Table of Contents

Finance costs and net finance expense relating to pensions and other post-retirement benefits

Finance costs comprise interest payable less amounts capitalized, and interest accretion on provisions and long-term other payables. Finance costs in 2009 were $1,110 million compared with $1,547 million in 2008 and $1,393 million in 2007. The decrease in 2009, when compared with 2008, is largely attributable to the reduction in interest rates. The increase in 2008, when compared with 2007, is largely the outcome of reductions in capitalized interest as capital construction projects concluded.

Net finance expense relating to pensions and other post-retirement benefits in 2009 was $192 million compared with net finance income of $591 million and $652 million in 2008 and 2007 respectively. The expected return on assets decreased significantly in 2009 as the pension asset base reduced, consistent with falls in equity markets during 2008.

Taxation

The charge for corporate taxes in 2009 was $8,365 million, compared with $12,617 million in 2008 and $10,442 million in 2007. The effective tax rate was 33% in 2009, 37% in 2008 and 33% in 2007. The group earns income in many countries and, on average, pays taxes at rates higher than the UK statutory rate of 28%. The decrease in the effective tax rate in 2009 compared with 2008 primarily reflects a higher proportion of income from associates and jointly controlled entities where tax is included in the pre-tax operating result, foreign exchange effects and changes to the geographical mix of the group’s income. The increase in the effective rate in 2008 compared with 2007 primarily reflects the change in the country mix of the group’s income, resulting in a higher overall tax burden.

Segment results

Profit before interest and taxation, which is before finance costs, net finance income or expense, taxation and minority interests, was $26,426 million in 2009, $35,239 million in 2008 and $32,352 million in 2007.

Analysis of replacement cost profit before interest and tax and reconciliation to profit before taxation[a]

			$ million
	2009	2008	2007
By business			
Exploration and Production			
US	**6,685**	11,724	7,929
Non-US	**18,115**	26,584	19,673
	24,800	38,308	27,602
Refining and Marketing			
US	**(2,578)**	(644)	(1,232)
Non-US	**3,321**	4,820	3,853
	743	4,176	2,621
Other businesses and corporate			
US	**(728)**	(902)	(960)
Non-US	**(1,594)**	(321)	(249)
	(2,322)	(1,223)	(1,209)
	23,221	41,261	29,014
Consolidation adjustment	**(717)**	466	(220)
Replacement cost profit before interest and tax[b]	**22,504**	41,727	28,794
Inventory holding gains (losses)			
Exploration and Production	**142**	(393)	127
Refining and Marketing	**3,774**	(6,060)	3,455
Other businesses and corporate	**6**	(35)	(24)
Profit before interest and tax	**26,426**	35,239	32,352
Finance costs	**1,110**	1,547	1,393
Net finance expense (income) relating to pensions and other post-retirement benefits	**192**	(591)	(652)
Profit before taxation	**25,124**	34,283	31,611
Replacement cost profit before interest and tax			
By geographical area			
US	**2,806**	10,678	5,581
Non-US	**19,698**	31,049	23,213
	22,504	41,727	28,794

[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 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 reflects the replacement cost of supplies. The replacement cost profit for the period is arrived at by excluding from profit inventory holding gains and losses and their associated tax effect. Replacement cost profit for the group is not a recognized GAAP measure. Further information on inventory holding gains and losses is provided on page 49.

Exploration and Production

For the year ended 31 December	2009	2008	2007
			$ million
Sales and other operating revenues[a]	**57,626**	86,170	65,740
Replacement cost profit before interest and tax[b]	**24,800**	38,308	27,602
			million barrels of oil equivalent
Net proved reserves for subsidiaries	**12,621**	12,562	12,583
Net proved reserves for equity-accounted entities	**5,671**	5,585	5,231
Total of subsidiaries and equity-accounted entities	**18,292**	18,147	17,814
			$ per barrel
Average BP crude oil realizations[c]	**59.86**	95.43	69.98
Average BP NGL realizations[c]	**29.60**	52.30	46.20
Average BP liquids realizations[c d]	**56.26**	90.20	67.45
Average West Texas Intermediate oil price	**61.92**	100.06	72.20
Average Brent oil price	**61.67**	97.26	72.39
			$ per thousand cubic feet
Average BP natural gas realizations[c]	**3.25**	6.00	4.53
Average BP US natural gas realizations[c]	**3.07**	6.77	5.43
			$ per million British thermal units
Average Henry Hub gas price[e]	**3.99**	9.04	6.86
			pence per therm
Average UK National Balancing Point gas price	**30.85**	58.12	29.95
			thousand barrels per day
Total liquids production for subsidiaries[d f]	**1,400**	1,263	1,304
Total liquids production for equity-accounted entities[d f]	**1,135**	1,138	1,110
Total of subsidiaries and equity-accounted entities[d f]	**2,535**	2,401	2,414
			million cubic feet per day
Natural gas production for subsidiaries[f]	**7,450**	7,277	7,222
Natural gas production for equity-accounted entities[f]	**1,035**	1,057	921
Total of subsidiaries and equity-accounted entities[f]	**8,485**	8,334	8,143
			thousand barrels of oil equivalent per day
Total production for subsidiaries[f g]	**2,684**	2,517	2,549
Total production for equity-accounted entities[f g]	**1,314**	1,321	1,269
Total of subsidiaries and equity-accounted entities[f g]	**3,998**	3,838	3,818

[a] Includes sales between businesses.
[b] Includes profit after interest and tax of equity-accounted entities.
[c] Realizations are based on sales of consolidated subsidiaries only, which excludes equity-accounted entities.
[d] Crude oil and natural gas liquids.
[e] Henry Hub First of Month Index.
[f] Net of royalties.
[g] Expressed in thousands of barrels of oil equivalent per day (mboe/d). Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

Sales and other operating revenues for 2009 were $58 billion, compared with $86 billion in 2008 and $66 billion in 2007. The decrease in 2009 primarily reflected lower oil and gas realizations. The increase in 2008 compared with 2007 primarily reflected higher oil and gas realizations; gas marketing sales also increased primarily as a result of higher prices.

The replacement cost profit before interest and tax for the year ended 31 December 2009 was $24,800 million. This included a net credit for non-operating items of $2,265 million (*see page 54*), with the most significant items being gains on the sale of operations (primarily from the disposal of our 46% stake in LukArco, the sale of our 49.9% interest in Kazakhstan Pipeline Ventures LLC and the sale of BP West Java Limited in Indonesia) and fair value gains on embedded derivatives. In addition, fair value accounting effects had a favourable impact of $919 million relative to management’s measure of performance (*see page 55*).

The replacement cost profit before interest and tax for the year ended 31 December 2008 was $38,308 million. This included a net charge for non-operating items of $990 million (*see page 54*), with the most significant items being net impairment charges and net fair value losses on embedded derivatives, partly offset by the reversal of certain provisions. The impairment charge included a $517 million write-down of our investment in Rosneft based on its quoted market price at the end of the year. In addition, fair value accounting effects had an unfavourable impact of $282 million relative to management’s measure of performance (*see page 55*).

The replacement cost profit before interest and tax for the year ended 31 December 2007 was $27,602 million. This included a net credit from non-operating items of $491 million (*see page 54*), with the most significant items being net gains from the sale of assets (primarily from the disposal of our production and gas infrastructure in the Netherlands, our interests in non-core Permian assets in the US and our interests in the Entrada field in the Gulf of Mexico), partly offset by a restructuring charge and a charge in respect of the reassessment of certain provisions. In addition, fair value accounting effects had a favourable impact of $48 million relative to management’s measure of performance (*see page 55*).

The primary additional factor contributing to the 35% decrease in the replacement cost profit before interest and tax for the year ended 31 December 2009 compared with the year ended 31 December 2008 was lower realizations. In addition, the result was impacted by lower income from equity-accounted entities and higher depreciation but the result benefited from higher production and lower costs, as a result of our continued focus on cost management.

The primary additional factor contributing to the 39% increase in the replacement cost profit before interest and tax for the year ended 31 December 2008 compared with the year ended 31 December 2007 was higher realizations. In addition, the result reflected a higher contribution from the gas marketing and trading business but was impacted by higher production taxes and higher depreciation. The impact of inflation within other costs was mitigated by rigorous cost control and a focus on simplification and efficiency.

Reported production for 2009 was 3,998mboe/d (2,684mboe/d for subsidiaries and 1,314mboe/d for equity-accounted entities) compared with 3,838mboe/d in 2008 (2,517mboe/d for subsidiaries and 1,321mboe/d for equity-accounted entities), an increase of 4%. After adjusting for entitlement impacts in our PSAs and the effect of OPEC quota restrictions, the increase was 5%. This reflected continued strong operational performance and the start-up of seven major projects in 2009.

Reported production for 2008 was 3,838mboe/d (2,517mboe/d for subsidiaries and 1,321mboe/d for equity-accounted entities), compared with 3,818mboe/d in 2007 (2,549mboe/d for subsidiaries and 1,269mboe/d for equity-accounted entities). In aggregate, after adjusting for the effect of lower entitlement in our PSAs, 2008 production was 5% higher than 2007. This reflected strong performance from our existing assets, the continued ramp-up of production following the start-up of major projects in late 2007 and the start-up of nine major projects in 2008.

Refining and Marketing

			$ million
	2009	2008	2007
Sales and other operating revenues[a]	**213,050**	320,039	250,221
Replacement cost profit before interest and tax[b]	**743**	4,176	2,621
			$ per barrel
Global indicator refining margin (GIM)[c]			
Northwest Europe	**3.26**	6.72	4.99
US Gulf Coast	**4.63**	6.78	13.48
Midwest	**5.43**	5.17	12.81
US West Coast	**5.88**	7.42	15.05
Singapore	**0.21**	6.30	5.29
BP average	**4.00**	6.50	9.94
			%
Refining availability[d]	**93.6**	88.8	82.9
			thousand barrels per day
Refinery throughputs	**2,287**	2,155	2,127

[a] Includes sales between businesses.
[b] Includes profit after interest and tax of equity-accounted entities.
[c] 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.
[d] 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.

Sales and other operating revenues are explained in more detail below.

	2009	2008	2007
			$ million
Sale of crude oil through spot and term contracts	**35,625**	54,901	43,004
Marketing, spot and term sales of refined products	**166,088**	248,561	194,979
Other sales and operating revenues	**11,337**	16,577	12,238
	213,050	320,039	250,221
			thousand barrels per day
Sale of crude oil through spot and term contracts	**1,824**	1,689	1,885
Marketing, spot and term sales of refined products	**5,887**	5,698	5,624

Sales and other operating revenues for 2009 were $213 billion, compared with $320 billion in 2008 and $250 billion in 2007. The decrease in 2009 compared with 2008 primarily reflected a decrease in prices. The increase in 2008 compared with 2007 primarily reflected an increase in revenues from marketing, spot and term sales of refined products, mainly driven by higher prices. Additionally, revenues from sales of crude oil through spot and term contracts increased as a result of higher prices, partly offset by lower volumes.

The replacement cost profit before interest and tax for the year ended 31 December 2009 was $743 million. This included a net charge for non-operating items of $2,603 million (*see page 54*). The most significant non-operating items were restructuring charges and a $1.6 billion one-off, non-cash, loss to impair all the segment's goodwill in the US West Coast fuels value chain relating to our 2000 ARCO acquisition. In addition, fair value accounting effects had an unfavourable impact of $261 million relative to management's measure of performance (*see page 55*).

The replacement cost profit before interest and tax for the year ended 31 December 2008 was $4,176 million. This included a net credit for non-operating items of $347 million (*see page 54*). The most significant non-operating items were net gains on disposal (primarily in respect of the gain recognized on the contribution of the Toledo refinery to a joint venture with Husky Energy Inc.) partly offset by restructuring charges. In addition, fair value accounting effects had a favourable impact of $511 million relative to management's measure of performance (*see page 55*).

The replacement cost profit before interest and tax for the year ended 31 December 2007 was $2,621 million. This included a net charge for non-operating items of $952 million (*see page 54*). The most significant non-operating items were net disposal gains (primarily related to the sale of BP's Coryton refinery in the UK, its interest in the West Texas pipeline system in the US and its interest in the Samsung Petrochemical Company in South Korea), net impairment charges (primarily related to the sale of the majority of our US convenience retail business, a write-down of certain assets at our Hull site in the UK and a write-down of our retail assets in Mexico) and a charge related to the March 2005 Texas City refinery incident. In addition, fair value accounting effects had an unfavourable impact of $357 million relative to management's measure of performance (*see page 55*).

During 2009, our performance was also driven by the significantly weaker environment, where refining margins fell by almost 40%. This was partly offset by significantly stronger operational performance in the fuels value chains, with 93.6% refining availability; lower costs and improved performance in the international businesses.

During 2008, significant performance improvements in both our fuels value chains and international businesses mitigated cost inflation and, to a large extent, the much weaker environment. The main sources of improvement were from restoring the revenues of our refining operations; improved supply and trading performance; improved marketing performance, particularly from the international businesses, and reduced costs. The cost reductions were driven by the simplification of our business structure through the establishment of fuels value chains and a reduction in our geographical footprint, as well as by strong cost management. The most significant environmental factor was the weaker refining environment compared with 2007, particularly due to lower refining margins in the US and the adverse impact in the second half of 2008 of prior-month pricing of domestic pipeline barrels for our US refining system, but there were also adverse foreign exchange effects.

Refining throughputs in 2009 were 2,287mb/d, 132mb/d higher than in 2008. Refining availability was 93.6%, 4.8 percentage points higher than in 2008, the increase being driven primarily by the restoration of availability at our Texas City refinery. Marketing volumes at 3,560mb/d were around 4.1% lower than in 2008.

Other businesses and corporate

	2009	2008	2007
			$ million
Sales and other operating revenues[a]	**2,843**	4,634	3,698
Replacement cost profit (loss) before interest and tax[b]	**(2,322)**	(1,223)	(1,209)

[a]Includes sales between businesses.
[b]Includes profit after interest and tax of equity-accounted entities.

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

The replacement cost loss before interest and tax for the year ended 31 December 2009 was $2,322 million and included a net charge for non-operating items of $489 million (*see page 54*).

The primary additional factors affecting 2009's result compared with that of 2008 were a weaker margin environment for Shipping and our BP Solar business and adverse foreign exchange effects.

The replacement cost loss before interest and tax for the year ended 31 December 2008 was $1,223 million and included a net charge for non-operating items of $633 million (*see page 54*).

The replacement cost loss before interest and tax for the year ended 31 December 2007 was $1,209 million and included a net charge for non-operating items of $262 million (*see page 54*).