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ottom"> **12,394** 8,814 11,087

Repayments of long-term financing

(6,282) (5,959) (7,177)

Net increase (decrease) in short-term debt

(693) (2,019) (666)

Net increase (decrease) in non-controlling interests

9 32

Dividends paid

BP shareholders

8 **(5,850)** (5,441) (5,294)

Non-controlling interests

(255) (469) (82)

Net cash used in financing activities

(5,266) (10,400) (2,010)

Currency translation differences relating to cash and cash equivalents

(671) 40 64

Increase in cash and cash equivalents

7,243 2,885 5,458

Cash and cash equivalents at beginning of year

22,520 19,635 14,177

Cash and cash equivalents at end of year

29,763 22,520 19,635

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Notes on financial statements

1. Significant accounting policies, judgements, estimates and assumptions

Authorization of financial statements and statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the BP group for the year ended 31 December 2014 were approved and signed by the group chief executive and chairman on 3 March 2015 having been duly authorized to do so by the board of directors. BP p.l.c. is a public limited company incorporated and domiciled in England and Wales. The consolidated financial statements have been prepared in accordance with 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 years presented. The significant accounting policies and accounting judgements, estimates and assumptions of the group are set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations issued and effective for the year ended 31 December 2014. The accounting policies that follow have been consistently applied to all years presented.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest million dollars ($ million), except where otherwise indicated.

Significant accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for BP management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual outcomes could differ from the estimates and assumptions used. The accounting judgements and estimates that could have a significant impact on the results of the group are set out in boxed text below, and should be read in conjunction with the information provided in the Notes on financial statements. The areas requiring the most significant judgement and estimation in the preparation of the consolidated financial statements are: accounting for interests in other entities; oil and natural gas accounting, including the estimation of reserves; the recoverability of asset carrying values; derivative financial instruments, including the application of hedge accounting; provisions and contingencies, in particular provisions and contingencies related to the Gulf of Mexico oil spill; pensions and other post-retirement benefits and taxation.

Basis of consolidation

The group financial statements consolidate the financial statements of BP p.l.c. and the entities it controls (its subsidiaries) drawn up to 31 December each year. Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Intra-group balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to BP shareholders.

Interests in other entities

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in distribution and administration expenses.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination s synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill arising on business combinations prior to 1 January 2003 is stated at the previous carrying amount under UK generally accepted accounting practice, less subsequent impairments.

Goodwill may also arise upon investments in joint ventures and associates, being the surplus of the cost of investment over the group s share of the net fair value of the identifiable assets and liabilities. Such goodwill is recorded within the corresponding investment in joint ventures and associates.

Interests in joint arrangements

The results, assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting as described below.

Certain of the group s activities, particularly in the Upstream segment, are conducted through joint operations. BP recognizes, on a line-by-line basis in the consolidated financial statements, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the group s income from the sale of its share of the output and any liabilities and expenses that the group has incurred in relation to the joint operation.

Interests in associates

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting as described below.

Significant estimate or judgement: accounting for interests in other entities

Judgement is required in assessing the level of control obtained in a transaction to acquire an interest in another entity; depending upon the facts and circumstances in each case, BP may obtain control, joint control or significant influence over the entity or arrangement. Transactions which give BP control of a business are business combinations. If BP obtains joint control of an arrangement, judgement is also required to assess whether the arrangement is a joint operation or a joint venture. If BP has neither control nor joint control, it may be in a position to exercise significant influence over the entity, which is then accounted for as an associate.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Accounting for business combinations and acquisitions of investments in equity-accounted joint ventures and associates requires judgements and estimates to be made in order to determine the fair value of the consideration transferred, together with the fair values of the assets acquired and the liabilities assumed in a business combination, or the identifiable assets and liabilities of the equity-accounted entity at the acquisition date. The group uses all available information, including external valuations and appraisals where appropriate, to determine these fair values. If necessary, the group has up to one year from the acquisition date to finalize the determinations of fair value for business combinations.

Since 21 March 2013, BP has owned 19.75% of the voting shares of OJSC Oil Company Rosneft (Rosneft), a Russian oil and gas company. The Russian federal government, through its investment company OJSC Rosneftegaz, owned 69.5% of the voting shares of Rosneft at 31 December 2014. BP uses the equity method of accounting for its investment in Rosneft because under IFRS it is considered to have significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. IFRS identifies several indicators that may provide evidence of significant influence, including representation on the board of directors of the investee and participation in policy-making processes. BP s group chief executive, Bob Dudley, has been elected to the board of directors of Rosneft and he is a member of the Rosneft board s Strategic Planning Committee. Furthermore, under the Rosneft Charter, BP has the right to nominate a second director to Rosneft s nine-person board of directors for election at a general meeting of shareholders should it choose to do so in the future. In addition, BP holds the voting rights at general meetings of shareholders conferred by its 19.75% stake in Rosneft. In management s judgement, the group has significant influence over Rosneft, as defined by the relevant accounting standard, and the investment is, therefore, accounted for as an associate. BP s share of Rosneft s oil and natural gas reserves is included in the estimated net proved reserves of equity-accounted entities.

The equity method of accounting

Under the equity method, the investment is carried on the balance sheet at cost plus post-acquisition changes in the group s share of net assets of the entity, less distributions received and less any impairment in value of the investment. Loans advanced to equity-accounted entities that have the characteristics of equity financing are also included in the investment on the group balance sheet. The group income statement reflects the group s share of the results after tax of the equity-accounted entity, adjusted to account for depreciation, amortization and any impairment of the equity-accounted entity s assets based on their fair values at the date of acquisition. The group statement of comprehensive income includes the group s share of the equity-accounted entity s other comprehensive income. The group s share of amounts recognized directly in equity by an equity-accounted entity is recognized directly in the group s statement of changes in equity.

Financial statements of equity-accounted entities are prepared for the same reporting year as the group. Where material differences arise, adjustments are made to those financial statements to bring the accounting policies used into line with those of the group.

Unrealized gains on transactions between the group and its equity-accounted entities are eliminated to the extent of the group s interest in the equity-accounted entity. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

The group ceases to use the equity method of accounting from the date on which it no longer has joint control over the joint venture or significant influence over the associate, or when the interest becomes classified as an asset held for sale.

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.

The accounting policies of the operating segments are the same as the group s accounting policies described in this note, except that 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 BP, this measure of profit or loss is replacement cost profit before interest and tax which reflects the replacement cost of inventories sold in the period and is arrived at by excluding inventory holding gains and losses from profit. Replacement cost profit for the group is not a recognized measure under IFRS. For further information see Note 4.

Foreign currency translation

In individual subsidiaries, joint ventures and associates, transactions in foreign currencies are initially recorded in the functional currency of those entities by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement, unless hedge accounting is applied. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries, joint ventures and associates, including related goodwill, are translated into US dollars at the rate of exchange ruling at the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries, joint ventures and associates are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries, joint ventures and associates are translated into US dollars are taken to a separate component of equity and reported in the statement of comprehensive income. Exchange gains and losses arising on long-term intra-group foreign currency borrowings used to finance the group s non-US dollar investments are also taken to other comprehensive income. On disposal or partial disposal of a non-US dollar functional currency subsidiary, joint venture or associate, the related cumulative exchange gains and losses recognized in equity are reclassified to the income statement.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Intangible assets

Intangible assets, other than goodwill, include expenditure on the exploration for and evaluation of oil and natural gas resources, computer software, patents, licences and trade marks and are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives. For patents, licences and trade marks, expected useful life is the shorter of the duration of the legal agreement and economic useful life, and can range from three to 15 years. Computer software costs generally have a useful life of three to five years.

The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Oil and natural gas exploration, appraisal and development expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalized within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortized on a straight-line basis over the estimated period of exploration. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to property, plant and equipment.

Exploration and appraisal expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are initially capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset.

Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment.

Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the accounting policy for property, plant and equipment.

Significant estimate or judgement: oil and natural gas accounting

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year after well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g. an offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration work in the area, remain capitalized on the balance sheet as long as additional exploration or appraisal work is under way or firmly planned.

It is not unusual to have exploration wells and exploratory-type stratigraphic test wells remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed.

One of the facts and circumstances which indicate that an entity should test such assets for impairment is that the period for which the entity has a right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed.

BP has leases in the Gulf of Mexico making up a prospect, some with terms which were scheduled to expire at the end of 2013 and some with terms which were scheduled to expire at the end of 2014. A significant proportion of our capitalized exploration and appraisal costs in the Gulf of Mexico relate to this prospect. This prospect requires the development of subsea technology to ensure that the hydrocarbons can be extracted safely. BP is in negotiation with the US Bureau of Safety and Environmental Enforcement in relation to seeking extension of these leases so that the discovered hydrocarbons can be developed. BP remains committed to developing this prospect and expects that the leases will be renewed and, therefore, continues to carry the capitalized costs on its balance sheet.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, finance costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the

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1. Significant accounting policies, judgements, estimates and assumptions continued

item will flow to the group, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortized over total proved reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

Other property, plant and equipment is depreciated on a straight-line basis over its expected useful life. The typical useful lives of the group s other property, plant and equipment are as follows:

Land improvements	15 to 25 years
Buildings	20 to 50 years
Refineries	20 to 30 years
Petrochemicals plants	20 to 30 years
Pipelines	10 to 50 years
Service stations	15 years
Office equipment	3 to 7 years
Fixtures and fittings	5 to 15 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

Significant estimate or judgement: estimation of oil and natural gas reserves

The determination of the group s estimated oil and natural gas reserves requires significant judgements and estimates to be applied and these are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity, drilling of new wells and commodity prices all impact on the determination of the group s estimates of its oil and natural gas reserves. BP bases its proved reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

The estimation of oil and natural gas reserves and BP s process to manage reserves bookings is described in Supplementary information on oil and natural gas on page 167, which is unaudited. Details on BP s proved reserves and production compliance and governance processes are provided on page 219.

Estimates of oil and natural gas reserves are used to calculate depreciation, depletion and amortization charges for the group s oil and gas properties. The impact of changes in estimated proved reserves is dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Oil and natural gas reserves also have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down of the property s carrying value.

The 2014 movements in proved reserves are reflected in the tables showing movements in oil and natural gas reserves by region in Supplementary information on oil and natural gas (unaudited) on page 167. Information on the carrying amounts of the group s oil and natural gas properties, together with the amounts recognized in the income statement as depreciation, depletion and amortization is contained in Note 10 and Note 4 respectively.

Impairment of property, plant and equipment, intangible assets, and goodwill

The group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, for example, changes in the group s business plans, changes in commodity prices leading to sustained unprofitable performance, low plant utilization, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the group makes an estimate of the asset s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group s recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, refinery throughputs, sales volumes for various types of refined products (e.g. gasoline and lubricants), revenues, costs and capital expenditure. As an initial step in the preparation of these plans, various market assumptions, such as oil prices, natural gas prices, refining margins, refined product margins and cost inflation rates, are set by senior management. These market assumptions take account of existing prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of cash-generating units to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of a group of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the group of CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Significant estimate or judgement: recoverability of asset carrying values

Determination as to whether, and by how much, an asset or group of CGUs containing goodwill is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products. For oil and natural gas properties, the expected future cash flows are estimated using management s best estimate of future oil and natural gas prices and reserves volumes.

The estimated future level of production in all impairment tests is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

Fair value less costs of disposal may be determined based on similar recent market transaction data or, where recent market transactions for the asset are not available for reference, using discounted cash flow techniques. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, accounting judgements are made about the assumptions market participants would use when pricing an asset, a CGU or a group of CGUs containing goodwill and the test is performed on a post-tax basis. The discount rate used is the group s post-tax weighted average cost of capital (2014 8%), with a 2% premium added in higher-risk countries. Reserves assumptions for fair value less costs of disposal discounted cash flow tests consider all reserves that a market participant would consider when valuing the asset, which are usually broader in scope than the reserves used in a value-in-use test. Discounted cash flow analyses used to calculate fair value less costs of disposal use market prices for the first five years and long-term price assumptions that are consistent with the assumptions used by the group for investment appraisal purposes thereafter. The long-term oil price assumption used in such tests is $97 per barrel in 2020 and is inflated at a rate of 2.5% per annum for the remaining life of the asset. This long-term assumption is derived from the $80 per barrel real oil price assumption used for investment appraisal. In the current price environment, the market prices used for the first five years of both value-in-use and fair value less costs of disposal impairment tests are particularly volatile. Market prices used for the first five years of both value-in-use and fair value less costs of disposal impairment tests are shown in the table below:

					2014
	2015	**2016**	**2017**	**2018**	**2019**
Brent oil price ($/bbl)	**61**	**69**	**73**	**76**	**77**

Henry Hub natural gas price ($/mmBtu)	**3.11**	**3.53**	**3.82**	**4.00**	**4.15**

					2013
	2014	2015	2016	2017	2018
Brent oil price ($/bbl)	108	102	97	93	90
Henry Hub natural gas price ($/mmBtu)	3.86	4.02	4.10	4.17	4.27

For value-in-use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the group s post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the country where the cash-generating unit is located. In 2014 the discount rate used for value-in-use calculations was 12% nominal (2013 12% nominal), with a 2% premium added in higher-risk countries. The discount rates applied in assessments of impairment are reassessed each year. Reserves assumptions for value-in-use tests are confined to proved and sanctioned probable reserves. For value-in-use calculations, prices for oil and natural gas used for future cash flow calculations are based on market prices for the first five years (consistent with those shown in the table above) and the group s flat nominal long-term price assumptions thereafter. As at 31 December 2014, the group s long-term flat nominal price assumptions were $90 per barrel for Brent and $6.50/mmBtu for Henry Hub (2013 $90 per barrel and $6.50/mmBtu). These long-term price assumptions are subject to periodic review and revision.

Irrespective of whether there is any indication of impairment, BP is required to test annually for impairment of goodwill acquired in a business combination. The group carries goodwill of approximately $11.9 billion on its balance sheet (2013 $12.2 billion), principally relating to the Atlantic Richfield, Burmah Castrol, Devon Energy and Reliance transactions. In testing goodwill for impairment, the group uses the approach described above to determine recoverable amount. If there are low oil or natural gas prices or refining margins or marketing margins for an extended period, the group may need to recognize goodwill impairment charges.

The recoverability of intangible exploration and appraisal expenditure is covered under Oil and natural gas exploration, appraisal and development expenditure above.

Details of impairment charges recognized in the income statement are provided in Note 3 and details on the carrying amounts of assets are shown in Note 10, Note 12 and Note 13.

Inventories

Inventories, other than inventories held for trading purposes, are stated at the lower of cost and net realizable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

Inventories held for trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the income statement.

Supplies are valued at cost to the group mainly using the average method or net realizable value, whichever is the lower.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Leases

Finance leases are capitalized at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Financial assets

Financial assets are classified as loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The group determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Held-to-maturity financial assets

Held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment.

Available-for-sale financial assets

After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income, except for impairment losses, and, for available-for-sale debt instruments, foreign exchange gains or losses and any changes in fair value arising from revised estimates of future cash flows, which are recognized in profit or loss.

Impairment of loans and receivables

The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the financial asset s original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in the income statement.

Significant estimate or judgement: recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against the future recoverability of those receivables is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment. See Note 27 for information on overdue receivables.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortized cost, as appropriate. Financial liabilities include trade and other payables, accruals, most items of finance debt and derivative financial instruments. The group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest and other income and finance costs.

This category of financial liabilities includes trade and other payables and finance debt.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Derivative financial instruments and hedging activities

The group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group s expected purchase, sale or usage requirements, are accounted for as financial instruments. Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the income statement.

If, at inception of a contract, the valuation cannot be supported by observable market data, any gain or loss determined by the valuation methodology is not recognized in the income statement but is deferred on the balance sheet and is commonly known as day-one profit or loss . This deferred gain or loss is recognized in the income statement over the life of the contract until substantially all the remaining contract term can be valued using observable market data at which point any remaining deferred gain or loss is recognized in the income statement. Changes in valuation from the initial valuation are recognized immediately through the income statement.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging exposure to changes in the fair value of a recognized asset or liability.
- Cash flow hedges when hedging exposure to variability in cash flows that is attributable to either a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in fair value of a hedging derivative is recognized in profit or loss. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss. The group applies fair value hedge accounting when hedging interest rate risk on fixed rate borrowings.

If the criteria for hedge accounting are no longer met, or if the group revokes the designation, the accumulated adjustment to the carrying amount of a hedged item at such time is then amortized to profit or loss over the remaining period to maturity.

Cash flow hedges

The effective portion of the gain or loss on a cash flow hedging instrument is recognized within other comprehensive income, while the ineffective portion is recognized in profit or loss. Amounts taken to other comprehensive income are reclassified to the income statement when the hedged transaction affects profit or loss.

Where the hedged item is a non-financial asset or liability, such as a forecast foreign currency transaction for the purchase of property, plant and equipment, the amounts recognized within other comprehensive income are reclassified to the initial carrying amount of the non-financial asset or liability. Where the hedged item is an equity investment, the amounts recognized in other comprehensive income remain in the separate component of equity until the hedged cash flows affect profit or loss. Where the hedged item is recognized directly in profit or loss, the amounts recognized in other comprehensive income are reclassified to production and manufacturing expenses, except for cash flow hedges of variable interest rate risk which are reclassified to finance costs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized within other comprehensive income remain in equity until the forecast transaction occurs and are reclassified to the income statement or to the initial carrying amount of a non-financial asset or liability as above.

Significant estimate or judgement: application of hedge accounting

The decision as to whether to apply hedge accounting within subsidiaries, and by equity-accounted entities, can have a significant impact on the group s financial statements. Cash flow and fair value hedge accounting is applied to certain finance debt-related instruments in the normal course of business and cash flow hedge accounting is applied to certain highly probable foreign currency transactions as part of the management of currency risk. In addition, the financial statements reflect the application of cash flow hedge accounting to certain of the contracts signed in October 2012 for BP to sell its investment in TNK-BP and obtain an additional shareholding in Rosneft, which were accounted for as derivatives under IFRS. The group applied all-in-one cash flow hedge accounting to the contracts to acquire shares in Rosneft, resulting in a pre-tax loss of $2,061 million being recognized in other comprehensive income in 2013 and a pre-tax gain of $1,410 million in 2012. See Note 15, Note 27, and Note 28 for further details.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract. Contracts are assessed for embedded derivatives when the group becomes a party to them, including at the date of a business combination. Embedded derivatives are measured at fair value at each balance sheet date. Any gains or losses arising from changes in fair value are taken directly to the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The group categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or BP s assumptions about pricing by market participants.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Significant estimate or judgement: valuation of derivatives

In some cases the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This applies to the group s longer-term derivative contracts and certain options, as well as to the majority of the group s embedded derivatives. These embedded derivatives arise primarily from long-term UK natural gas contracts that use pricing formulae not related to gas prices, for example, oil product and power prices. The majority of these contracts are valued using models with inputs that include price curves for each of the different products that are built up from active market pricing data and extrapolated to the expiry of the contracts using the maximum available external pricing information. Additionally, where limited data exists for certain products, prices are interpolated using historic and long-term pricing relationships. Price volatility is also an input for the models.

Changes in the key assumptions could have a material impact on the fair value gains and losses on derivatives and embedded derivatives recognized in the income statement. For more information see Note 28.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the group currently has a legally enforceable right to set off the recognized amounts; and the group intends to either settle on a net basis or realize the asset and settle the liability simultaneously. A right of set off is the group s legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Provisions, contingencies and reimbursement assets

Provisions are recognized when the group has a present legal or constructive obligation 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 risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free 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. A provision is discounted using either a nominal discount rate of 2.75% (2013 3.25%) or a real discount rate of 0.75% (2013 1%), as appropriate. 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). Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the group, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

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.

Significant estimate or judgement: provision relating to the Gulf of Mexico oil spill

Detailed information on the Gulf of Mexico oil spill, including the financial impacts, is provided in Note 2.

The provision recognized is the reliable estimate of expenditures required to settle certain present obligations at the end of the reporting period. There are future expenditures, however, for which it is not possible to measure the obligation reliably. These are not provided for and are disclosed as contingent liabilities. Accounting judgement is required to identify when a provision can be measured reliably, which can be especially challenging when complex litigation activities are ongoing.

In addition, for those provisions which are recognized, there is significant estimation uncertainty about the amounts that will ultimately be paid, especially with regard to amounts payable under the Deepwater Horizon Court Supervised Settlement Program (DHCSSP). A provision is made for these costs when the amount can be measured reliably; this requires an analysis of claims received and processed and consideration of the status of ongoing legal activity.

The provision for penalties under the US Clean Water Act is based on the estimated civil penalty for strict liability. This provision is calculated based on the assumption that BP did not act with gross negligence or engage in wilful misconduct. However, in September 2014 the district court ruled that the discharge of oil was the result of BP s gross negligence and wilful misconduct and it is not now possible to determine a reliable estimate of the liability. The existing provision has been maintained as explained in Note 2 and a contingent liability has been disclosed in relation to the potential for a higher penalty due to this ruling. The amount that will become payable by BP is subject to a very high level of uncertainty since it will depend on the outcome of BP s appeal of the September 2014 gross negligence ruling as well as what is determined by the court in the federal multi-district litigation proceedings in New Orleans (MDL 2179) with respect to the application of statutory penalty factors. See Note 2 for additional information.

Decommissioning

Liabilities for decommissioning costs are recognized when the group has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognized on construction or installation. Similarly, where an obligation exists for a well, this liability is recognized when it is drilled. An obligation for decommissioning may also crystallize during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using the real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately

20 years.

An amount equivalent to the decommissioning provision is recognized as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset.

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1. Significant accounting policies, judgements, estimates and assumptions   continued

Other than the unwinding of discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset.

Environmental expenditures and liabilities

Environmental expenditures that are required in order for the group to obtain future economic benefits from its assets are capitalized as part of those assets. Expenditures that relate to an existing condition caused by past operations that do not contribute to future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required to settle the obligation. Provisions for environmental liabilities have been estimated using existing technology, at current prices and discounted using a real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately five years.

Significant estimate or judgement: provisions

The group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing BP relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines around the world. Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. BP believes that the impact of any reasonably foreseeable change to these provisions on the group s results of operations, financial position or liquidity will not be material. If oil and natural gas production facilities and pipelines are sold to third parties and the subsequent owner is unable to meet their decommissioning obligations, judgement must be used to determine whether BP is then responsible for decommissioning, and if so the extent of that responsibility. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty. Any changes in the expected future costs are reflected in both the provision and the asset.

Decommissioning provisions associated with downstream and petrochemicals facilities are generally not recognized, as the potential obligations cannot be measured, given their indeterminate settlement dates. The group performs periodic reviews of its downstream and petrochemicals long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

The provision for environmental liabilities is estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Other provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgement to existing facts and circumstances, which can be subject to change. Since the cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

The timing and amount of future expenditures are reviewed annually, together with the interest rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligation at the end of 2014 was a real rate of 0.75% (2013 1.0%), which was based on long-dated US government bonds.

Provisions and contingent liabilities relating to the Gulf of Mexico oil spill are discussed in Note 2. Information about the group s other provisions is provided in Note 21. As further described in Note 21, the group is subject to claims and actions. The facts and circumstances relating to particular cases are evaluated regularly in determining whether it is probable that there will be a future outflow of funds and, once established, whether a provision relating to a specific litigation should be established or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the group. Deferred bonus arrangements that have a vesting date more than 12 months after the balance sheet date are valued on an actuarial basis using the projected unit credit method and amortized on a straight-line basis over the service period until the award vests. The accounting policies for share-based payments and for pensions and other post-retirement benefits are described below.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognized as an expense over the vesting period, which ends on the date on which the employees become fully entitled to the award. A corresponding credit is recognized within equity. Fair value is determined by using an appropriate, widely used, valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value, and failure to meet a non-vesting condition, where this is within the control of the employee is treated as a cancellation and any remaining unrecognized cost is expensed.

Cash-settled transactions

The cost of cash-settled transactions is recognized as an expense over the vesting period, measured by reference to the fair value of the corresponding liability which is recognized on the balance sheet. The liability is remeasured at fair value at each balance sheet date until settlement, with changes in fair value recognized in the income statement.

Pensions and other post-retirement benefits

The cost of providing benefits under the group s defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period to determine current service cost and to the current and prior periods to determine the present value of the defined benefit obligation. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognized immediately when the company becomes committed to a change.

Net interest expense relating to pensions and other post-retirement benefits, which is recognized in the income statement, represents the net change in present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year, and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest described above) are recognized within other comprehensive income in the period in which they occur and are not subsequently reclassified to profit and loss.

The defined benefit pension plan surplus or deficit in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. Defined benefit pension plan surpluses are only recognized to the extent they are recoverable.

Contributions to defined contribution plans are recognized in the income statement in the period in which they become payable.

Significant estimate or judgement: pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including estimated retirement dates, salary levels at retirement, mortality rates, determination of discount rates for measuring plan obligations and net interest expense and assumptions for inflation rates.

These assumptions are based on the environment in each country. The assumptions used may vary from year to year, which would affect future net income and net assets. Any differences between these assumptions and the actual outcome also affect future net income and net assets.

Pension and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the surpluses and deficits recorded on the group s balance sheet, and pension and other post-retirement benefit expense for the following year.

The assumptions used are provided in Note 22.

The discount rate and inflation rate have a significant effect on the amounts reported. A sensitivity analysis of the impact of changes in these assumptions on the benefit expense and obligation is provided in Note 22.

In addition to the financial assumptions, we regularly review the demographic and mortality assumptions. Mortality assumptions reflect best practice in the countries in which we provide pensions and have been chosen with regard to the latest available published tables adjusted where appropriate to reflect the experience of the group and an extrapolation of past longevity improvements into the future. A sensitivity analysis of the impact of changes in the mortality assumptions on the benefit expense and obligation is provided in Note 22.

Income taxes

Income tax expense represents the sum of current tax and deferred tax. Interest and penalties relating to income tax are also included in the income tax expense.

Income tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The group s liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill; or
- where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, where the group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

1. Significant accounting policies, judgements, estimates and assumptions continued

Significant estimate or judgement: income taxes

The computation of the group s income tax expense and liability involves the interpretation of applicable tax laws and regulations in many jurisdictions throughout the world. The resolution of tax positions taken by the group, through negotiations with relevant tax authorities or through litigation, can take several years to complete and in some cases it is difficult to predict the ultimate outcome. Therefore, judgement is required to determine provisions for income taxes.

In addition, the group has carry-forward tax losses and tax credits in certain taxing jurisdictions that are available to offset against future taxable profit. However, deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses or tax credits can be utilized. Management judgement is exercised in assessing whether this is the case.

To the extent that actual outcomes differ from management s estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information see Note 7.

Judgement is also required when determining whether a particular tax is an income tax or another type of tax (for example a production tax). Accounting for deferred tax is applied to income taxes as described above, but is not applied to other types of taxes; rather such taxes are recognized in the income statement on an appropriate basis.

Customs duties and sales taxes

Customs duties and sales taxes which are passed on to customers are excluded from revenues and expenses. Assets and liabilities are recognized net of the amount of customs duties or sales tax except:

- Where the customs duty or sales taxes incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the customs duty or sales tax is recognized as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

Own equity instruments

The group s holdings in its own equity instruments are shown as deductions from shareholders equity at cost. For accounting purposes, own equity instruments include both treasury shares and shares purchased from the open market. Some of these own equity instruments are held by Employee Share Ownership Plans (ESOPs), including certain shares transferred out of treasury. Consideration, if any, received for the sale of such shares is also recognized in equity, with any difference between the proceeds from sale and the original cost being taken to the profit and loss account reserve. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of equity shares. Shares repurchased under the share buy-back programme which are immediately cancelled are not shown as treasury shares, but are shown as a deduction from the profit and loss account reserve in the group statement of changes in equity.

Revenue

Revenue arising from the sale of goods is recognized when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Physical exchanges are reported net, as are sales and purchases made with a common counterparty, as part of an arrangement similar to a physical exchange. Similarly, where the group acts as agent on behalf of a third party to procure or market energy commodities, any associated fee income is recognized but no purchase or sale is recorded. Additionally, where forward sale and purchase contracts for oil, natural gas or power have been determined to be for trading purposes, the associated sales and purchases are reported net within sales and other operating revenues whether or not physical delivery has occurred.

Generally, revenues from the production of oil and natural gas properties in which the group has an interest with joint operation partners are recognized on the basis of the group s working interest in those properties (the entitlement method). Differences between the production sold and the group s share of production are not significant.

Interest income is recognized as the interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income from investments is recognized when the shareholders right to receive the payment is established.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the income statement in the period in which they are incurred.

Impact of new International Financial Reporting Standards

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

Not yet adopted

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the group.

The IASB issued IFRS 15 Revenue from Contracts with Customers , which provides a single model for accounting for revenue arising from contracts with customers and is effective for annual periods beginning on or after 1 January 2017. IFRS 15 will supersede IAS 18 Revenue .

The IASB has also issued IFRS 9 Financial Instruments , which will supersede IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.

BP has not yet decided the date of adoption for the group for IFRS 15 and IFRS 9 and has not yet completed its evaluation of the effect of adoption. The EU has not yet adopted IFRS 15 or IFRS 9.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the group.

2. Significant event Gulf of Mexico oil spill

As a consequence of the Gulf of Mexico oil spill in April 2010, BP continues to incur costs and has also recognized liabilities for certain future costs. Liabilities of uncertain timing or amount, for which no provision has been made, have been disclosed as contingent liabilities.

The cumulative pre-tax income statement charge since the incident amounts to $43.5 billion. For more information on the types of expenditure included in the cumulative income statement charge, see Impact upon the group income statement below. The cumulative income statement charge does not include amounts for obligations that BP considers are not possible, at this time, to measure reliably. For further information, including developments in relation to the interpretation of business economic loss claims under the Plaintiffs Steering Committee (PSC) settlement and the measurement of the penalty obligation under the Clean Water Act, see Provisions and contingent liabilities below.

The total amounts that will ultimately be paid by BP in relation to all the obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors, as discussed under Provisions and contingent liabilities below, including in relation to any new information or future developments. These could have a material impact on our consolidated financial position, results of operations and cash flows. The risks associated with the incident could also heighten the impact of the other risks to which the group is exposed as further described under Risk factors on page 48 and Legal proceedings on page 228.

The impacts of the Gulf of Mexico oil spill on the income statement, balance sheet and cash flow statement of the group are included within the relevant line items in those statements and are shown in the table below.

			$ million
	2014	2013	2012
Income statement			
Production and manufacturing expenses	**781**	430	4,995
Profit (loss) before interest and taxation	**(781)**	(430)	(4,995)
Finance costs	**38**	39	19
Profit (loss) before taxation	**(819)**	(469)	(5,014)
Less: Taxation	**262**	73	94
Profit (loss) for the period	**(557)**	(396)	(4,920)
Balance sheet			
Current assets			
Trade and other receivables	**1,154**	2,457	
Current liabilities			
Trade and other payables	**(655)**	(1,030)	
Provisions	**(1,702)**	(2,951)	
Net current assets (liabilities)	**(1,203)**	(1,524)	
Non-current assets			
Other receivables	**2,701**	2,442	
Non-current liabilities			
Other payables	**(2,412)**	(2,986)	
Accruals	**(169)**		
Provisions	**(6,903)**	(6,395)	

Deferred tax	**1,723**	2,748	
Net non-current assets (liabilities)	**(5,060)**	(4,191)	
Net assets (liabilities)	**(6,263)**	(5,715)	
Cash flow statement			
Profit (loss) before taxation	**(819)**	(469)	(5,014)
Finance costs	**38**	39	19
Net charge for provisions, less payments	**939**	1,129	4,834
(Increase) decrease in other current and non-current assets	**(662)**	(1,481)	(998)
Increase (decrease) in other current and non-current liabilities	**(792)**	(618)	(5,090)
Pre-tax cash flows	**(1,296)**	(1,400)	(6,249)

The impact on net cash provided by operating activities, on a post-tax basis, amounted to an outflow of $9 million (2013 outflow of $73 million and 2012 outflow of $2,382 million).

Trust fund

BP established the Deepwater Horizon Oil Spill Trust (the Trust) in 2010, to be funded in the amount of $20 billion, to satisfy legitimate individual and business claims, state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. The Trust is available to fund the qualified settlement funds (QSFs) established under the terms of the settlement agreements (comprising the Economic and Property Damages (EPD) Settlement Agreement and the Medical Benefits Class Action Settlement) with the PSC administered through the Deepwater Horizon Court Supervised Settlement Program (DHCSSP) see Provisions and contingent liabilities below for further information. Fines and penalties are not covered by the trust fund.

The funding of the Trust was completed in 2012. The obligation to fund the $20-billion trust fund, adjusted to take account of the time value of money, was recognized in full in 2010 and charged to the income statement.

BP s rights and obligations in relation to the $20-billion trust fund are accounted for in accordance with IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds . An asset has been recognized representing BP s right to receive reimbursement from the trust fund. This is the portion of the estimated future expenditure provided for that will be settled by payments from the trust fund. We use the term reimbursement asset to describe this asset. BP will not actually receive any reimbursements from the trust fund, instead

2. Significant event Gulf of Mexico oil spill continued

payments will be made directly from the trust fund, and BP will be released from its corresponding obligation. The reimbursement asset is recorded within Trade and other receivables on the balance sheet apportioned between current and non-current elements. The net increase in the provision for items covered by the trust fund of $662 million relates principally to business economic loss claims as well as increases in the provision for claims administration costs. During the year, cumulative charges to be paid by the Trust reached $20 billion. Subsequent additional costs, over and above those provided within the $20 billion, are being expensed to the income statement as incurred.

At 31 December 2014, $3,855 million of the provisions and payables are eligible to be paid from the Trust. The table below shows movements in the reimbursement asset during the period to 31 December 2014.

				$ million
		2014	2013	Cumulative since the incident
At 1 January		**4,899**	6,442	
Net Increase in provision for items covered by the trust fund		**662**	1,542	20,000
Amounts paid directly by the trust fund		**(1,706)**	(3,085)	(16,145)
At 31 December		**3,855**	4,899	3,855
Of which	current	**1,154**	2,457	1,154
	non-current	**2,701**	2,442	2,701

As at 31 December 2014, the aggregate cash balances in the Trust and the QSFs amounted to $5.1 billion, including $1.1 billion remaining in the seafood compensation fund which has yet to be distributed and $0.4 billion held for natural resource damage early restoration. A further $500-million partial distribution from the seafood compensation fund has been recommended and disbursement of funds commenced in early 2015. The portion of the provision and reimbursement asset that related to the seafood compensation fund were derecognized upon funding of the seafood compensation fund QSF in 2012.

The EPD Settlement Agreement with the PSC provides for a court-supervised settlement programme which commenced operation on 4 June 2012. See Provisions below for further information on the current status of the EPD Settlement Agreement. A separate claims administrator has been appointed to pay medical claims and to implement other aspects of the Medical Benefits Class Action Settlement. For further information on the PSC settlements, see Legal proceedings on page 228.

Other payables

BP reached an agreement with the US government in 2012, which was approved by the court in 2013, to resolve all federal criminal claims arising from the incident. Under the agreement, BP agreed to pay $4 billion over a period of five years. At 31 December 2014, the remaining criminal claims payable, within Other payables, was $2,995 million, of which $595 million falls due in 2015.

BP also reached a settlement with the US Securities and Exchange Commission (SEC) in 2012, resolving the SEC s Gulf of Mexico oil spill-related civil claims. As part of the settlement, BP agreed to a civil penalty of $525 million, with the final instalment paid during 2014.

Provisions and contingent liabilities

Provisions

BP has recorded provisions relating to the Gulf of Mexico oil spill in relation to environmental expenditure (including spill response costs), litigation and claims, and Clean Water Act penalties that can be measured reliably at this time.

Movements in each class of provision during the year and cumulatively since the incident are presented in the tables below.

				$ million 2014
	Environmental	Litigation and Claims	Clean Water Act	Total
At 1 January	1,679	4,157	3,510	9,346
Increase in provision	190	1,137		1,327
Unwinding of discount	1			1
Change in discount rate	2			2
Utilization paid by BP	(83)	(307)		(390)
paid by the trust fund	(648)	(1,033)		(1,681)
At 31 December	1,141	3,954	3,510	8,605
Of which current	528	1,174		1,702
non-current	613	2,780	3,510	6,903

				$ million Cumulative since the incident
	Environmental	Litigation and Claims	Clean Water Act	Total
Net increase in provision	14,599	26,595	3,510	44,704
Unwinding of discount	13	6		19
Change in discount rate	19			19
Reclassified to other payables		(4,283)		(4,283)
Utilization paid by BP	(11,687)	(4,080)		(15,767)
paid by the trust fund	(1,803)	(14,284)		(16,087)
At 31 December 2014	1,141	3,954	3,510	8,605

Environmental

The environmental provision at 31 December 2014 includes the remaining $279 million for BP s commitment to fund the Gulf of Mexico Research Initiative, which is a 10-year research programme to study the impact of the incident on the marine and shoreline environment of the Gulf of Mexico. In

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2. Significant event Gulf of Mexico oil spill continued

addition, BP faces claims under the Oil Pollution Act of 1990 (OPA 90) for natural resource damages. These damages include, among other things, the reasonable costs of assessing the injury to natural resources. During 2011, BP entered into a framework agreement with natural resource trustees for the United States and five Gulf-coast states, providing for up to $1 billion to be spent on early restoration projects to address natural resource injuries resulting from the oil spill, to be funded from the $20-billion trust fund. In 2012, work began on the initial set of early restoration projects identified under this framework and during 2014, Phase 3 of the early restoration projects was formally agreed, comprising $627 million of approved project spend (of which $563 million has been paid). At 31 December 2014, the remaining amount provided for natural resource damage assessment costs and early restoration projects was $798 million. 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 other than the assessment and early restoration costs noted above, therefore no additional amounts have been provided for these items and they are disclosed as a contingent liability.

Litigation and claims

The litigation and claims provision includes amounts that can be estimated reliably for the future cost of settling claims by individuals and businesses for damage to real or personal property, lost profits or impairment of earning capacity and loss of subsistence use of natural resources (Individual and Business Claims), and claims by state and local government entities for removal costs, damage to real or personal property, loss of government revenue and increased public services costs, under OPA 90 and other legislation (State and Local Claims), except as described under Contingent liabilities below. Claims administration costs and legal costs, including legal costs under indemnification agreements, have also been provided for. The timing of payment of litigation and claims provisions classified as non-current is dependent upon ongoing legal activity and is therefore uncertain.

BP has provided for its best estimate of the cost associated with the PSC settlement agreements with the exception of the cost of business economic loss claims, which are provided for where an eligibility notice had been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility. As disclosed in *BP Annual Report and Form 20-F 2013*, as part of its monitoring of payments made by the DHCSSP, BP identified multiple business economic loss claim determinations that appeared to result from an interpretation of the Economic and Property Damages Settlement Agreement (EPD Settlement Agreement) by the claims administrator that BP believes was incorrect.

During 2014, there were various rulings on matters relating to the interpretation of the EPD Settlement Agreement, in particular on the issue of matching revenue and expenses as well as causation requirements of the EPD Settlement Agreement.

In March 2014, the US Court of Appeals for the Fifth Circuit (the Fifth Circuit) affirmed the district court s ruling that the EPD Settlement Agreement contained no causation requirement beyond the revenue and related tests set out in an exhibit to that agreement. In March 2014, BP filed a petition that all the active judges of the Fifth Circuit review the decision; in May 2014 this was denied. The district court dissolved the injunction that had halted the processing and payment of business economic loss claims and instructed the claims administrator to resume the processing and payment of claims. BP sought review by the US Supreme Court (Supreme Court) of the Fifth Circuit s decisions relating to compensation of claims for losses with no apparent connection to the Deepwater Horizon spill. In December 2014, the Supreme Court declined to review BP s petition. As a result, the final deadline for filing claims in the Economic and Property Damages Settlement is 8 June 2015.

Management believes that no reliable estimate can currently be made of any business economic loss claims (i) not yet received; (ii) received, but not yet processed; or (iii) processed, but not yet paid, except where an eligibility notice had been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility. The inability to estimate reliably such claims is due to uncertainty regarding both the volume of such claims and the average value per claim.

In respect of uncertainty regarding the volume of claims, in December 2014, the Supreme Court declined to hear BP s appeal of the district court ruling that the EPD Settlement Agreement contained no causation requirement beyond the revenue and related tests set forth in that agreement. This resolution, however, does not reduce uncertainty in the short term regarding the volume of claims, since it is possible that additional claims will be made. In addition, a claims submission deadline of 8 June 2015 has now been set, which may lead to an increase in the rate of claims received until the deadline, compounding management s inability to estimate the total volume of claims that will be made.

In respect of uncertainty regarding the average value per claim, a small proportion of the filed claims have been determined under the revised policy for the matching of revenue and expenses for business economic loss claims (introduced in May 2014) and disputes, disagreements, and uncertainties regarding the proper application of the revised policy to particular claims and categories of claims continue to arise as the claims administrator has begun applying the revised policy. Furthermore, there have been no, or only a small number of, claim determinations made under some of the specialized frameworks that have been put in place for particular industries and so determinations to date may not be representative of the total population of claims. In addition, due to a data secrecy order, detailed data about claims that have not yet been determined is not currently available to BP and so it is not possible to review claim demographics or identify potential populations for each category of claim.

There is therefore very little data to build up a track record of claims determinations under the policies and protocols that are now being applied following resolution of the matching and causation issues. We therefore cannot estimate future trends of the number and proportion of claims that will be determined to be eligible, nor can we estimate the value of such claims. A provision for such business economic loss claims will be established when these uncertainties are resolved and a reliable estimate can be made of the liability.

The current estimate for the total cost of those elements of the PSC settlement that BP considers can be reliably estimated is $9.9 billion. The DHCSSP has issued eligibility notices, most of which are disputed by BP, in respect of business economic loss claims of approximately $400 million which have not been provided for. The majority of these claims are being re-assessed using the new matching policy. Furthermore, a significant number of business economic loss claims have been received but have not yet been processed, and further claims are likely to be received. The total cost of the PSC settlement is likely to be significantly higher than the amount recognized to date of $9.9 billion because the current estimate does not reflect business economic loss claims not yet received, or received but not yet processed, or processed but not yet paid, except where an eligibility notice had been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility.

The provision recognized for litigation and claims includes an estimate for State and Local Claims. Although the provision recognized is BP s current reliable best estimate of the amount required to settle these obligations, significant uncertainty exists in relation to the outcome of any litigation proceedings and the amount of claims that will become payable by BP.

Significant uncertainties exist in relation to the amount of claims that are to be paid and will become payable, including claims payable under the DHCSSP and State and Local Claims. There is significant uncertainty in relation to the amounts that ultimately will be paid in relation to current claims, and the number, type and amounts payable for claims not yet reported as described above and in Legal proceedings on page 228 and the outcomes of any further litigation including in relation to potential opt-outs from the PSC settlement or otherwise. There is also uncertainty as to the cost of administering the claims process under the DHCSSP and in relation to future legal costs.

See Legal proceedings on page 228 and Contingent liabilities below for further details.

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2. Significant event Gulf of Mexico oil spill continued

Clean Water Act penalties

A provision of $3,510 million was recognized in 2010 for estimated civil penalties under Section 311 of the Clean Water Act. At the time the provision for the Clean Water Act penalty was made, the number of barrels of oil spilled was determined by using the mid-point (47,500 barrels per day) of the range of estimates (35,000 to 60,000 barrels per day) from the intra-agency Flow Rate Technical Group created by the National Incident Commander in charge of the spill response. The initial estimate of 3.2 million barrels was calculated using a total flow of 47,500 barrels per day multiplied by the 85 days from 22 April 2010 to 15 July 2010 less an estimate of the amount captured on the surface (approximately 850,000 barrels). This estimated discharge volume was then multiplied by $1,100 per barrel the maximum amount the statute allows in the absence of gross negligence or wilful misconduct for the purposes of estimating a potential penalty. This resulted in a provision of $3,510 million for potential penalties under Section 311.

The estimates of cumulative discharge presented by experts testifying in the Phase 2 trial varied significantly. In January 2015, the district court issued its decision in the Phase 2 trial that 3.19 million barrels of oil were discharged into the Gulf of Mexico and therefore subject to a Clean Water Act penalty. This amount is consistent with the number of barrels BP has used to calculate the provision. In addition, the district court found that BP was not grossly negligent in its source control efforts. BP and other parties to the proceedings have filed notices of appeal of the Phase 2 ruling and therefore the findings from the Phase 2 trial remain subject to uncertainty.

In September 2014, the district court issued its decision in the Phase 1 trial that the discharge of oil was the result of the gross negligence and wilful misconduct of BP Exploration & Production Inc. (BPXP) and that BPXP is therefore subject to enhanced civil penalties. The statutory maximum penalty is up to $4,300 per barrel of oil discharged where gross negligence or wilful misconduct is proven. BP does not believe that the evidence at trial supports a finding of gross negligence and wilful misconduct and in December 2014 filed notice of appeal of the Phase 1 ruling.

As a result of the September 2014 district court ruling that the discharge of oil was the result of BP s gross negligence and wilful misconduct, the Clean Water Act penalty obligation is not considered to be reliably measurable and it is therefore no longer possible to determine a best estimate of the Clean Water Act penalty provision. Under IFRS, a provision is reversed when it is no longer probable that an outflow of resources will be required to settle the obligation. With regard to the Clean Water Act penalty obligation, it continues to be probable that there will be an outflow of resources and therefore, in the absence of the ability to identify the best estimate of the liability, the previously recognized provision of $3,510 million has been maintained. Note 1 Provisions, contingencies and reimbursement assets identifies the significant accounting estimates and judgements made in relation to the Clean Water Act provision.

BP continues to believe that a provision of $3,510 million represents a reliable estimate of the amount of the liability if the appeal is successful. If BP is unsuccessful in its appeal, and the ruling of gross negligence and wilful misconduct is upheld, the maximum penalty that could be imposed is up to $4,300 per barrel. Based upon this penalty rate and the district court s ruling on the number of barrels spilled, which, as noted above is also subject to appeal, the maximum penalty could be up to $13.7 billion.

However, in assessing the amount of the penalty, the court is directed to consider the following statutory penalty factors: the seriousness of the violation or violations, the economic benefit to the violator, if any, resulting from the violation, the degree of culpability involved, any other penalty for the same incident, any history of prior violations, the nature, extent, and degree of success of any efforts of the violator to minimize or mitigate the effects of the discharge, the economic impact of the penalty on the violator, and any other matters as justice may require . The court has wide discretion in deciding how to apply these factors to determine the penalty and what weighting to ascribe to different factors. BP is therefore unable to ascribe probabilities to possible outcomes within the range of potential penalties and cannot determine a reliable estimate for any additional penalty which might apply should the gross negligence finding be upheld. The trial phase to determine the amount of the Clean Water Act penalty commenced on 20 January 2015.

The amount that may become payable by BP is subject to a very high level of uncertainty since it will depend on the outcome of BP s appeals as well as what is determined by the district court with respect to the application of statutory penalty factors as noted above. The court has wide discretion in the application of statutory penalty factors. The timing of any payment is also uncertain.

Given the significant uncertainty, the very wide range of possible outcomes if BP is unsuccessful in this appeal of the September ruling, and the inability to ascribe probabilities to possible outcomes within the range, management is not able to estimate reliably any further liability for the Clean Water Act penalty arising in the event that BP is not successful in its appeal. A contingent liability is therefore disclosed. See Contingent liabilities below for further information.

Provision movements

The total amount recognized as an increase in provisions during the year was $1,327 million. After deducting amounts utilized during the year totalling $2,071 million, including payments from the trust fund of $1,681 million and payments made directly by BP of $390 million (2013 $3,777 million, including payments from the trust fund of $3,051 million and payments made directly by BP of $726 million), and after adjustments for discounting, the remaining provision as at 31 December 2014 was $8,605 million (2013 $9,346 million).

The total amounts that will ultimately be paid by BP for 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, significant uncertainty exists in relation to the amount of claims that will become payable by BP, the amount of fines that will ultimately be levied on BP, the outcome of litigation and arbitration proceedings, and any costs arising from any longer-term environmental consequences of the oil spill, which will also impact upon the ultimate cost for BP. The amount and timing of any amounts payable could also be impacted by any further settlements which may or may not occur. Although the provision recognized is the current best reliable 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.

Contingent liabilities

BP has provided for its best estimate of amounts expected to be paid that can be measured reliably. It is not possible, at this time, to measure reliably other obligations arising from the incident, nor is it practicable to estimate their magnitude or possible timing of payment. Therefore, no amounts have been provided for these obligations as at 31 December 2014.

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2. Significant event Gulf of Mexico oil spill continued

Natural resource damage claims

As described above in Provisions, a provision has been made for natural resource damage assessment and early restoration projects under the $1-billion framework agreement. Natural resource damages resulting from the oil spill are currently being assessed. BP and the federal and state trustees are collecting extensive data in order to assess the extent of damage to wildlife, shoreline, near shore and deepwater habitats, and recreational uses, among other things. The study data will inform an assessment of injury to the Gulf Coast natural resources and the development of a restoration plan to address the identified injuries.

Detailed analysis and interpretation continue on the data that have been collected. Any early restoration projects undertaken pursuant to the $1-billion framework agreement could mitigate the total damages resulting from the incident. Accordingly, 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 damage claims and associated legal costs, therefore no such amounts have been provided as at 31 December 2014.

Business economic loss claims under the PSC settlement

BP identified multiple business economic loss claim determinations under the PSC settlement that appeared to result from an interpretation of the EPD Settlement Agreement by the claims administrator that BP believes was incorrect. The potential cost of business economic loss claims not yet received, processed and paid (except where an eligibility notice had been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility) is not provided for and is disclosed as a contingent liability. A significant number of business economic loss claims have been received but have not yet been processed and paid and further claims are likely to be received. See Provisions above for further information.

State and Local claims

As described above in Provisions, a provision has been made for State and Local claims that can be measured reliably. The States of Alabama, Mississippi, Florida, Louisiana and Texas submitted or asserted claims to BP under OPA 90 for alleged losses including economic losses and property damage as a result of the Gulf of Mexico oil spill. The amounts claimed, certain of which include punitive damages or other multipliers, are very substantial. However, BP considers these claims unsubstantiated and the methodologies used to calculate these claims to be seriously flawed, not supported by OPA 90, not supported by documentation, and to substantially overstate the claims. Similar claims have also been submitted by various local government entities and a foreign government under OPA 90. The amounts alleged in the submissions for these State and Local Claims total approximately $35 billion. BP will defend vigorously against these claims if adjudicated at trial; the timing of any outflow of resources in relation to State and Local claims is dependent on the timing of the court process in relation to these claims.

Clean Water Act penalties

A provision has been maintained for BP s obligation under the Clean Water Act, as described above in Provisions. Any obligation in relation to any further liability for the Clean Water Act penalty arising in the event that BP is not successful in its appeal of the Phase 1 ruling is disclosed as a contingent liability. The trial phase to determine the amount of the Clean Water Act penalty commenced in January 2015 and post-trial briefing is scheduled to complete in April 2015. BP does not know when the district court will rule on the Penalty Phase of the trial and so the timing of any payment continues to be uncertain.

Securities-related litigation

Proceedings relating to securities class actions (MDL 2185) pending in federal court in Texas, including a purported class action on behalf of purchasers of American Depositary Shares under US federal securities law, are continuing. A jury trial is scheduled to begin in January 2016 and the timing of any outflow of resources, if any, is dependent on the duration of the court process. No reliable estimate can be made of the amounts that may be payable in relation to these proceedings, if any, so no provision has been recognized at 31 December 2014. In addition, no reliable estimate can be made of the amounts that may be payable in relation to any other securities litigation, if any, so no provision has been recognized at 31 December 2014.

Other litigation

In addition to the State and Local claims and securities class actions described above, BP is named as a defendant in approximately 3,000 other civil lawsuits brought by individuals, corporations and government entities in US federal and state courts, as well as certain non-US jurisdictions, resulting from the Deepwater Horizon accident, the Gulf of Mexico oil spill, and the spill response efforts. Further actions are likely to be brought. Among other claims, these lawsuits assert claims for personal injury or wrongful death in connection with the accident and the spill response, commercial and economic injury, damage to real and personal property, breach of contract and violations of statutes, including, but not limited to, alleged violations of US securities and environmental statutes. In addition, claims have been received, primarily from business claimants, under OPA 90 in relation to the 2010 federal deepwater drilling moratoria. Until further fact and expert disclosures occur, court rulings clarify the issues in dispute, liability and damage trial activity nears or progresses, or other actions such as further possible settlements occur, it is not possible given these uncertainties to arrive at a range of outcomes or a reliable estimate of the liabilities that may accrue to BP in connection with or as a result of these lawsuits, nor it is possible to determine the timing of any payment that may arise. Therefore no amounts have been provided for these items as at 31 December 2014.

It is not possible to measure reliably any obligation in relation to other litigation or potential fines and penalties. There are a number of federal and state environmental and other provisions of law, other than the Clean Water Act, under which one or more governmental agencies could seek civil fines and penalties from BP. For example, a complaint filed by the United States sought to reserve the ability to seek penalties and other relief under a number of other laws. Given the unsubstantiated nature of certain claims that may be asserted, it is not possible at this time to determine whether and to what extent any such claims would be successful or what penalties or fines would be assessed. Therefore no amounts have been provided for these items.

Settlement and other agreements

Under the settlement agreements with Anadarko and MOEX, and with Cameron International, the designer and manufacturer of the Deepwater Horizon blowout preventer, BP has agreed to indemnify Anadarko, MOEX and Cameron for certain claims arising from the accident. It is therefore possible that BP may face claims under these indemnities, but it is not currently possible to reliably measure, nor identify the timing of, any obligation in relation to such claims and therefore no amount has been provided as at 31 December 2014. There are also agreements indemnifying certain third-party contractors in relation to litigation costs and certain other claims. A contingent liability is also disclosed in relation to other obligations under these agreements.

The magnitude and timing of all possible obligations in relation to the Gulf of Mexico oil spill continue to be subject to a very high degree of uncertainty as described further in Risk factors on page 48. 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.

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2. Significant event Gulf of Mexico oil spill continued

Impact upon the group income statement

The amount of the provision recognized during the year can be reconciled to the charge to the income statement as follows:

				$ million
	2014	2013	2012	Cumulative since the incident
Net increase in provision	**1,327**	1,860	6,074	44,705
Change in discount rate relating to provisions	**2**	(5)		19
Costs charged directly to the income statement	**114**	136	257	4,358
Trust fund liability discounted				19,580
Change in discounting relating to trust fund liability				283
Recognition of reimbursement asset, net	**(662)**	(1,542)	(1,191)	(20,000)
Settlements credited to the income statement		(19)	(145)	(5,681)
(Profit) loss before interest and taxation	**781**	430	4,995	43,264
Finance costs	**38**	39	19	231
(Profit) loss before taxation	**819**	469	5,014	43,495

The group income statement for 2014 includes a pre-tax charge of $819 million (2013 pre-tax charge of $469 million) in relation to the Gulf of Mexico oil spill. The costs charged in 2014 relate primarily to the ongoing costs of operating the Gulf Coast Restoration Organization (GCRO) and increases in the provisions for natural resource damage assessment, business economic loss claims, claims administration costs, legal and litigation costs. Finance costs of $38 million (2013 $39 million) reflect the unwinding of the discount on payables and provisions. The cumulative amount charged to the income statement to date comprises spill response costs arising in the aftermath of the incident, GCRO operating costs, amounts charged upon initial recognition of the trust obligation, litigation, claims, environmental and legal costs not paid through the Trust and estimated obligations for future costs that can be estimated reliably at this time, net of settlements agreed with the co-owners of the Macondo well and other third parties.

The total amount recognized in the income statement is analysed in the table below.

				$ million
	2014	2013	2012	Cumulative since the incident
Trust fund liability discounted				19,580
Change in discounting relating to trust fund liability				283
Recognition of reimbursement asset, net	**(662)**	(1,542)	(1,191)	(20,000)
Other				8
Total (credit) charge relating to the trust fund	**(662)**	(1,542)	(1,191)	(129)
Environmental amount provided	**190**	47	801	3,134
change in discount rate relating to provisions	**2**	(5)		19
costs charged directly to the income statement				70
Total (credit) charge relating to environmental	**192**	42	801	3,223

Spill response amount provided		(113)	109	11,465
costs charged directly to the income statement			9	2,839
Total (credit) charge relating to spill response		(113)	118	14,304
Litigation and claims amount provided, net of provision derecognized	**1,137**	1,926	5,164	26,596
costs charged directly to the income statement				184
Total charge relating to litigation and claims				