

**BP p.l.c.**  
**Group results**  
**Fourth quarter and full year 2010**



London 1 February 2011

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			<b>\$ million</b>		
4,295	1,785	<b>5,567</b>	Profit (loss) for the period <sup>(a)</sup>	<b>(3,719)</b>	16,578
(848)	62	<b>(953)</b>	Inventory holding (gains) losses, net of tax	<b>(1,195)</b>	(2,623)
<b>3,447</b>	<b>1,847</b>	<b>4,614</b>	<b>Replacement cost profit (loss)</b>	<b>(4,914)</b>	13,955
18.38	9.83	<b>24.55</b>	– per ordinary share (cents)	<b>(26.17)</b>	74.49
1.10	0.59	<b>1.47</b>	– per ADS (dollars)	<b>(1.57)</b>	4.47

- BP's fourth-quarter replacement cost profit was \$4,614 million, compared with \$3,447 million a year ago. For the full year, replacement cost loss was \$4,914 million compared with a profit of \$13,955 million a year ago.
- The group income statement for the fourth quarter and full year reflects a pre-tax charge of \$1.0 billion and \$40.9 billion respectively related to the Gulf of Mexico oil spill. All charges relating to the incident have been treated as non-operating items. For further information on the Gulf of Mexico oil spill and its consequences see pages 3 – 5, Note 2 on pages 24 – 29 and Legal proceedings on pages 34 – 38. Further information on BP's fourth-quarter results is provided below.
- Non-operating items and fair value accounting effects for the fourth quarter, on a post-tax basis, had a net favourable impact of \$250 million compared with a net unfavourable impact of \$937 million in the fourth quarter of 2009. For the full year, the respective net unfavourable impacts were \$25,436 million and \$622 million. See pages 6, 20 and 21 for further details.
- The effective tax rate on replacement cost profit or loss for the fourth quarter and full year was 34% and 32% respectively, compared with 34% and 33% a year ago. Excluding the impact of the Gulf of Mexico oil spill, the effective tax rate for the fourth quarter was 33% and for the full year was 31%. In 2011, we expect the effective tax rate to be in the range 32-34%.
- Including the impact of the Gulf of Mexico oil spill, net cash used in operating activities for the fourth quarter was \$0.2 billion and net cash provided by operating activities for the full year was \$13.6 billion, compared with net cash provided in the same periods of last year of \$7.3 billion and \$27.7 billion respectively. The amounts for 2010 included a net cash outflow of \$5.4 billion and \$16.0 billion for the fourth quarter and full year respectively relating to the Gulf of Mexico oil spill.
- On 14 January 2011, BP and Rosneft Oil Company (Rosneft) announced that they had agreed a strategic global alliance. BP and Rosneft have agreed to seek to form a joint venture to explore and, if successful, develop three licence blocks on the Russian Arctic continental shelf. BP and Rosneft have entered into a related share swap agreement whereby, upon completion, BP will receive approximately 9.5% of Rosneft's shares in exchange for BP issuing new ordinary shares to Rosneft with an aggregate value of approximately \$7.8 billion (as at close of trading in London on 14 January 2011), resulting in Rosneft holding 5% of BP's ordinary voting shares. See further information in Note 6 on page 31, Note 10 on page 33 and in Legal proceedings on page 38.
- Our 2010 reported reserves replacement ratio<sup>(b)</sup>, excluding acquisitions and disposals, was 106% (details of which will be provided in *BP Annual Report and Form 20-F 2010*).
- Following a strategic review, we intend to divest the Texas City refinery and the southern part of our US West Coast Fuels Value Chain, including the Carson refinery, by the end of 2012 subject to all necessary legal and regulatory approvals. BP will ensure current obligations at Texas City are fulfilled.
- BP announced the resumption of quarterly dividend payments. The quarterly dividend to be paid on 28 March 2011 is 7 cents per share (\$0.42 per ADS). The corresponding amount in sterling will be announced on 14 March 2011. A scrip dividend alternative is available, allowing shareholders to elect to receive their dividend in the form of new ordinary shares and ADS holders in the form of new ADSs. Details of the scrip dividend programme are available at [www.bp.com/scrip](http://www.bp.com/scrip).

<sup>(a)</sup> Profit (loss) attributable to BP shareholders.

<sup>(b)</sup> Includes both subsidiaries and equity-accounted entities.

*The commentaries above and following are based on replacement cost profit and should be read in conjunction with the cautionary statement on page 13.*

## Group headlines (continued)

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- Finance costs and net finance income or expense relating to pensions and other post-retirement benefits were \$346 million for the fourth quarter, compared with \$302 million for the same period last year. For the full year, the respective amounts were \$1,123 million and \$1,302 million.
- Cash costs<sup>(a)</sup> for the fourth quarter and full year were slightly lower than in the same periods a year ago. In 2011 we expect a slight increase. Cash costs do not include amounts relating to the Gulf of Mexico oil spill.
- Total capital expenditure for the fourth quarter and full year was \$5.5 billion and \$23.0 billion respectively. Organic capital expenditure<sup>(b)</sup> in the fourth quarter and full year was \$5.2 billion and \$18.2 billion respectively. Organic capital expenditure for 2011 is expected to be around \$20 billion. Disposal proceeds were \$7.4 billion for the quarter, including \$4.9 billion for deposits received relating to transactions expected to complete in subsequent periods. For the full year, disposal proceeds were \$17.0 billion, which included \$6.2 billion of deposits at 31 December 2010. We plan to deliver around \$13 billion of further disposal proceeds in 2011.
- Depreciation, depletion and amortization in 2011 is expected to be around \$0.5 billion higher than in 2010.
- Net debt at the end of the quarter was \$25.9 billion, compared with \$26.2 billion a year ago. The ratio of net debt to net debt plus equity was 21% compared with 20% a year ago. The group intends to reduce the net debt ratio to within the range of 10% – 20%.

<sup>(a)</sup> Cash costs are a subset of production and manufacturing expenses plus distribution and administration expenses. They represent the substantial majority of the expenses in these line items but exclude associated non-operating items, and certain costs that are variable, primarily with volumes (such as freight costs). They are the principal operating and overhead costs that management considers to be most directly under their control although they include certain foreign exchange and commodity price effects.

<sup>(b)</sup> Organic capital expenditure excludes acquisitions and asset exchanges, and the accounting for our transaction with Value Creation Inc. and for the purchase of additional interests in the Valhall and Hod fields in the North Sea (see page 18).

# Gulf of Mexico oil spill

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During the fourth quarter of 2010 and through January of this year, we completed the substantial majority of subsea oil spill response activity and continued to monitor the surface and shoreline of the Gulf of Mexico, cleaning and recovering any identified oil deposits.

## Subsea operations

During the fourth quarter, we completed the plugging and abandonment (P&A) of the Macondo well, having at the end of September completed these activities in respect of the first relief well drilled in response to the accident. Activities to plug and abandon the second relief well are in progress and we expect to complete these in early March 2011. On 8 January, we completed recovering and securing the subsea infrastructure used for the various containment systems.

The majority of the vessels involved in the response have now been decontaminated, with the remaining 25 expected to be completed by the end of April 2011. The only further outstanding work at the source will be the completion of seabed and seismic surveys of the area and the recovery of the diesel from the Deepwater Horizon rig. Transocean has the responsibility for recovering the diesel fuel, and BP has asked Transocean to take the lead in doing so. In consideration of the weather conditions, it is anticipated that the seabed and seismic surveys will take place at the end of first quarter of 2011.

## Surface and shoreline operations<sup>(a)</sup>

No significant volumes of oily liquid have been recovered from the surface of the Gulf of Mexico during the fourth quarter, or indeed since 21 July. Along the beaches and marshes, activities have continued according to requirements as they have evolved. Deep cleaning has been performed, utilizing various technologies, mechanical equipment and manual labour, and this work continues. The teams continue to recover tar balls and tar mats in some locations. BP and the US Coast Guard (USCG) are working closely with state and local officials to clean Gulf Coast beaches before the 2011 spring and summer tourism seasons. BP and USCG remain ready to respond if any additional clean-up is required along the Gulf Coast shoreline.

At the same time, sites, equipment, hired vessels and manpower have been demobilized as and when they are no longer required to support operations. During the fourth quarter, the number of operational sites has reduced from approximately 90 to 79, the vessels on hire from approximately 3,100 to approximately 360, and the number of personnel from approximately 20,000 to approximately 6,200 at the end of the year. BP has sought to manage these efforts effectively and efficiently, while endeavouring to achieve a continuously improving safety culture.

As of 31 December, more than 98.8% of federal waters formerly closed for fishing in the Gulf of Mexico had been re-opened. Only 1,041 square miles immediately surrounding the Macondo wellhead still remain closed to all fishing, while an additional 4,200 square miles remain closed specifically for certain deepwater shrimping.

<sup>(a)</sup> Operational data is derived from the Gulf Coast incident management team (GC-IMT) and changes on a daily basis. As of 20 September 2010, the GC-IMT consolidated the former Unified Area Command (UAC) and local incident command posts.

## Restoration, research and other donations

The Operational Science Advisory Team of the UAC released its report on the Deepwater Horizon oil spill during the fourth quarter. The report presents the findings of more than six months of subsurface monitoring in the Gulf and gives the response organization detailed information about where further recoverable oil remains. It also includes chemical analysis of nearly 17,000 water and sediment samples, collected between May and October for environmental review.

In the very near shore, scientists observed tar mats or indications of tar mats in shallow, sub-tidal areas. Traces of oil residues were also found in deepwater sediments near the wellhead. Based on this information, the federal on-scene commander (FOSC) has directed response teams to focus assessment and recovery efforts on the potentially recoverable near-shore oil.

None of the water samples examined has exceeded the Environmental Protection Agency's (EPA) benchmarks for either human health or dispersant concentration. Although no recoverable offshore oil was identified through this sampling effort, continued sampling and monitoring activities will be conducted as part of the Natural Resource Damage Assessment (NRDA) process.

On 1 November, BP announced plans to contribute \$48 million in Louisiana over three years in support of seafood safety and testing efforts, including donations of \$10 million a year to the Louisiana Wildlife and Fisheries Foundation for the marketing of Louisiana Gulf seafood and \$6 million a year to test seafood for oil, dispersant and other spill-related impacts. BP will also continue to fund seafood testing programmes in Florida until the end of 2013, using the NOAA/FDA protocol. Agreements with Mississippi and Alabama are under discussion.

In addition, BP announced that it will donate \$30 million over three years to the Louisiana Department of Culture, Recreation and Tourism to support the marketing of Louisiana as a tourist destination.

BP has now contributed a total of \$260 million under its agreement to fund the \$360-million cost of six berms in the Louisiana barrier islands project.

BP has granted additional funds totalling \$249 million to federal, state and local governments in support of tourism, behavioural health and social services.

BP and the Gulf of Mexico Alliance appointed an equal number of research scientists to the governing board of the Gulf of Mexico Research Initiative (GRI) and, in December, the GRI held its first meeting.

## Gulf of Mexico oil spill (continued)

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### **National Commission report**

BP has co-operated fully with the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, which released its full report of its investigation on 11 January 2011. Given the emerging consensus that the Deepwater Horizon accident was the result of multiple causes involving multiple parties, we support the Commission's efforts to strengthen industry-wide safety practices. We are committed to working with government officials and other operators and contractors to identify and implement operational and regulatory changes that will enhance safety practices throughout the oil and gas industry. Even prior to the conclusion of the Commission's investigation, BP instituted changes designed to further strengthen safety and risk management. These changes include the creation of a new Safety & Operational Risk function, reporting directly to group chief executive Bob Dudley, that will provide independent oversight of operational decisions involving safety.

### **Claims process and trust fund**

The Gulf Coast Claims Facility (GCCF) was established to administer and manage individual and business claims, with claim payments being made from the Deepwater Horizon Oil Spill Trust fund. During the fourth quarter, payments from the trust fund in respect of individual and business claims amounted to \$2.1 billion. In total during 2010, payments made in respect of individual and business claims from the trust fund and directly by BP, which handled such claims until 22 August, amounted to \$3.2 billion.

The deadline for filing applications for Emergency Advance Payments (a GCCF protocol established for claimants experiencing hardship resulting from certain damages incurred due to the oil spill) ended on 23 November 2010. Kenneth R. Feinberg, the independent administrator of the GCCF, announced during the quarter that the GCCF would begin providing additional compensation to eligible claimants, who will have the opportunity to choose one of three compensation alternatives. These include a one-time 'quick pay' disbursement of \$5,000 for an eligible individual, or \$25,000 for an eligible business, in return for executing a release of liability releasing claims against BP and all other potentially liable parties (except for claims for bodily injury and mental health injury, unless expressly settled, and claims under securities laws). The 'quick pay' alternative is available to those eligible claimants who have already received an emergency payment from the GCCF and by 24 January 2011, 81,009 claimants had filed applications for 'quick pay' settlement terms. Also available is a lump-sum final payment for all documented past, present and future damage, which also includes executing a release of liability releasing claims against BP and all other potentially liable parties (except for claims for bodily injury and mental health injury, unless expressly settled, and claims under securities laws); or quarterly interim payments for documented past damage not previously covered by emergency payments (which do not require execution of a release of liability).

The GCCF received 378,103 new individual and business claims during the quarter, making a total of 468,869 for the year. It paid 142,254 claims in the fourth quarter and 187,343 during the year, of which 18,995 were final payments. During the quarter, more than 290,000 claims were denied or judged not eligible for an emergency payment.

Payments totalling \$235 million during the fourth quarter, and \$1.1 billion during 2010, were approved from the trust fund and by BP to government entities for claims and response and removal advances. 147 such claims were received during the fourth quarter, bringing the total number for the year to 787. Payments were made in respect of 140 such claims during the quarter and 609 in 2010.

### **Asset disposal programme**

During the fourth quarter, BP entered into several further agreements as part of its plan, announced in July 2010, to make disposals of up to \$30 billion by the end of 2011 to help the group meet the financial obligations arising from the accident. By the end of 2010, we had agreements in place to secure almost \$22 billion of this target. (See pages 8 and 10 for further information.) We will continue to identify further assets that may be strategically more valuable to others than to BP as we complete the programme.

### **Legal proceedings**

See pages 34 – 35 for information on legal proceedings and investigations arising for BP from the incident.

### **Financial impact of the response**

The group income statement for the fourth quarter reflects a further pre-tax charge of \$1.0 billion in relation to the Gulf of Mexico oil spill, making a total of \$40.9 billion for the year. The income statement charge for the year comprises costs incurred up to 31 December 2010, estimated obligations for future costs that can be estimated reliably at this time and rights and obligations relating to the trust fund. The fourth-quarter charge reflects higher costs than previously provided in relation to operational response activities, costs for claims administration, and as a result of a change in the discount rate for the liability to fund the Trust, partially offset by lower decontamination costs. In addition, the fourth-quarter charge includes the functional expenses of the Gulf Coast Restoration Organization.

Cash expenditures relating to the incident were \$5.4 billion in the fourth quarter and \$17.7 billion for the year pre-tax. This includes contributions by BP to the trust fund of \$2 billion in the fourth quarter and \$5 billion for the year.

## Gulf of Mexico oil spill (continued)

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At the third quarter it was not possible to measure reliably any amounts in relation to future claims under OPA 90. By the year end BP believes that the history of claims received to date and payments made provides sufficient data for the determination of a provision for individual and business claims and state and local claims under OPA 90. As a consequence of providing for these future claims, the provision has been increased by \$4.7 billion in the fourth quarter.

BP's obligations in relation to the trust fund have been recognized in full in the second quarter and \$20 billion, discounted to take account of the time value of money, was charged in the income statement at that time. Since the \$4.7 billion increase in the provision relates to OPA 90 claims which are covered by the trust fund, no further charge has been made to the income statement in the fourth quarter in relation to these items.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty as described further in Note 2 on pages 24 – 29.

Response operations following the Deepwater Horizon incident in April 2010 have been managed under the federal government's response framework, which transitioned on 17 December from the UAC to the GC-IMT. Both the UAC and now the GC-IMT link the organizations responding to the incident and provide a forum for those organizations to make consensus decisions. If consensus cannot be reached the USCG FOSC carries the final decision on response related actions deemed necessary. As such, the activities undertaken by BP and its sub-contractors, and the associated costs, are not wholly within BP's control. While oversight and command of the GC-IMT response activity will remain with the US Coast Guard, it is the expectation that the daily execution of the response operations will transition to the BP Gulf Coast Restoration Organization at the end of the first quarter of 2011.

### *Co-owner recovery*

BP is the operator of the Macondo well and holds a 65% working interest, with the remaining 35% interest held by two joint venture partners. While BP believes that it has a contractual right to recover the partners' shares of the costs incurred, no recovery amounts have been recognized in the financial statements. As of 25 January 2011, \$6 billion has been billed to the joint venture partners, which BP believes to be contractually recoverable. Our joint venture partners have each written to BP indicating that they are withholding payment in light of the investigations surrounding the incident.

### **Provisions and contingencies**

#### *Oil Pollution Act of 1990 (OPA 90)*

The claims against BP under the OPA 90 and for personal injury fall into three categories: (i) claims by individuals and businesses for removal costs, damage to real or personal property, lost profits or impairment of earning capacity, loss of subsistence use of natural resources and for personal injury ('Individual and Business Claims'); (ii) claims by state and local government entities for removal costs, physical damage to real or personal property, loss of government revenue and increased public services costs ('State and Local Claims'); and (iii) claims by the United States, a State trustee, an Indian tribe trustee, or a foreign trustee for natural resource damages ('Natural Resource Damages claims'). In addition, BP faces civil litigation in which violations of OPA 90 along with other causes of actions, including personal injury claims and punitive damages, are asserted by individuals, businesses and government entities.

A provision has been recorded for Individual and Business Claims and State and Local Claims. A provision has also been recorded for claims centre administration costs and natural resource damage assessment costs.

BP considers that it is not possible to measure reliably any obligation in relation to other Natural Resource Damage claims under OPA 90 or the outcomes of litigation for violations of OPA 90. These items are therefore disclosed as contingent liabilities.

BP has established a trust fund of \$20 billion to be funded over the period to the fourth quarter of 2013, which is available to satisfy the OPA 90 claims and litigation referred to above with the exception of claims administration costs which are borne separately by BP. BP's obligations in relation to the trust fund have been recognized in full and \$20 billion, adjusted to take account of the time value of money, was charged to the income statement in the second quarter of the year. The establishment of this trust fund does not represent a cap or floor on BP's liabilities and BP does not admit liability for this amount.

#### *Other items*

Provisions at 31 December 2010 also include amounts in relation to offshore and onshore oil spill response, BP's commitment to a 10-year research programme in the Gulf of Mexico, estimated penalties for strict liability under the Clean Water Act and estimated legal fees expected to be incurred in the next two years.

BP considers that it is not possible to measure reliably any obligation in relation to litigation or potential fines and penalties, except in relation to the Clean Water Act, and legal fees beyond two years. These items are therefore disclosed as contingent liabilities.

No amounts have been recognized for recovery of costs from our co-owners of the Macondo well because under IFRS recovery must be virtually certain for receivables to be recognized.

## Analysis of replacement cost profit (loss) before interest and tax and reconciliation to profit (loss) for the period

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>\$ million</b>					
8,505	8,350	<b>8,000</b>	Exploration and Production	<b>30,886</b>	24,800
(1,943)	1,787	<b>964</b>	Refining and Marketing	<b>5,555</b>	743
(392)	(568)	<b>(550)</b>	Other businesses and corporate	<b>(1,516)</b>	(2,322)
–	(7,656)	<b>(1,010)</b>	Gulf of Mexico oil spill response <sup>(a)</sup>	<b>(40,858)</b>	–
(492)	85	<b>56</b>	Consolidation adjustment	<b>447</b>	(717)
<b>5,678</b>	<b>1,998</b>	<b>7,460</b>	RC profit (loss) before interest and tax <sup>(b)</sup>	<b>(5,486)</b>	22,504
			Finance costs and net finance income or expense relating to pensions and other post-retirement benefits	<b>(1,123)</b>	(1,302)
(302)	(335)	<b>(346)</b>			
(1,846)	272	<b>(2,404)</b>	Taxation on a replacement cost basis	<b>2,090</b>	(7,066)
(83)	(88)	<b>(96)</b>	Minority interest	<b>(395)</b>	(181)
<b>3,447</b>	<b>1,847</b>	<b>4,614</b>	<b>Replacement cost profit (loss) attributable to BP shareholders</b>	<b>(4,914)</b>	13,955
1,256	(82)	<b>1,445</b>	Inventory holding gains (losses)	<b>1,784</b>	3,922
(408)	20	<b>(492)</b>	Taxation (charge) credit on inventory holding gains and losses	<b>(589)</b>	(1,299)
<b>4,295</b>	<b>1,785</b>	<b>5,567</b>	<b>Profit (loss) for the period attributable to BP shareholders</b>	<b>(3,719)</b>	16,578

<sup>(a)</sup> See Note 2 on pages 24 – 29 for further information on the accounting for the Gulf of Mexico oil spill response.

<sup>(b)</sup> Replacement cost profit or loss reflects the replacement cost of supplies. For further information see page 19.

## Total of non-operating items and fair value accounting effects<sup>(a)(b)</sup>

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>\$ million</b>					
1,422	1,809	<b>1,344</b>	Exploration and Production	<b>3,196</b>	3,184
(1,958)	161	<b>220</b>	Refining and Marketing	<b>672</b>	(2,864)
(65)	(86)	<b>(67)</b>	Other businesses and corporate	<b>(200)</b>	(489)
–	(7,656)	<b>(1,010)</b>	Gulf of Mexico oil spill response	<b>(40,858)</b>	–
(601)	(5,772)	<b>487</b>	Total before interest and taxation	<b>(37,190)</b>	(169)
–	(47)	<b>(30)</b>	Finance costs <sup>(c)</sup>	<b>(77)</b>	–
(601)	(5,819)	<b>457</b>	Total before taxation	<b>(37,267)</b>	(169)
(336)	2,135	<b>(207)</b>	Taxation credit (charge) <sup>(d)</sup>	<b>11,831</b>	(453)
<b>(937)</b>	<b>(3,684)</b>	<b>250</b>	Total after taxation for period	<b>(25,436)</b>	(622)

<sup>(a)</sup> An analysis of non-operating items by type is provided on page 20 and an analysis by region is shown on pages 9, 11 and 12.

<sup>(b)</sup> Information on fair value accounting effects is non-GAAP. For further details, see page 21.

<sup>(c)</sup> Finance costs relate to the Gulf of Mexico oil spill. See Note 2 on pages 24 – 29 for further details.

<sup>(d)</sup> Tax is calculated using the quarter's effective tax rate (excluding the impact of the Gulf of Mexico oil spill) on replacement cost profit or loss. However, the US statutory tax rate has been used for expenditures relating to the Gulf of Mexico oil spill that qualify for tax relief. For the fourth quarter and year in 2009, no tax credit was calculated on the goodwill impairment in Refining and Marketing because the charge is not tax deductible.

## Per share amounts

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			<b>Per ordinary share</b> (cents) <sup>(a)</sup>		
22.90	9.50	<b>29.62</b>	Profit (loss) for the period	<b>(19.81)</b>	88.49
18.38	9.83	<b>24.55</b>	RC profit (loss) for the period	<b>(26.17)</b>	74.49
			<b>Per ADS</b> (dollars) <sup>(a)</sup>		
1.37	0.57	<b>1.78</b>	Profit (loss) for the period	<b>(1.19)</b>	5.31
1.10	0.59	<b>1.47</b>	RC profit (loss) for the period	<b>(1.57)</b>	4.47

<sup>(a)</sup> See Note 6 on page 31 for details of the calculation of earnings per share.

## Net debt ratio – net debt: net debt + equity

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			<b>\$ million</b>		
34,627	39,979	<b>45,336</b>	Gross debt	<b>45,336</b>	34,627
127	797	<b>916</b>	Less: fair value asset (liability) of hedges related to finance debt	<b>916</b>	127
34,500	39,182	<b>44,420</b>		<b>44,420</b>	34,500
8,339	12,803	<b>18,556</b>	Cash and cash equivalents	<b>18,556</b>	8,339
26,161	26,379	<b>25,864</b>	Net debt	<b>25,864</b>	26,161
102,113	90,366	<b>95,891</b>	Equity	<b>95,891</b>	102,113
20%	23%	<b>21%</b>	Net debt ratio	<b>21%</b>	20%

See Note 7 for further details on finance debt.

Net debt and net debt ratio are non-GAAP measures. 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 derivatives are reported on the balance sheet within the headings 'Derivative financial instruments'. We believe that net debt and net debt ratio provide useful information to investors. Net debt enables investors to see the economic effect of gross debt, related hedges and cash and cash equivalents in total. The net debt ratio enables investors to see how significant net debt is relative to equity from shareholders.

## Dividends

### Dividends payable

BP today announced a dividend of 7 cents per ordinary share to be paid in March. The corresponding amount in sterling will be announced on 14 March 2011, calculated from the average of the market exchange rates for the four dealing days commencing on 8 March 2011. Holders of American Depositary Shares (ADSs) will receive \$0.42 per ADS. The dividend is payable on 28 March 2011 to shareholders and ADS holders on the register on 11 February 2011. A scrip dividend alternative is available, allowing shareholders to elect to receive their dividend in the form of new ordinary shares and ADS holders in the form of new ADSs. Details of the scrip dividend programme including the fourth-quarter dividend and timetable are available at [www.bp.com/scrip](http://www.bp.com/scrip).

### Dividends paid

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			<b>Dividends paid per ordinary share</b>		
14.000	–	–	cents	14.000	56.000
8.512	–	–	pence	8.679	36.417
84.00	–	–	<b>Dividends paid per ADS</b> (cents)	<b>84.00</b>	<b>336.00</b>

## Exploration and Production

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			\$ million		
8,664	8,351	<b>8,114</b>	<b>Profit before interest and tax<sup>(a)</sup></b>	<b>30,970</b>	24,942
(159)	(1)	<b>(114)</b>	<b>Inventory holding (gains) losses</b>	<b>(84)</b>	(142)
8,505	8,350	<b>8,000</b>	<b>Replacement cost profit before interest and tax</b>	<b>30,886</b>	24,800
			<b>By region</b>		
2,517	3,602	<b>1,522</b>	US	<b>9,684</b>	6,685
5,988	4,748	<b>6,478</b>	Non-US	<b>21,202</b>	18,115
8,505	8,350	<b>8,000</b>		<b>30,886</b>	24,800

<sup>(a)</sup> Includes profit after interest and tax of equity-accounted entities.

The replacement cost profit before interest and tax for the fourth quarter and full year was \$8,000 million and \$30,886 million respectively, compared with \$8,505 million and \$24,800 million respectively for the same periods in 2009. The increase in both periods was primarily due to higher realizations, lower depreciation and higher earnings from equity-accounted entities, mainly TNK-BP, partly offset by lower production and higher production taxes. In addition, gas marketing and trading incurred a loss in the fourth quarter resulting in a significantly lower contribution compared with the same periods last year. The increase also reflected the impact of non-operating items as described in more detail below.

The fourth quarter and full year benefited from net non-operating gains of \$1,356 million and \$3,199 million respectively, primarily gains on disposals partly offset by impairment charges. The full year also included fair value losses on embedded derivatives. The corresponding periods in 2009 included net non-operating gains of \$976 million and \$2,265 million respectively. In the fourth quarter and full year, fair value accounting effects had unfavourable impacts of \$12 million and \$3 million respectively compared with favourable impacts of \$446 million and \$919 million in the same periods of last year.

Production for the quarter was 3,673mboe/d, 9% lower than the fourth quarter of 2009. After adjusting for the effect of acquisitions and divestments and entitlement impacts in our production-sharing agreements (PSAs), the decrease was 6%. As expected, this primarily reflects higher turnaround activity, continued impacts to Gulf of Mexico production as a result of the drilling moratorium and the absence of the 40mboe/d benefit in the fourth quarter of 2009 related to the make-up of a prior-period underlift. Production for the full year was 3,822mboe/d, 4% lower than the same period of 2009. After adjusting for entitlement impacts in our PSAs and the effects of acquisitions and divestments, production was 2% lower, largely due to the impacts on Gulf of Mexico production. On 16 November production from the Rhum gas field in the central North Sea, in which the Iranian Oil Company (UK) Limited has a 50% interest, was suspended pending clarification from the UK government on certain aspects of the new EU Regulations concerning restrictive measures against Iran.

Looking ahead, we expect first-quarter production to reflect the continued impact from disposals, the continued lack of drilling activity in the Gulf of Mexico, the impact from the shutdown of the Alyeska-operated Trans Alaska Pipeline System in January, and entitlement impacts in our production-sharing agreements if prices remain at current levels, partly offset by our first production from Iraq.

We have continued to make strategic progress in the quarter. In Indonesia, we were awarded a 100% interest in the North Arafura oil and gas production-sharing agreement and in Egypt, we announced the Hodoa discovery in the West Mediterranean Deepwater, Nile delta concession (BP 80% and operator). In October, BP was awarded seven blocks in the 26<sup>th</sup> UK offshore exploration licensing round. After the end of the quarter, in Iraq, the Rumaila Operating Organization met a major milestone in the redevelopment of the Rumaila field in southern Iraq by increasing production by more than 10% above the 1.066 million barrels a day initial production rate agreed in December 2009. We signed a new agreement with the China National Offshore Oil Corporation (CNOOC) for deepwater exploration in the South China Sea. The agreement provides rights to explore block 43-11, subject to partner and government approval. In Australia, we were awarded four deepwater offshore blocks off the coast of south Australia. Finally, together with Rosneft, we announced that we have agreed a strategic alliance and will seek to form a joint venture to explore and, if successful, develop three licence blocks on the Russian Arctic continental shelf. Following completion of the share swap agreement with Rosneft previously announced on 14 January 2011, Rosneft will receive 5% of BP's ordinary voting shares in exchange for approximately 9.5% of Rosneft's shares. For further information relating to the Rosneft transaction, see Note 6 on page 31, Note 10 on page 33 and Legal proceedings on page 38.

During the quarter, we completed the disposal of our Western Canadian upstream gas assets and the Western Desert and East Badr El-din concessions in Egypt to Apache Corporation. We also completed the disposal of our remaining US Permian Basin assets (the majority of these assets were sold to Apache in the third quarter). We announced that we have entered into an agreement to sell our interests in Pan American Energy (PAE) to Bridas Corporation. Bridas will pay BP \$7.06 billion in cash for its 60% interest in PAE. We also announced that we have entered into an agreement to sell almost all of our exploration and production assets in Pakistan to United Energy Group Limited (UEG). UEG will pay BP \$775 million in cash for these assets, which consist of nine production and exploration blocks in Sindh province and four offshore exploration blocks in the Arabian Sea. Both transactions are subject to closing conditions, including receipt of all necessary governmental and regulatory approvals.

After the end of the quarter, we completed the disposal of our Colombia business to a consortium of Ecopetrol and Talisman and the disposal of our interests in four mature producing oil and gas fields in the deepwater Gulf of Mexico to Marubeni Oil and Gas.

Our 2010 reported reserves replacement ratio including equity-accounted entities, excluding acquisitions and disposals, was 106% (details of which will be provided in *BP Annual Report and Form 20-F 2010*).



## Exploration and Production

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
<b>\$ million</b>					
<b>Non-operating items</b>					
21	1,681	<b>(273)</b>	US	<b>1,190</b>	145
955	60	<b>1,629</b>	Non-US	<b>2,009</b>	2,120
976	1,741	<b>1,356</b>		<b>3,199</b>	2,265
<b>Fair value accounting effects<sup>(a)</sup></b>					
218	86	<b>9</b>	US	<b>141</b>	687
228	(18)	<b>(21)</b>	Non-US	<b>(144)</b>	232
446	68	<b>(12)</b>		<b>(3)</b>	919
<b>Exploration expense</b>					
149	78	<b>254</b>	US <sup>(b)</sup>	<b>465</b>	663
123	82	<b>177</b>	Non-US	<b>378</b>	453
272	160	<b>431</b>		<b>843</b>	1,116
<b>Production (net of royalties)<sup>(c)</sup></b>					
<b>Liquids (mb/d)<sup>(d)</sup></b>					
687	564	<b>567</b>	US	<b>594</b>	665
219	155	<b>155</b>	Europe	<b>177</b>	208
852	859	<b>858</b>	Russia	<b>856</b>	840
819	743	<b>686</b>	Rest of World	<b>747</b>	822
2,577	2,321	<b>2,266</b>		<b>2,374</b>	2,535
<b>Natural gas (mmcf/d)</b>					
2,313	2,190	<b>2,085</b>	US	<b>2,184</b>	2,316
583	412	<b>390</b>	Europe	<b>487</b>	634
654	542	<b>698</b>	Russia	<b>640</b>	601
5,018	5,220	<b>4,987</b>	Rest of World	<b>5,090</b>	4,934
8,568	8,364	<b>8,160</b>		<b>8,401</b>	8,485
<b>Total hydrocarbons (mboe/d)<sup>(e)</sup></b>					
1,086	941	<b>927</b>	US	<b>970</b>	1,064
320	226	<b>222</b>	Europe	<b>261</b>	317
965	953	<b>978</b>	Russia	<b>967</b>	944
1,683	1,643	<b>1,546</b>	Rest of World	<b>1,624</b>	1,673
4,054	3,763	<b>3,673</b>		<b>3,822</b>	3,998
<b>Average realizations<sup>(f)</sup></b>					
68.02	70.47	<b>78.80</b>	Total liquids (\$/bbl)	<b>73.41</b>	56.26
3.68	3.92	<b>3.98</b>	Natural gas (\$/mcf)	<b>3.97</b>	3.25
45.83	45.05	<b>50.41</b>	Total hydrocarbons (\$/boe)	<b>47.90</b>	38.36

(a) These effects represent the favourable (unfavourable) impact relative to management's measure of performance. Further information on fair value accounting effects is provided on page 21.

(b) Fourth quarter and year 2010 includes \$157 million related to decommissioning of idle infrastructure, as required by BOEMRE's Notice of Lessees 2010 GO5 issued in October 2010.

(c) Includes BP's share of production of equity-accounted entities.

(d) Crude oil and natural gas liquids.

(e) Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

(f) Based on sales of consolidated subsidiaries only – this excludes equity-accounted entities.

Because of rounding, some totals may not agree exactly with the sum of their component parts.

## Refining and Marketing

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			\$ million		
(869)	1,699	<b>2,282</b>	<b>Profit (loss) before interest and tax<sup>(a)</sup></b>	<b>7,239</b>	4,517
(1,074)	88	<b>(1,318)</b>	<b>Inventory holding (gains) losses</b>	<b>(1,684)</b>	(3,774)
(1,943)	1,787	<b>964</b>	<b>Replacement cost profit (loss) before interest and tax</b>	<b>5,555</b>	743
			<b>By region</b>		
(2,331)	220	<b>21</b>	US	<b>935</b>	(2,578)
388	1,567	<b>943</b>	Non-US	<b>4,620</b>	3,321
(1,943)	1,787	<b>964</b>		<b>5,555</b>	743

(a) Includes profit after interest and tax of equity-accounted entities.

Replacement cost profit before interest and tax for the fourth quarter and full year was \$964 million and \$5,555 million respectively. The results for the equivalent periods of 2009 were a loss of \$1,943 million and a profit of \$743 million respectively.

The 2010 results included net non-operating gains of \$86 million for the fourth quarter and \$630 million for the full year, mainly relating to gains on disposals, partly offset by restructuring charges. A year ago, there were net non-operating charges of \$1,846 million and \$2,603 million respectively, mainly relating to an impairment of goodwill in the US and restructuring charges. Fair value accounting effects had a favourable impact of \$134 million for the quarter and \$42 million for the full year. A year ago, there was an unfavourable impact of \$112 million and \$261 million respectively.

The result for the fourth quarter and full year, compared with the same periods last year, reflected a stronger overall refining environment, as well as improved operational performance in the fuels value chains, continued strong operational performance in the international businesses and further cost efficiencies. Against this very good operational delivery, the results were particularly impacted by a fourth-quarter loss from supply and trading resulting in a significantly lower contribution from this activity compared with the same periods last year. The fourth-quarter results were also impacted by certain one-off charges. The US region was at breakeven for the quarter and profitable for the full year, primarily reflecting improved operational performance and further cost efficiencies, partly offset by a significantly weaker supply and trading contribution.

In the fuels value chains, refining throughputs in the fourth quarter increased by 117mb/d compared with the same period last year, and Solomon refining availability (as defined in footnote (b) on page 11) remained high at 94.9% for the quarter.

In the international businesses, performance continued to be strong. Petrochemicals continued to capture the benefit of demand recovery through high reliability and full-year production volumes that were more than 20% higher than 2009 and lubricants continued to deliver earnings growth.

Looking ahead, we expect first-quarter refining margins to be similar to the fourth quarter and the petrochemicals environment to remain robust. BP's refinery turnaround activities are expected to be slightly higher than in the fourth quarter of 2010.

During the fourth quarter, BP completed the sale of its interest in the LPG China Zhuhai Cavern Complex.

In November, BP announced that it had agreed to sell its fuels marketing businesses in Namibia, Botswana and Zambia to Puma Energy. BP also announced that it had agreed to sell its 50% interest in each of BP Malawi and BP Tanzania to Puma Energy, subject to the pre-emption rights of its co-shareholders. The sale of BP Botswana was completed in the fourth quarter of 2010, with completion in the other countries expected to take place in 2011, subject to various regulatory approvals.

Following a strategic review, we intend to divest the Texas City refinery and the southern part of our West Coast Fuels Value Chain, including the Carson refinery, by the end of 2012 subject to all necessary legal and regulatory approvals. BP will ensure current obligations at Texas City are fulfilled.

## Refining and Marketing

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
				<b>\$ million</b>	
				<b>Non-operating items</b>	
(1,697)	216	<b>(12)</b>	US	<b>352</b>	(2,037)
(149)	166	<b>98</b>	Non-US	<b>278</b>	(566)
<b>(1,846)</b>	<b>382</b>	<b>86</b>		<b>630</b>	<b>(2,603)</b>
				<b>Fair value accounting effects<sup>(a)</sup></b>	
(9)	(61)	<b>27</b>	US	<b>19</b>	16
(103)	(160)	<b>107</b>	Non-US	<b>23</b>	(277)
<b>(112)</b>	<b>(221)</b>	<b>134</b>		<b>42</b>	<b>(261)</b>
				<b>Refinery throughputs (mb/d)</b>	
1,289	1,342	<b>1,343</b>	US	<b>1,350</b>	1,238
722	772	<b>777</b>	Europe	<b>775</b>	755
292	315	<b>300</b>	Rest of World	<b>301</b>	294
<b>2,303</b>	<b>2,429</b>	<b>2,420</b>	<b>Total throughput</b>	<b>2,426</b>	<b>2,287</b>
94.4	95.0	<b>94.9</b>	<b>Refining availability (%)<sup>(b)</sup></b>	<b>95.0</b>	93.6
				<b>Sales volumes (mb/d)<sup>(c)</sup></b>	
				<b>Marketing sales by region</b>	
1,426	1,431	<b>1,415</b>	US	<b>1,433</b>	1,426
1,507	1,491	<b>1,379</b>	Europe	<b>1,402</b>	1,504
651	592	<b>597</b>	Rest of World	<b>610</b>	630
<b>3,584</b>	<b>3,514</b>	<b>3,391</b>	<b>Total marketing sales</b>	<b>3,445</b>	3,560
2,390	2,279	<b>2,485</b>	<b>Trading/supply sales</b>	<b>2,482</b>	2,327
<b>5,974</b>	<b>5,793</b>	<b>5,876</b>	<b>Total refined product sales</b>	<b>5,927</b>	5,887
				<b>Global Indicator Refining Margin (GIM) (\$/bbl)<sup>(d)</sup></b>	
1.68	7.24	<b>5.86</b>	US West Coast	<b>6.16</b>	5.88
1.75	4.72	<b>5.03</b>	US Gulf Coast	<b>4.96</b>	4.63
1.22	6.34	<b>4.97</b>	US Midwest	<b>5.19</b>	5.43
2.69	2.59	<b>4.50</b>	North West Europe	<b>3.80</b>	3.26
0.79	2.70	<b>3.44</b>	Mediterranean	<b>3.29</b>	2.11
(1.47)	2.34	<b>2.32</b>	Singapore	<b>1.63</b>	0.21
1.49	4.53	<b>4.64</b>	BP Average GIM	<b>4.44</b>	4.00
				<b>Chemicals production (kte)</b>	
841	1,072	<b>1,046</b>	US	<b>4,146</b>	3,110
901	1,027	<b>894</b>	Europe <sup>(e)</sup>	<b>4,051</b>	3,724
1,727	1,883	<b>1,780</b>	Rest of World	<b>7,397</b>	5,826
<b>3,469</b>	<b>3,982</b>	<b>3,720</b>	<b>Total production<sup>(e)</sup></b>	<b>15,594</b>	12,660

<sup>(a)</sup> These effects represent the favourable (unfavourable) impact relative to management's measure of performance. Further information on fair value accounting effects is provided on page 21.

<sup>(b)</sup> 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.

<sup>(c)</sup> Does not include volumes relating to crude oil.

<sup>(d)</sup> The Global Indicator Refining Margin (GIM) is the average of regional indicator margins weighted for BP's crude refining capacity in each region. Each regional indicator margin is based on a single representative crude with product yields characteristic of the typical level of upgrading complexity. The regional indicator margins may not be representative of the margins achieved by BP in any period because of BP's particular refinery configurations and crude and product slate.

<sup>(e)</sup> A minor amendment has been made to comparative periods.

## Other businesses and corporate

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
\$ million					
(369)	(563)	<b>(537)</b>	<b>Profit (loss) before interest and tax<sup>(a)</sup></b>	<b>(1,500)</b>	(2,316)
(23)	(5)	<b>(13)</b>	<b>Inventory holding (gains) losses</b>	<b>(16)</b>	(6)
<b>Replacement cost profit (loss) before interest and tax</b>					
(392)	(568)	<b>(550)</b>		<b>(1,516)</b>	(2,322)
<b>By region</b>					
(141)	(156)	<b>(225)</b>	US	<b>(731)</b>	(728)
(251)	(412)	<b>(325)</b>	Non-US	<b>(785)</b>	(1,594)
(392)	(568)	<b>(550)</b>		<b>(1,516)</b>	(2,322)
<b>Results include Non-operating items</b>					
14	(71)	<b>(54)</b>	US	<b>(238)</b>	(164)
(79)	(15)	<b>(13)</b>	Non-US	<b>38</b>	(325)
(65)	(86)	<b>(67)</b>		<b>(200)</b>	(489)

<sup>(a)</sup> Includes profit after interest and tax of equity-accounted entities.

Other businesses and corporate comprises the Alternative Energy business, Shipping, the group's aluminium business, Treasury (which includes interest income on the group's cash and cash equivalents), and corporate activities worldwide.

The replacement cost loss before interest and tax for the fourth quarter and the year was \$550 million and \$1,516 million respectively, compared with losses of \$392 million and \$2,322 million a year ago. The 2010 results included net non-operating charges of \$67 million for the fourth quarter and \$200 million for the full year.

In addition, the result for the fourth quarter compared with the same period last year reflected adverse foreign exchange effects. On a full-year basis, compared with a year ago, the primary additional factors impacting the result were improved business performance, more favourable foreign exchange effects and cost efficiencies.

In Alternative Energy, our solar business achieved sales of 136MW in the fourth quarter, compared with 88MW a year ago. In our US wind business, full commercial operation began at the 125MW Goshen North Wind Farm in Idaho, a 50:50 joint venture between BP and Ridgeline Energy LLC. The net generation capacity<sup>(b)</sup> of our wind business at the end of the fourth quarter was 774MW (1,362MW gross), compared with 711MW (1,237MW gross) a year ago.

In 2011, we expect the quarterly loss, excluding non-operating items, for Other businesses and corporate to average around \$400 million. As in previous years, this is likely to be volatile on an individual quarterly basis.

<sup>(b)</sup> Net wind capacity is the sum of the rated capacities of the assets/turbines that have entered into commercial operation, including BP's share of equity-accounted entities. The gross data is the equivalent capacity on a gross-JV basis, which includes 100% of the capacity of equity-accounted entities where BP has partial ownership. Capacity figures include 32MW in the Netherlands managed by our Refining and Marketing segment.

## Cautionary statement

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*Cautionary statement regarding forward-looking statements: The discussion in this results announcement contains forward-looking statements particularly those regarding an expected increase in cash costs in 2011; disposal proceeds in 2011 and the identification of further assets that may be strategically more valuable to others than to BP; expectations for organic capital expenditure for 2011; depreciation, depletion and amortization; the anticipated reduction in net debt; the quarterly dividend payment; the completion of the P&A of the second relief well; the completion of the decontamination of the vessels involved in the response to the Gulf of Mexico oil spill; the timing of seabed and seismic surveys of the area affected by the Gulf of Mexico oil spill and the recovery of diesel from the Deepwater Horizon rig; BP's plans to provide certain funding to the state of Florida; the expected timing of the transition of control of the Gulf of Mexico response operations from the GC-IMT to the BP Gulf Coast Restoration Organization; the magnitude and timing of remaining remediation costs related to the Gulf of Mexico oil spill; the factors that could affect the magnitude of BP's ultimate exposure and the cost to BP in relation to the spill and any potential mitigation resulting from BP's partners or others involved in the spill; the potential liabilities resulting from pending and future legal proceedings and potential investigations and civil or criminal actions that US state and/or local governments could seek to take against BP as a result of the spill; the timing of claims and litigation outcomes and of payment of legal costs; the anticipated timing for completion of the disposition of certain BP assets; contributions to and payments from the trust fund and the setting aside of assets while the fund is building; the expected impact on first quarter production from announced divestments, ongoing decline in the Gulf of Mexico, impacts from the shutdown of the Trans Alaska Pipeline System and PSA entitlements; expectations for first quarter refining margins and for the petrochemicals environment; expectations for refinery turnaround activities; refinery divestments and fulfilment of obligations; quarterly loss for Other businesses and corporate; continuing requests for cost reimbursement from the US Coast Guard and other governmental authorities; the timing for publication of investigation reports; the impact of BP's potential liabilities relating to the Gulf of Mexico oil spill on the group, including its business, results and financial condition; and BP's anticipated response to potential future claims against Alyeska and Atlantic Richfield; anticipated impact of completion of a share swap agreement entered into with Rosneft and of a court application by Alfa Petroleum Holdings Limited and OGIP Ventures Limited in relation to this and other agreements entered into with Rosneft. By their nature, forward-looking statements involve risk and uncertainty 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; OPEC quota restrictions; PSA effects; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; regulatory or legal actions including the types of enforcement action pursued and the nature of remedies sought; the impact on our reputation following the Gulf of Mexico oil spill; exchange rate fluctuations; development and use of new technology; the success or otherwise of partnering; the actions of competitors, trading partners, creditors, rating agencies and others; natural disasters and adverse weather conditions; changes in public expectations and other changes to business conditions; wars and acts of terrorism or sabotage; and other factors discussed in this Announcement, under "Risk factors" in our Annual Report and Accounts 2009 and our 2009 Annual Report on Form 20-F filed with the US Securities and Exchange Commission (SEC) and under "Principal risks and uncertainties" in our Current Report on Form 6-K filed with the SEC on 28 July 2010.*

## Group income statement

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
				<b>\$ million</b>	
70,981	70,608	<b>79,703</b>	Sales and other operating revenues (Note 4)	<b>297,107</b>	239,272
350	282	<b>233</b>	Earnings from jointly controlled entities – after interest and tax	<b>1,175</b>	1,286
696	934	<b>1,125</b>	Earnings from associates – after interest and tax	<b>3,582</b>	2,615
241	207	<b>174</b>	Interest and other income	<b>681</b>	792
1,368	2,621	<b>2,753</b>	Gains on sale of businesses and fixed assets	<b>6,383</b>	2,173
<b>73,636</b>	<b>74,652</b>	<b>83,988</b>	<b>Total revenues and other income</b>	<b>308,928</b>	246,138
50,201	51,695	<b>58,339</b>	Purchases	<b>216,211</b>	163,772
6,040	13,374	<b>7,522</b>	Production and manufacturing expenses <sup>(a)</sup>	<b>64,615</b>	23,202
1,084	1,206	<b>1,524</b>	Production and similar taxes (Note 5)	<b>5,244</b>	3,752
3,200	2,754	<b>2,634</b>	Depreciation, depletion and amortization	<b>11,164</b>	12,106
1,823	380	<b>1,201</b>	Impairment and losses on sale of businesses and fixed assets	<b>1,689</b>	2,333
272	160	<b>431</b>	Exploration expense	<b>843</b>	1,116
3,979	3,187	<b>3,409</b>	Distribution and administration expenses	<b>12,555</b>	14,038
103	(20)	<b>23</b>	Fair value (gain) loss on embedded derivatives	<b>309</b>	(607)
6,934	1,916	<b>8,905</b>	<b>Profit (loss) before interest and taxation</b>	<b>(3,702)</b>	26,426
252	348	<b>359</b>	Finance costs	<b>1,170</b>	1,110
50	(13)	<b>(13)</b>	Net finance expense (income) relating to pensions and other post-retirement benefits	<b>(47)</b>	192
6,632	1,581	<b>8,559</b>	<b>Profit (loss) before taxation</b>	<b>(4,825)</b>	25,124
2,254	(292)	<b>2,896</b>	Taxation <sup>(a)</sup>	<b>(1,501)</b>	8,365
4,378	1,873	<b>5,663</b>	<b>Profit (loss) for the period</b>	<b>(3,324)</b>	16,759
				<b>Attributable to</b>	
4,295	1,785	<b>5,567</b>	BP shareholders	<b>(3,719)</b>	16,578
83	88	<b>96</b>	Minority interest	<b>395</b>	181
4,378	1,873	<b>5,663</b>		<b>(3,324)</b>	16,759
				<b>Earnings per share – cents (Note 6)</b>	
				Profit (loss) for the period attributable to BP shareholders	
22.90	9.50	<b>29.62</b>	Basic	<b>(19.81)</b>	88.49
22.64	9.38	<b>29.28</b>	Diluted	<b>(19.81)</b>	87.54

<sup>(a)</sup> See Note 2 on pages 24 – 29 for further details of the impact of the Gulf of Mexico oil spill on the income statement line items.

## Group statement of comprehensive income

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
				<b>\$ million</b>	
4,378	1,873	<b>5,663</b>	Profit (loss) for the period	<b>(3,324)</b>	16,759
(63)	1,759	<b>26</b>	Currency translation differences	<b>259</b>	1,826
(73)	(11)	<b>(48)</b>	Exchange (gains) losses on translation of foreign operations transferred to gain or loss on sales of businesses and fixed assets	<b>(20)</b>	(27)
(682)	–	<b>(320)</b>	Actuarial gain (loss) relating to pensions and other post-retirement benefits	<b>(320)</b>	(682)
168	67	<b>65</b>	Available-for-sale investments marked to market	<b>(191)</b>	705
–	1	<b>(8)</b>	Available-for-sale investments – recycled to the income statement	<b>(150)</b>	2
39	322	<b>20</b>	Cash flow hedges marked to market	<b>(65)</b>	652
(122)	32	<b>16</b>	Cash flow hedges – recycled to the income statement	<b>(25)</b>	366
4	14	<b>8</b>	Cash flow hedges – recycled to the balance sheet	<b>53</b>	136
214	(91)	<b>121</b>	Taxation	<b>(137)</b>	525
(515)	2,093	<b>(120)</b>	Other comprehensive income (expense)	<b>(596)</b>	3,503
3,863	3,966	<b>5,543</b>	Total comprehensive income (expense)	<b>(3,920)</b>	20,262
				Attributable to	
3,834	3,865	<b>5,449</b>	BP shareholders	<b>(4,318)</b>	20,137
29	101	<b>94</b>	Minority interest	<b>398</b>	125
3,863	3,966	<b>5,543</b>		<b>(3,920)</b>	20,262

## Group statement of changes in equity

	BP shareholders' equity	Minority interest	Total equity
<b>\$ million</b>			
At 1 January 2010	<b>101,613</b>	<b>500</b>	<b>102,113</b>
Total comprehensive income (expense)	<b>(4,318)</b>	<b>398</b>	<b>(3,920)</b>
Dividends	<b>(2,627)</b>	<b>(315)</b>	<b>(2,942)</b>
Share-based payments (net of tax)	<b>339</b>	–	<b>339</b>
Transactions involving minority interests	<b>(20)</b>	<b>321</b>	<b>301</b>
<b>At 31 December 2010</b>	<b>94,987</b>	<b>904</b>	<b>95,891</b>
<b>\$ million</b>			
At 1 January 2009	91,303	806	92,109
Total comprehensive income	20,137	125	20,262
Dividends	(10,483)	(416)	(10,899)
Share-based payments (net of tax)	721	–	721
Changes in associates' equity	(43)	–	(43)
Transactions involving minority interests	(22)	(15)	(37)
<b>At 31 December 2009</b>	<b>101,613</b>	<b>500</b>	<b>102,113</b>

## Group balance sheet

	31 December 2010	31 December 2009
<b>\$ million</b>		
<b>Non-current assets</b>		
Property, plant and equipment	110,163	108,275
Goodwill	8,598	8,620
Intangible assets	14,298	11,548
Investments in jointly controlled entities	12,286	15,296
Investments in associates	13,335	12,963
Other investments	1,191	1,567
<b>Fixed assets</b>	<b>159,871</b>	158,269
Loans	894	1,039
Other receivables	6,298	1,729
Derivative financial instruments	4,210	3,965
Prepayments	1,432	1,407
Deferred tax assets	528	516
Defined benefit pension plan surpluses	2,176	1,390
	<b>175,409</b>	168,315
<b>Current assets</b>		
Loans	247	249
Inventories	26,218	22,605
Trade and other receivables	36,549	29,531
Derivative financial instruments	4,356	4,967
Prepayments	1,574	1,753
Current tax receivable	693	209
Other investments	1,532	–
Cash and cash equivalents	18,556	8,339
	<b>89,725</b>	67,653
Assets classified as held for sale (Note 3)	7,128	–
	<b>96,853</b>	67,653
<b>Total assets</b>	<b>272,262</b>	235,968
<b>Current liabilities</b>		
Trade and other payables	46,329	35,204
Derivative financial instruments	3,856	4,681
Accruals	5,612	6,202
Finance debt	14,626	9,109
Current tax payable	2,920	2,464
Provisions	9,489	1,660
	<b>82,832</b>	59,320
Liabilities directly associated with assets classified as held for sale (Note 3)	1,047	–
	<b>83,879</b>	59,320
<b>Non-current liabilities</b>		
Other payables	14,285	3,198
Derivative financial instruments	3,677	3,474
Accruals	637	703
Finance debt	30,710	25,518
Deferred tax liabilities	10,908	18,662
Provisions	22,418	12,970
Defined benefit pension plan and other post-retirement benefit plan deficits	9,857	10,010
	<b>92,492</b>	74,535
<b>Total liabilities</b>	<b>176,371</b>	133,855
<b>Net assets</b>	<b>95,891</b>	102,113
<b>Equity</b>		
BP shareholders' equity	94,987	101,613
Minority interest	904	500
	<b>95,891</b>	102,113



## Condensed group cash flow statement

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010	\$ million	Year 2010	2009
<b>Operating activities</b>					
6,632	1,581	<b>8,559</b>	Profit (loss) before taxation	<b>(4,825)</b>	25,124
Adjustments to reconcile profit (loss) before taxation to net cash provided by operating activities					
3,319	2,812	<b>2,877</b>	Depreciation, depletion and amortization and exploration expenditure written off	<b>11,539</b>	12,699
455	(2,241)	<b>(1,552)</b>	Impairment and (gain) loss on sale of businesses and fixed assets	<b>(4,694)</b>	160
282	(643)	<b>(76)</b>	Earnings from equity-accounted entities, less dividends received	<b>(1,480)</b>	(898)
8	149	<b>5</b>	Net charge for interest and other finance expense, less net interest paid	<b>139</b>	338
128	121	<b>72</b>	Share-based payments	<b>197</b>	450
(606)	–	<b>(298)</b>	Net operating charge for pensions and other post-retirement benefits, less contributions and benefit payments for unfunded plans	<b>(959)</b>	(887)
454	(479)	<b>2,005</b>	Net charge for provisions, less payments	<b>19,217</b>	650
(2,420)	(217)	<b>(10,215)</b>	Movements in inventories and other current and non-current assets and liabilities <sup>(a)</sup>	<b>1,092</b>	(3,596)
(964)	(1,735)	<b>(1,555)</b>	Income taxes paid	<b>(6,610)</b>	(6,324)
<b>7,288</b>	<b>(652)</b>	<b>(178)</b>	<b>Net cash provided by (used in) operating activities</b>	<b>13,616</b>	27,716
<b>Investing activities</b>					
(5,647)	(4,741)	<b>(5,118)</b>	Capital expenditure	<b>(18,421)</b>	(20,650)
9	(1,192)	<b>(8)</b>	Acquisitions, net of cash acquired	<b>(2,468)</b>	1
(237)	(105)	<b>(174)</b>	Investment in jointly controlled entities	<b>(461)</b>	(578)
(5)	(13)	<b>(27)</b>	Investment in associates	<b>(65)</b>	(164)
538	4,193	<b>2,555</b>	Proceeds from disposal of fixed assets <sup>(b)</sup>	<b>7,492</b>	1,715
531	4,557	<b>4,818</b>	Proceeds from disposal of businesses, net of cash disposed <sup>(b)</sup>	<b>9,462</b>	966
238	133	<b>109</b>	Proceeds from loan repayments	<b>501</b>	530
–	–	–	Other	–	47
<b>(4,573)</b>	<b>2,832</b>	<b>2,155</b>	<b>Net cash provided by (used in) investing activities</b>	<b>(3,960)</b>	(18,133)
<b>Financing activities</b>					
82	(21)	<b>31</b>	Net issue (repurchase) of shares	<b>169</b>	207
140	4,307	<b>6,529</b>	Proceeds from long-term financing	<b>11,934</b>	11,567
(1,237)	(52)	<b>(1,963)</b>	Repayments of long-term financing	<b>(4,702)</b>	(6,021)
(557)	(984)	<b>(533)</b>	Net increase (decrease) in short-term debt	<b>(3,619)</b>	(4,405)
(2,623)	(1)	–	Dividends paid – BP shareholders	<b>(2,627)</b>	(10,483)
(92)	(67)	<b>(117)</b>	– Minority interest	<b>(315)</b>	(416)
<b>(4,287)</b>	<b>3,182</b>	<b>3,947</b>	<b>Net cash provided by (used in) financing activities</b>	<b>840</b>	(9,551)
28	131	<b>(171)</b>	Currency translation differences relating to cash and cash equivalents	<b>(279)</b>	110
<b>(1,544)</b>	<b>5,493</b>	<b>5,753</b>	<b>Increase (decrease) in cash and cash equivalents</b>	<b>10,217</b>	142
9,883	7,310	<b>12,803</b>	Cash and cash equivalents at beginning of period	<b>8,339</b>	8,197
<b>8,339</b>	<b>12,803</b>	<b>18,556</b>	Cash and cash equivalents at end of period	<b>18,556</b>	8,339
<b>(a) Includes:</b>					
–	(2,042)	<b>(6,542)</b>	Movements related to Gulf of Mexico oil spill response	<b>3,846</b>	–
(1,256)	82	<b>(1,445)</b>	Inventory holding (gains) losses	<b>(1,784)</b>	(3,922)
103	(20)	<b>23</b>	Fair value (gain) loss on embedded derivatives	<b>309</b>	(607)

Inventory holding gains and losses and fair value gains and losses on embedded derivatives are also included within profit (loss) before taxation. See Note 2 for further information on the cash flow impacts of the Gulf of Mexico oil spill.

<sup>(b)</sup> Included in disposal proceeds are deposits received in respect of disposal transactions expected to complete in subsequent periods as follows: fourth quarter 2010 \$4,947 million; third quarter 2010 \$5,045 million; fourth quarter 2009 \$nil; year 2010 \$6,197 million; year 2009 \$nil. For further information see Note 7.

## Capital expenditure and acquisitions

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
<b>\$ million</b>					
<b>By business</b>					
<b>Exploration and Production</b>					
1,682	1,432	<b>1,043</b>	US <sup>(a)</sup>	<b>6,632</b>	6,169
2,431	3,815	<b>2,319</b>	Non-US <sup>(b)(c)</sup>	<b>11,121</b>	8,727
4,113	5,247	<b>3,362</b>		<b>17,753</b>	14,896
<b>Refining and Marketing</b>					
912	774	<b>755</b>	US	<b>2,761</b>	2,625
652	293	<b>610</b>	Non-US	<b>1,268</b>	1,489
1,564	1,067	<b>1,365</b>		<b>4,029</b>	4,114
<b>Other businesses and corporate</b>					
149	289	<b>630</b>	US <sup>(d)</sup>	<b>977</b>	1,071
87	53	<b>104</b>	Non-US	<b>257</b>	228
236	342	<b>734</b>		<b>1,234</b>	1,299
5,913	6,656	<b>5,461</b>		<b>23,016</b>	20,309
<b>By geographical area</b>					
2,743	2,495	<b>2,428</b>	US <sup>(a)(d)</sup>	<b>10,370</b>	9,865
3,170	4,161	<b>3,033</b>	Non-US <sup>(b)(c)</sup>	<b>12,646</b>	10,444
5,913	6,656	<b>5,461</b>		<b>23,016</b>	20,309
<b>Included above:</b>					
27	1,427	<b>212</b>	Acquisitions and asset exchanges <sup>(a)(b)</sup>	<b>3,406</b>	308

- (a) Year 2010 included capital expenditure of \$1,767 million in the US Deepwater Gulf of Mexico as part of the transaction with Devon Energy announced in the first quarter 2010.
- (b) Third quarter 2010 included \$1,099 million, and year 2010 \$1,107 million, of capital expenditure in Azerbaijan as part of the transaction with Devon Energy announced in the first quarter 2010.
- (c) Year and third quarter 2010 included \$492 million for the purchase of additional interests in the Valhall and Hod fields in the North Sea. Year 2010 also included capital expenditure of \$900 million relating to the formation of a partnership with Value Creation Inc. to develop the Terre de Grace oil sands acreage in the Athabasca region of Alberta, Canada.
- (d) 2010 included capital expenditure of \$557 million for wind turbines, incurred at the time for future wind projects, of which \$390 million was incurred during the fourth quarter and \$163 million during the third quarter. In 2009, the comparative amounts were \$440 million for the full year and \$36 million for the fourth quarter.

## Exchange rates

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
1.63	1.55	<b>1.58</b>	US dollar/sterling average rate for the period	<b>1.54</b>	1.56
1.60	1.58	<b>1.54</b>	US dollar/sterling period-end rate	<b>1.54</b>	1.60
1.48	1.29	<b>1.36</b>	US dollar/euro average rate for the period	<b>1.32</b>	1.39
1.43	1.36	<b>1.33</b>	US dollar/euro period-end rate	<b>1.33</b>	1.43

## Analysis of replacement cost profit (loss) before interest and tax and reconciliation to profit (loss) before taxation<sup>(a)</sup>

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010	\$ million	Year	
				2010	2009
<b>By business</b>					
<b>Exploration and Production</b>					
2,517	3,602	1,522	US	9,684	6,685
5,988	4,748	6,478	Non-US	21,202	18,115
8,505	8,350	8,000		30,886	24,800
<b>Refining and Marketing</b>					
(2,331)	220	21	US	935	(2,578)
388	1,567	943	Non-US	4,620	3,321
(1,943)	1,787	964		5,555	743
<b>Other businesses and corporate</b>					
(141)	(156)	(225)	US	(731)	(728)
(251)	(412)	(325)	Non-US	(785)	(1,594)
(392)	(568)	(550)		(1,516)	(2,322)
6,170	9,569	8,414		34,925	23,221
–	(7,656)	(1,010)	Gulf of Mexico oil spill response	(40,858)	–
(492)	85	56	Consolidation adjustment	447	(717)
5,678	1,998	7,460		(5,486)	22,504
<b>Replacement cost profit (loss) before interest and tax<sup>(b)</sup></b>					
<b>Inventory holding gains (losses)<sup>(c)</sup></b>					
159	1	114	Exploration and Production	84	142
1,074	(88)	1,318	Refining and Marketing	1,684	3,774
23	5	13	Other businesses and corporate	16	6
6,934	1,916	8,905	Profit (loss) before interest and tax	(3,702)	26,426
252	348	359	Finance costs	1,170	1,110
50	(13)	(13)	Net finance expense (income) relating to pensions and other post-retirement benefits	(47)	192
6,632	1,581	8,559		(4,825)	25,124
<b>Profit (loss) before taxation</b>					
<b>Replacement cost profit (loss) before interest and tax</b>					
<b>By geographical area</b>					
(294)	(3,891)	385	US	(30,087)	2,806
5,972	5,889	7,075	Non-US	24,601	19,698
5,678	1,998	7,460		(5,486)	22,504

(a) IFRS requires that the measure of profit or loss disclosed for each operating segment is the measure that is provided regularly to the chief operating decision maker for the purposes of performance assessment and resource allocation. For BP, this measure of profit or loss is replacement cost profit or loss before interest and tax. In addition, a reconciliation is required between the total of the operating segments' measures of profit or loss and the group profit or loss before taxation.

(b) Replacement cost profit or loss reflects the replacement cost of supplies. The replacement cost profit or loss for the period is arrived at by excluding from profit or loss inventory holding gains and losses and their associated tax effect. Replacement cost profit or loss for the group is not a recognized GAAP measure.

(c) Inventory holding gains and losses represent the difference between the cost of sales calculated using the average cost to BP of supplies acquired during the period and the cost of sales calculated on the first-in first-out (FIFO) method after adjusting for any changes in provisions where the net realizable value of the inventory is lower than its cost. Under the FIFO method, which we use for IFRS reporting, the cost of inventory charged to the income statement is based on its historic cost of purchase, or manufacture, rather than its replacement cost. In volatile energy markets, this can have a significant distorting effect on reported income. The amounts disclosed represent the difference between the charge (to the income statement) for inventory on a FIFO basis (after adjusting for any related movements in net realizable value provisions) and the charge that would have arisen if an average cost of supplies was used for the period. For this purpose, the average cost of supplies during the period is principally calculated on a monthly basis by dividing the total cost of inventory acquired in the period by the number of barrels acquired. The amounts disclosed are not separately reflected in the financial statements as a gain or loss. No adjustment is made in respect of the cost of inventories held as part of a trading position and certain other temporary inventory positions.

Management believes this information is useful to illustrate to investors the fact that crude oil and product prices can vary significantly from period to period and that the impact on our reported result under IFRS can be significant. Inventory holding gains and losses vary from period to period due principally to changes in oil prices as well as changes to underlying inventory levels. In order for investors to understand the operating performance of the group excluding the impact of oil price changes on the replacement of inventories, and to make comparisons of operating performance between reporting periods, BP's management believes it is helpful to disclose this information.

## Non-operating items<sup>(a)</sup>

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010	\$ million	Year	
				2010	2009
<b>Exploration and Production</b>					
1,070	1,735	<b>1,430</b>	Impairment and gain (loss) on sale of businesses and fixed assets	<b>3,812</b>	1,574
–	(54)	–	– Environmental and other provisions	<b>(54)</b>	3
(4)	(6)	<b>(14)</b>	Restructuring, integration and rationalization costs	<b>(137)</b>	(10)
(103)	20	<b>(23)</b>	Fair value gain (loss) on embedded derivatives	<b>(309)</b>	664
13	46	<b>(37)</b>	Other	<b>(113)</b>	34
976	1,741	<b>1,356</b>		<b>3,199</b>	2,265
<b>Refining and Marketing</b>					
(1,518)	507	<b>145</b>	Impairment and gain (loss) on sale of businesses and fixed assets	<b>877</b>	(1,604)
(29)	(83)	<b>(15)</b>	Environmental and other provisions	<b>(98)</b>	(219)
(492)	(32)	<b>(47)</b>	Restructuring, integration and rationalization costs	<b>(97)</b>	(907)
–	–	–	– Fair value gain (loss) on embedded derivatives	–	(57)
193	(10)	<b>3</b>	Other	<b>(52)</b>	184
(1,846)	382	<b>86</b>		<b>630</b>	(2,603)
<b>Other businesses and corporate</b>					
(7)	(1)	<b>(23)</b>	Impairment and gain (loss) on sale of businesses and fixed assets	<b>5</b>	(130)
16	(77)	<b>(22)</b>	Environmental and other provisions	<b>(103)</b>	(75)
(47)	(8)	<b>(13)</b>	Restructuring, integration and rationalization costs	<b>(81)</b>	(183)
–	–	–	– Fair value gain (loss) on embedded derivatives	–	–
(27)	–	<b>(9)</b>	Other	<b>(21)</b>	(101)
(65)	(86)	<b>(67)</b>		<b>(200)</b>	(489)
–	(7,656)	<b>(1,010)</b>	Gulf of Mexico oil spill response	<b>(40,858)</b>	–
(935)	(5,619)	<b>365</b>	<b>Total before interest and taxation</b>	<b>(37,229)</b>	(827)
–	(47)	<b>(30)</b>	Finance costs <sup>(b)</sup>	<b>(77)</b>	–
(935)	(5,666)	<b>335</b>	<b>Total before taxation</b>	<b>(37,306)</b>	(827)
(221)	2,097	<b>(167)</b>	Taxation credit (charge) <sup>(c)</sup>	<b>11,857</b>	(240)
(1,156)	(3,569)	<b>168</b>	<b>Total after taxation for period</b>	<b>(25,449)</b>	(1,067)

<sup>(a)</sup> An analysis of non-operating items by region is shown on pages 9, 11 and 12.

<sup>(b)</sup> Finance costs relate to the Gulf of Mexico oil spill. See Note 2 on pages 24 – 29 for further details.

<sup>(c)</sup> Tax is calculated using the quarter's effective tax rate (excluding the impact of the Gulf of Mexico oil spill) on replacement cost profit or loss. However, the US statutory tax rate has been used for expenditures relating to the Gulf of Mexico oil spill that qualify for tax relief. For the fourth quarter and the year in 2009, no tax credit was calculated on the goodwill impairment in Refining and Marketing because the charge is not tax deductible.

Non-operating items are charges and credits arising in consolidated entities that BP discloses separately because it considers such disclosures to be meaningful and relevant to investors. These disclosures are provided in order to enable investors better to understand and evaluate the group's financial performance.

## Non-GAAP information on fair value accounting effects

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010	Year	
			2010	2009
<b>\$ million</b>				
<b>Favourable (unfavourable) impact relative to management's measure of performance</b>				
446	68	<b>(12)</b>	<b>(3)</b>	919
(112)	(221)	<b>134</b>	<b>42</b>	(261)
<hr/>				
334	(153)	<b>122</b>	<b>39</b>	658
(115)	38	<b>(40)</b>	<b>(26)</b>	(213)
<hr/>				
219	(115)	<b>82</b>	<b>13</b>	445
<hr/>				

(a) Tax is calculated using the quarter's effective tax rate (excluding the impact of the Gulf of Mexico oil spill) on replacement cost profit or loss.

BP uses derivative instruments to manage the economic exposure relating to inventories above normal operating requirements of crude oil, natural gas and petroleum products as well as certain contracts to supply physical volumes at future dates. Under IFRS, these inventories and contracts are recorded at historic cost and on an accruals basis respectively. The related derivative instruments, however, are required to be recorded at fair value with gains and losses recognized in income because hedge accounting is either not permitted or not followed, principally due to the impracticality of effectiveness testing requirements. Therefore, measurement differences in relation to recognition of gains and losses occur. Gains and losses on these inventories and contracts are not recognized until the commodity is sold in a subsequent accounting period. Gains and losses on the related derivative commodity contracts are recognized in the income statement from the time the derivative commodity contract is entered into on a fair value basis using forward prices consistent with the contract maturity.

IFRS requires that inventory held for trading be recorded at its fair value using period end spot prices whereas any related derivative commodity instruments are required to be recorded at values based on forward prices consistent with the contract maturity. Depending on market conditions, these forward prices can be either higher or lower than spot prices resulting in measurement differences.

BP enters into contracts for pipelines and storage capacity that, under IFRS, are recorded on an accruals basis. These contracts are risk-managed using a variety of derivative instruments, which are fair valued under IFRS. This results in measurement differences in relation to recognition of gains and losses.

The way that BP manages the economic exposures described above, and measures performance internally, differs from the way these activities are measured under IFRS. BP calculates this difference for consolidated entities by comparing the IFRS result with management's internal measure of performance, under which the inventory and the supply and capacity contracts in question are valued based on fair value using relevant forward prices prevailing at the end of the period. We believe that disclosing management's estimate of this difference provides useful information for investors because it enables investors to see the economic effect of these activities as a whole. The impacts of fair value accounting effects, relative to management's internal measure of performance, are shown in the table above. A reconciliation to GAAP information is set out below.

### Reconciliation of non-GAAP information

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010	Year	
			2010	2009
<b>\$ million</b>				
<b>Exploration and Production</b>				
8,059	8,282	<b>8,012</b>	<b>30,889</b>	23,881
446	68	<b>(12)</b>	<b>(3)</b>	919
<hr/>				
8,505	8,350	<b>8,000</b>	<b>30,886</b>	24,800
<hr/>				
<b>Refining and Marketing</b>				
(1,831)	2,008	<b>830</b>	<b>5,513</b>	1,004
(112)	(221)	<b>134</b>	<b>42</b>	(261)
<hr/>				
(1,943)	1,787	<b>964</b>	<b>5,555</b>	743
<hr/>				

## Realizations and marker prices

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>Average realizations<sup>(a)</sup></b>					
<b>Liquids (\$/bbl)<sup>(b)</sup></b>					
66.15	68.15	<b>74.60</b>	US	<b>70.79</b>	53.68
71.68	74.19	<b>85.30</b>	Europe	<b>77.39</b>	61.91
68.95	72.06	<b>82.30</b>	Rest of World	<b>75.23</b>	57.29
68.02	70.47	<b>78.80</b>	BP Average	<b>73.41</b>	56.26
<b>Natural gas (\$/mcf)</b>					
3.69	3.73	<b>3.31</b>	US	<b>3.88</b>	3.07
4.96	5.59	<b>6.76</b>	Europe	<b>5.49</b>	4.75
3.51	3.87	<b>4.05</b>	Rest of World	<b>3.86</b>	3.14
3.68	3.92	<b>3.98</b>	BP Average	<b>3.97</b>	3.25
<b>Total hydrocarbons (\$/boe)</b>					
49.72	49.90	<b>53.60</b>	US	<b>52.37</b>	40.21
58.18	61.69	<b>71.48</b>	Europe	<b>62.93</b>	50.07
39.59	38.71	<b>43.70</b>	Rest of World	<b>41.37</b>	34.01
45.83	45.05	<b>50.41</b>	BP Average	<b>47.90</b>	38.36
<b>Average oil marker prices (\$/bbl)</b>					
74.53	76.86	<b>86.46</b>	Brent	<b>79.50</b>	61.67
75.97	76.05	<b>85.13</b>	West Texas Intermediate	<b>79.45</b>	61.92
75.74	76.37	<b>85.92</b>	Alaska North Slope	<b>79.92</b>	62.49
73.68	74.66	<b>84.19</b>	Mars	<b>78.04</b>	60.50
74.21	75.58	<b>85.16</b>	Urals (NWE– cif)	<b>78.26</b>	61.15
35.83	35.94	<b>40.62</b>	Russian domestic oil	<b>36.96</b>	31.32
<b>Average natural gas marker prices</b>					
4.16	4.38	<b>3.80</b>	Henry Hub gas price (\$/mmBtu) <sup>(c)</sup>	<b>4.39</b>	3.99
27.75	43.14	<b>52.43</b>	UK Gas – National Balancing Point (p/therm)	<b>42.45</b>	30.85

(a) Based on sales of consolidated subsidiaries only – this excludes equity-accounted entities.

(b) Crude oil and natural gas liquids.

(c) Henry Hub First of Month Index.

# Notes

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## 1. Basis of preparation

The results for the interim periods and for the year ended 31 December 2010 are unaudited and in the opinion of management include all adjustments necessary for a fair presentation of the results for the periods presented. All such adjustments are of a normal recurring nature. The directors draw attention to Note 2 on pages 24 – 29 which describes the uncertainties surrounding the amounts and timings of liabilities arising from the Gulf of Mexico oil spill. It is likely that the independent auditor's report in the *BP Annual Report and Form 20-F* will contain an emphasis of matter paragraph in relation to this matter.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. This report should be read in conjunction with the consolidated financial statements and related notes for the year ended 31 December 2009 included in the *BP Annual Report and Accounts 2009* and in *BP Annual Report on Form 20-F 2009*.

BP prepares its consolidated financial statements included within its Annual Report and Accounts on the basis of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the European Union (EU) and in accordance with the provisions of the UK Companies Act 2006. IFRS as adopted 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 periods presented. The financial information presented herein has been prepared in accordance with the accounting policies that will be used in preparing *BP Annual Report and Form 20-F 2010*, which do not differ significantly from those used in the *BP Annual Report and Accounts 2009*, or in the *BP Annual Report on Form 20-F 2009*.

Certain of the group's accounting policies that are relevant to an understanding of the results for the current period and the results for the year ended 31 December 2010 are provided below.

### Segmental reporting

For the purposes of segmental reporting, the group's operating segments are established on the basis of those components of the group that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. During the second quarter of 2010 a separate organization was created within the group to deal with the ongoing response to the Gulf of Mexico oil spill. This organization reports directly to the group chief executive and its costs are excluded from the results of the existing operating segments. Under IFRS its costs are therefore presented as a reconciling item between the sum of the results of the reportable segments and the group results.

### Provisions

Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability. If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within finance costs. Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

Where a possible obligation exists, or an obligation cannot be measured reliably, it is classed as a contingent liability and disclosed but not provided for. In future periods these uncertainties will be resolved such that further provisions may need to be recognized. Disclosures are given in relation to contingent liabilities to the extent practicable.

Where the group makes contributions into a separately administered fund for restoration, environmental or other obligations, which it does not control, and the group's right to the assets in the fund is restricted, the obligation to contribute to the fund is recognized as a liability where it is probable that such additional contributions will be made. The group recognizes a reimbursement asset separately, being the lower of the amount of the associated restoration, environmental or other provision and the group's share of the fair value of the net assets of the fund available to contributors. Changes in the carrying amount of the reimbursement asset, other than contributions to and payments from the fund, are recognized in profit or loss.

Amounts that BP has a contractual right to recover from third parties are contingent assets. Such amounts are not recognized in the accounts unless they are virtually certain to be received.

# Notes

## 1. Basis of preparation (continued)

### New or amended International Financial Reporting Standards adopted

BP has adopted the revised version of IFRS 3 'Business Combinations', with effect from 1 January 2010. The revised standard still requires the purchase method of accounting to be applied to business combinations but introduces some changes to the accounting treatment. Assets and liabilities arising from business combinations that occurred before 1 January 2010 were not required to be restated and thus there was no effect on the group's reported income or net assets on adoption.

In addition, BP has adopted the amended version of IAS 27 'Consolidated and Separate Financial Statements', also with effect from 1 January 2010. This requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control. When control is lost, any remaining interest in the entity is remeasured to fair value and a gain or loss recognized in profit or loss. There was no effect on the group's reported income or net assets on adoption.

## 2. Significant event in the period – Gulf of Mexico oil spill

The amounts set out below reflect the impacts on the financial statements of the Gulf of Mexico oil spill, as described on pages 3 – 5. The income statement, balance sheet and cash flow statement impacts are included within the relevant line items in those statements as set out below.

Third quarter 2010	Fourth quarter 2010	\$ million	Year 2010
<b>Income statement</b>			
7,656	<b>1,010</b>	Production and manufacturing expenses	<b>40,858</b>
(7,656)	<b>(1,010)</b>	<b>Profit (loss) before interest and taxation</b>	<b>(40,858)</b>
47	<b>30</b>	Finance costs	<b>77</b>
(7,703)	<b>(1,040)</b>	<b>Profit (loss) before taxation</b>	<b>(40,935)</b>
2,604	<b>287</b>	Less: Taxation	<b>12,894</b>
(5,099)	<b>(753)</b>	<b>Profit (loss) for the period</b>	<b>(28,041)</b>

\$ million	31 December 2010	30 September 2010
<b>Balance sheet</b>		
Current assets		
Trade and other receivables	<b>5,943</b>	6,663
Current liabilities		
Trade and other payables <sup>(a)</sup>	<b>(6,587)</b>	(7,272)
Provisions	<b>(7,938)</b>	(11,343)
<b>Net current liabilities</b>	<b>(8,582)</b>	(11,952)
Non-current assets		
Other receivables	<b>3,601</b>	352
Non-current liabilities		
Other payables	<b>(9,899)</b>	(11,010)
Provisions	<b>(8,397)</b>	(5,062)
Deferred tax	<b>11,255</b>	10,988
<b>Net non-current liabilities</b>	<b>(3,440)</b>	(4,732)
<b>Net assets</b>	<b>(12,022)</b>	(16,684)
<sup>(a)</sup> Includes		
Trust fund liability	<b>(5,002)</b>	(5,750)
Other payables	<b>(1,585)</b>	(1,522)
	<b>(6,587)</b>	(7,272)



## Notes

### 2. Significant event in the period – Gulf of Mexico oil spill (continued)

Third quarter 2010	Fourth quarter 2010		Year 2010
		<b>\$ million</b>	
		<b>Cash flow statement – Operating activities</b>	
(7,703)	(1,040)	Profit (loss) before taxation	(40,935)
		Adjustments to reconcile profit (loss) before taxation to net cash provided by operating activities	
		Net charge for interest and other finance expense, less net interest paid	77
47	30		
(409)	2,117	Net charge for provisions, less payments	19,354
		Movements in inventories and other current and non-current assets and liabilities	
(2,042)	(6,542)		3,846
(10,107)	(5,435)	<b>Pre-tax cash flows</b>	<b>(17,658)</b>

The impact on net cash used in operating activities, on a post-tax basis, amounted to \$5,415 million and \$16,019 million in the fourth quarter and full year respectively.

#### Income statement

BP has established a trust fund of \$20 billion to be funded over the period to the fourth quarter of 2013, which is available to satisfy legitimate individual and business claims administered by the GCCF, state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. In the fourth quarter \$2 billion was contributed to the fund, making a total of \$5 billion for the year, with further quarterly contributions of \$1.25 billion to be made during 2011 to 2013. The income statement charge for the full year includes \$20 billion in relation to these items, adjusted to take account of the time value of money. There was no additional income statement charge in the fourth quarter in relation to these items, other than the unwinding of the discount and the impact of a change in the discount rate. Fines, penalties and claims administration costs are not covered by the trust fund.

The group income statement for the fourth quarter reflects a further pre-tax charge of \$1,040 million in relation to the Gulf of Mexico oil spill, making a total of \$40,935 million for the year. The income statement charge for the year comprises costs incurred up to 31 December 2010, estimated obligations for future costs that can be estimated reliably at this time and rights and obligations relating to the trust fund. The fourth-quarter charge reflects higher costs than previously provided in relation to operational response activities, costs for claims administration, and as a result of a change in the discount rate for the liability to fund the Trust, partially offset by lower decontamination costs. In addition, the fourth-quarter charge includes the functional expenses of the Gulf Coast Restoration Organization.

Finance costs of \$30 million in the fourth quarter and \$77 million for the full year reflect the unwinding of discount on the trust fund liability and provisions.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty as described further below under Provisions and Contingent liabilities.

Response operations following the Deepwater Horizon incident in April 2010 have been managed by the federal government's response framework, which transitioned on 17 December from the Unified Area Command (UAC) to the Gulf Coast incident management team (GC-IMT). Both the UAC and now the GC-IMT link the organizations responding to the incident and provide a forum for those organizations to make consensus decisions. If consensus cannot be reached the US Coast Guard co-ordinator carries the final decision on response related actions deemed necessary. As such, the activities undertaken by BP and its sub-contractors, and the associated costs, are not wholly within BP's control. While oversight and command of the GCIMT response activity will remain with the US Coast Guard, it is the expectation that the daily execution of the response operations will transition to the BP Gulf Coast Restoration Organization at the end of the first quarter of 2011.

## Notes

### 2. Significant event in the period – Gulf of Mexico oil spill (continued)

#### Provisions

The total amount of provision recognized at 31 December 2010 relating to the oil spill was \$16,335 million. Movements in the provision during the three-month period to 31 December 2010 are shown below:

	<b>\$ million</b>
At 1 October 2010	<b>16,405</b>
New and increased provision <sup>(a)</sup>	<b>5,416</b>
Unwinding of discount	<b>2</b>
Change in discount rate	<b>5</b>
Utilization - non-Trust items	<b>(3,304)</b>
- Trust items	<b>(2,189)</b>
<b>At 31 December 2010</b>	<b>16,335</b>
Of which - current	<b>7,938</b>
- non-current	<b>8,397</b>

<sup>(a)</sup> The increase in provision may be reconciled to the income statement charge as follows:

Increase in provision	5,416
Change in discount rate relating to provisions	5
Non-provisionable period costs	202
Change in discount rate relating to trust fund liability	105
Less: Items to be paid from the trust fund	(4,718)
(Profit) loss before interest and taxation	1,010

During the fourth quarter, provisions were increased by \$5.4 billion. Of this amount \$4.7 billion relates to claims associated with OPA 90 which will be settled by the trust fund. At the third quarter it was not possible to measure reliably any amounts in relation to future claims under OPA 90. By the year end BP believes that the history of claims received to date and payments made provides sufficient data for the determination of a provision for individual and business claims and state and local claims under OPA 90. As a consequence of providing for these future claims, the provision has been increased significantly in the fourth quarter.

BP's obligations in relation to the trust fund have been recognized in full in the second quarter and \$20 billion, discounted to take account of the time value of money, was charged in the income statement at that time. Since the \$4.7 billion increase in the provision relates to OPA 90 claims which are covered by the trust fund, no further charge has been made to the income statement in the fourth quarter in relation to these items.

During the fourth quarter BP made payments of \$3,304 million relating to items previously provided for, and a further \$2,189 million was paid from the trust fund. The amounts for the full year were \$10,912 million and \$3,023 million respectively.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors. Furthermore, the amount of claims that become payable by BP, the amount of fines ultimately levied on BP (including any determination of BP's negligence), the outcome of litigation, and any costs arising from any longer-term environmental consequences of the oil spill, will also impact upon the ultimate cost for BP.

There are inherent uncertainties over the timing and amount of payments required. These uncertainties affect the measurement of provisions recognized to date. Although the provision recognized is the current best estimate of expenditures required to settle certain present obligations at the end of the reporting period, there are future expenditures for which it is not possible to measure the obligation reliably as noted under contingent liabilities below. Therefore the provision does not include these obligations. For further information regarding the uncertainties relating to liabilities arising as a result of the incident refer to *Principal risks and uncertainties* in our second-quarter results announcement.

#### **Litigation and claims**

##### *Individual and Business Claims, and State and Local Claims under OPA 90*

The estimated future cost of settling Individual and Business Claims, and State and Local Claims under OPA 90, both reported and unreported, has been provided for. Claims administration costs have also been provided for.

### 2. Significant event in the period – Gulf of Mexico oil spill (continued)

BP believes that the history of claims received to date, and settlements made, provides sufficient data to enable the company to use an approach based on a combination of actuarial methods and management judgements to estimate IBNR (Incurred But Not Reported) claims to determine a reliable best estimate of BP's exposure for claims not yet reported in relation to Individual and Business claims, and State and Local claims under OPA 90. The amount provided for these claims has been determined in accordance with IFRS and represents BP's current best estimate of the expenditure required to settle its obligations at the balance sheet date. The measurement of this provision is subject to significant uncertainty. Actual costs could ultimately be significantly higher or lower than those recorded as the claims and settlement process progresses.

In estimating the amount of the provision, BP has determined a range of possible outcomes for Individual and Business Claims, and State and Local Claims. These determinations are based on BP's claims payment experience, the application of insurance industry benchmark data, the use of a combination of actuarial and statistical methods and management judgements where appropriate. The methods selected are consistent with those used by the insurance industry to estimate a range of total expenditures for both reported and unreported claims. These methods have been adopted on the basis that, at this stage of development, the application of insurance industry standard techniques for the estimation of ultimate losses is an appropriate approach for the costs arising from the Deepwater Horizon oil spill.

Through the application of this approach, BP has concluded that a reasonable range of possible outcomes for the amount of the provision as at 31 December 2010 is \$6 billion to \$13 billion. BP believes that the provision recorded at 31 December 2010 of \$9.2 billion represents a reliable best estimate from within this range of possible outcomes. These provision estimates are in addition to the \$3.2 billion of claims paid in 2010. BP's management has utilized actuarial techniques and its judgement in determining this reliable best estimate. However, it is possible that the final outcome could lie outside this range.

Many key assumptions underlie and influence both the range of possible outcomes and the reliable best estimates of total expenditures derived for both categories of claims. These key assumptions include the amounts that will ultimately be paid in relation to current claims, the number, type and amounts for claims not yet reported, the scope and number of claims that can be resolved successfully in the claims process, the resolution of rejected claims, the outcomes of any litigation, the effects on tourism and fisheries and other economic and environmental factors.

The outcome of claims and litigation are likely to be paid out over many years to come. BP will re-evaluate the assumptions underlying this analysis on a quarterly basis as more information becomes available and the claims process matures.

#### *Legal fees*

Estimated legal fees expected to be incurred in relation to litigation in the next two years have been provided for. Beyond this time period it is not possible to reliably estimate the amount.

#### ***Offshore and onshore oil spill response***

The estimated future costs of the subsea operations are based upon the remaining activities expected to be undertaken, including the US Coast Guard response costs. The amount provided has been calculated using rates of costs incurred to date, in conjunction with the anticipated activities as noted on pages 3 – 5. In addition, the estimated future costs of the shoreline response have been provided for based on the remaining obligations identified. The majority of these costs are expected to be incurred and paid in the next 12 months.

#### ***Environmental***

The amounts committed by BP for a 10-year research programme to study the impact of the incident on the marine and shoreline environment of the Gulf of Mexico, have been provided for where not expended before 31 December 2010.

As a responsible party under the OPA 90, BP is required to pay for natural resource damage resulting from the oil spill. Natural Resources Damages claims are payable out of the \$20-billion trust fund. These damages include, amongst other things, the reasonable costs of assessing the injury to natural resources. BP has been incurring natural resource damage assessment costs and a provision has been made for the estimated costs of the assessment phase. Until the size, location and duration of the impact is assessed, it is not possible to estimate reliably either the amounts or timing of the remaining Natural Resource Damages claims and they are disclosed as a contingent liability below. Therefore no amounts have been provided for these items. See Contingent liabilities below.

### 2. Significant event in the period – Gulf of Mexico oil spill (continued)

#### ***Fines and penalties***

Provision has been made for the estimated penalties for strict liability under the Clean Water Act, which are based on a specified range per barrel of oil released. While there are uncertainties with respect to both the per-barrel amount of any penalty and volume of oil spilled used in the calculation, assumptions have been made to arrive at a range of potential liabilities upon which this provision is based. This calculation assumes a volume of oil spilled determined using an estimate of the flow rate based on the range of figures published and BP's own analysis of those ranges, and is based upon BP's belief that it was not grossly negligent and did not engage in wilful misconduct.

The amount and timing of these costs depends upon agreement with the appropriate authorities on the volume of oil spilled. It is not practicable to estimate the timing of expending these costs. No other amounts have been provided as at 31 December 2010 in relation to other potential fines and penalties because it is not possible to measure the obligation reliably.

#### **Contingent liabilities**

BP has provided for its best estimate of OPA 90 claims that will be paid through the \$20-billion trust fund. It is not possible, at this time, to measure reliably any other items that will be paid from the trust fund, namely any obligation in relation to Natural Resource Damages claims, and claims asserted in civil litigation, nor is it practicable to estimate their magnitude or possible timing of payment. Therefore no amounts have been provided for these items as of 31 December 2010. Although these items, which will be paid through the trust fund, have not been provided for at this time, BP's full obligation under the \$20-billion trust fund has been expensed in the income statement, taking account of the time value of money. The aggregate of amounts paid and provided for items to be settled from the trust fund currently falls within the amount committed by BP to the trust fund.

For those items not covered by the trust fund it is not possible to measure reliably any obligation in relation to other litigation or potential fines and penalties except, subject to certain assumptions noted above, for those relating to the Clean Water Act and legal fees beyond two years. Therefore no amounts have been provided for these items.

The magnitude and timing of possible obligations in relation to the Gulf of Mexico oil spill are subject to a very high degree of uncertainty as described further in our second-quarter results announcement under *Principal risks and uncertainties*. Any such possible obligations are therefore contingent liabilities and, at present, it is not practicable to estimate their magnitude or possible timing of payment. Furthermore, other material unanticipated obligations may arise in future in relation to the incident.

#### **Co-owner recovery**

BP is the operator of the Macondo well and holds a 65% working interest, with the remaining 35% interest held by two joint venture partners. While BP believes that it has a contractual right to recover the partners' shares of the costs incurred, no recovery amounts have been recognized in the financial statements. As of 25 January 2011, \$6 billion has been billed to the joint venture partners, which BP believes to be contractually recoverable. Our joint venture partners have each written to BP indicating that they are withholding payment in light of the investigations surrounding the incident.

#### **Other payables – trust fund**

As noted above, in June 2010 BP agreed with the US government that it would establish a trust fund of \$20 billion to be available to satisfy legitimate individual and business claims administered by the GCCF, state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. It does not cover fines and penalties or claims administration costs. The \$20-billion obligation to fund the trust fund has been recognized in full and is included within other payables on the balance sheet after taking account of the time value of money. The establishment of this trust fund does not represent a cap or floor on BP's liabilities and BP does not admit to a liability of this amount.

## Notes

### 2. Significant event in the period – Gulf of Mexico oil spill (continued)

The total amount recognized at 30 June 2010 relating to the trust fund funding obligation was \$19,580 million. The trust fund was established within the Deepwater Horizon Oil Spill Trust in early August. A contribution of \$3 billion was paid by BP to the trust fund during the third quarter, resulting in a liability of \$16,760 million as at 30 September 2010, after adjustments for discounting. The table below shows movements in the funding obligation, recognized within other payables on the balance sheet, during the three-month period to 31 December 2010.

	<b>\$ million</b>
At 1 October 2010	<b>16,760</b>
Unwinding of discount	<b>28</b>
Change in discount rate	<b>105</b>
Contribution	<b>(2,000)</b>
Other	<b>8</b>
<b>At 31 December 2010</b>	<b>14,901</b>

On 30 September 2010, BP pledged certain Gulf of Mexico assets as collateral for the trust fund funding obligation. The pledged collateral consists of an overriding royalty interest in oil and gas production of BP's Thunder Horse, Atlantis, Mad Dog, Great White and Mars, Ursa and Na Kika assets in the Gulf of Mexico. A wholly-owned company called Verano Collateral Holdings LLC (Verano) has been created to hold the overriding royalty interest, which is capped at \$1.25 billion per quarter and \$17 billion in total. Verano has pledged the overriding royalty interest to the Trust as collateral for BP's remaining contribution obligations to the Trust. There is no change in operatorship or the marketing of the production from the assets and there is no effect on the other partners' interests in the assets. For financial reporting purposes Verano is a consolidated entity of BP and there is no impact on the consolidated financial statements.

#### Other receivables – reimbursement asset

To the extent that a provision for future expenditure has been recognized that is expected to be met by payments from the trust fund, a reimbursement asset has been recognized.

### 3. Non-current assets held for sale

As a result of the group's disposal programme various assets, and associated liabilities, have been presented as held for sale in the group balance sheet at 31 December 2010. The carrying amount of the assets held for sale is \$7,128 million, with associated liabilities of \$1,047 million. Included within these amounts are the following items, all of which relate to the Exploration and Production segment.

In July 2010, BP announced the start of active marketing of its assets in Pakistan and Vietnam. On 14 December 2010, BP announced that it had reached agreement to sell its exploration and production assets in Pakistan to United Energy Group Limited for \$775 million in cash. These assets, and associated liabilities, have been classified as held for sale in the group balance sheet at 31 December 2010. The sale is expected to be completed in the first half of 2011, subject to closing conditions and government and regulatory approvals.

In Vietnam, BP is seeking to divest its interests in offshore gas production (Block 06.1), a receiving terminal and associated pipelines and a power generation asset (Phu My 3). On 18 October 2010, BP announced that it had reached agreement to sell the assets in Vietnam, together with its upstream businesses and associated interests in Venezuela, to TNK-BP for \$1.8 billion in cash, subject to post-closing adjustments. The Venezuelan assets included in the agreement are BP's interests in the Petroperijá, Boquerón and PetroMonagas joint ventures. These assets, and associated liabilities, have been classified as held for sale in the group balance sheet at 31 December 2010. The sales of the Vietnam and Venezuela businesses are expected to be completed in the first half of 2011, subject to regulatory and other approvals and conditions.

On 3 August 2010, BP announced the disposal of its oil and gas exploration, production and transportation business in Colombia to a consortium of Ecopetrol, Colombia's national oil company (51%), and Talisman of Canada (49%) for \$1.9 billion in cash, subject to post-closing adjustments. These assets and associated liabilities have been classified as held for sale in the group balance sheet at 31 December 2010. The sale completed on 24 January 2011.

## Notes

### 3. Non-current assets held for sale (continued)

On 25 October 2010, BP announced that it had reached agreement to sell its recently acquired interests in four mature producing deepwater oil and gas fields in the US Gulf of Mexico to Marubeni Oil and Gas for \$650 million in cash, subject to post-closing adjustments. BP acquired the interests in these fields from Devon Energy earlier in 2010 as part of a wider acquisition of assets in the Gulf of Mexico, Brazil and Azerbaijan. These assets, and associated liabilities, have been classified as held for sale in the group balance sheet at 31 December 2010. The sale completed on 20 January 2011.

On 28 November 2010, BP announced that it had reached agreement to sell its interests in Pan American Energy (PAE) to Bridas Corporation for \$7.06 billion in cash. PAE is an Argentina-based oil and gas company owned by BP (60%) and Bridas Corporation (40%). The transaction excludes the shares of PAE E&P Bolivia Ltd. BP's investment in PAE has been classified as held for sale in the group balance sheet at 31 December 2010. The sale is expected to be completed in 2011, subject to closing conditions and government and regulatory approvals.

Impairment losses amounting to \$192 million have been recognized in the fourth quarter in relation to certain assets reclassified as held for sale.

Disposal proceeds received in advance of completion of these transactions have been classified as finance debt on the group balance sheet. See Note 7 for further information.

### 4. Sales and other operating revenues

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
<b>\$ million</b>					
<b>By business</b>					
17,564	15,212	<b>17,759</b>	Exploration and Production	<b>66,266</b>	57,626
62,602	64,054	<b>71,161</b>	Refining and Marketing	<b>266,751</b>	213,050
895	759	<b>985</b>	Other businesses and corporate	<b>3,328</b>	2,843
<b>81,061</b>	<b>80,025</b>	<b>89,905</b>		<b>336,345</b>	273,519
Less: sales between businesses					
9,611	8,725	<b>9,536</b>	Exploration and Production	<b>37,049</b>	32,540
281	475	<b>467</b>	Refining and Marketing	<b>1,358</b>	821
188	217	<b>199</b>	Other businesses and corporate	<b>831</b>	886
<b>10,080</b>	<b>9,417</b>	<b>10,202</b>		<b>39,238</b>	34,247
Third party sales and other operating revenues					
7,953	6,487	<b>8,223</b>	Exploration and Production	<b>29,217</b>	25,086
62,321	63,579	<b>70,694</b>	Refining and Marketing	<b>265,393</b>	212,229
707	542	<b>786</b>	Other businesses and corporate	<b>2,497</b>	1,957
<b>70,981</b>	<b>70,608</b>	<b>79,703</b>	<b>Total third party sales and other operating revenues</b>	<b>297,107</b>	239,272
<b>By geographical area</b>					
24,389	25,751	<b>27,635</b>	US	<b>107,256</b>	87,283
52,691	52,818	<b>60,121</b>	Non-US	<b>220,059</b>	173,822
<b>77,080</b>	<b>78,569</b>	<b>87,756</b>		<b>327,315</b>	261,105
6,099	7,961	<b>8,053</b>	Less: sales between areas	<b>30,208</b>	21,833
<b>70,981</b>	<b>70,608</b>	<b>79,703</b>		<b>297,107</b>	239,272

## Notes

### 5. Production and similar taxes

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>\$ million</b>					
271	220	<b>351</b>	US	<b>1,093</b>	649
813	986	<b>1,173</b>	Non-US	<b>4,151</b>	3,103
1,084	1,206	<b>1,524</b>		<b>5,244</b>	3,752

### 6. Earnings per share and shares in issue

Basic earnings per ordinary share (EpS) amounts are calculated by dividing the profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of EpS is performed separately for each discrete quarterly period, and for the year-to-date period. As a result, the sum of the discrete quarterly EpS amounts in any particular year-to-date period may not be equal to the EpS amount for the year-to-date period.

For the diluted EpS calculation the weighted average number of shares outstanding during the period is adjusted for the number of shares that are potentially issuable in connection with employee share-based payment plans using the treasury stock method. If the inclusion of potentially issuable shares would decrease the loss per share, the potentially issuable shares are excluded from the diluted EPS calculation.

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>\$ million</b>					
<b>Results for the period</b>					
4,295	1,785	<b>5,567</b>	Profit (loss) for the period attributable to BP shareholders	<b>(3,719)</b>	16,578
1	–	<b>1</b>	Less: preference dividend	<b>2</b>	2
4,294	1,785	<b>5,566</b>	Profit (loss) attributable to BP ordinary shareholders	<b>(3,721)</b>	16,576
(848)	62	<b>(953)</b>	Inventory holding (gains) losses, net of tax	<b>(1,195)</b>	(2,623)
3,446	1,847	<b>4,613</b>	RC profit (loss) attributable to BP ordinary shareholders	<b>(4,916)</b>	13,953
18,748,026	18,790,089	<b>18,793,234</b>	Basic weighted average number of shares outstanding (thousand) <sup>(a)</sup>	<b>18,785,912</b>	18,732,459
3,124,671	3,131,682	<b>3,132,206</b>	ADS equivalent (thousand) <sup>(a)</sup>	<b>3,130,985</b>	3,122,077
Weighted average number of shares outstanding used to calculate diluted earnings per share (thousand) <sup>(a)</sup>					
18,970,187	19,020,236	<b>19,008,309</b>		<b>18,997,807</b>	18,935,691
3,161,698	3,170,039	<b>3,168,052</b>	ADS equivalent (thousand) <sup>(a)</sup>	<b>3,166,301</b>	3,155,949
18,755,378	18,789,321	<b>18,796,498</b>	Shares in issue at period-end (thousand) <sup>(a)</sup>	<b>18,796,498</b>	18,755,378
3,125,896	3,131,554	<b>3,132,750</b>	ADS equivalent (thousand) <sup>(a)</sup>	<b>3,132,750</b>	3,125,896

<sup>(a)</sup> 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.

On 14 January 2011, BP entered into a share swap agreement with Rosneft Oil Company that would result in BP issuing 988,694,683 new ordinary shares to Rosneft when the transaction completes, which, subject to the matters disclosed in Note 10 and in Legal proceedings on page 38, is expected within a few weeks of the date of the agreement. For further information see Note 10 and Legal proceedings on page 38.

## Notes

### 7. Analysis of changes in net debt

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year 2010	2009
<b>\$ million</b>					
<b>Opening balance</b>					
36,555	30,580	<b>39,979</b>	Finance debt	<b>34,627</b>	33,204
9,883	7,310	<b>12,803</b>	Less: Cash and cash equivalents	<b>8,339</b>	8,197
370	53	<b>797</b>	Less: FV asset (liability) of hedges related to finance debt	<b>127</b>	(34)
<b>26,302</b>	<b>23,217</b>	<b>26,379</b>	<b>Opening net debt</b>	<b>26,161</b>	25,041
<b>Closing balance</b>					
34,627	39,979	<b>45,336</b>	Finance debt	<b>45,336</b>	34,627
8,339	12,803	<b>18,556</b>	Less: Cash and cash equivalents	<b>18,556</b>	8,339
127	797	<b>916</b>	Less: FV asset (liability) of hedges related to finance debt	<b>916</b>	127
<b>26,161</b>	<b>26,379</b>	<b>25,864</b>	<b>Closing net debt</b>	<b>25,864</b>	26,161
141	(3,162)	<b>515</b>	<b>Decrease (increase) in net debt</b>	<b>297</b>	(1,120)
(1,572)	5,362	<b>5,924</b>	Movement in cash and cash equivalents (excluding exchange adjustments)	<b>10,496</b>	32
1,654	(3,271)	<b>(4,033)</b>	Net cash outflow (inflow) from financing (excluding share capital)	<b>(3,613)</b>	(1,141)
–	(5,045)	<b>(1,152)</b>	Movement in finance debt relating to investing activities <sup>(a)</sup>	<b>(6,197)</b>	–
14	(146)	<b>(185)</b>	Other movements	<b>(304)</b>	(61)
96	(3,100)	<b>554</b>	Movement in net debt before exchange effects	<b>382</b>	(1,170)
45	(62)	<b>(39)</b>	Exchange adjustments	<b>(85)</b>	50
<b>141</b>	<b>(3,162)</b>	<b>515</b>	<b>Decrease (increase) in net debt</b>	<b>297</b>	(1,120)

<sup>(a)</sup> During the fourth quarter 2010 disposal transactions were completed in respect of which deposits of \$3,795 million had been received in the third quarter. Further deposits of \$4,947 million were received in the fourth quarter, resulting in total deposits held at 31 December 2010 of \$6,197 million, in respect of disposals expected to complete in 2011. This amount is included in finance debt at 31 December 2010 and will be considered extinguished on completion of the transactions.

At 31 December 2010 \$790 million of finance debt (\$1,202 million at 30 September 2010, \$113 million at 31 December 2009) was secured by the pledging of assets, and \$4,780 million was secured in connection with deposits received relating to certain disposal transactions expected to complete in subsequent periods (\$1,250 million at 30 September 2010). In addition, in connection with \$4,588 million of finance debt (\$4,485 million at 30 September 2010), BP has entered into crude oil sales contracts with special purpose companies which are not members of the BP group in respect of oil from certain fields and those special purpose companies have in turn, amongst other things, provided security to the lending banks through an assignment of their respective rights against BP under these oil sales contracts. The remainder of finance debt was unsecured.



## Notes

### 8. TNK-BP operational and financial information

Fourth quarter 2009	Third quarter 2010	Fourth quarter 2010		Year	
				2010	2009
			<b>Production</b> (Net of royalties) (BP share)		
852	859	<b>858</b>	Crude oil (mb/d)	<b>856</b>	840
654	542	<b>698</b>	Natural gas (mmcf/d)	<b>640</b>	601
965	953	<b>978</b>	Total hydrocarbons (mboe/d) <sup>(a)</sup>	<b>967</b>	944
			<b>\$ million</b>		
			<b>Income statement</b> (BP share)		
805	972	<b>1,263</b>	<b>Profit before interest and tax</b>	<b>3,866</b>	3,178
(45)	(26)	<b>(30)</b>	Finance costs	<b>(128)</b>	(220)
(181)	(168)	<b>(311)</b>	Taxation	<b>(913)</b>	(871)
(43)	(48)	<b>(68)</b>	Minority interest	<b>(208)</b>	(139)
536	730	<b>854</b>	<b>Net income</b>	<b>2,617</b>	1,948
			<b>Cash flow</b>		
936	229	<b>790</b>	Dividends received	<b>1,780</b>	1,656
			<b>Balance sheet</b>	<b>31 December</b>	<b>31 December</b>
				<b>2010</b>	<b>2009</b>
			<b>Investments in associates</b>	<b>9,995</b>	9,141

(a) Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

### 9. Inventory valuation

A provision of \$46 million was held at 31 December 2009 to write inventories down to their net realizable value. The net movement in the provision during the fourth quarter 2010 was a decrease of \$75 million (third quarter 2010 was a decrease of \$258 million and fourth quarter 2009 was a decrease of \$423 million). The net movement in the provision in the full year 2010 was a decrease of \$5 million, compared with a decrease of \$1,366 million for the full year 2009.

### 10. Subsequent events

On 14 January 2011, BP entered into a share swap agreement with Rosneft Oil Company whereby BP will receive approximately 9.5% of Rosneft's shares in exchange for BP issuing new ordinary shares to Rosneft, resulting in Rosneft holding 5% of BP's ordinary voting shares. The aggregate value of the shares in BP to be issued to Rosneft is approximately \$7.8 billion (as at close of trading in London on 14 January 2011). BP has agreed to issue 988,694,683 ordinary shares to Rosneft; Rosneft has agreed to transfer 1,010,158,003 ordinary shares to BP. Subject to the outcome of the court application referred to in the paragraph below, and related pending arbitral proceedings, the transaction is expected to complete within a few weeks of the date of the agreement. After completion, BP's investment in Rosneft will be recognized as an available-for-sale financial asset. During the period from entering into the agreement until completion, the agreement represents a derivative financial instrument and changes in its fair value will be recognized in BP's income statement in 2011.

On 26 January 2011 BP received notice of an application to be brought in the English High Court on 1 February 2011 by Alfa Petroleum Holdings Limited and OGIP Ventures Limited for an order against BP International Limited and BP Russian Investments Limited restraining them from: (a) taking any steps to negotiate, agree, conclude, implement or perform any agreement or arrangements (whether legally binding or otherwise) with Rosneft Oil Company relating to oil and gas exploration, production, refining and marketing in Russia or Ukraine, including for the avoidance of doubt any agreement or arrangement with regard to the issue or transfer of shares (or similar instruments) to Rosneft Oil Company by any BP group company or the issue or transfer of shares (or similar instruments) to any BP group company by Rosneft Oil Company; and/or (b) doing or omitting to do anything which causes or permits any other member of the BP group to enter into any such agreement, arrangement or contract. This hearing may result in an order which impacts or delays the completion of the share swap agreement announced by BP and Rosneft on 14 January 2011. BP intends to resist this application in court and the likely outcome of these proceedings is not yet known. There are also related pending arbitral proceedings.

### 11. Statutory accounts

The financial information shown in this publication, which was approved by the Board of Directors on 31 January 2011, is unaudited and does not constitute statutory financial statements. Audited financial information will be published in *BP Annual Report and Form 20-F 2010* on 3 March 2011 and delivered to the Registrar of Companies in due course. Statutory accounts for the financial year ended 31 December 2009 for BP have been filed with the Registrar of Companies in England and Wales; the report of the auditors on those accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the UK Companies Act 2006.

## Legal proceedings

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### **Proceedings and investigations relating to the Gulf of Mexico oil spill**

BP p.l.c., BP Exploration & Production Inc. (BP E&P) and various other BP entities (collectively referred to as BP) are among the companies named as defendants in more than 400 private civil lawsuits resulting from the 20 April 2010 explosions and fire on the semi-submersible rig Deepwater Horizon and resulting oil spill (the Incident) and further actions are likely to be brought. BP E&P is lease operator of Mississippi Canyon, Block 252 in the Gulf of Mexico, where the Deepwater Horizon was deployed at the time of the Incident, and holds a 65% working interest. The other working interest owners are Anadarko Petroleum Company and MOEX Offshore 2007 LLP. The Deepwater Horizon, which was operated by Transocean Holdings LLC, sank on 22 April 2010. The pending lawsuits and/or claims arising from the Incident have been brought in US federal and state courts. Plaintiffs include individuals, corporations and governmental entities and many of the lawsuits purport to be class actions. The lawsuits assert, among others, claims for personal injury in connection with the Incident itself and the response to it, and wrongful death, commercial or economic injury, breach of contract and violations of statutes. The lawsuits seek various remedies including compensation to injured workers and families of deceased workers, recovery for commercial losses and property damage, claims for environmental damage, remediation costs, injunctive relief, treble damages and punitive damages. Purported classes of claimants include residents of the states of Louisiana, Mississippi, Alabama, Florida, Texas, Tennessee, Kentucky, Georgia and South Carolina, property owners and rental agents, fishermen and persons dependent on the fishing industry, charter boat owners and deck hands, marina owners, gasoline distributors, shipping interests, restaurant and hotel owners and others who are property and/or business owners alleged to have suffered economic loss. Shareholder derivative lawsuits have also been filed in US federal and state courts against various current and former officers and directors of BP alleging, among other things, breach of fiduciary duty, gross mismanagement, abuse of control and waste of corporate assets. Purported class action lawsuits have also been filed in US federal courts against BP entities and various current and former officers and directors alleging securities fraud claims and violations of the Employee Retirement Income Security Act (ERISA). In addition, BP has been named in several lawsuits alleging claims under the Racketeer-Influenced and Corrupt Organizations Act (RICO). In August 2010, many of the lawsuits pending in federal court were consolidated by the Federal Judicial Panel on Multidistrict Litigation into two multi-district litigation proceedings, one in federal court in Houston for the securities, derivative and ERISA cases and another in federal court in New Orleans for the remaining cases. Since late September, most of the Deepwater Horizon related cases have been pending before these courts.

Under OPA 90, BP E&P has been designated as one of the 'responsible parties' for the oil spill resulting from the Incident. Accordingly, BP E&P is one of the parties financially responsible for the clean-up of the spill and for economic damages as provided by OPA 90. In addition, pursuant to OPA 90, the US Coast Guard has requested reimbursement from BP and the other responsible parties for its costs of responding to the Incident, and BP has paid all amounts so billed to date. Continuing requests for cost reimbursement are expected from the US Coast Guard and other governmental authorities. In addition, BP is participating with federal and state trustees in a cooperative assessment of potential natural resource damages associated with the spill. Under OPA 90, BP E&P is one of the parties financially responsible for paying the reasonable assessment costs incurred by these trustees as well as natural resource damages that result from the Incident.

BP E&P has established and committed to fund the Deepwater Horizon Oil Spill Trust, a \$20-billion trust fund to pay costs and satisfy legitimate claims. BP E&P contributed \$5 billion to the trust fund in 2010. This will be supplemented by additional payments of \$1.25 billion per quarter until a total of \$20 billion has been paid into the trust fund. While the trust fund is building, BP E&P has pledged collateral consisting of an overriding royalty interest in oil and gas production from certain assets in the Gulf of Mexico sufficient at any time to secure the difference between the amount deposited as of that date and \$20 billion. The establishment of this trust does not represent a cap on BP's liabilities, and BP does not admit to a liability of this amount. The trust fund will pay claims administered by the GCCF, state and local government claims resolved by BP, final judgments, settlements, state and local response costs, and natural resource damages and related costs. Payments from the trust fund will be made upon adjudication or resolution of claims or the final determination of other costs covered by the account. There will be a sunset on the trust fund, and funds, if any, remaining once the claims process has been completed will revert to BP E&P.

BP is subject to a number of investigations related to the Incident by numerous agencies of the US government. On 27 April 2010, the US Coast Guard and the Minerals Management Service (renamed the Bureau of Ocean Energy Management, Regulation and Enforcement in June 2010) convened a joint investigation of the Incident by establishing a Marine Board of Investigation aimed at determining the causes of the Incident and recommending safety improvements. BP was designated as one of several Parties in Interest in the investigation.

On 21 May 2010, President Obama signed an executive order establishing the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling to examine and report on, within six months of the date of the Commission's first meeting, the relevant facts and circumstances concerning the causes of the Deepwater Horizon incident and develop options for guarding against, and mitigating the impact of, oil spills associated with offshore drilling, taking into consideration the environmental, public health, and economic effects of such options. On 11 January 2011, the Commission published its final report on the causes of the Deepwater Horizon incident and its recommendations for policy and regulatory changes for offshore drilling. We expect that the Commission's Chief Counsel will publish a separate report no later than March 2011 that will examine causation issues in greater detail.

## Legal proceedings (continued)

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On 7 July 2010, the US Chemical Safety and Hazard Investigation Board (CSB) informed BP of its investigation of the Incident. The investigation is focused on the 20 April 2010 explosions and fire, and not the resulting oil spill or response efforts. The CSB is expected to issue within two years several investigation reports that will identify the alleged root cause(s) of the Incident, and recommend improvements to BP and industry practices and to regulatory programmes to prevent recurrence and mitigate potential consequences. Also, at the request of the Department of the Interior, the National Academy of Engineering/National Research Council established a Committee to examine the performance of the technologies and practices involved in the probable causes of the explosion, including the performance of the blow-out preventer and related technology features, and to identify and recommend available technology, industry best practices, best available standards, and other measures in the US and around the world related to oil and gas deepwater exploratory drilling and well completion to avoid future occurrence of such events. In addition, the Committee will also be looking at the methodologies available for assessing spill impacts on ecosystem services in the Gulf of Mexico, and a summary of the known effects of the spill, the impacts in the context of stresses from other human activities in the Gulf, and identification of research and monitoring needs to more fully understand the effects of the spill and gauge process towards recovery and restoration. On 14 June 2010, the US Coast Guard initiated an Incident Specific Preparedness Review (ISPR) to examine the implementation and effectiveness of the response and recovery operations relating to the spill. We understand that the ISPR process has been completed and a Report has been generated; however the Report has not yet been made publicly available. We expect that the Report will be made publicly available sometime in the first quarter of 2011. Additionally, BP representatives have appeared before multiple committees of the US Congress that have been conducting inquiries into the Incident. BP has provided documents and written information in response to requests by these committees and will continue to do so.

On 1 June 2010, the US Department of Justice (DoJ) announced that it is conducting an investigation into the Incident encompassing possible violations of US civil or criminal laws. The United States filed a civil complaint against BP E&P and others on 15 December 2010. The complaint seeks a declaration of liability under the Oil Pollution Act of 1990 and civil penalties under the Clean Water Act. Paragraph 92 of the complaint sets forth a purported 'reservation of rights' on behalf of the United States to amend the complaint or file additional complaints seeking various remedies under various laws and regulations, including but not limited to eight specifically mentioned federal statutes. Paragraph 92 of the complaint likewise contains a similar 'reservation of rights' regarding the conduct of 'administrative proceedings' under 'the Outer Continental Shelf Lands Act, 43 U.S.C. §§ 1301 et seq., and the Federal Oil and Gas Royalty Management Act, 30 U.S.C. §§ 1701 et seq.'

Citizens groups have also filed either lawsuits or notices of intent to file lawsuits seeking civil penalties and injunctive relief under the Clean Water Act and other environmental statutes. Other US federal agencies may commence investigations relating to the Incident. The SEC and DoJ are investigating securities matters arising in relation to the Incident. The Attorney General for the State of Alabama has filed a lawsuit seeking damages for alleged economic and environmental harms, including natural resource damages, as a result of the Incident. It is possible that the State Attorneys General of Louisiana, Mississippi, Florida, Texas or other states and/or local governments, such as coastal municipalities also may initiate investigations and bring civil or criminal actions seeking damages, penalties and fines for violating state or local statutes. The Louisiana Department of Environmental Quality has issued an administrative order seeking injunctive relief and environmental civil penalties under state law, and several local governments in Louisiana have filed suits under state wildlife statutes seeking penalties for damage to wildlife as a result of the spill. On 10 December 2010, the Mississippi Department of Environmental Quality issued a Complaint and Notice of Violation alleging violations of several State environmental statutes.

On 15 September 2010, three Mexican states bordering the Gulf of Mexico (Veracruz, Quintana Roo, and Tamaulipas) filed lawsuits in federal court in Texas against several BP entities. These lawsuits allege that the Deepwater Horizon oil spill harmed their tourism, fishing, and commercial shipping industries (resulting in, among other things, diminished tax revenue), damaged natural resources and the environment, and caused the states to incur expenses in preparing a response to the oil spill.

BP's potential liabilities resulting from pending and future claims, lawsuits and enforcement actions relating to the Incident, together with the potential cost of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had and are expected to have a material adverse impact on the group's business, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US. Furthermore, BP has taken a pre-tax charge in its income statement of \$40.9 billion in total during 2010, and these potential liabilities may continue to have a material adverse effect on the group's results and financial condition.

## Legal proceedings (continued)

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### Other legal proceedings

Since 25 October 2007, BP America Inc. (BP America) has been subject to oversight by an independent monitor, who had authority to investigate and report alleged violations of the US Commodity Exchange Act or US Commodity Futures Trading Commission (CFTC) regulations and to recommend corrective action. The appointment of the independent monitor was a condition of the deferred prosecution agreement (DPA) entered into with the DoJ on 25 October 2007 relating to allegations that BP America manipulated the price of February 2004 TET physical propane and attempted to manipulate the price of TET propane in April 2003 and the companion consent order with the CFTC, entered the same day, resolving all criminal and civil enforcement matters pending at that time concerning propane trading by BP Products North America Inc. (BP Products). The DPA required BP America's and certain of its affiliates' continued co-operation with the US government's investigation and prosecution of the trades in question, as well as other trading matters that may arise. The DPA had a term of three years but could be extended by two additional one-year periods, and contemplated dismissal of all charges at the end of the term following the DoJ's determination that BP America has complied with the terms of the DPA. The initial three year term has expired and the DoJ has filed a motion to dismiss the action underlying the DPA. Investigations into BP's trading activities continue to be conducted from time to time. The US Federal Energy Regulatory Commission (FERC) and the US Commodity Futures Trading Commission (CFTC) are currently investigating several BP entities regarding trading in the next-day natural gas market at Houston Ship Channel during October and November 2008. The FERC Office of Enforcement staff notified BP on 12 November 2010 of their preliminary conclusions relating to alleged market manipulation in violation of 18 C.F.R. Sec. 1c.1. The FERC staff will determine whether to pursue the investigation, to close the investigation, or to seek authority to pursue resolution by settlement. On 30 November 2010, CFTC Enforcement staff also provided BP with a notice of intent to recommend charges based on the same conduct alleging that BP engaged in attempted market manipulation in violation of Section 6(c), 6(d), and 9(a)(2) of the Commodity Exchange Act. BP submitted responses to both notices on 23 December 2010 providing a detailed response that it did not engage in any inappropriate or unlawful activity.

Private complaints, including class actions, were also filed against BP Products and affiliates alleging propane price manipulation. The complaints contained allegations similar to those in the CFTC action as well as of violations of federal and state antitrust and unfair competition laws and state consumer protection statutes and unjust enrichment. The complaints sought actual and punitive damages and injunctive relief. Settlement in both groups of the class actions (the direct and indirect purchasers) has received final court approval. Two independent lawsuits from class members who opted out of the direct purchaser settlement are still pending.

On 23 March 2005, an explosion and fire occurred in the isomerization unit of BP Products' Texas City refinery as the unit was coming out of planned maintenance. Fifteen workers died in the incident and many others were injured. BP Products has resolved all civil injury claims arising from the March 2005 incident.

In March 2007, the US Chemical Safety and Hazard Investigation Board (CSB) issued a report on the incident. The report contained recommendations to the Texas City refinery and to the board of directors of BP. In May 2007, BP responded to the CSB's recommendations. BP and the CSB will continue to discuss BP's responses with the objective of the CSB's agreeing to close out its recommendations.

On 25 October 2007, the DoJ announced that it had entered into a criminal plea agreement with BP Products related to the March 2005 explosion and fire. On 4 February 2008, BP Products pleaded guilty, pursuant to the plea agreement, to one felony violation of the risk management planning regulations promulgated under the US Clean Air Act (CAA) and on 12 March 2009, the court accepted the plea agreement. In connection with the plea agreement, BP Products paid a \$50-million criminal fine and was sentenced to three years' probation which is set to expire on 12 March 2012. Compliance with a 2005 US Occupational Safety and Health Administration (OSHA) settlement agreement (2005 Agreement) and a 2006 agreed order entered into by BP Products with the Texas Commission on Environmental Quality (TCEQ) are conditions of probation.

The Texas Office of Attorney General, on behalf of the TCEQ, has filed a petition against BP Products asserting certain air emissions and reporting violations at the Texas City refinery from 2005 to 2010, including in relation to the March 2005 explosion and fire. BP is contesting the petition in a pending civil proceeding. In March 2010, TCEQ notified the DoJ of its belief that certain of the alleged violations may violate the 25 October 2007 plea agreement.

On 9 August 2010, the Texas Attorney General filed a separate petition against BP Products asserting emissions violations relating to a 6 April 2010 compressor fire and subsequent flaring event at the Texas City refinery's ultracracker unit. This emissions event is also the subject of a number of civil suits by many area workers and residents alleging personal injury and property damages and seeking substantial damages.

In September 2009, BP Products filed a petition to clarify specific required actions and deadlines under the 2005 Agreement with OSHA. That agreement resolved citations issued in connection with the March 2005 Texas City refinery explosion. OSHA denied BP Products' petition.

In October 2009 OSHA issued citations to the Texas City refinery seeking a total of \$87.4 million in civil penalties for alleged violations of the 2005 Agreement and alleged process safety management violations. BP Products contested these citations. These matters were subsequently transferred for review to the Occupational Safety and Health (OSH) Review Commission.

## Legal proceedings (continued)

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A settlement agreement between BP Products and OSHA in August 2010 (2010 Agreement) resolved the petition filed by BP Products in September 2009 and the alleged violations of the 2005 Agreement. BP Products has paid a penalty of \$50.6 million in that matter and agreed to perform certain abatement actions. Compliance with the 2010 Agreement (which is set to expire on 12 March 2012) is also a condition of probation due to the linkage between this 2010 Agreement and the 2005 Agreement.

On 6 May, 2010, certain persons qualifying under the US Crime Victims Rights Act as victims in relation to the Texas City plea agreement requested that the federal court revoke BP Products' probation based on alleged violations of the Court's conditions of probation. The alleged violations of probation relate to the alleged failure to comply with the 2005 Agreement.

The OSHA process safety management citations issued in October 2009 were not resolved by the August 2010 settlement agreement. The proposed penalties in that matter are \$30.7 million. The matter is currently before the OSH Review Commission which has assigned an Administrative Law Judge for purposes of mediation. These citations do not allege violations of the 2005 Agreement.

A shareholder derivative action was filed against several current and former BP officers and directors based on alleged violations of the CAA and OSHA regulations at the Texas City refinery subsequent to the March 2005 explosion and fire. An investigation by a special committee of BP's board into the shareholder allegations has been completed and the committee has recommended that the allegations do not warrant action by BP against the officers and directors. BP has filed a motion to dismiss the shareholder derivative action.

On 29 November 2007, BP Exploration (Alaska) Inc. (BPXA) entered into a criminal plea agreement with the DoJ relating to leaks of crude oil in March and August 2006. BPXA's guilty plea, to a misdemeanour violation of the US Water Pollution Control Act, included a term of three years' probation. On November 29, 2009 a spill of approximately 360 barrels of crude oil and produced water was discovered beneath a line running from a well pad to the Lisburne Processing Center in Prudhoe Bay, Alaska. On November 17, 2010, the U.S. Probation Officer filed a petition in federal district court to revoke BPXA's probation based on an allegation that the Lisburne event was a criminal violation of state or federal law. A hearing is scheduled for the week of 25 April 2011. On 12 May 2008, a BP p.l.c. shareholder filed a consolidated complaint alleging violations of federal securities law on behalf of a putative class of BP p.l.c. shareholders against BP p.l.c., BPXA, BP America, and four officers of the companies, based on alleged misrepresentations concerning the integrity of the Prudhoe Bay pipeline before its shutdown on 6 August 2006. On 8 February 2010, the Ninth Circuit Court of Appeals accepted BP's appeal from a decision of the lower court granting in part and denying in part BP's motion to dismiss the lawsuit. Briefing is complete and we await oral argument.

On 31 March 2009, the DoJ filed a complaint against BPXA seeking civil penalties and injunctive relief relating to the 2006 oil releases. The complaint alleges that BPXA violated various federal environmental and pipeline safety statutes and associated regulations in connection with the two releases and its maintenance and operation of North Slope pipelines. The State of Alaska also filed a complaint on 31 March 2009 against BPXA seeking civil penalties and damages relating to these events. The complaint alleges that the two releases and BPXA's corrosion management practices violated various statutory, contractual and common law duties to the State, resulting in penalty liability, damages for lost royalties and taxes, and liability for punitive damages.

Approximately 200 lawsuits were filed in state and federal courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound in March 1989. Most of those suits named Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the other oil companies that own Alyeska. Alyeska initially responded to the spill until the response was taken over by Exxon. BP owns a 46.9% interest (reduced during 2001 from 50% by a sale of 3.1% to Phillips) in Alyeska through a subsidiary of BP America Inc. and briefly indirectly owned a further 20% interest in Alyeska following BP's combination with Atlantic Richfield. Alyeska and its owners have settled all the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska for a portion of the costs and damages that it has incurred. If any claims are asserted by Exxon that affect Alyeska and its owners, BP will defend the claims vigorously.

Since 1987, Atlantic Richfield, a subsidiary of BP, has been named as a co-defendant in numerous lawsuits brought in the US alleging injury to persons and property caused by lead pigment in paint. The majority of the lawsuits have been abandoned or dismissed against Atlantic Richfield. Atlantic Richfield is named in these lawsuits as alleged successor to International Smelting and Refining and another company that manufactured lead pigment during the period 1920-1946. Plaintiffs include individuals and governmental entities. Several of the lawsuits purport to be class actions. The lawsuits seek various remedies including compensation to lead-poisoned children, cost to find and remove lead paint from buildings, medical monitoring and screening programmes, public warning and education of lead hazards, reimbursement of government healthcare costs and special education for lead-poisoned citizens and punitive damages. No lawsuit against Atlantic Richfield has been settled nor has Atlantic Richfield been subject to a final adverse judgment in any proceeding. The amounts claimed and, if such suits were successful, the costs of implementing the remedies sought in the various cases could be substantial. While it is not possible to predict the outcome of these legal actions, Atlantic Richfield believes that it has valid defences. It intends to defend such actions vigorously and believes that the incurrence of liability is remote. Consequently, BP believes that the impact of these lawsuits on the group's results, financial position or liquidity will not be material.

## Legal proceedings (continued)

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On 8 March 2010, OSHA issued citations to BP's Toledo refinery alleging violations of the Process Safety Management Standard, with penalties of approximately \$3 million. These citations resulted from an inspection conducted pursuant to OSHA's Petroleum Refinery Process Safety Management National Emphasis Program. BP Products has contested the citations, and the matter is currently before the OSH Review Commission which has assigned an Administrative Law Judge for purposes of mediation.

BP is the operator and 56% interest owner of the Atlantis unit in production in the Gulf of Mexico. In April 2009, Kenneth Abbott, as relator, filed a US False Claims Act lawsuit against BP, alleging that BP violated federal regulations, and made false statements in connection with its compliance with those regulations, by failing to have necessary documentation for the Atlantis subsea and other systems. That complaint was unsealed in May 2010 and served on BP in June 2010. In September 2010, Kenneth Abbott and Food & Water Watch filed an amended complaint in the False Claims Act lawsuit seeking an injunction shutting down the Atlantis platform.

BP Products' US refineries are subject to a 2001 consent decree with the EPA that resolved alleged violations of the CAA, and implementation of the decree's requirements continues. A 2009 amendment to the decree resolves remaining alleged air violations at the Texas City refinery through the payment of a \$12-million civil fine, a \$6-million supplemental environmental project and enhanced CAA compliance measures estimated to cost approximately \$150 million. The fine has been paid, and BP Products is implementing the other provisions.

On 30 September 2010, the EPA and BP Products lodged a civil consent decree with the federal court in Houston. Following a public comment period, the federal court approved the settlement on 30 December 2010. The decree resolves allegations of civil violations of the risk management planning regulations promulgated under the CAA that are alleged to have occurred in 2004 and 2005 at the Texas City Refinery. The agreement requires that BP Products pays a \$15-million civil penalty and that the Texas City Refinery enhance reporting to the EPA regarding employee training, equipment inspection and incident investigation.

Various environmental groups and the EPA have challenged certain aspects of the operating permit issued by the Indiana Department of Environmental Management (IDEM) for upgrades to the Whiting refinery. In response to these challenges, the IDEM has reviewed the permits and responded formally to the EPA. The EPA, either through the IDEM or directly, can cause the permit to be modified, reissued or, in extremis, terminated or revoked. BP is in discussions with the EPA and the IDEM over these issues.

BP is also in settlement negotiations to resolve alleged CAA violations at the Whiting, Toledo, Carson and Cherry Point refineries.

On 26 January 2011, BP received notice of an application to be brought in the English High Court on 1 February 2011 by Alfa Petroleum Holdings Limited and OGIP Ventures Limited for an order against BP International Limited and BP Russian Investments Limited restraining them from: (a) taking any steps to negotiate, agree, conclude, implement or perform any agreement or arrangements (whether legally binding or otherwise) with Rosneft Oil Company relating to oil and gas exploration, production, refining and marketing in Russia or Ukraine, including for the avoidance of doubt any agreement or arrangement with regard to the issue or transfer of shares (or similar instruments) to Rosneft Oil Company by any BP group company or the issue or transfer of shares (or similar instruments) to any BP group company by Rosneft Oil Company; and/or (b) doing or omitting to do anything which causes or permits any other member of the BP group to enter into any such agreement, arrangement or contract. This hearing may result in an order which impacts or delays the completion of the share swap agreement announced by BP and Rosneft on 14 January 2011. BP intends to resist this application in court and the likely outcome of these proceedings is not yet known. There are also related pending arbitral proceedings.

## Contacts

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