The primary additional factors reflected in profit for 2008, compared with 2007, were higher realizations, a higher contribution from the gas marketing and trading business, improved oil supply and trading performance, improved marketing performance and strong cost management; however, these positive effects were partly offset by weaker refining margins, particularly in the US, higher production taxes, higher depreciation, and adverse foreign exchange impacts.

The primary additional factors reflected in profit for 2007, compared with 2006, were higher liquids realizations, stronger refining and marketing margins and improved NGLs performance; however, these were more than offset by lower gas realizations, lower reported production volumes, higher production taxes in Alaska, higher costs (primarily reflecting the impact of sector-specific inflation and higher integrity spend), the impact of outages and recommissioning costs at the Texas City and Whiting refineries, reduced supply optimization benefits and a lower contribution from the marketing and trading business.

Profits and margins for the group and for individual business segments can vary significantly from period to period as a result of changes in such factors as oil prices, natural gas prices and refining margins. Accordingly, the results for the current and prior periods do not necessarily reflect trends, nor do they provide indicators of results for future periods.

Employee numbers were approximately 92,000 at 31 December 2008, 98,100 at 31 December 2007 and 97,000 at 31 December 2006.

[a] Inventory holding gains and losses represent the difference between the cost of sales calculated using the average cost to BP of supplies incurred during the year and the cost of sales calculated on the first-in first-out (FIFO) method including 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 the historic cost of acquisition or manufacture rather than the current 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 on a FIFO basis (and any related movements in net realizable value provisions) and the charge that would arise using average cost of supplies incurred during the period. For this purpose, average cost of supplies incurred during the period is calculated by dividing the total cost of inventory purchased 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.

Capital expenditure and acquisitions

			$ million
	2008	2007	2006
Exploration and Production	**22,026**	13,904	13,209
Refining and Marketing	**4,710**	4,356	3,105
Other businesses and corporate	**1,450**	934	596
Capital expenditure	**28,186**	19,194	16,910
Acquisitions and asset exchanges	**2,514**	1,447	321
	30,700	20,641	17,231
Disposals	**(929)**	(4,267)	(6,254)
Net investment	**29,771**	16,374	10,977

Capital expenditure and acquisitions in 2008, 2007 and 2006 amounted to $30,700 million, $20,641 million and $17,231 million respectively. In 2008, this included $4,731 million in respect of our transaction with Husky Energy Inc. and $3,667 million in respect of our purchase of all Chesapeake Energy Corporation's interest in the Arkoma Basin Woodford Shale assets and the purchase of a 25% interest in Chesapeake's Fayetteville Shale assets. Acquisitions in 2007 included the remaining 31% of the Rotterdam (Nerefco) refinery from Chevron's Netherlands manufacturing company.

Excluding acquisitions and asset exchanges, capital expenditure for 2008 was $28,186 million compared with $19,194 million in 2007 and $16,910 million in 2006. In 2006, this included $1 billion in respect of our investment in Rosneft.

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

Finance costs comprises group interest less amounts capitalized, and interest accretion on provisions and long-term other payables. Finance costs for continuing operations in 2008 were $1,547 million compared with $1,393 million in 2007 and $986 million in 2006. The increase in 2008, when compared with 2007, is largely the outcome of reductions in capitalized interest as capital construction projects concluded. The increase in 2007, when compared with 2006, reflected a higher average gross debt balance and lower capitalized interest as capital construction projects concluded.

Net finance income relating to pensions and other post-retirement benefits in 2008 was $591 million compared with $652 million in 2007 and $470 million in 2006. The expected return on assets has increased year on year as the pension asset base applicable to each year increased, but this has been offset in 2008 by higher interest costs reflecting the increase in discount rates applied to pension plan liabilities.

Taxation

The charge for corporate taxes for continuing operations in 2008 was $12,617 million, compared with $10,442 million in 2007 and $12,516 million in 2006. The effective rate was 37% in 2008, 33% in 2007 and 36% in 2006. The group earns income in many countries and, on average, pays taxes at rates higher than the UK statutory rate of 28% for 2008. The increase in the effective rate in 2008 compared with 2007 primarily reflects the change in the country mix of the group's income, resulting in a higher overall tax burden. The reduction in the effective rate in 2007 compared with 2006 primarily reflects the reduction in the UK tax rate and the fact that a higher proportion of income arose in countries bearing a lower tax rate and other factors.

Business results

Profit before interest and taxation from continuing operations, which is before finance costs, other finance expense, taxation and minority interests, was $35,239 million in 2008, $32,352 million in 2007 and $35,658 million in 2006.

Exploration and Production

For the year ended 31 December	2008	2007	2006
			$ million
Total revenues[a]	**89,902**	69,376	71,868
Profit before interest and tax from continuing operations[b]	**37,915**	27,729	30,953
Results include:			
Exploration expense	**882**	756	1,045
Of which: Exploration expenditure written off	**385**	347	624
			$ per barrel
Key statistics			
Average BP crude oil realizations[c]			
UK	**92.09**	70.36	62.45
US	**97.37**	68.51	62.03
Rest of World	**94.74**	70.86	61.11
BP average	**95.43**	69.98	61.91
Average BP NGL realizations[c]			
UK	**57.24**	52.71	47.21
US	**52.14**	44.59	36.13
Rest of World	**50.84**	48.14	36.03
BP average	**52.30**	46.20	37.17
Average BP liquids realizations[c d]			
UK	**89.82**	69.17	61.67
US	**89.22**	64.18	57.25
Rest of World	**91.05**	69.56	59.54
BP average	**90.20**	67.45	59.23
			$ per thousand cubic feet
Average BP natural gas realizations[c]			
UK	**8.41**	6.40	6.33
US	**6.77**	5.43	5.74
Rest of World	**5.19**	3.71	3.70
BP average	**6.00**	4.53	4.72
			$ per barrel
Average West Texas Intermediate oil price	**100.06**	72.20	66.02
Alaska North Slope US West Coast	**98.86**	71.68	63.57
Average Brent oil price	**97.26**	72.39	65.14
			$ per million British thermal units
Average Henry Hub gas price[e]	**9.04**	6.86	7.24
			pence per therm
Average UK National Balancing Point gas price	**58.12**	29.95	42.19
			thousand barrels per day
Total liquids production for subsidiaries[d f]	**1,263**	1,304	1,351
Total liquids production for equity-accounted entities[d f]	**1,138**	1,110	1,124
			million cubic feet per day
Natural gas production for subsidiaries[f]	**7,277**	7,222	7,412
Natural gas production for equity-accounted entities[f]	**1,057**	921	1,005
			thousand barrels of oil equivalent per day
Total production for subsidiaries[f g]	**2,517**	2,549	2,629
Total production for equity-accounted entities[f g]	**1,321**	1,269	1,297

[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.

Total revenues are analysed in more detail below.

			$ million
	2008	2007	2006
Sales and other operating revenues	**86,170**	65,740	67,950
Earnings from equity-accounted entities (after interest and tax), interest and other revenues	**3,732**	3,636	3,918
	89,902	69,376	71,868

Total revenues for 2008 were $90 billion, compared with $69 billion in 2007 and $72 billion in 2006. The increase in 2008 primarily reflected higher oil and gas realizations. Gas marketing sales also increased primarily as a result of higher prices. The decrease in 2007 compared with 2006 primarily reflected lower volumes of subsidiaries and lower gas marketing sales, partly offset by higher realizations.

Profit before interest and tax for the year ended 31 December 2008 was $37,915 million. This included inventory holding losses of $393 million and a net charge for non-operating items of $990 million (*see page 52*), with the most significant items being net impairment charges (primarily driven by the current low price environment) and net fair value losses on embedded derivatives, partly offset by the reversal of certain provisions. The impairment charge includes 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 52*).

Profit before interest and tax for the year ended 31 December 2007 was $27,729 million. This included inventory holding gains of $127 million and a net credit from non-operating items of $491 million (*see page 52*), 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 52*).

Profit before interest and tax for the year ended 31 December 2006 was $30,953 million. This included inventory holding losses of $73 million and a net credit from non-operating items of $2,563 million (*see page 52*), with the most significant items being net gains from the sale of assets (primarily from the sales of interests in the Shenzi discovery in the Gulf of Mexico in the US and interests in the North Sea partly offset by a loss on the sale of properties in the Gulf of Mexico Shelf) and net fair value gains on embedded derivatives, partly offset by a charge for legal provisions. In addition, fair value accounting effects had an unfavourable impact of $32 million relative to management's measure of performance (*see page 52*).

The primary additional factor contributing to the 37% increase in 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.

The primary additional factors reflected in profit before interest and tax for the year ended 31 December 2007 compared with the year ended 31 December 2006 were higher overall realizations (liquids realizations were higher and gas realizations were lower) and a favourable effect from lagged tax reference prices in TNK-BP; however, these factors were more than offset by the impact of lower reported volumes, a lower contribution from the gas marketing and trading business, higher production taxes in Alaska and higher costs, reflecting the impacts of sector-specific inflation, increased integrity spend and higher depreciation charges. Additionally, the result was lower due to the absence of disposal gains in 2006 in equity-accounted entities.

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

Reported production for 2007 was 2,549mboe/d for subsidiaries and 1,269mboe/d for equity-accounted entities, compared with 2,629mboe/d and 1,297mboe/d respectively in 2006. In aggregate, the decrease primarily reflected the effect of disposals and net entitlement reductions in our PSAs.

Refining and Marketing

	2008	2007	2006
			$ million
Total revenues[a]	**320,458**	250,897	232,833
Profit before interest and tax from continuing operations[b]	**(1,884)**	6,076	5,419
			$ per barrel
Global Indicator Refining Margin (GIM)[c]			
Northwest Europe	**6.72**	4.99	3.92
US Gulf Coast	**6.78**	13.48	12.00
Midwest	**5.17**	12.81	9.14
US West Coast	**7.42**	15.05	14.84
Singapore	**6.30**	5.29	4.22
BP average	**6.50**	9.94	8.39
			%
Refining availability[d]	**88.8**	82.9	82.5
			thousand barrels per day
Refinery throughputs	**2,155**	2,127	2,198

[a]Includes sales between businesses.
[b]Includes profit after interest and tax of equity-accounted entities.
[c]The GIM is the average of regional industry indicator margins that we weight 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 refining margins are industry-specific rather than BP-specific measures, which we believe are useful to investors in analyzing trends in the industry and their impact on our results. The margins are calculated by BP based on published crude oil and product prices and take account of fuel utilization and catalyst costs. No account is taken of BP's other cash and non-cash costs of refining, such as wages and salaries and plant depreciation. The indicator margin may not be representative of the margins achieved by BP in any period because of BP's particular refining 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.

Total revenues are explained in more detail below.

	2008	2007	2006
			$ million
Sale of crude oil through spot and term contracts	**54,901**	43,004	38,577
Marketing, spot and term sales of refined products	**248,561**	194,979	177,995
Other sales and operating revenues	**16,577**	12,238	15,814
Earnings from equity-accounted entities (after interest and tax), interest, and other revenues	**419**	676	447
	320,458	250,897	232,833
			thousand barrels per day
Sale of crude oil through spot and term contracts	**1,689**	1,885	2,110
Marketing, spot and term sales of refined products	**5,698**	5,624	5,801

Total revenues for 2008 were $320 billion, compared with $251 billion in 2007 and $233 billion in 2006. The increase in 2008 compared with 2007 primarily reflected an increase in marketing, spot and term sales of refined products, mainly driven by higher prices. Additionally, sales of crude oil, spot and term contracts increased, as a result of higher prices, partly offset by lower volumes. The increase in 2007 compared with 2006 was principally due to an increase in marketing, spot and term sales of refined products. This was due to higher prices and a positive foreign exchange impact due to a weaker dollar, partially offset by lower volumes. Additionally, sales of crude oil, spot and term contracts increased, primarily reflecting higher prices, and other sales decreased due to lower volumes partially offset by a positive foreign exchange impact.

The loss before interest and tax for the year ended 31 December 2008 was $1,884 million. This included inventory holding losses of $6,060 million and a net credit for non-operating items of $347 million (*see page 52*). 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 into 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 52*).

Profit before interest and tax for the year ended 31 December 2007 was $6,076 million. This included inventory holding gains of $3,455 million and a net charge for non-operating items of $952 million (*see page 52*). 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 and 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 52*).

Profit before interest and tax for the year ended 31 December 2006 was $5,419 million. This included inventory holding losses of $242 million and a net credit for non-operating items of $113 million (*see page 52*). The most significant non-operating items were net disposal gains (related primarily to the sale of BP's Czech Republic retail business, the disposal of BP's shareholding in Zhenhai Refining and Chemicals Company, the sale of BP's shareholding in Eiffage, the French-based construction company, and pipelines assets) and a charge related to the March 2005 Texas City refinery incident. In addition, fair