Basis of financial information

To the greatest extent possible, the information in this book has been presented on the basis that BP will report its financial information in 2009.

Adoption of International Financial Reporting Standards

The group adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005. Financial information for 2004 has been restated to reflect the adoption of IFRS. BP chose not to adopt International Accounting Standard No. 39 'Financial Instruments: Recognition and Measurement' (IAS 39) until 1 January 2005, and so financial assets and liabilities, including derivatives, are reported on the basis of UK generally accepted accounting practice (UK GAAP) for 2004. The balance sheet at 1 January 2005 is also presented to show the effect of adopting IAS 39 and this is highlighted in yellow on pages 21 and 22.

Oil and natural gas reserves estimates

At the end of 2006, BP adopted the SEC rules for estimating oil and natural gas reserves instead of the UK accounting rules contained in the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' (UK SORP). This change in accounting estimate had a direct impact on the amount of depreciation, depletion and amortization (DD&A) charged in the income statement in respect of oil and natural gas properties, which are depreciated on a unit-of-production basis. The change in estimate was applied prospectively, with no restatement of prior periods' results. The group's actual DD&A charge for 2006 was $9,128 million, whereas the charge based on UK SORP reserves would have been $9,057 million, i.e. an increase of $71 million due to the change in reserves estimates that was used to calculate DD&A for the last three months of 2006. For 2007, it was estimated that the DD&A charge would increase by approximately $400 million to $500 million as a result of the change. No estimate has been made in respect of 2008. Over the life of a field this change would have no overall effect on DD&A. The main differences between the UK SORP and SEC rules relate to the SEC requirement to use year-end prices and costs, the application of SEC interpretations of SEC regulations relating to the use of technology (mainly seismic) to estimate reserves in the reservoir away from wellbores and the reporting of fuel gas (i.e. gas used for fuel in operations) within proved reserves. Consequently, reserves quantities under SEC rules differ from those that would be reported under application of the UK SORP. The change to SEC reserves in 2006 represented a simplification of the group's reserves reporting, as only one set of reserves estimates is disclosed. In addition, the use of SEC reserves for accounting purposes makes our results more comparable with those of our major competitors.

BP estimates proved reserves for reporting purposes in accordance with SEC rules and relevant guidance. As currently required, these 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.

On 31 December 2008, the SEC published a revised set of rules for the estimation of reserves. These revised rules will be used for the 2009 year-end estimation of reserves and have not been used for the determination of reserves for year-end 2008.

Geographical analysis of financial information

As of 1 January 2009, BP has chosen to reduce the geographical analysis of financial information from four regions (UK, Rest of Europe, US and Rest of World) to two regions (US and Non-US). Comparative data has been revised to reflect this change, which has no impact on group totals.

Revised deferred tax liability

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.