City
We have made fundamental improvements to our safety processes and to reliability at our Texas City refinery, where full economic capability was restored by the end of the year.

2008 was a year of sustained recovery and renewal for Refining and Marketing. We continued our major focus on safe, reliable operations and saw the first significant benefits of having key refineries back in full operation. We simplified the business structure and geographical footprint, which led to significant cost improvement and greater effectiveness in the marketing businesses.

Highlights

- Refining availability six percentage points higher.
- Full capacity restored at Texas City and Whiting refineries.
- Missing revenues restored, profits improved.
- Six integrated fuels value chains established.
- Simplified and focused marketing footprint.

The role of BP's Refining and Marketing business is to manufacture and supply more efficient products and services to our customers. Our purpose is as follows:

- We are the product and service-led arm of BP, focused on fuels, lubricants, petrochemicals products and related services.
- We aim to be excellent in the markets we choose to be in – those that allow BP to serve the major energy markets of the world.
- We are in pursuit of competitive returns and enduring growth, as we serve customers and promote BP and our brands.
- Our products represent quality based on safe and reliable manufacturing operations and technology.

Our organization comprises fuels value chains and international businesses. As the markets for our main fuels products are regional, we integrate our refining, logistics, marketing, supply and trading businesses into an integrated fuels value chain in each key region. This model enables us to create greater value from our refineries, terminals, pipelines and retail sites.

R&M in more detail
bp.com/whatwedo

Our international businesses include lubricants, petrochemicals, aviation and marine fuels and liquefied petroleum gas. Each of these businesses is competitively advantaged in its chosen markets. Such advantage is derived from several factors, including the proximity of manufacturing and logistics assets to the market, the quality of our physical assets, operational and supply chain efficiency, technology advantage and the strength of our brands.

During 2008 we also started migrating to the new BP OMS, with an increased focus on process safety and continuous improvement. At the end of the year two of our petrochemicals plants in US and two of our refineries in Europe were operating under the OMS.

Our financial performance in 2008

Our 2008 replacement cost profit before interest and tax was $4.2 billion, which compares with $2.6 billion in 2007. We achieved a strong performance despite market conditions – particularly lower refining margins in the US, adverse foreign exchange effects and the adverse impact of prior-month pricing of domestic pipeline barrels for our US refining system – which impacted our results significantly. This demonstrates the benefits of the fundamental improvements we are making across the business, including the measures we have taken to restore the availability of our refining system, reduce costs and simplify the organization.

We are working to close the performance gap with our competitors by 2010. Our goals to achieve this are:

- Achieving safe and reliable operations.
- Restoring and improving earnings momentum.
- Delivering sustainable competitive returns and cash flows.

Refining throughput

2.2 million
barrels per day

In 2008 we increased our refining throughput by 28,000 barrels per day on average.

Achieving safe and reliable operations

Safety, both process and personal, remains our top priority. In addition to the global implementation of the OMS, in our US refineries we continue to implement the recommendations from the BP US Refineries Independent Safety Review Panel. We have worked closely with the independent expert, L Duane Wilson. The number of major incidents associated with integrity management has reduced by 90% since 2005. We have also reduced the number of oil spills by 60% and the recordable injury rate by more than 57% since 1999. Regrettably, in 2008 there were four workforce fatalities associated with our operations, one of which was a process safety incident.

Restoring and improving earnings momentum

In 2008 we saw the first substantial benefits of our operational improvements. The Whiting refinery was restored to its full clean fuel capability of 360,000 barrels per day (b/d) in March 2008. Texas City was also restored to full economic capability by the end of the year. In total, our 17 refineries worldwide, including those partially owned, achieved throughputs of 2,155,000b/d on average, a 5% increase on 2007 after adjusting for net loss of throughput from previous disposals and acquisitions.

The performance of the Texas City refinery was impacted by Hurricane Ike in September, which meant we had to shut down the refinery in advance as a precautionary measure, along with other refineries in the area. A terrific response from employees helped to minimize disruption, with crude processing restored in seven days and full operations restored within three weeks. This is also a reflection of the improvements we have made to our assets at Texas City during the past few years.

Delivering sustainable competitive returns and cash flows

Maximizing our value through integration and simplification in our fuels value chains

In 2008 we fully integrated our refining, logistics, marketing, supply and trading businesses, establishing six refining-to-marketing integrated fuels value chain businesses focused on refining and selling ground transportation fuels in each region. These integrated businesses have strong links to our convenience retail activities and a clear view of local market dynamics, the competitive landscape and BP's capabilities in the region, helping us to make effective business decisions. This has enabled us to simplify internal interfaces, optimize margins, reduce overhead costs and drive continuous improvement.

During the year we continued the implementation of our *ampm* convenience retail franchise model in the US, which we expect to provide reliable long-term sales growth for our refinery systems, together with improved supply and trading performance, reduced costs and lower levels of capital investment. In Europe we are one of the largest forecourt convenience retailers, with about 2,500 shops in 10 countries. We are growing our food-on-the-go and fresh grocery services through BP-owned brands and partnerships with leading retailers such as Marks & Spencer.

Simplifying our businesses and pursuing growth opportunities in our international businesses

Our international businesses leverage our strong market positions, proprietary technology and leading brands to deliver distinctive performance.

After Ike

When we heard Hurricane Ike was on its way, we had to shut our Texas City refinery, leaving just 60 of 6,000 employees and contractors on site to manage the facility while sheltering in a hurricane-resistant building. Despite losing all steam, power and water, and having to repair damage to several units, the team – supported by returning employees – restored operations and restarted crude oil processing within seven days and restored full operations within three weeks. The speed of the recovery is testament to the skill and commitment of employees at Texas City, and it underlines the value of our investment in training, integrity management and rebuilding since 2005. Three weeks after the shutdown, we had more units running than before Ike appeared – a tremendous performance. Our humanitarian support to the affected areas was acknowledged as having made a significant contribution to helping local communities get back to normal.

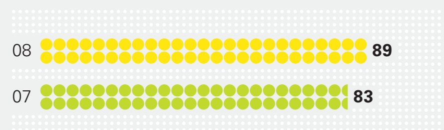
Fighting back against Ike
See issue 4 of *BP Magazine* at bp.com/bpmagazine

Iain Conn

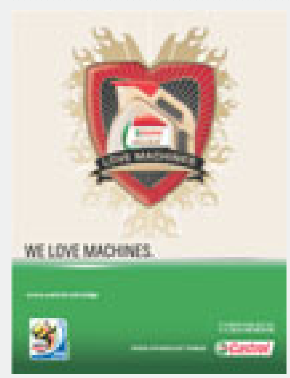
Chief Executive, Refining and Marketing

“Through the commitment of our employees, we have made good progress on safety, restored missing revenues and become leaner, fitter and more competitive.”

Refining availability (%)



Refining availability measures the readiness of our refineries to refine crude oil into fuels. Higher availability means we can capture margins effectively.



Castrol gains a sporting edge

In 2008 Castrol launched Edge Sport and in doing so redefined performance in the synthetics category. The new product is tested to beat benchmark synthetic oils in extremes and is targeted towards demanding automotive enthusiasts who only want the best for their cars. Also during the year Castrol followed its successful sponsorship of UEFA Euro 2008™ by signing up to sponsor the 2010 and 2014 FIFA World Cup™ competitions, extending its links with football to a global level. It is the biggest sponsorship in BP's 100-year history.

Up and running with OMS

BP's Cooper River chemical plant in South Carolina, US, was the first to go live with our new OMS – a milestone achievement on safety and reliability.

BP's OMS delivers safe and reliable operations. When fully implemented, it will govern how every BP project, site, operation and facility operates. It consolidates BP requirements relating to process safety; environmental performance; legal compliance in operations; personal, marine and driving safety; and ISO 14001. It also embraces the BP US Refineries Independent Safety Review Panel's recommendations. It is built on the twin foundations of risk management and continuous improvement. In 2008 our Cooper River chemical plant in the US became the first site to be up and running with the OMS.

This is a clear sign of the change under way within our Refining and Marketing business and elsewhere in BP. It demonstrates our commitment to drive consistency, continuous improvement and, ultimately, to set the standards for operating excellence in our sector. The Cooper River team is sharing its experience about the successful transition to the OMS across BP.

Our lubricants business manufactures and markets lubricants products and related services directly to customers and end-consumers in around 50 countries. In 2008 we focused on enhancing our customer relationships and brand distinctiveness, together with driving simplification and efficiency. In South America, for example, we simplified our footprint by using carefully selected national distributors. This has enabled us to maintain a strong brand presence in these markets while investing more time and capital in our core markets. 2008 was a tough year for the aviation industry but, in Air BP, we simplified our footprint by exiting non-core countries, leading to a reduction in working capital and improved returns on operating capital employed.

During 2008 the environment in which our petrochemicals businesses operate became more challenging as deterioration in the global economic environment led to a reduced demand for our products. This market downturn affirms the importance of leading technology and lowest cost of manufacture. In this regard, our new Zhuhai 2 PTA unit in China, which was fully commissioned during the first quarter of 2008, is the largest single PTA-manufacturing plant in the world. It achieves the highest energy efficiency and smallest environmental footprint in its sector, producing 65% fewer CO_2 emissions than conventional facilities.

In 2009 our Nanjing joint-venture acetic acid plant is expected to start up. This deepens our strategic relationship with Sinopec in the important growth market of China.

Optimizing our organization and repositioning our cost efficiency

We are simplifying the structure of our organization and improving the efficiency of our back office, including customer service, accounting services and procurement systems. These activities will be centralized in a few global centres to remove duplication and reduce cost. In Europe, for example, we are running 80 business service centres and our objective is to move to one. We are also reducing our headcount, including the number of senior management positions.

Looking ahead

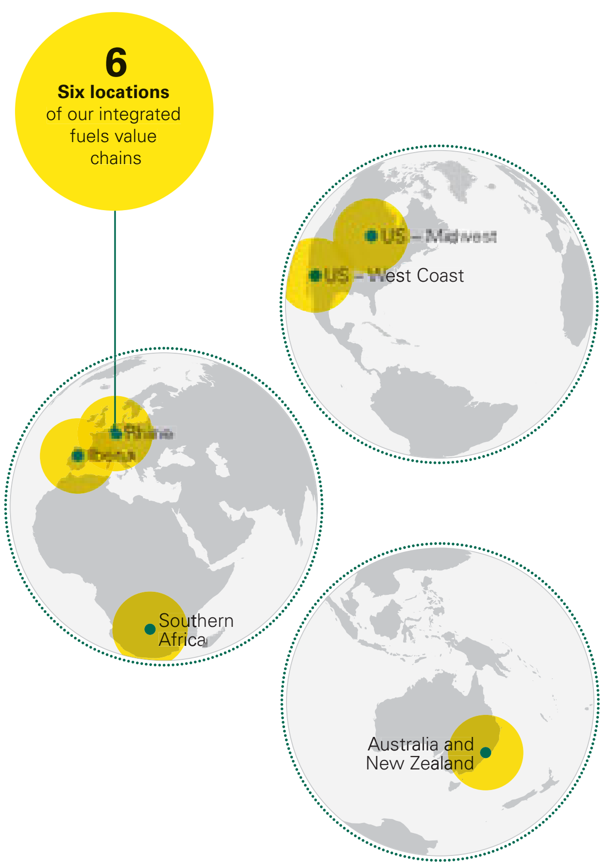
In 2009 the overall economic environment is expected to be challenging with continued reduced demand for our products leading to lower annual volumes and pressure on margins. The impact is expected to be greatest in the petrochemicals sector.

Against this background we intend to continue actively managing our cost base, simplifying our marketing footprint and developing the market positions where we have competitive advantage based on brand and technology strengths. We intend to focus on cash generation through active management of our working capital and credit exposures.

We intend to limit our capital investment to maintaining and improving our core positions. To continue the progress we have made in recent years, our top priority for spending will remain safety and operational integrity. The other area of focus will be delivering integrated value in our key markets through investment in terminals and pipeline infrastructure. Our largest investment is expected to be at the Whiting refinery, where we have started a major upgrading and modernization programme that will enable the refinery to operate on Canadian heavy crude oil. We also intend to complete the planned projects in petrochemicals. ●

Joined-up thinking

Our integrated fuels value chains are highly integrated regional businesses comprising refining, logistics, marketing, supply and trading of ground transportation fuels, with strong links to our convenience retail activities. They are concentrated in six geographies and together represent about 80% of our operating capital employed. Our regional business based in the Rhine region, Germany, exemplifies the benefits of integration. Through this, we now plan all key decisions affecting operations in seven European countries. So if an investment is needed in our Rotterdam terminal, we can look at the implications for facilities across the continent, and spot opportunities to optimize expenditure and improve systems. The benefits are already coming through – faster and better decision-making, lower costs and innovative thinking.



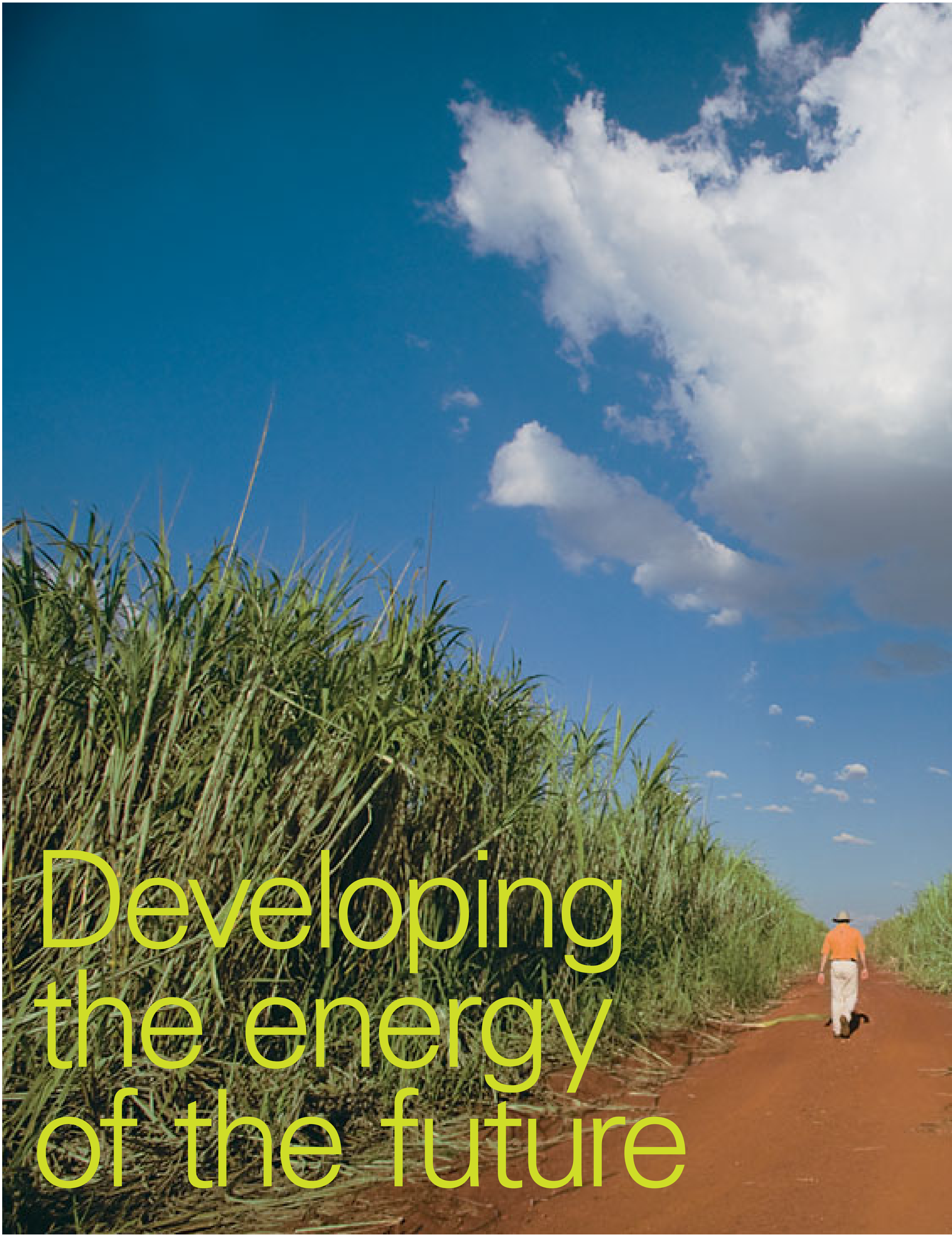
Essential ingredient

BP is the world's largest producer of acetic acid – a vital but largely unfamiliar raw material. It is used in everything from medicine and food to paint, textiles, washing powder and packaging. You'll even find it in jars of pickled onions. Our five acetic acid production plants (including joint ventures), and the Sterling, US, chemical plant, are busy meeting growing global demand and, in 2009, we expect to commission a new plant and a major expansion in Nanjing, China. Our leadership position extends beyond manufacturing and marketing to technology. Methanol carbonylation-based plants account for around 80% of all acetic acid production; we have developed this process further to create our patented acetic acid manufacturing process, Cativa™, which is used within all our acetic acid units. Compared with traditional methanol production processes, Cativa™ reduces steam and water consumption and, per tonne of product, emissions by up to 30% – an outstanding efficiency improvement in the manufacturing of this essential ingredient.

Flying high

Air BP provides the fuels, lubricants and essential services airlines need to keep their planes flying. In 2008 we were behind two notable firsts – we were voted number one for customer service in the leading annual airline survey and we provided technical advice to Virgin Airways on its first aviation biofuel test flight. We also provided the default lubricant used in the oil system on the Boeing 787 Dreamliner and were the first supplier to fuel the A380 in the US and Middle East, demonstrating that we are the partner of choice to the airline industry. At the same time, 2008 was a challenging year for airlines, and Air BP moved quickly to simplify its footprint and improve cost efficiency.

Developing the energy of the future



Brazil
An employee inspects a sugar cane plantation at the Tropical BioEnergia S.A. joint venture's biofuels facility in Edéia, Goias State, Brazil, which started production in 2008.

Alternative Energy

BP's substantial investments in alternative energy have created businesses and technologies with the potential to deliver cleaner energy and long-term value. 2008 saw a sharper focus on the most promising areas.

Highlights

- Major acquisitions and partnerships in biofuels.
- Strong growth in US wind sector.
- Continued progress in solar power.

BP is helping to meet the world's growing demand for sustainable and affordable energy, building alternative energy businesses with the potential to grow and compete far into the future. That requires us to identify today's most promising alternative technologies and transform them into sources of secure, reliable and cleaner energy.

We invest significantly more in this area than our peers. At its launch in 2005 we committed $8 billion to our Alternative Energy business and, this year, we have invested $1.4 billion. In 2008 we prioritized four areas with significant long-term growth potential – wind, solar, biofuels and CCS. We have also developed a fifth area – gas-fired power – that offers synergies with other BP operations.

Wind

Since the launch of Alternative Energy we have substantially grown our wind portfolio, increasing from 32 megawatts (MW) in operation to 432MW[a] (785MW gross) at the end of 2008. In total, we have more than 500MW[a] of installed capacity (1000MW gross). We began 2008 with full commercial operations at several wind farms across the US, including Cedar Creek, Colorado. This 274-turbine facility was delivered on time, on budget and without a single lost-time safety incident during construction. Our US wind portfolio now has enough potential total generating capacity to supply low-carbon electricity to some six million average American homes.

[a] Figures represent net wind capacity, which is the sum of the rated capacities of the assets/turbines, including BP's share of the equity-accounted entities. The equivalent capacities on a gross basis include 100% of the capacity of the equity-accounted entities where BP has partial ownership.

AE in more detail
bpalternativenergy.com

Solar

Our strategy is to invest in lower-cost manufacturing to enable energy from our products to compete with conventional sources of electricity. During 2008 we signed a number of strategic partnership agreements in Asia, providing us with access to greater volumes of high-quality low-cost solar modules. We are already one of the world's major manufacturers of solar panels and, this year, increased sales from 115MW to 162MW. More than 70% of our sales volume was sold to residential customers in Europe, the US and Australasia. In the US, since late 2007, we have installed a total of 4MW of solar capacity at seven Walmart facilities in California. We also completed two of the largest solar projects ever installed in Spain, which are expected to provide up to one million customers with access to renewable electricity.

We continue to support the Solar Cities concept, through which seven Australian cities are demonstrating the economic and environmental benefits of solar power.

Biofuels

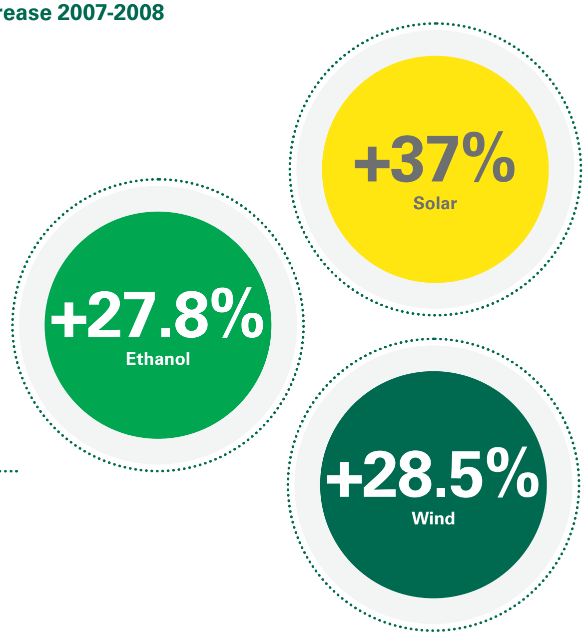
We expect to see very strong market growth for biofuels out to 2030 and beyond.[a] Our strategy is to increase production of sustainable biofuels rapidly, by using biofuel sources that minimize any impact on food supplies and by developing advanced technologies to make good biofuels even better. In April 2008 we acquired a 50% stake in Tropical BioEnergia S.A. – the largest single investment in the Brazilian bioethanol industry by an international oil company. Tropical's first facility in Edéia, Goias State, Brazil, began production of bioethanol in September 2008 and is expected to have a capacity of 115 million US gallons.

In August 2008 we announced a strategic partnership with the Verenium Corporation to accelerate the development and commercialization of lignocellulosic bioethanol, an advanced biofuel that can be made from energy grasses and the non-edible parts of plants. This fits with our commitment to bring more sustainable biofuels to market faster.

We have also been working with DuPont since 2003 to explore new approaches to the development of biofuels. The first product from this collaboration will be an advanced fuel molecule called biobutanol, which has a higher energy content than ethanol.

[a] Source: *World Energy Outlook 2008*. © OECD/IEA 2008.

Total energy use increase 2007-2008



These renewable sources experienced rapid growth in 2007 and are playing an increasingly important role in some countries.

Sources: *BP Statistical Review of World Energy June 2008. Photovoltaic Power Systems Programme Annual Report 2007.* © OECD/IEA 2007.

Renewable energy statistics
bp.com/statisticalreview

Carbon capture and storage

CCS captures the CO_2 emitted during the burning and processing of fossil fuels, transporting and storing it safely in deep geological formations such as oil or gas fields. CCS technology, including pre-combustion capture technology, will enable low-carbon production of electricity using secure sources of coal or other fossil fuels.

We are responding to the challenges of CCS by investing in advanced research and practical engineering solutions. In 2000 we launched the CO_2 Capture Project and established the Carbon Mitigation Initiative at Princeton University. In 2004, at the In Salah gas field in Algeria, we started capturing, injecting and storing up to one million tonnes of CO_2 per annum, equivalent to removing 250,000 cars from the road. And in 2005 we joined the Advisory Council of the Zero Emissions Power Technology Platform, advising on CCS technology development and deployment in order to help Europe meet its emissions reduction targets.

Hydrogen Energy, our joint venture with Rio Tinto, is working on developing low-carbon power plants in Abu Dhabi and California that manufacture hydrogen for power generation. In both instances the captured CO_2 will be transported to nearby oil fields for use in enhanced oil recovery, with the CO_2 stored deep underground.

Government support and policy and regulatory frameworks around CCS are now being introduced in key markets throughout the world with the aim to facilitate the development and wide-scale deployment of CCS technology.

Gas-fired power

Our gas-fired power activities comprise modern combined cycle gas turbine plants, which emit around 50% less CO_2 than a conventional coal plant of the same capacity, and several low-carbon co-generation gas power facilities. Our co-generation plants are helping to make BP's refining operations more efficient while reducing emissions, such as at the Texas City refinery, and our combined cycle plants are providing base-load demand for BP's major upstream gas production developments.

The lightweight sail uses 256 BP Solar glass modules combined with fabric, aluminium and transparent solar modules.

SolarSail

Designed and built by BP Solar and opened to the public in 2008, the SolarSail demonstration project is inspiring and educating visitors to the Guangdong Science Centre, China. The 20-metre-high, 30-metre-wide steel spaceframe supports a 'sail' of transparent solar modules and fabric, which is mounted on large concrete plinths. Completed in just eight weeks, this was the first time such a complex, innovative structure had been constructed in the region and this presented significant safety challenges. Local contractors were required to carry out more than 1,000 separate lifting operations while handling sloping and curved surfaces. We worked very closely with the construction team to ensure BP's safety standards were implemented and the project was completed without incident. The SolarSail now helps to power the science centre and provides information on solar power, but it also serves to symbolize what can be achieved through the combination of technology, investment and imagination.

115 million
US gallons

Ethanol production
Our expected full capacity output at the Tropical BioEnergia S.A. joint venture's biofuel facility in Edéia would make it one of the largest ethanol production facilities in Brazil.

Vivienne Cox

Chief Executive, Alternative Energy

"2008 was a year of disciplined growth, with a clear focus on areas offering material value for BP – wind, solar, biofuels, carbon capture and storage and gas-fired power."

Powered by wind
Our Sherbino 1 facility in Texas started commercial operation in 2008 and is expected to have a capacity of 750MW.

BP and biofuels

Q Why is BP investing in biofuels?
Transport accounts for around 20% of CO_2 emissions globally, and by 2030 the number of vehicles on the world's roads is estimated to have doubled to two billion. Biofuels are the best currently available renewable fuel option to reduce carbon emissions and diversify supply. We expect to see very strong growth in this market over 15-30[a] years and estimate that biofuels could provide up to three million boe/d by 2020.

Q Can biofuels help to address climate change?
Biofuels can help reduce transport-related emissions because CO_2 absorbed by plants as they grow can offset those emitted during the whole process of farming, producing the fuel and burning it in an engine. However, the exact CO_2 savings depend on many factors and some biofuels are better than others. Brazilian sugar cane bioethanol is currently the most efficient biofuel and can reduce emissions by up to 90% compared with gasoline. BP is committed to producing biofuels that contribute meaningfully to CO_2 reductions.

Q Will the growth of biofuels threaten food supply?
Biofuels can be made from many crops. BP is committed to producing biofuels in a sustainable way and will focus on crops that minimize pressure on food supplies. Studies show that there is sufficient land available globally to support the projected growth in biofuel production alongside growing food and feed supplies, and to meet the demands of a growing global population. In fact, we see opportunities to integrate fuel and food production by using land in more effective and efficient ways.

[a]Source: *World Energy Outlook 2008*. © OECD/IEA 2008.

Our financial performance

Building momentum

Byron Grote Chief Financial Officer
24 February 2009

Highlights

- Replacement cost profit of $25,593 million – up 39%.
- Capital expenditure and acquisitions of $30,700 million.
- Dividend per share of 55.05 cents – up 30%.

Results

BP's replacement cost profit was $25,593 million, compared with $18,370 million in 2007. Our profit after inventory holding gains and losses was $21,157 million, compared with $20,845 million in 2007. Inventory holding gains and losses represent the difference between the cost of sales calculated using the average cost to BP of supplies incurred during the year and the cost of sales calculated on the first-in first-out method, including any changes in provisions where the net realizable value of the inventory is lower than its cost.

Our profit figures included a net charge for non-operating items[a], on a pre-tax basis, of $1,276 million. The primary additional factors reflected in profit for 2008, compared with 2007, were higher realizations, a higher contribution from gas marketing and trading, improved oil supply and trading performance, improved marketing performance and strong cost management. These were partly offset by weaker refining margins, particularly in the US, higher production taxes, higher depreciation, adverse foreign exchange effects and the adverse impact of prior-month pricing of domestic pipeline barrels for our US refining system.

Return on average capital employed on a replacement cost basis was 22%, compared with 17% in 2007; based on profit after inventory holding gains and losses, it was 18% (2007 19%).

Finance costs in 2008 were $1,547 million, slightly higher than in 2007. The increase was largely due to a reduction in capitalized interest as several major capital construction projects were concluded. Net finance income relating to pensions and other post-retirement benefits in 2008 was $591 million, broadly the same as the previous year.

The corporate tax charge on replacement cost profit was $14,669 million, compared with $9,359 million in 2007, representing an effective tax rate of 36% (2007 33%). The group earns income in many countries and, on average, pays taxes at rates higher than the UK statutory rate of 28% for 2008. The increase in the effective rate in 2008, compared with 2007, primarily reflects the change in the country mix of the group's income, resulting in a higher overall tax burden.

[a] Non-operating items are charges and credits that BP discloses separately because it considers such disclosures to be meaningful and relevant to investors. The main categories of non-operating items in the periods presented are: impairments; gains or losses on sale of fixed assets and the sale of businesses; environmental remediation; restructuring, integration and rationalization costs; and changes in the fair value of embedded derivatives. These disclosures are provided in order to enable investors to understand and evaluate the group's financial performance better.

In 2008 we saw higher realizations, a higher contribution from gas marketing and trading, improved oil supply and trading performance, improved marketing performance and strong cost management.

Capital expenditure and acquisitions amounted to $30,700 million. This included $4,731 million in respect of our transaction with Husky Energy Inc. and $3,667 million in respect of our purchase of all Chesapeake Energy Corporation's interest in the Arkoma Basin Woodford Shale assets and the purchase of a 25% interest in Chesapeake's Fayetteville Shale assets. Acquisitions in 2007 included the remaining 31% of the Rotterdam (Nerefco) refinery from Chevron's Netherlands manufacturing company.

Net cash provided by operating activities for the year ended 31 December 2008 was $38,095 million, compared with $24,709 million for the equivalent period of 2007. In addition to higher profits, the increase reflects a decrease in working capital requirements and an increase in dividends from jointly controlled entities and associates; these were partially offset by an increase in income taxes paid.

Net cash used in investing activities was $22,767 million, compared with $14,837 million in 2007. This reflects a reduction in disposal proceeds and an increase in capital expenditure compared with 2007.

Net debt was $25,041 million at the end of 2008, a decrease of $1,776 million compared with 2007. Net debt includes the fair value of associated derivative financial instruments that are used to hedge foreign exchange and interest rate risks relating to finance debt, for which hedge accounting is claimed. The ratio of net debt to net debt plus equity was 21% at the end of 2008 and 22% at the end of 2007. The net debt ratio shows the proportion of debt and equity used to finance our operations and can also be used to measure borrowing capacity. Our financial framework includes a gearing band of 20-30%, which is intended to provide an efficient capital structure and an appropriate level of financial flexibility. In addition to reported debt, BP uses conventional off-balance sheet sources of finance such as operating leases and borrowings of jointly controlled entities and associates.

+30%
increase in dividend

The total dividend paid in 2008 was $10,342 million.

Dividends and share repurchases

The total dividend paid in 2008 was $10,342 million, compared with $8,106 million for 2007. The dividend paid per share was 55.05 cents, an increase of 30% compared with 2007. In sterling terms, the dividend paid increased by 40% due to the stronger US dollar. We determine the dividend in US dollars, the functional currency of BP.

During 2008 the company repurchased 269.8 million of its own shares for cancellation at a cost of $2.9 billion. The repurchased shares had a nominal value of $67.5 million and represented 1.4% of ordinary shares in issue, net of treasury shares, at the end of 2007. We rebalanced our distributions in favour of dividends at the beginning of 2008, and suspended our share buyback programme in September in light of the uncertain environment.

Our aim is to strike the right balance for shareholders, between current returns via dividend, sustained investment for long-term growth and maintaining a prudent gearing level.

BP intends to continue the operation of the Dividend Reinvestment Plan for shareholders who wish to receive their dividend in the form of shares rather than cash. The BP Direct Access Plan for US and Canadian shareholders also includes a dividend reinvestment feature.

The foregoing paragraphs contain forward-looking statements. Please refer to the cautionary statement on the inside front cover.

Our financial performance
Read about our key measures of progress on pages 12-13.

Group income statement

For the year ended 31 December	Note	2008	2007	2006
				$ 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		**736**	754	701
Total revenues		**365,700**	288,951	270,602
Gains on sale of businesses and fixed assets		**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		**6,526**	4,013	3,621
Depreciation, depletion and amortization		**10,985**	10,579	9,128
Impairment and losses on sale of businesses and fixed assets		**1,733**	1,679	549
Exploration expense		**882**	756	1,045
Distribution and administration expenses		**15,412**	15,371	14,447
Fair value (gain) loss on embedded derivatives		**111**	7	(608)
Profit before interest and taxation from continuing operations	2	**35,239**	32,352	35,158
Finance costs		**1,547**	1,393	986
Net finance income relating to pensions and other post-retirement benefits		**(591)**	(652)	(470)
Profit before taxation from continuing operations		**34,283**	31,611	34,642
Taxation		**12,617**	10,442	12,331
Profit from continuing operations		**21,666**	21,169	22,311
Profit (loss) from Innovene operations		**–**	–	(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	4	**112.59**	108.76	109.84
Diluted	4	**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 statement of recognized income and expense

For the year ended 31 December	2008	2007	2006
			$ 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	**(468)**	109	(134)
Cash flow hedges	**(1,166)**	41	314
Taxation	**2,756**	(63)	(934)
Net income (expense) 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

Group balance sheet

At 31 December		$ million
	2008	2007
Non-current assets		
Property, plant and equipment	**103,200**	97,989
Goodwill	**9,878**	11,006
Intangible assets	**10,260**	6,652
Investments in jointly controlled entities	**23,826**	18,113
Investments in associates	**4,000**	4,579
Other investments	**855**	1,830
Fixed assets	**152,019**	140,169
Loans	**995**	999
Other receivables	**710**	968
Derivative financial instruments	**5,054**	3,741
Prepayments	**1,338**	1,083
Defined benefit pension plan surpluses	**1,738**	8,914
	161,854	155,874
Current assets		
Loans	**168**	165
Inventories	**16,821**	26,554
Trade and other receivables	**29,261**	38,020
Derivative financial instruments	**8,510**	6,321
Prepayments	**3,050**	3,589
Current tax receivable	**377**	705
Cash and cash equivalents	**8,197**	3,562
	66,384	78,916
Assets classified as held for sale	**–**	1,286
	66,384	80,202
Total assets	**228,238**	236,076
Current liabilities		
Trade and other payables	**33,644**	43,152
Derivative financial instruments	**8,977**	6,405
Accruals	**6,743**	6,640
Finance debt	**15,740**	15,394
Current tax payable	**3,144**	3,282
Provisions	**1,545**	2,195
	69,793	77,068
Liabilities directly associated with the assets classified as held for sale	**–**	163
	69,793	77,231
Non-current liabilities		
Other payables	**3,080**	1,251
Derivative financial instruments	**6,271**	5,002
Accruals	**784**	959
Finance debt	**17,464**	15,651
Deferred tax liabilities	**16,198**	19,215
Provisions	**12,108**	12,900
Defined benefit pension plan and other post-retirement benefit plan deficits	**10,431**	9,215
	66,336	64,193
Total liabilities	**136,129**	141,424
Net assets	**92,109**	94,652
Equity		
Share capital	**5,176**	5,237
Reserves	**86,127**	88,453
BP shareholders' equity	**91,303**	93,690
Minority interest	**806**	962
Total equity	**92,109**	94,652

The summary financial statement on pages 1-5 and 10-41 was approved by a duly appointed and authorized committee of the board of directors on 24 February 2009 and signed on its behalf by:

P D Sutherland Chairman
Dr A B Hayward Group Chief Executive

Group cash flow statement

For the year ended 31 December	2008	2007	2006
			$ million
Reconciliation of profit before taxation to net cash provided by operating activities			
Profit before taxation	**34,283**	31,611	34,642
Depreciation and other similar non-cash charges	**11,750**	10,118	6,587
Earnings from equity-accounted entities, less dividends received	**(93)**	(1,359)	500
Net charge for interest and other finance expense, less net interest paid	**(357)**	(611)	(699)
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
Movements in working capital	**5,348**	(5,902)	380
Income taxes paid	**(12,824)**	(9,072)	(13,733)
Net cash provided by operating activities	**38,095**	24,709	28,172
Net cash used in investing activities	**(22,767)**	(14,837)	(9,518)
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

Notes

1 Presentation of the accounts

These summarized financial statements represent an abridged version of the financial statements in *BP Annual Report and Accounts 2008*, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted for use by the European Union (EU). IFRS as adopted for use by the EU differs in certain respects from IFRS as issued by the IASB; however, the differences have no impact on the group's consolidated financial statements for the years presented. Subsequent to releasing our preliminary announcement of the fourth quarter 2008 results on 3 February 2009, an adjustment has been made to correct for a $560 million overstatement of the deferred tax liability in the balance sheet as at 31 December 2008 with a corresponding adjustment to the foreign currency translation reserve in equity. There was no impact on profit for the year.

2 Analysis of profit before interest and taxation

	2008	2007	2006
			$ million
By business			
Exploration and Production	**37,915**	27,729	30,953
Refining and Marketing	**(1,884)**	6,076	4,919
Other businesses and corporate	**(1,258)**	(1,233)	(779)
	34,773	32,572	35,093
Consolidation adjustment	**466**	(220)	65
Continuing operations	**35,239**	32,352	35,158
By geographical area			
UK	**5,808**	4,613	5,897
Rest of Europe	**1,541**	4,164	3,282
US	**7,831**	7,439	11,164
Rest of World	**20,059**	16,136	14,815
	35,239	32,352	35,158

3 Dividends

	pence per share			cents per share			$ million		
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Dividends announced and paid									
Preference shares							**2**	2	2
Ordinary shares									
March	**6.813**	5.258	5.288	**13.525**	10.325	9.375	**2,553**	2,000	1,922
June	**6.830**	5.151	5.251	**13.525**	10.325	9.375	**2,545**	1,983	1,893
September	**7.039**	5.278	5.324	**14.000**	10.825	9.825	**2,623**	2,065	1,943
December	**8.705**	5.308	5.241	**14.000**	10.825	9.825	**2,619**	2,056	1,926
	29.387	20.995	21.104	**55.050**	42.300	38.400	**10,342**	8,106	7,686
Dividend announced per ordinary share, payable in March 2009	**9.818**	–	–	**14.000**	–	–	**2,626**	–	–

The group does not account for dividends until they have been paid. The accounts for the year ended 31 December 2008 do not reflect the dividend announced on 3 February 2009 and payable in March 2009; this will be treated as an appropriation of profit in the year ended 31 December 2009.

4 Earnings per ordinary share

Basic earnings per ordinary share amounts are calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The average number of shares outstanding excludes treasury shares and the shares held by the Employee Share Ownership Plans and includes certain shares that will be issuable in the future under employee share plans.

For the diluted earnings per share calculation, the weighted average number of shares outstanding during the year is adjusted for the number of shares that are potentially issuable in connection with employee share-based payment plans using the treasury stock method. In addition, for 2006, the profit attributable to ordinary shareholders has been adjusted for the unwinding of discount on the deferred consideration for the acquisition of our interest in TNK-BP, and the weighted average number of shares outstanding during the year has been adjusted for the number of shares to be issued for the deferred consideration for the acquisition of our interest in TNK-BP.

5 Capital expenditure and acquisitions

	$ million	
	2008	2007
By business		
Exploration and Production	**22,227**	14,207
Refining and Marketing	**6,634**	5,495
Other businesses and corporate	**1,839**	939
	30,700	20,641
By geographical area		
UK	**1,608**	1,672
Rest of Europe	**2,187**	3,040
US	**16,046**	7,487
Rest of World	**10,859**	8,442
	30,700	20,641

6 Directors' remuneration

	$ million		
	2008	2007	2006
Total for all directors			
Emoluments	**19**	26	14
Gains made on the exercise of share options	**1**	2	12
Amounts awarded under incentive schemes	**–**	10	14

Emoluments These amounts comprise fees paid to the non-executive chairman and the non-executive directors and, for executive directors, salary and benefits earned during the relevant financial year, plus bonuses awarded for the year. This includes an ex gratia superannuation payment of nil (2007 $3 million, 2006 nil) and compensation for loss of office of $1 million (2007 $1 million and 2006 nil).
Pension contributions Four executive directors participated in a non-contributory pension scheme established for UK staff by a separate trust fund to which contributions are made by BP based on actuarial advice. One US executive director participated in the US BP Retirement Accumulation Plan during 2008.
Office facilities for former chairmen and deputy chairmen It is customary for the company to make available to former chairmen and deputy chairmen, who were previously employed executives, the use of office and basic secretarial facilities following their retirement. The cost involved in doing so is not significant.
Further information Details of individual directors' remuneration are given in the summary directors' remuneration report on pages 38-39.

Independent auditor's statement

To the members of BP p.l.c.

We have examined the group's summary financial statement for the year ended 31 December 2008. This report is made solely to the company's members, as a body, in accordance with Section 251 of the Companies Act 1985. 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 *BP Annual Review 2008* in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within *BP Annual Review 2008* with the consolidated financial statements, the Directors' Report and the Directors' Remuneration Report and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in *BP Annual Review 2008* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our reports on the consolidated and parent company financial statements contained within *BP Annual Report and Accounts 2008* describe the basis of our opinions on those financial statements and the Directors' Remuneration Report.

Opinion

In our opinion the summary financial statement is consistent with the consolidated financial statements, the Directors' Report and the Directors' Remuneration Report of BP p.l.c. for the year ended 31 December 2008 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Ernst & Young LLP
Registered auditor
London
24 February 2009

The auditors have issued an unqualified audit report on *BP Annual Report and Accounts 2008* containing no statement under Section 237(2) or Section 237(3) of the Companies Act 1985.

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.

Board of directors

Peter D Sutherland, SC, KCMG
Chairman
Chairman of the chairman's and the nomination committees and attends meetings of the remuneration committee

Non-executive directors

Sir Ian Prosser
Deputy Chairman
Member of the chairman's, the nomination and the remuneration committees and chairman of the audit committee

Antony Burgmans, KBE
Member of the chairman's and the safety, ethics and environment assurance committees

Cynthia B Carroll
Member of the chairman's and the safety, ethics and environment assurance committees

Sir William Castell, LVO
Member of the chairman's committee and chairman of the safety, ethics and environment assurance committee

George David
Member of the chairman's and the audit committees

Erroll B Davis, Jr
Member of the chairman's, the audit and the remuneration committees

Douglas J Flint, CBE
Member of the chairman's and the audit committees

Dr DeAnne S Julius, CBE
Member of the chairman's and the nomination committees and chairman of the remuneration committee

Sir Tom McKillop
Member of the chairman's, the remuneration and the safety, ethics and environment assurance committees

Executive directors

Dr Anthony B Hayward
Group Chief Executive

Iain C Conn
Chief Executive,
Refining and Marketing

Dr Byron E Grote
Chief Financial Officer

Andrew G Inglis
Chief Executive,
Exploration and Production

Changes to the board

Dr D C Allen retired as a director on 31 March 2008. Dr W E Massey retired as a director on 17 April 2008. Mr G David was appointed a non-executive director on 11 February 2008.

At the company's 2008 annual general meeting the following directors retired, offered themselves for election/re-election and were duly elected/re-elected: Mr A Burgmans; Mrs C B Carroll; Sir William Castell; Mr I C Conn; Mr G David; Mr E B Davis, Jr; Mr D J Flint; Dr B E Grote; Dr A B Hayward; Mr A G Inglis; Dr D S Julius; Sir Tom McKillop; Sir Ian Prosser and Mr P D Sutherland.

Mr R Dudley has been appointed an executive director with effect from 6 April 2009.

All the directors, including Mr Dudley, will offer themselves for election/re-election at the company's 2009 AGM.

Company secretary

David Jackson (56) was appointed company secretary in 2003. A solicitor, he is a director of BP Pension Trustees Limited and a member of the Listing Authorities Advisory Committee.

Summary directors' remuneration report

Strong performance

Dr D S Julius Chairman
Remuneration Committee
24 February 2009

Highlights

- Key financial targets exceeded.
- Strong leadership on forward agenda.
- Safety maintained as top priority.
- Long-term competitive performance re-established.

BP executives delivered a strong performance in a turbulent environment during 2008 and restored the group's operations to a high standard after several years of focused effort. We commend them for a job well done.

Key financial targets for the year were exceeded, even after adjusting for the effect of high oil prices during part of the year. Safe and reliable operations remained at the top of the agenda and key safety metrics and milestones were achieved. The year's results were especially strong in Exploration and Production, with the start-up of the Thunder Horse platform and excellent overall reserves replacement. Key targets were also met in Refining and Marketing and both the Texas City and Whiting refineries were safely restored to full capacity by the end of the year. The annual bonus results, set out in the table opposite, reflect this strong performance and determined leadership.

The committee undertook a detailed review of BP's underlying performance against competitors in determining the 2006-2008 share element vesting under the executive directors' incentive plan (EDIP). This review included financial measures such as earnings per share, returns on average capital employed, free cash flow, operating measures for both Exploration and Production and Refining and Marketing, and non-financial measures for safety and reputation. All measures were compared across competitors and showed BP firmly in the pack of the other European oil majors. The comparison of total shareholder return (TSR) was less favourable to BP, partly due to exchange rate movements and turbulence in the financial markets. After careful review, the committee concluded that TSR alone was not a fair reflection of underlying performance over the 2006-2008 period. We concluded that it was appropriate to approve the vesting of 15% of the shares in the plan for the current directors. This too is set out in the table opposite.

Salaries were increased mid-2008 after our normal review. For 2009, we have agreed with the group chief executive's view that salaries should be frozen at their current level. There also will be no change in the target and normal maximum levels of bonus for 2009. The group chief executive's and group chief financial officer's bonuses will be based 70% on group performance against key metrics in the annual plan, 15% on safety performance and 15% on people. The chief executives of Exploration and Production and Refining and Marketing will have 50% of their bonuses determined on the above basis and 50% on the performance of their respective businesses.

The EDIP share element will again provide the long-term component of remuneration for the 2009-2011 period, with some slight modifications. First, reflecting its recent growth, ConocoPhillips will be added to the peer group of comparators (currently ExxonMobil, Shell, Total and Chevron). Second, to provide a more balanced assessment, vesting will be based half on BP's total shareholder return relative to the peer group and half on underlying performance compared with this same peer group. BP's performance will be compared on an interpolated basis relative to the performance of the other five. As in previous years, shares will vest at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively and none for fourth or fifth.

We remain committed to a remuneration policy and practice that aligns with the long-term interests of shareholders and provides an appropriate reward for talented and committed executives. In the current volatile climate, executive leadership is more important than ever. The committee will continue to use careful and rigorous judgement in assessing performance, and to communicate our assessment in a clear way to shareholders.

Summary of annual remuneration of executive directors in 2008[a]

	Annual remuneration								Long-term remuneration: Share element of EDIP[b]				
									2005-2007 plan (vested in Feb 2008)		**2006-2008 plan (vested in Feb 2009)**		2008-2010 plan
	Salary (thousand)		Annual performance bonus (thousand)		Non-cash benefits and other emoluments (thousand)		Total (thousand)						
	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	Actual shares vested	Value (thousand)	Actual[c] shares vested	Value[d] (thousand)	Potential maximum performance shares[e]
Dr A B Hayward	£877	**£998**	£1,262	**£1,496**	£14	**£15**	£2,153	**£2,509**	0	0	66,136	£336	845,319
I C Conn	£581	**£670**	£698	**£871**	£45	**£45**	£1,324	**£1,586**	0	0	66,136	£336	578,376
Dr B E Grote	$1,175	**$1,340**	$1,551	**$1,742**	$10	**$8**	$2,736	**$3,090**	0	0	80,231[f]	$603	581,748
A G Inglis	£556	**£670**	£800	**£1,173**	£188	**£212**[g]	£1,544	**£2,055**	0	0	54,994	£279	578,376
Directors leaving the board in 2008													
Dr D C Allen[h]	£500	**£128**	£539	**£163**	£13	**£3**	£1,052	**£294**	0	0	34,518	£175	n/a

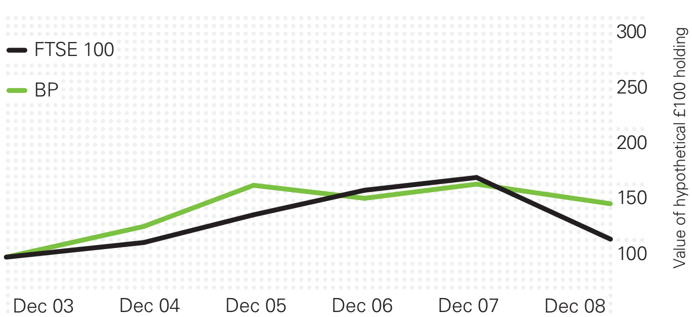
Amounts shown are in the currency received by executive directors. Annual bonuses are shown in the year they were earned.

[a] This information has been subject to audit.
[b] Or equivalent plans in which the individual participated prior to joining the board.
[c] Includes shares representing reinvested dividends accrued on the shares that vested at the end of the performance period.
[d] Based on market price on vesting date (£5.08 per share/$45.13 per ADS).
[e] Maximum potential shares that could vest at the end of the three-year period depending on performance.
[f] Dr Grote holds shares in the form of ADSs. The above number reflects calculated equivalent in ordinary shares.
[g] This amount includes costs of London accommodation provided to Mr Inglis. In addition, under a tax equalization arrangement, the company also discharged a US tax liability arising on his participation in the UK pension scheme amounting to $553,175.
[h] Dr Allen resigned from the board on 31 March 2008. In addition to the above, he was awarded compensation for loss of office equal to one year's salary (£510,000). He also received £30,000 in respect of statutory rights and retained his company car.

Pensions

All executive directors are part of a final salary pension scheme. Accrued annual pension earned as at 31 December 2008 is £561,000 for Dr Hayward, £264,000 for Mr Conn, $868,000 for Dr Grote and £326,000 for Mr Inglis.

Historical TSR performance



This graph shows the growth in value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years, relative to the FTSE 100 Index (of which the company is a constituent). The values of the hypothetical £100 holdings at the end of the five-year period were £144.36 and £115.05 respectively.

Remuneration of non-executive directors in 2008[a]

	2007	**2008**
		£ thousand
A Burgmans	86	**90**
Sir William Castell	87	**108**
C B Carroll	43	**93**
G David[b]	n/a	**100**
E B Davis, Jr	107	**105**
D J Flint	86	**90**
Dr D S Julius	106	**110**
Sir Tom McKillop	87	**95**
Sir Ian Prosser	137	**170**
P D Sutherland	517	**600**
Directors leaving the board in 2008		
Dr W E Massey[c]	133	**90**

[a] This information has been subject to audit.
[b] Appointed on 11 February 2008.
[c] Also received a superannuation gratuity of £23,000.

In 2008 the board, after a review, determined that in future it would continue to set the remuneration of the non-executive directors. However, in the case of the chairman, this would be based on a recommendation from the remuneration committee and, for the non-executive directors, it would be based on a recommendation from the chairman.

This process was adopted in 2008 and recommendations were made. However, the chairman and the non-executive directors informed the board that, in the current economic circumstances, they did not wish to receive any increase in remuneration for 2009. The board accordingly maintained the fees at the 2008 level for 2009 save that no committee membership fee would in future be paid to members of the nomination committee.

Information for shareholders

Annual general meeting

The 2009 annual general meeting will be held on Thursday 16 April 2009 at 11.30 a.m. at ExCeL London, One Western Gateway, Royal Victoria Dock, London E16 1XL. A separate notice convening the meeting is distributed to shareholders, which includes an explanation of the items of special business to be considered at the meeting.

All resolutions of which notice has been given will be decided on a poll.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution for their reappointment is included in the *Notice of BP Annual General Meeting 2009*.

Dividends

We announce dividends on our ordinary shares in US dollars and at the same time state an equivalent sterling dividend. The rate of exchange used to determine the sterling amount equivalent is the average of the forward exchange rate in London over the five business days prior to the announcement date. Dividends are normally paid in March, June, September and December (*see table below*). Holders of ordinary shares receive their dividends in sterling; holders of ADSs receive their dividends in US dollars. One ADS represents six ordinary shares.

Period[a]	4Q 2008	1Q 2009	2Q 2009	3Q 2009
Announcement	3 Feb 09	28 Apr 09	28 Jul 09	27 Oct 09
Ex-dividend	18 Feb 09	13 May 09	12 Aug 09	11 Nov 09
Record or qualifying[b]	20 Feb 09	15 May 09	14 Aug 09	13 Nov 09
Payment date	9 Mar 09	8 Jun 09	8 Sep 09	7 Dec 09

Please note that these dates are projections and may be subject to change.

[a] Dividend payments are identified by reference to the quarterly earnings to which they relate.
[b] This is also the date by which holders of ordinary shares must notify the BP Registrar, and holders of ADSs must notify JPMorgan of any change in dividend election between cash and reinvestment.

Administration

If you have any queries about the administration of shareholdings, such as change of address, change of ownership, dividend payments, the dividend reinvestment plan or the ADS direct access plan, or to change the way you receive your company documents (such as the Annual Report and Accounts, Annual Review and Notice of Meeting), please contact the BP Registrar or ADS Depositary.

UK – Registrar's Office
The BP Registrar, Equiniti
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Freephone in UK 0800 701107; Tel +44 (0)121 415 7005
Textphone 0871 384 2255; Fax 0871 384 2100

Please note, all contact numbers with the prefix 0871 will be charged at 8p per minute from a BT landline. Other network providers' costs may vary.

US – ADS Depositary
JPMorgan Chase Bank, N.A.
PO Box 64504 St Paul, MN 55164-0504
Toll-free in US and Canada +1 877 638 5672
Tel +1 651 306 4383

More information

If you would like more information on holding BP ordinary or preference shares or ADSs, our investor centre at *www.bp.com/investors* contains information that you may find helpful regarding your investment in BP. There you can also find copies of all BP's quarterly results and other stock exchange announcements.

The *BP Annual Review 2008* contains a summary of certain information in the *BP Annual Report and Accounts 2008*. For a full understanding of the results and state of affairs of BP and of its policies and arrangements concerning directors' remuneration, please see the *BP Annual Report and Accounts 2008*.

If you would like to change how you receive your shareholder documentation, or to receive *BP Annual Report and Accounts 2008* or *BP Annual Review 2008* free of charge, you should contact Equiniti (ordinary and preference shareholders) or JPMorgan (ADS holders) as above. To obtain one-off paper copies of BP's publications, free of charge, please see page 41.

Reports and publications

You can order BP's printed publications, free of charge, from:

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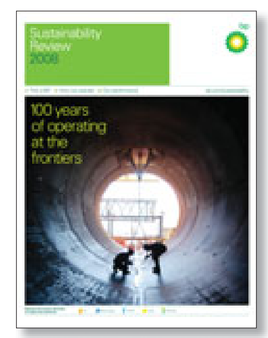
BP's reports and publications are available to view online or download from *www.bp.com/annualreview*.

Annual Report and Accounts

Read details of our financial and operating performance in *BP Annual Report and Accounts 2008* in print or online.
www.bp.com/annualreport



Sustainability Review

Read the summary *BP Sustainability Review 2008* in print or read more online from April 2009.
www.bp.com/sustainability

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Our centenary year
BP was incorporated in 1909 as the Anglo Persian Oil Company. This followed several years of very demanding exploration, including the test drilling shown in this photograph, at Chiah Surkh, Persia, in 1902. It took another six years for the team to strike first oil in Persia.