

## 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.

Second quarter 2010	Third quarter 2010		Nine months 2010
<b>\$ million</b>			
<b>Income statement</b>			
32,192	7,656	Production and manufacturing expenses	39,848
(32,192)	(7,656)	<b>Profit (loss) before interest and taxation</b>	<b>(39,848)</b>
–	47	Finance costs	47
(32,192)	(7,703)	<b>Profit (loss) before taxation</b>	<b>(39,895)</b>
10,003	2,604	Less: Taxation	12,607
(22,189)	(5,099)	<b>Profit (loss) for the period</b>	<b>(27,288)</b>

<b>\$ million</b>	30 September 2010	30 June 2010
<b>Balance sheet</b>		
Current assets		
Trade and other receivables	6,663	6,233
Current liabilities		
Trade and other payables <sup>(a)</sup>	(7,272)	(8,276)
Provisions	(11,343)	(11,809)
<b>Net current liabilities</b>	<b>(11,952)</b>	<b>(13,852)</b>
Non-current assets		
Other receivables	352	1,693
Non-current liabilities		
Other payables	(11,010)	(12,080)
Provisions	(5,062)	(5,837)
Deferred tax	10,988	9,440
<b>Net non-current liabilities</b>	<b>(4,732)</b>	<b>(6,784)</b>
<b>Net assets</b>	<b>(16,684)</b>	<b>(20,636)</b>
<sup>(a)</sup> Includes		
Escrow account liability	(5,750)	(7,500)
Other payables	(1,522)	(776)
	<b>(7,272)</b>	<b>(8,276)</b>

## Notes

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

Second quarter 2010	Third quarter 2010		Nine months 2010
<b>\$ million</b>			
<b>Cash flow statement – Operating activities</b>			
(32,192)	<b>(7,703)</b>	Profit (loss) before taxation	<b>(39,895)</b>
		Adjustments to reconcile profit (loss) before taxation to net cash provided by operating activities	
–	<b>47</b>	Net charge for interest and other finance expense, less net interest paid	<b>47</b>
17,646	<b>(1,243)</b>	Net charge for provisions, less payments	<b>16,403</b>
12,430	<b>(1,208)</b>	Movements in inventories and other current and non-current assets and liabilities	<b>11,222</b>
<b>(2,116)</b>	<b>(10,107)</b>	<b>Pre-tax cash flows</b>	<b>(12,223)</b>

Net cash used in operating activities amounted to \$9,051 million and \$10,604 million in the third quarter and nine months respectively.

#### Income statement

Response operations following the 20 April 2010 Deepwater Horizon incident have been managed by a Unified Area Command (UAC). The UAC consists of the Federal On Scene Coordinator (FOSC - USCG), the state on scene coordinators (Texas, Louisiana, Mississippi, Alabama, and Florida), and BP (a designated Responsible Party under the Oil Pollution Act of 1990 (OPA 90)). The UAC links the organizations responding to the incident and provides a forum for those organizations to make consensus decisions. If consensus cannot be reached the FOSC - USCG 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 but instead are determined largely by the UAC. This will continue to be the case until control of the response operations transitions to the BP Gulf Coast Restoration Organization.

The contractual arrangements put in place at the height of the response to the Gulf of Mexico oil spill were complex, involving many parties including contractors, sub-contractors and the UAC. Arrangements were put in place rapidly to ensure that the response was timely. BP has provided for the cost of all estimable known obligations but it is possible that further costs might arise from the intense activity that took place at that time.

The group income statement for the third quarter reflects a further pre-tax charge of \$7,703 million in relation to the Gulf of Mexico oil spill, making a total of \$39,895 million for the nine months. Costs incurred relating to the incident were \$8,687 million in the third quarter and \$11,579 million for the nine months. This includes payments of \$834 million during the third quarter from the escrow account which was formally established in August. Costs incurred exclude payments by BP into the escrow account of \$3 billion in the third quarter.

The income statement charge for the year to date comprises costs incurred up to 30 September 2010, estimated obligations for future costs that can be estimated reliably at this time and rights and obligations under the escrow account. The third-quarter charge reflects experience from response activities in the third quarter and further information in relation to obligations arising. The charge arises due to additional time taken to complete the well-kill operations (including delays due to adverse weather and being required to maintain full response readiness), contractual costs now estimable related to decontamination and demobilization of vessels involved in the response, additional legal costs, and claims centre administration costs.

Costs incurred during the third quarter include the cost of the spill response, containment, relief well drilling, grants to the states whose shorelines have been affected, claims paid, federal costs (including the involvement of the US Coast Guard) and Gulf Coast Restoration Organization expenses.

The amount provided for future costs reflects ongoing response, remediation and assessment efforts, BP's commitment to the Gulf of Mexico Research Initiative, estimated legal costs expected to be incurred in relation to litigation, remaining payments to the escrow account, claims centre administration costs and an amount for estimated penalties for strict liability under the Clean Water Act. The calculation for fines and penalties under the Clean Water Act has been determined using an estimate of the flow rate within the range of figures published and is based upon BP's belief that it was not grossly negligent. The charge does not reflect any amounts in relation to fines and penalties except for those relating to the Clean Water Act, as it is not possible to estimate reliably either the amount or timing of such additional amounts.

## Notes

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

BP has established an escrow account 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 adjudicated 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 third quarter \$3 billion was contributed to the fund, a further \$2 billion is due in the fourth quarter, with further quarterly contributions of \$1.25 billion to be made during 2011 to 2013. The income statement charge for the third quarter and the first nine months includes \$20 billion in relation to these items, adjusted to take account of the time value of money. Fines, penalties and claims centre administration costs are not covered by the escrow account.

Finance costs of \$47 million in the third quarter reflect the unwinding of discount on the escrow liability and provisions.

#### Provisions

In addition to amounts incurred during the second and third quarters, provisions recognized for future expenditure that can currently be estimated reliably are also included in production and manufacturing expenses.

The total amount of provision recognized at 30 June 2010 relating to the oil spill was \$17,646 million. Movements in the provision during the three-month period to 30 September 2010 are shown below:

	<u>\$ million</u>
At 1 July 2010	<b>17,646</b>
Increase in provision <sup>(a)</sup>	<b>7,199</b>
Unwinding of discount	<b>2</b>
Utilization	<b>(8,442)</b>
<b>At 30 September 2010</b>	<b>16,405</b>

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

Increase in provision	7,199
Items not now covered by the escrow account*	833
Non-provisioned costs	245
Change in discount rate relating to escrow account liability	135
Less: Items to be paid from the escrow account	(756)
(Profit) loss before interest and taxation	<u>7,656</u>

\*Certain items, which were expected to be paid from the escrow account at the time of the second-quarter results, were excluded when the arrangements were finalized in the third quarter. These items, which are predominantly claims-related costs and claims paid prior the establishment of the escrow account, have therefore been charged in the third-quarter results.

The increase in provision during the third quarter relates principally to additional time taken to complete the well-kill operations (including delays due to adverse weather and being required to maintain full response readiness), contractual costs now estimable related to decontamination and demobilization of vessels involved in the response, additional legal costs and claims centre administration costs. The increase in provision includes \$756 million expected to be paid out of the escrow account. Utilization of the provision represents expenditure against the provision during the third quarter, including \$834 million paid out of the escrow account.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty. The ultimate exposure and cost to BP will be dependent on many factors including the rate at which the number of people involved in the response is gradually reduced, the time taken to reduce the number of vessels involved in the response and to complete associated decontamination activities, and the timing of transition of control of the operation from the UAC to the BP Gulf Coast Restoration Organization. Furthermore, the amount of claims that become payable by BP, the amount of fines ultimately levied on BP (including any determination of negligence by BP), the outcome of federal and derivative lawsuits, 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.

In addition, see below under Co-owner recovery for information regarding potential recovery from our partners of costs incurred to date.