

BP P.L.C. ANNUAL FINANCIAL REPORT – DTR 6.3.5 DISCLOSURE

APPENDIX A – AUDIT REPORTS

The Preliminary Announcement includes a condensed set of financial statements. Audited financial statements for 2012 are contained in the BP Annual Report and Form 20-F 2012. The Independent Auditor's Report on the consolidated financial statements is set out in full on page 179 of the BP Annual Report and Form 20-F 2012 and the Independent Auditor's Report on the parent company financial statements is set out in full on page PC1 of the BP Annual Report and Form 20-F 2012. Both the Independent Auditor's Report on the consolidated financial statements and the report on the parent company financial statements note that the total amounts that will ultimately be paid by BP in relation to all obligations relating to the Gulf of Mexico oil spill are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors, including any determination of BP's culpability based on any findings of negligence, gross negligence or wilful misconduct. Actual costs could ultimately be significantly higher or lower than those recorded in relation to all obligations relating to the oil spill. However, both audit reports are unqualified and do not contain any statements under section 498(2) or section 498(3) of the Companies Act 2006.

APPENDIX B – DIRECTORS' RESPONSIBILITY STATEMENT

The following statement is extracted from page 178 of the BP Annual Report and Form 20-F 2012. This statement relates solely to the BP Annual Report and Form 20-F 2012 and is not connected to the extracted information set out in this announcement or the Preliminary Announcement.

The directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with IFRS as issued by the IASB, IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group;
- The parent company financial statements, prepared in accordance with United Kingdom generally accepted accounting practice, give a true and fair view of the assets, liabilities, financial position, performance and cash flows of the company; and
- The management report, which is incorporated in the directors' report, includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties.

APPENDIX C – RISKS AND UNCERTAINTIES

The principal risks and uncertainties relating to the Company are set out at pages 38 to 44 of the BP Annual Report and Form 20-F 2012. The following is extracted in full and unedited text from the BP Annual Report and Form 20-F 2012:

Risk factors

We urge you to consider carefully the risks described below. The potential impact of the occurrence, or reoccurrence, of any of the risks described below could have a material adverse effect on BP's business, financial position, results of operations, competitive position, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda.

The risks are categorized against the following areas: strategic and commercial; compliance and control; and safety and operational. In addition, we have also set out one further risk for your attention – those resulting from the 2010 Gulf of Mexico oil spill (the Incident).

The Gulf of Mexico oil spill has had and could continue to have a material adverse impact on BP.

While significant charges have been recognized in the income statement since the Incident occurred in 2010, there is significant uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Incident, the potential changes in applicable regulations and the operating environment that may result from the Incident, the impact of the Incident on our reputation and the resulting possible impact on our licence to operate including our ability to access new opportunities. The amount of claims that become payable by BP, the amount of fines ultimately levied on BP (including any potential determination of BP's negligence or gross negligence), the outcome of litigation, the terms of any further settlements including the amount and timing of any payments thereunder, and any costs arising from any longer-term environmental consequences of the Incident, will also impact upon the ultimate cost for BP. Although the provisions recognized represent the current best estimates of expenditures required to settle certain present obligations that can be reasonably estimated at the end of the reporting period, there are future expenditures for which it is not possible to measure our obligations reliably and the total amounts paid by BP in relation to all obligations relating to the Incident are subject to significant uncertainty. These uncertainties are likely to continue for a significant period, increase the risks to which the group is exposed and may cause our costs to increase. Thus, the Incident has had, and could continue to have, a material adverse impact on the group's business, competitive position, financial performance, cash flows, prospects, liquidity, shareholder returns and/or implementation of its strategic agenda, particularly in the US. The risks associated with the Incident could also heighten the impact of the other risks to which the group is exposed as further described below.

Strategic and commercial risks

Access and renewal – BP's future hydrocarbon production depends on our ability to renew and reposition our portfolio. Increasing competition for access to investment opportunities, the effects of the Gulf of Mexico oil spill on our reputation and cash flows, and more stringent regulation could result in decreased access to opportunities globally.

Successful execution of our group strategy depends on implementing activities to renew and reposition our portfolio. The challenges to renewal of our upstream portfolio are growing due to increasing competition for access to opportunities globally among both national and international oil companies, and heightened political and economic risks in certain countries where significant hydrocarbon basins are located. Lack of material positions could impact our future hydrocarbon production.

Moreover, the Incident has damaged BP's reputation, which may have a long-term impact on the group's ability to access new opportunities, both in the US and elsewhere. Adverse public, political, regulatory and industry sentiment towards BP, and towards oil and gas drilling activities generally, could damage or impair our existing commercial relationships with counterparties, partners and host governments and could impair our access to new investment opportunities, exploration properties, operatorships or other essential commercial arrangements with potential partners and host governments, particularly in the US.

In addition, responding to the Incident has placed, and will continue to place, a significant burden on our cash flow over the next several years, which could also impede our ability to invest in new opportunities and deliver long-term growth.

More stringent regulation of the oil and gas industry generally, and of BP's activities specifically, following the Incident, could increase this risk.

Prices and markets – BP's financial performance is subject to the fluctuating prices of crude oil and gas, the volatile prices of refined products and the profitability of our refining and petrochemicals operations, as well as the general macroeconomic outlook.

Oil, gas and product prices and margins can be very volatile, and are subject to international supply and demand. Political developments (including conflict situations) and the outcome of meetings of OPEC can particularly affect world supply and oil prices. Previous oil price increases have resulted in increased fiscal take, cost inflation and more onerous terms for access to resources. As a result, increased oil prices may not improve margin performance. In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to further reviews for impairment of the group's oil and natural gas properties. Such reviews would reflect management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the group's results of operations in the period in which it occurs. Rapid material or sustained change in oil, gas and product prices can impact the validity of the assumptions on which strategic decisions are based and, as a result, the ensuing actions derived from those decisions may no longer be appropriate. A prolonged period of low oil prices may impact our cash flow, profit and ability to maintain our long-term investment programme with a consequent effect on our growth rate, and may impact shareholder returns, including dividends and share buybacks, or share price.

Refining profitability can be volatile, with both periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand. Sectors of the petrochemicals industry are also subject to fluctuations in supply and demand, with a consequent effect on prices and profitability. Periods of global recession could impact the demand for our products, the prices at which they can be sold and affect the viability of the markets in which we operate.

Governments are facing greater pressure on public finances, which may increase their motivation to intervene in the fiscal and regulatory frameworks of the oil and gas industry, including the risk of increased taxation, nationalization and expropriation.

The global financial and economic situation may have a negative impact on third parties with whom we do, or may do, business. In particular, ongoing instability in or a collapse of the eurozone could trigger a new wave of financial crises and push the world back into recession, leading to lower demand and lower oil and gas prices.

Climate change and carbon pricing – climate change and carbon pricing policies could result in higher costs and reduction in future revenue and strategic growth opportunities.

Compliance with changes in laws, regulations and obligations relating to climate change could result in substantial capital expenditure, taxes, reduced profitability from changes in operating costs, and revenue generation and strategic growth opportunities being impacted. Our commitment to the transition to a lower-carbon economy may create expectations for our activities, and the level of participation in alternative energies carries reputational, economic and technology risks.

Socio-political – the diverse nature of our operations around the world exposes us to a wide range of political developments and consequent changes to the operating environment, regulatory environment and law.

We have operations, and are seeking new opportunities, in countries where political, economic and social transition is taking place. Some countries have experienced, or may experience in the future, political instability, changes to the regulatory environment, changes in taxation, expropriation or nationalization of property, civil strife, strikes, acts of war and insurrections. Any of these conditions occurring could disrupt or terminate our operations, causing our development activities to be curtailed or terminated in

these areas, or our production to decline, could limit our ability to pursue new opportunities, could affect the recoverability of our assets and could cause us to incur additional costs. In particular, our investments in the US, Russia, the Middle East region, North Africa, Bolivia, Argentina, Angola, Azerbaijan and other countries could be adversely affected by heightened political and economic environment risks. See [pages 6-7](#) for information on the locations of our major areas of operation and activities.

We set ourselves high standards of corporate citizenship and aspire to contribute to a better quality of life through the products and services we provide. If it is perceived that we are not respecting or advancing the economic and social progress of the communities in which we operate or that we have not satisfactorily addressed all relevant stakeholder concerns in respect of our operations, our reputation and shareholder value could be damaged and development opportunities may be precluded.

Competition – BP’s group strategy depends upon continuous innovation and efficiency in a highly competitive market.

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commerce, industry and the home. Competition puts pressure on the terms of access to new opportunities, licence costs and product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency, while ensuring safety and operational risk is not compromised. The implementation of group strategy requires continued technological advances and innovation including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage. Our performance could be impeded if competitors developed or acquired intellectual property rights to technology that we require, if our innovation lagged the industry, or if we fail to adequately protect our company brands and trade marks. Our competitive position in comparison to our peers could be adversely affected if competitors offer superior terms for access rights or licences, if we fail to control our operating costs or manage our margins, or if we fail to sustain, develop and operate efficiently a high quality portfolio of assets.

Joint ventures and other contractual arrangements – BP may not have full operational control and may have exposure to counterparty credit risk and disruptions to our operations and strategic objectives due to the nature of some of its business relationships.

Many of our major projects and operations are conducted through joint ventures or associates and through contracting and sub-contracting arrangements. These arrangements often involve complex risk allocation, decision-making processes and indemnification arrangements. In certain cases, we may have less control of such activities than we would have if BP had full operational control. Our partners may have economic or business interests or objectives that are inconsistent with, or opposed to, those of BP and may exercise veto rights to block certain key decisions or actions that BP believes are in its or the joint venture’s or associate’s best interests, or approve such matters without our consent. Additionally, our joint venture partners or associates or contractual counterparties are primarily responsible for the adequacy of the human or technical competencies and capabilities which they bring to bear on the joint project and, in the event these are found to be lacking, our joint-venture partners or associates may not be able to meet their financial or other obligations to their counterparties or to the relevant project, potentially threatening the viability of such projects. Furthermore, should accidents or incidents occur in operations in which BP participates, whether as operator or otherwise, and where it is held that our sub-contractors or joint-venture partners are legally liable to share any aspects of the cost of responding to such incidents, the financial capacity of these third parties may prove inadequate to fully indemnify BP against the costs we incur on behalf of the joint venture or contractual arrangement. Should a key sub-contractor, such as a lessor of drilling rigs, be no longer able to make these assets available to BP, this could result in serious disruption to our operations. Where BP does not have operational control of a venture, BP may nonetheless still be pursued by regulators or claimants in the event of an incident.

Rosneft transaction – BP’s failure to complete the agreed transaction with Rosneft, or any future erosion of our relationship with Rosneft, could adversely impact our business, the level of our reserves and our reputation.

On 22 November 2012, BP announced that it had signed definitive and binding agreements in respect of the sale of BP's 50% interest in TNK-BP to Rosneft and BP's investment in Rosneft (the Rosneft transaction). See TNK-BP on [pages 80-81](#). Completion of the Rosneft transaction is subject to certain customary closing conditions, including governmental, regulatory and anti-trust approvals. Failure by BP to complete the Rosneft transaction as contemplated due to the failure to receive required approvals or otherwise could negatively impact our reputation and result in a loss of stakeholder confidence in BP's ability to meet its identified strategic objectives in Russia. In addition, to the extent we fail to maintain a good commercial relationship with Rosneft in the future, or to the extent that as a minority shareholder in Rosneft we are unable in the future to exercise influence over our investment in Rosneft or other growth opportunities in Russia, our business and strategic objectives in Russia and our ability to recognize our share of Rosneft's reserves as contemplated may be adversely impacted.

Investment efficiency – poor investment decisions could negatively impact our business.

Our organic growth is dependent on creating a portfolio of quality options and investing in the best options. Ineffective investment selection and/or subsequent execution could lead to loss of value and higher capital expenditure.

Reserves progression – inability to progress upstream resources in a timely manner could adversely affect our long-term replacement of reserves and negatively impact our business.

Successful execution of our group strategy depends critically on sustaining long-term reserves replacement. If upstream resources are not progressed in a timely and efficient manner due to commercial, technical or regulatory reasons or otherwise, we will be unable to sustain long-term replacement of reserves.

Major project delivery – our group plan depends upon successful delivery of major projects, and failure to deliver major projects successfully could adversely affect our financial performance.

Successful execution of our group plan depends critically on implementing the activities to deliver the major projects over the plan period. Poor delivery of any major project that underpins production or production growth and/or any other major programme designed to enhance shareholder value, including maintenance turnaround programmes, could adversely affect our financial performance. Successful project delivery requires, among other things, adequate engineering and other capabilities and therefore successful recruitment and development of staff is central to our plans. See People and capability on [page 40](#).

Digital infrastructure is an important part of maintaining our operations, and a breach of our digital security could result in serious damage to business operations, personal injury, damage to assets, harm to the environment, reputational damage, breaches of regulations, litigation, legal liabilities and reparation costs.

The reliability and security of our digital infrastructure are critical to maintaining the availability of our business applications, including the reliable operation of technology in our various business operations and the collection and processing of financial and operational data, as well as the confidentiality of certain third-party information. A breach of our digital security, either due to intentional actions or due to negligence, could cause serious damage to business operations and, in some circumstances, could result in the loss of data or sensitive information, injury to people, damage to assets, harm to the environment, reputational damage, breaches of regulations, litigation, legal liabilities and reparation costs.

Business continuity and disaster recovery – the group must be able to recover quickly and effectively from any disruption or incident, as failure to do so could adversely affect our business and operations.

Contingency plans are required to continue or recover operations following a disruption or incident. Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect our business and operations.

Crisis management – crisis management plans are essential to respond effectively to emergencies and to avoid a potentially severe disruption in our business and operations.

Crisis management plans and capability are essential to deal with emergencies at every level of our operations. If we do not respond, or are perceived not to respond, in an appropriate manner to either an external or internal crisis, our business and operations could be severely disrupted.

People and capability – successful recruitment, development and utilization of staff is central to our plans.

Successful recruitment of new staff, employee training, development and continuing enhancement of skills, in particular technical capabilities such as petroleum engineers and scientists, are key to implementing our plans. Inability to develop human capacity and capability, both across the organization and in specific operating locations, could jeopardize performance delivery. The group relies on recruiting and retaining high-quality employees to execute its strategic plans and to operate its business. The reputational damage suffered by the group as a result of the Incident and any consequent adverse impact on our business could affect employee recruitment and retention.

In addition, significant board and management focus continues to be required in responding to matters related to the Incident. Although BP set up the Gulf Coast Restoration Organization to manage the group's long-term response, other key management personnel will need to continue to devote substantial attention to addressing the associated consequences for the group, which may negatively impact our staff's capability to address and respond to other operational matters affecting the group but unrelated to the Incident.

Liquidity, financial capacity and financial, including credit, exposure – failure to operate within our financial framework could impact our ability to operate and result in financial loss. Exchange rate fluctuations can impact our underlying costs and revenues.

The group seeks to maintain a financial framework to ensure that it is able to maintain an appropriate level of liquidity and financial capacity. This framework constrains the level of assessed capital at risk for the purposes of positions taken in financial instruments. Failure to accurately forecast or maintain sufficient liquidity and credit to meet these needs (including a failure to understand and respond to potential liabilities) could impact our ability to operate and result in a financial loss. Commercial credit risk is measured and controlled to determine the group's total credit risk. Inability to determine adequately our credit exposure could lead to financial loss. Trade and other receivables, including overdue receivables, may not be recovered whether an impairment provision has been recognized or not. A credit crisis affecting banks and other sectors of the economy could impact the ability of counterparties to meet their financial obligations to the group. It could also affect our ability to raise capital to fund growth, to maintain our long-term investment programme and to meet our obligations, and may impact shareholder returns, including dividends and share buybacks, or share price. Decreases in the funded levels of our pension plans may also increase our pension funding requirements. The group's financial framework may not be sufficient to respond to a substantial and unexpected cash call or funding request, and external events may materially impact the effectiveness of the group's financial framework. In addition, operational challenges could impact the availability of the group's assets, which could adversely affect the group's operating cash flows.

BP's potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Gulf of Mexico oil spill, together with the potential cost of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had, and could continue to have, a material adverse impact on the group's financial performance and liquidity. Further potential liabilities may continue to have a material adverse effect on the group's results of operations and financial condition. See Financial statements – Note 43 on [page 253](#) and Legal proceedings on [pages 162-171](#). More stringent regulation of the oil and gas industry arising from the Incident, and of BP's activities specifically, could increase this risk.

Crude oil prices are generally set in US dollars, while sales of refined products may be in a variety of currencies. In addition, a high proportion of our major project development costs are denominated in local

currencies, which may be subject to volatile fluctuations against the US dollar. Fluctuations in exchange rates can therefore give rise to foreign exchange exposures, with a consequent impact on underlying costs and revenues. See Prices and markets on [page 38](#).

See Financial statements – Note 26 on [page 218](#) for more information on financial instruments and financial risk factors.

Insurance – BP’s insurance strategy means that the group could, from time to time, be exposed to material uninsured losses which could have a material adverse effect on BP’s financial condition and results of operations.

In the context of the limited capacity of the insurance market, many significant risks are retained by BP. The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This means that the group could be exposed to material uninsured losses, which could have a material adverse effect on its financial condition and results of operations. In particular, these uninsured costs could arise at a time when BP is facing material costs arising out of some other event which could put pressure on BP’s liquidity and cash flows. For example, BP has borne and will continue to bear the entire burden of its share of any property damage, well control, pollution clean-up and third-party liability expenses arising out of the Gulf of Mexico oil spill.

Compliance and control risks

Our settlement with the US Department of Justice and the SEC in respect of federal criminal charges and US securities law violations related to the Gulf of Mexico oil spill may expose us to further penalties, liabilities and private litigation, and may impact our operations and adversely affect our ability to quickly and efficiently access US capital markets.

On 15 November 2012, BP reached an agreement with the US government to resolve all federal criminal and securities claims arising out of the Incident and comprising settlements with the US Department of Justice (DoJ) and the SEC. On 29 January 2013, the US District Court for the Eastern District of Louisiana accepted BP’s pleas regarding the federal criminal charges, and sentenced BP in accordance with the criminal plea agreement. BP pleaded guilty to 11 felony counts of Misconduct or Neglect of Ships Officers relating to the loss of 11 lives; one misdemeanour count under the Clean Water Act; one misdemeanour count under the Migratory Bird Treaty Act; and one felony count of obstruction of Congress. Pursuant to that sentence, BP will pay \$4 billion, including \$1.256 billion in criminal fines, in instalments over a period of five years. The court also ordered, as previously agreed with the US government, that BP serve a term of five years’ probation. Pursuant to the terms of the plea agreement, the court also ordered certain equitable relief, including additional actions, enforceable by the court, to further enhance the safety of drilling operations in the Gulf of Mexico. In addition, BP will undertake several initiatives with academia and regulators to develop new technologies related to deepwater drilling safety. The resolution also provides for the appointment of two monitors, both with terms of four years. A process safety monitor will review, evaluate, and provide recommendations for the improvement of BP’s process safety and risk management procedures concerning deepwater drilling in the Gulf of Mexico. An ethics monitor will review and provide recommendations for the improvement of BP’s code of conduct and its implementation and enforcement. BP has also agreed to hire an independent third-party auditor who will review and report to the probation officer, the DoJ, and BP regarding BP’s implementation of key terms of the proposed settlement, including procedures and systems related to safety and environmental management, operational oversight, and oil spill response training and drills. Under the plea agreement, BP has also agreed to co-operate in ongoing criminal actions and investigations, including prosecutions of four former employees who have been separately charged.

Also on 15 November 2012, BP reached a settlement with the SEC to resolve the SEC’s Deepwater Horizon-related claims against the company under Sections 10(b) and 13(a) of the Securities Exchange Act of 1934 and the associated rules. Under the SEC settlement, BP has agreed to a civil penalty of \$525 million, payable in three instalments over a period of three years, and has consented to the entry of an injunction prohibiting it from violating certain US securities laws and regulations. The SEC settlement was

approved by the US District Court for the Eastern District of Louisiana on 10 December 2012. See Legal proceedings on [pages 162-171](#).

On 28 November 2012, the US Environmental Protection Agency (EPA) notified BP that it had temporarily suspended BP p.l.c., BP Exploration & Production Inc. (BPXP) and a number of other BP subsidiaries from participating in new federal contracts. As a result of the temporary suspension, the BP entities listed in the EPA notice are ineligible to receive any US government contracts either through the award of a new contract, or the extension of the term or renewal of an expiring contract. The suspension does not affect existing contracts the company has with the US government, including those relating to current and ongoing drilling and production operations in the Gulf of Mexico.

The charges to which BPXP pleaded guilty included one misdemeanour count under the Clean Water Act which, by operation of law following the court's acceptance of BP's plea, triggers a statutory debarment, also referred to as mandatory debarment, of the BPXP facility where the Clean Water Act violation occurred.

On 1 February 2013, the EPA issued a notice that BPXP was mandatorily debarred at its Houston headquarters. Mandatory debarment prevents a company from entering into new contracts or new leases with the US government that would be performed at the facility where the Clean Water Act violation occurred. A mandatory debarment does not affect any existing contracts or leases a company has with the US government and will remain in place until such time as the debarment is lifted through an agreement with the EPA.

With respect to the entities named in the temporary suspension, the temporary suspension may be maintained or the EPA may elect to issue a notice of proposed discretionary debarment to some or all of the named entities. Like suspension, a discretionary debarment would preclude BP entities listed in the notice from receiving new federal fuel contracts, as well as new oil and gas leases, although existing contracts and leases will continue. Discretionary debarment typically lasts three to five years and may be imposed for a longer period, unless it is resolved through an administrative agreement.

While BP's discussions with the EPA have been taking place in parallel to the court proceedings on the criminal plea, the company's work toward reaching an administrative agreement with the EPA is a separate process, and it may take some time to resolve issues relating to such an agreement. BP's mandatory debarment applies following sentencing and is not an indication of any change in the status of discussions with the EPA. The process for resolving both mandatory and discretionary debarment is essentially the same as for resolving the temporary suspension. BP continues to work with the EPA in preparing an administrative agreement that will resolve suspension and debarment issues.

The DoJ criminal and SEC settlements impose significant compliance and remedial obligations on BP and its directors, officers and employees. Failure to comply with the terms of these settlements could result in further enforcement action by the DoJ and the SEC, expose BP to severe penalties, financial or otherwise, and subject BP to further private litigation, each of which could impact our operations and have a material adverse effect on the group's business. Prolonged suspension or debarment from entering new federal contracts, or further suspension or debarment proceedings against BP and/or its subsidiaries as a result of violations of the terms of the DoJ or SEC settlements or otherwise, could have a material adverse impact on the group's operations in the US.

As a result of the SEC settlement, as of the filing with the SEC of certain registration statements on Form S-8 on 5 February 2013, and for a period of three years thereafter, we will no longer be qualified as a 'well known seasoned issuer' (WKSI) as defined in Rule 405 of the Securities Act of 1933, as amended (Securities Act), and therefore will not be able to take advantage of the benefits available to a WKSI, including engaging in delayed or continuous offerings of securities using an automatic shelf registration statement. In addition, as of the settlement date and for a period of five years thereafter, we are no longer able to utilize certain registration exemptions provided by the Securities Act in connection with certain securities offerings. In addition, we may be denied certain trading authorizations under the rules of the US Commodities Futures Trading Commission, which may prevent us in the future from entering certain routine swap transactions for an indefinite period of time.

Regulatory – BP, and the oil industry in general, face increased regulation in the US and elsewhere that could increase the cost of regulatory compliance and limit our access to new exploration properties.

Due to the Gulf of Mexico oil spill and any remedial provisions contained in or resulting from the DoJ and SEC settlements (see Legal proceedings on [pages 162-169](#)), it is likely that there will be more stringent regulation of BP's oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new drilling areas. Regulatory or legislative action may impact the industry as a whole and could be directed specifically towards BP. New regulations and legislation, the terms of BP's settlements with US government authorities and future settlements or litigation outcomes related to the Incident, and/or evolving practices could increase the cost of compliance and may require changes to our drilling operations, exploration, development and decommissioning plans, and could impact our ability to capitalize on our assets and limit our access to new exploration properties or operatorships, particularly in the deepwater Gulf of Mexico. In addition, increases in taxes, royalties and other amounts payable to governments or governmental agencies, or restrictions on availability of tax relief, could also be imposed as a response to the Incident.

In addition, the oil industry in general is subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interests, the imposition of specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field (including restrictions on production) and, possibly, nationalization, expropriation, cancellation or non-renewal of contract rights.

We buy, sell and trade oil and gas products in certain regulated commodity markets. Failure to respond to changes in trading regulations could result in regulatory action and damage to our reputation. The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law. As a result of new laws and regulations or other factors, we could be required to curtail or cease certain operations, or we could incur additional costs. See [pages 51-54](#) for more information on environmental regulation.

Ethical misconduct and non-compliance – ethical misconduct or breaches of applicable laws by our employees could be damaging to our reputation and shareholder value.

Our code of conduct, which applies to all employees, defines our commitment to integrity, compliance with all applicable legal requirements, diversity, high ethical standards and the behaviours and actions we expect of our businesses and people wherever we operate. Our values are intended to guide the way we and our employees behave and do business. Under the terms of the DoJ settlement (see [pages 40-41](#)), an ethics monitor will review and provide recommendations for the improvement of our code of conduct and its implementation and enforcement. Incidents of ethical misconduct, non-compliance with the recommendations of the ethics monitor or non-compliance with applicable laws and regulations, including non-compliance with anti-bribery, anti-corruption and other applicable laws could be damaging to our reputation and shareholder value and could subject us to further regulatory action or penalties under the terms of the DoJ settlement. Multiple events of non-compliance could call into question the integrity of our operations. For example, in our trading businesses, there is the risk that a determined individual could operate as a 'rogue trader', acting outside BP's delegations, controls or code of conduct and in contravention of our values in pursuit of personal objectives that could be to the detriment of BP and its shareholders.

For certain legal proceedings involving the group, see Legal proceedings on [pages 162-171](#). For further information on the risks involved in BP's trading activities, see Treasury and trading activities on [page 43](#).

Liabilities and provisions – BP's potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Gulf of Mexico oil spill, together with the potential cost and burdens of implementing remedies sought in the various proceedings, cannot be fully estimated at this time but they have had, and are expected to continue to have, a material adverse impact on the group's business.

Under the Oil Pollution Act of 1990 (OPA 90), BP Exploration & Production Inc. and BP Corporation North America are among the parties financially responsible for the clean-up of the Gulf of Mexico oil spill and for certain economic damages as provided for in OPA 90, as well as certain natural resource damages associated with the spill and certain costs determined by federal and state trustees engaged in a joint assessment of such natural resource damages.

BP and certain of its subsidiaries have also been named as defendants in numerous lawsuits in the US arising out of the Incident, including actions for personal injury and wrongful death, purported class actions for commercial or economic injury, actions for breach of contract, violations of statutes, property and other environmental damage, securities law claims and various other claims. See Legal proceedings on [pages 162-169](#).

BP is subject to a number of investigations related to the Incident by numerous federal and State agencies. See Legal proceedings on [pages 162-169](#). The types of enforcement action pursued and the nature of the remedies sought will depend on the discretion of the prosecutors and regulatory authorities and, in some circumstances, their assessment of BP's culpability, if any, following their investigations. Under the Clean Water Act, any finding of gross negligence for purposes of penalties sought against BP would result in significantly higher fines and penalties than the amounts for which we have provided and would also have a material adverse impact on the group's reputation, would affect our ability to recover costs relating to the Incident from other parties responsible under OPA 90 and could affect the fines and penalties payable by BP with respect to the Incident under enforcement actions outside the Clean Water Act context.

On 3 March 2012, BP reached an agreement (comprising two separate settlement agreements) with the Plaintiffs' Steering Committee (PSC) in the Multi-District Litigation pending in New Orleans (MDL 2179) to resolve the substantial majority of legitimate private economic and property damages claims and medical benefits claims stemming from the Incident. The settlement agreement in respect of economic and property damages claims was approved by the Court on 21 December 2012, and the settlement agreement in respect of medical benefits claims was approved on 11 January 2013. The PSC settlement is uncapped except for economic loss claims related to the Gulf seafood industry. The cost of the PSC settlement is expected to be paid from the \$20-billion Deepwater Horizon Oil Spill Trust fund (Trust). As at 31 December 2011, the estimate of items covered by the settlement with the PSC for Individual and Business claims was \$7.8 billion. During 2012, BP increased its estimate of the cost of claims administration by \$280 million and also increased the estimate by a further \$400 million as described below.

Business economic loss claims received by the Deepwater Horizon Court Supervised Settlement Program (DHCSSP) to date are being paid at a significantly higher average amount than previously assumed by BP in formulating the original estimate of the cost. Further, BP's initial estimate of aggregate liability under the settlement agreements was premised on BP's interpretation of certain protocols established in the economic and property damages settlement agreement. As part of its monitoring of payments made by the court-supervised claims processes operated by the DHCSSP for the economic and property damages settlement, BP identified multiple claim determinations that appeared to result from an interpretation of the settlement agreement by that settlement's claims administrator that BP believes was incorrect. This interpretation produced a higher number and value of awards than the interpretation BP assumed in making the initial estimate. Pursuant to the mechanisms in that settlement agreement, the claims administrator sought clarification from the court on this matter and on 30 January 2013, the court initially upheld the claims administrator's interpretation of the agreement.

In its unaudited fourth quarter and full year 2012 results announcement dated 5 February 2013, BP stated that if the initial trend of higher average payments than assumed by BP in its original estimate of the cost continued, then it was likely that BP's estimate of these claims would be increased significantly. Management's initial assessment of the ruling regarding the interpretation of the settlement agreement led to an increase in the estimated cost of the settlement with the PSC of \$400 million, bringing the total estimated cost to \$8.5 billion. This estimate was based upon management's initial assessment of the ruling's impact on claims already submitted to and processed by the DHCSSP. At that time, BP was seeking reversal

of the court's decision in relation to this matter, management concluded that it was not possible to estimate reliably the impact of the interpretation on any future claims not yet received or processed by the DHCSSP.

On 6 February 2013, the court reconsidered and vacated its ruling of 30 January 2013 and stayed the processing of certain types of business economic loss claims. The court lifted the stay on 28 February 2013. On 5 March 2013, the court affirmed the claims administrator's interpretation of the economic and property damages settlement agreement and rejected BP's position as it relates to business economic loss claims. BP strongly disagrees with the decision of 5 March 2013 and the current implementation of the agreement by the claims administrator. BP intends to pursue all available legal options, including rights of appeal, to challenge this ruling.

Other business economic loss claims have continued to be paid at a higher average amount than previously assumed by BP in determining its initial estimate of the total cost. Management has continued to analyse the claims in the period since 5 February 2013 to gain a better understanding of whether or not the number and average value of claims received and processed to date are predictive of future claims (and so would allow management to estimate the total cost of the Settlements reliably). Management has concluded based upon this analysis that it is not possible to determine whether the claims experience to date is, or is not, an appropriate basis for determining the total cost. Therefore, given the inherent uncertainty that exists as BP pursues all available legal options to challenge the recent ruling and the higher number of claims received and higher average claims payments than previously assumed by BP, which may or may not continue, management has concluded that no reliable estimate can be made of any business economic loss claims not yet received or processed by the DHCSSP.

Therefore, BP's estimate of the cost of business economic loss claims at 31 December 2012 now includes only the estimated cost of claims already received and processed by the DHCSSP. An amount of \$0.8 billion previously provided for future claims not yet received and processed by the DHCSSP has been derecognized, with a corresponding reduction in the reimbursement asset and therefore no net impact on the income statement, as no reliable estimate can be made for this liability. It is therefore disclosed as a contingent liability in Note 43. A provision will be re-established when a reliable estimate can be made of the liability as explained more fully below.

BP's current estimate of the total cost of those elements of the PSC settlement that can be estimated reliably, which excludes any future business economic loss claims not yet received or processed by the DHCSSP, is \$7.7 billion.

If BP is successful in its challenge to the court's ruling, the total estimated cost of the settlement agreement will, nevertheless, be significantly higher than the current estimate of \$7.7 billion, because business economic loss claims not yet received or processed are not reflected in the current estimate and the average payments per claim determined so far are higher than anticipated. If BP is not successful in its challenge to the court's ruling, a further significant increase to the total estimated cost of the settlement will be required. However, there can be no certainty as to how the dispute will ultimately be resolved or determined. To the extent that there are insufficient funds available in the Trust fund, payments under the PSC settlement will be made by BP directly and charged to the income statement.

As previously disclosed, significant uncertainties exist in relation to the amount of claims that are to be paid and will become payable through the claims process. 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. In addition, there is further uncertainty in relation to interpretations of the claims administrator regarding the protocols under the economic and property damages settlement agreement and judicial interpretation of these protocols, and the outcomes of any further litigation including in relation to potential opt-outs from the settlement or otherwise.

While BP has determined its current best estimate of the cost of those aspects of the settlement with the PSC that can be measured reliably, it is possible that the actual cost could be significantly higher than this estimate due to the uncertainties noted above. In addition, the provision will be re-established for remaining business economic loss claims and the estimate will increase as more information becomes available, the interpretation of the protocols is clarified and the claims process matures, enabling BP to estimate reliably

the cost of these claims. See Financial statements – Note 36 on [page 235](#) and Note 43 on [page 253](#) for further information.

The Gulf of Mexico oil spill has damaged BP's reputation. This, combined with other past events in the US (including the 2005 explosion at the Texas City refinery and the 2006 pipeline leaks in Alaska), may lead to an increase in the number of citations and/or the level of fines imposed in relation to any alleged breaches of safety or environmental regulations.

See Legal proceedings on [pages 162-169](#) and Financial statements – Note 2 on [page 194](#).

Reporting – failure to accurately report our data could lead to regulatory action, legal liability and reputational damage.

External reporting of financial and non-financial data is reliant on the integrity of systems and people. Failure to report data accurately and in compliance with external standards could result in regulatory action, legal liability and damage to our reputation.

As of the date of the SEC settlement, 10 December 2012, and for a period of three years thereafter, we are unable to rely on the safe harbor provisions regarding forward-looking statements provided by the regulations issued under the Securities Act, and the Securities Exchange Act of 1934, as amended. Our inability to rely on these safe harbor provisions may expose us to future litigation and liabilities in connection with forward-looking statements in our public disclosures.

Changes in external factors could affect our results of operations and the adequacy of our provisions.

We remain exposed to changes in the external environment, such as new laws and regulations (whether imposed by international treaty or by national or local governments in the jurisdictions in which we operate), changes in tax or royalty regimes, price controls, government actions to cancel or renegotiate contracts, market volatility or other factors. Such factors could reduce our profitability from operations in certain jurisdictions, limit our opportunities for new access, require us to divest or write-down certain assets or affect the adequacy of our provisions for pensions, tax, environmental and legal liabilities. Potential changes to pension or financial market regulation could also impact funding requirements of the group.

Treasury and trading activities – control of these activities depends on our ability to process, manage and monitor a large number of transactions. Failure to do this effectively could lead to business disruption, financial loss, regulatory intervention or damage to our reputation.

In the normal course of business, we are subject to operational risk around our treasury and trading activities. Control of these activities is highly dependent on our ability to process, manage and monitor a large number of complex transactions across many markets and currencies. Shortcomings or failures in our systems, risk management methodology, internal control processes or people could lead to disruption of our business, financial loss, regulatory intervention or damage to our reputation.

Following the Gulf of Mexico oil spill, Moody's Investors Service, Standard and Poor's and Fitch Ratings downgraded the group's long-term credit ratings. Since that time, the group's credit ratings have improved somewhat but are still lower than they were immediately before the Gulf of Mexico oil spill. The impact that a significant operational incident can have on the group's credit ratings, taken together with the reputational consequences of any such incident, the ratings and assessments published by analysts and investors' concerns about the group's costs arising from any such incident, ongoing contingencies, liquidity, financial performance and volatile credit spreads, could increase the group's financing costs and limit the group's access to financing. The group's ability to engage in its trading activities could also be impacted due to counterparty concerns about the group's financial and business risk profile in such circumstances. Such counterparties could require that the group provide collateral or other forms of financial security for its obligations, particularly if the group's credit ratings are downgraded. Certain counterparties for the group's non-trading businesses could also require that the group provide collateral for certain of its contractual obligations, particularly if the group's credit ratings were downgraded below investment grade or where a counterparty had concerns about the group's financial and business risk profile following a significant operational incident. In addition, BP may be unable to make a drawdown under certain of its committed borrowing facilities in the event that we are aware that there are pending or threatened legal, arbitration or

administrative proceedings which, if determined adversely, might reasonably be expected to have a material adverse effect on our ability to meet the payment obligations under any of these facilities. Credit rating downgrades could trigger a requirement for the company to review its funding arrangements with the BP pension trustees. Extended constraints on the group's ability to obtain financing and to engage in its trading activities on acceptable terms (or at all) would put pressure on the group's liquidity. In addition, this could occur at a time when cash flows from our business operations would be constrained following a significant operational incident, and the group could be required to reduce planned capital expenditures and/or increase asset disposals in order to provide additional liquidity, as the group did following the Gulf of Mexico oil spill.

Safety and operational risks

The risks inherent in our operations include a number of hazards that, although many may have a low probability of occurrence, can have extremely serious consequences if they do occur, such as the Gulf of Mexico oil spill. The occurrence of any such risks could have a consequent material adverse impact on the group's business, competitive position, cash flows, results of operations, financial position, prospects, liquidity, shareholder returns and/or implementation of the group's strategic goals.

Process safety, personal safety and environmental risks – the nature of our operations exposes us to a wide range of significant health, safety, security and environmental risks, the occurrence of which could result in regulatory action, legal liability and increased costs and damage to our reputation.

The nature of the group's operations exposes us to a wide range of significant health, safety, security and environmental risks. The scope of these risks is influenced by the geographic range, operational diversity and technical complexity of our activities. In addition, in many of our major projects and operations, risk allocation and management is shared with third parties such as contractors, sub-contractors, joint venture partners and associates. See Strategic and commercial risks – Joint ventures and other contractual arrangements on [page 39](#).

There are risks of technical integrity failure as well as risk of natural disasters and other adverse conditions in many of the areas in which we operate, which could lead to loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires, explosions or other incidents.

In addition, inability to provide safe environments for our workforce and the public while at our facilities or premises could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to our reputation.

Our operations are often conducted in difficult or environmentally sensitive locations, in which the consequences of a spill, explosion, fire or other incident could be greater than in other locations. These operations are subject to various environmental and safety laws, regulations and permits and the consequences of failure to comply with these requirements can include remediation obligations, penalties, loss of operating permits and other sanctions. Accordingly, inherent in our operations is the risk that if we fail to abide by environmental and safety and protection standards, such failure could lead to damage to the environment and could result in regulatory action, legal liability, material costs, damage to our reputation or denial of our licence to operate.

BP's group-wide operating management system (OMS) intends to address health, safety, security, environmental and operations risks, and to provide a consistent framework within which the group can analyse the performance of its activities and identify and remediate shortfalls. There can be no assurance that OMS will adequately identify all process safety, personal safety and environmental risk or provide the correct mitigations, or that all operations will be in conformance with OMS at all times.

Security – hostile activities against our staff and activities could cause harm to people and disrupt our operations.

Security threats require continuous oversight and control. Acts of terrorism, piracy, sabotage, cyber-attacks and similar activities directed against our operations and offices, pipelines, transportation or computer systems could cause harm to people and could severely disrupt business and operations. Our business

activities could also be severely disrupted by, among other things, conflict, civil strife or political unrest in areas where we operate.

Product quality – failure to meet product quality standards could lead to harm to people and the environment and loss of customers. Supplying customers with on-specification products is critical to maintaining our licence to operate and our reputation in the marketplace. Failure to meet product quality standards throughout the value chain could lead to harm to people and the environment and loss of customers.

Drilling and production – these activities require high levels of investment and are subject to natural hazards and other uncertainties. Activities in challenging environments heighten many of the drilling and production risks including those of integrity failures, which could lead to curtailment, delay or cancellation of drilling operations, or inadequate returns from exploration expenditure.

Exploration and production require high levels of investment and are subject to natural hazards and other uncertainties, including those relating to the physical characteristics of an oil or natural gas field. Our exploration and production activities are often conducted in extremely challenging environments, which heighten the risks of technical integrity failure and natural disasters discussed above. The cost of drilling, completing or operating wells is often uncertain. We may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements. In addition, exploration expenditure may not yield adequate returns, for example in the case of unproductive wells or discoveries that prove uneconomic to develop. The Gulf of Mexico oil spill illustrates the risks we face in our drilling and production activities.

Transportation – all modes of transportation of hydrocarbons involve inherent and significant risks.

All modes of transportation of hydrocarbons involve inherent risks. An explosion or fire or loss of containment of hydrocarbons or other hazardous material could occur during transportation by road, rail, sea or pipeline. This is a significant risk due to the potential impact of a release on people and the environment and given the high volumes potentially involved.

APPENDIX D – RELATED PARTY TRANSACTIONS

There have been no significant changes in the group's material related party transactions as disclosed in the BP Annual Report and Form 20-F 2011.

APPENDIX E – NOTE 2 SIGNIFICANT EVENT – GULF OF MEXICO OIL SPILL

The following is extracted in full and unedited text from the BP Annual Report and Form 20-F 2012:

2. Significant event – Gulf of Mexico oil spill

As a consequence of the Gulf of Mexico oil spill, as described on pages 59-62, BP continues to incur costs and has also recognized liabilities for future costs. Liabilities of uncertain timing or amount and contingent liabilities have been accounted for and/or disclosed in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. These are discussed in further detail in Note 36 for provisions and Note 43 for contingent liabilities. BP's rights and obligations in relation to the \$20-billion trust fund which was established in 2010 are accounted for in accordance with IFRIC 5 'Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'. Key aspects of the accounting for the oil spill are summarized below.

The financial impacts of the Gulf of Mexico oil spill on the income statement, balance sheet and cash flow statement of the group are shown in the table below. Amounts related to the trust fund are separately identified.

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 see Note 43.

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 in Note 43, 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 in Risk factors on pages 38-44.

	2012		2011		2010	
	Total	Of which: amount related to the trust fund	Total	Of which: amount related to the trust fund	Total	Of which: amount related to the trust fund
\$ million						
Income statement						
Production and manufacturing expenses	4,995	(1,191)	(3,800)	(3,995)	40,858	7,261
Profit (loss) before interest and taxation	(4,995)	1,191	3,800	3,995	(40,858)	(7,261)
Finance costs	19	12	58	52	77	73
Profit (loss) before taxation	(5,014)	1,179	3,742	3,943	(40,935)	(7,334)
Less: taxation	94	–	(1,387)	–	12,894	–
Profit (loss) for the period	(4,920)	1,179	2,355	3,943	(28,041)	(7,334)
Balance sheet						
Current assets						
Trade and other receivables	4,239	4,178	8,487	8,233	5,943	5,943
Current liabilities						
Trade and other payables	(522)	(22)	(5,425)	(4,872)	(6,587)	(5,002)
Provisions	(5,449)	–	(9,437)	–	(7,938)	–
Net current liabilities	(1,732)	4,156	(6,375)	3,361	(8,582)	941
Non-current assets						
Other receivables	2,264	2,264	1,642	1,642	3,601	3,601
Non-current liabilities						
Other payables	(175)	–	–	–	(9,899)	(9,899)
Provisions	(9,751)	–	(5,896)	–	(8,397)	–
Deferred tax	4,002	–	7,775	–	11,255	–
Net non-current liabilities	(3,660)	2,264	3,521	1,642	(3,440)	(6,298)
Net assets	(5,392)	6,420	(2,854)	5,003	(12,022)	(5,357)
Cash flow statement						
Profit (loss) before taxation	(5,014)	1,179	3,742	3,943	(40,935)	(7,334)
Finance costs	19	12	58	52	77	73
Net charge for provisions, less payments	4,834	–	2,699	–	19,354	–
(Increase) decrease in other current and non-current assets	(998)	(1,191)	(4,292)	(4,038)	(12,567)	(12,567)
Increase (decrease) in other current and non-current liabilities	(5,090)	(4,860)	(11,113)	(10,097)	16,413	14,828
Pre-tax cash flows	(6,249)	(4,860)	(8,906)	(10,140)	(17,658)	(5,000)

The impact on net cash provided by operating activities, on a post-tax basis, amounted to \$2,382 million (2011 \$6,813 million and 2010 \$16,019 million).

Trust fund

In 2010, BP established the Deepwater Horizon Oil Spill Trust (the Trust) to be funded in the amount of \$20 billion (the trust fund) over the period to the fourth quarter of 2013, which is available to satisfy legitimate individual and business claims that were previously administered by the Gulf Coast Claims Facility (GCCF), state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. The Trust is available to satisfy claims that were previously processed through the transitional court-supervised claims facility, to fund the qualified settlement funds (QSFs) established under the terms of the settlement agreements with the Plaintiffs' Steering Committee (PSC) administered through the Deepwater Horizon Court Supervised Settlement Program (DHCSSP), and the separate BP claims programme – see below for further information. Fines, penalties and claims administration costs are not covered by the trust fund. The establishment of the trust fund does not represent a cap or floor on BP's liabilities and BP does not admit to a liability of this amount.

In 2010, BP contributed \$5 billion to the fund, and further regular contributions totalling \$5 billion were made in 2011. During 2011, BP also contributed the cash settlements received from MOEX, Weatherford and Anadarko, amounting in total to \$5.1 billion. A further cash settlement from Cameron was received in January 2012 and was also contributed to the trust fund. As a result of these accelerated contributions and BP's regular contributions, the \$20-billion commitment was paid in full during 2012. The income statement charge for 2010 included \$20 billion in relation to the trust fund, adjusted to take account of the time value of money.

Under the terms of the Trust agreement, BP has no right to access the funds once they have been contributed to the trust fund and BP has no decision-making role in connection with the payment by the trust fund of individual and business claims resolved by the GCCF and the new court-supervised claims processes referred to below. BP will receive funds from the trust fund only upon its expiration, if there are any funds remaining at that point. Any amount remaining in the trust fund when the trustees determine that all claims have been settled would be returned to BP. However, it is not possible to reliably estimate the number or total amount of the claims that will be settled from the trust fund, and therefore it is not possible to reliably measure the fair value of BP's residual interest in it. The carrying amount of BP's residual interest is, consequently, nil. BP has the authority under the Trust agreement to present certain resolved claims, including natural resource damages claims and state and local response claims, to the Trust for payment, by providing the trustees with all the required documents establishing that such claims are valid under the Trust agreement. However, any such payments can only be made on the authority of the trustees and any funds distributed are paid directly to the claimants, not to BP. BP will not settle any such items directly or receive reimbursement from the trust fund for such items.

BP's obligation to make contributions to the trust fund was recognized in full in 2010, amounting to \$20 billion on an undiscounted basis. On initial recognition the discounted amount recognized was \$19,580 million. The funding of the Trust has now been completed.

The table below shows movements in the funding obligation during the period to 31 December 2012. The remaining liability of \$22 million at 31 December 2012 represents amounts reimbursable to the Trust for administrative costs incurred.

	\$ million		
	2012	2011	2010
At 1 January	4,872	14,901	–
Trust fund liability initially recognized – discounted	–	–	19,580
Unwinding of discount	12	52	73
Change in discounting	–	43	240
Contributions	(4,860)	(10,140)	(5,000)
Other	(2)	16	8
At 31 December	22	4,872	14,901

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 payments will be made directly to claimants from the trust fund, and BP will be released from its corresponding obligation.

The provision was increased during the year for items that will be covered by the trust fund by \$1,985 million (2011 \$4,038 million) and payments of \$4,624 million (2011 \$3,707 million) were made during the year from the trust fund. This includes payments from the trust fund to the seafood compensation fund and payments from QSFs other than the seafood compensation fund to claimants. In addition, a provision of \$794 million was derecognized relating to items that will be covered by the trust fund but which can no longer be reliably estimated. The remaining reimbursement asset as at 31 December 2012 was \$6,442 million and is recorded within other receivables on the balance sheet. The amount of the reimbursement asset is equal to the amount of provisions as at 31 December 2012 that will be covered by the trust fund – see Note 36 in the table under Provisions relating to the Gulf of Mexico oil spill.

Movements in the reimbursement asset are presented in the table below.

	\$ million		
	2012	2011	2010
At 1 January	9,875	9,544	–
Increase in provision for items covered by the trust fund	1,985	4,038	12,567
Derecognition of provision for items that cannot be reliably estimated	(794)	–	–
Amounts paid directly by the trust fund	(4,624)	(3,707)	(3,023)
At 31 December	6,442	9,875	9,544
Of which – current	4,178	8,233	5,943
– non-current	2,264	1,642	3,601

The amount charged or credited in the income statement, before finance costs, related to the trust fund comprises:

	\$ million		
	2012	2011	2010
Trust fund liability – discounted	–	–	19,580
Change in discounting relating to trust fund liability	–	43	240
Recognition of reimbursement asset, net	(1,191)	(4,038)	(12,567)
Other	–	–	8
Total (credit) charge relating to the trust fund	(1,191)	(3,995)	7,261

As noted above, the obligation to fund the \$20-billion trust fund was recognized in full in 2010, on a discounted basis. In addition, a reimbursement asset was recognized, reflecting the portion of provisions recognized that will be covered by the trust fund. Any new provisions, or increases in provisions that are covered by the trust fund (up to the amount of \$20 billion) have no net income statement effect as a reimbursement asset is also recognized, as described above. During 2012, a further net charge of \$1,191 million (2011 \$4,038 million) was recognized for new, increased and derecognized provisions for items covered by the trust fund with a corresponding increase in the reimbursement asset, resulting in no net income statement effect. The cumulative net charges for provisions, and the associated reimbursement asset, recognized from 2010 to 2012 amounted to \$17,796 million. Thus, a further \$2,204 million could be provided in subsequent periods for items covered by the trust fund with no net impact on the income statement. Such future increases in amounts provided could arise from adjustments to existing provisions, or from the initial recognition of provisions for items that currently cannot be estimated reliably, namely natural resource damages claims under Oil Pollution Act of 1990 (OPA 90) (other than the estimated costs of the assessment phase and the costs of early restoration agreements referred to below), the cost of business economic loss claims under the PSC settlement not yet received or processed by the DHCSSP, or any other potential litigation (including through excluded parties

from the PSC settlement and any obligation in relation to other potential private or governmental litigation). Further information on those items that currently cannot be reliably estimated is provided under Provisions and contingencies below and in Note 43.

The \$20-billion trust fund may not be sufficient to satisfy all claims under OPA 90 or otherwise that will ultimately be paid.

The Trust agreement does not require BP to make further contributions to the trust fund in excess of the agreed \$20 billion should this be insufficient to cover all claims administered by the GCCF and the new court-supervised claims processes, or to settle other items that are covered by the trust fund, as described above. Should the \$20-billion trust fund not be sufficient, BP would commence settling legitimate claims and other costs by making payments directly to claimants or directly to the QSFs, as appropriate. In this case, increases in estimated future expenditure above \$20 billion would be recognized as provisions with a corresponding charge in the income statement. The provisions would be utilized and derecognized at the point that BP made the payments. Under the terms of the Economic and Property Damages Settlement Agreement, several QSFs were established during 2012. These QSFs each relate to specific elements of the agreement, have and will be funded through payments from the Trust, and are available to make payments to claimants in accordance with those elements of the agreement.

As at 31 December 2012, the cash balances in the Trust and the QSFs amounted to \$10,471 million, including \$1,847 million remaining in the seafood compensation fund yet to be distributed. Under the terms of the Economic and Property Damage Settlement, the QSFs are subject to certain minimum balances that shall be maintained in the respective funds.

The Economic and Property Damages Settlement with the PSC provides for a transition from the GCCF to the DHCSSP. A transitional claims facility for economic and property damages claims commenced operation in March 2012. The transitional claims facility ceased processing new claims in June 2012. The DHCSSP began processing new claims from claimants under the Economic and Property Damages Settlement. In addition, a separate BP claims programme began processing claims from claimants not in the Economic and Property Damages Settlement Class as determined by the Economic and Property Damages Settlement Agreement or who have requested to opt out of that settlement. Moreover, upon the effective date of the Medical Benefits Class Action Settlement (that is, after any appeals of the final approval of that settlement are exhausted), a separate court-supervised settlement programme will begin paying medical claims and implementing other aspects of the medical benefits settlement, such as the Periodic Medical Consultation Program. In addition, some payments to projects under the Gulf Region Health Outreach Program portion of the Medical Benefits Class Action Settlement have already been made.

BP pledged certain Gulf of Mexico assets, through an overriding royalty interest, as collateral for the obligation to fund the Trust pursuant to an agreement entered into in September 2010. As noted above, in November 2012 BP met its \$20-billion funding obligation to the Trust. Upon completion of the funding obligation, the overriding royalty interest provided as collateral terminated pursuant to its terms.

Provisions and contingencies

At 31 December 2012, BP has recorded certain provisions and disclosed certain contingent liabilities as a consequence of the Gulf of Mexico oil spill. These are described below under Oil Pollution Act of 1990 and Other items.

Oil Pollution Act of 1990 (OPA 90)

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

Provisions have been recorded for Individual and Business Claims and State and Local Claims, except as noted below. A provision has also been recorded for claims administration costs, natural resource damage assessment costs and costs relating to early natural resource damages restoration agreements. BP considers that it is not possible to measure reliably any obligation in relation to natural resource damage claims (other than the estimated costs of the assessment phase and the costs relating to early restoration agreements), the cost of business economic loss claims under the PSC settlement not yet received or processed by the DHCSSP, or any other potential litigation (including through excluded parties from the PSC settlement and any obligation in relation to other potential private or governmental litigation), fines, or penalties, other than as described above. These items are therefore disclosed as contingent liabilities – see Note 43 for further information.

Significant uncertainties exist in relation to the amount of claims that are to be paid and will become payable through the claims process established pursuant to the PSC settlement. 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. In addition, there is further uncertainty in relation to interpretations of the claims administrator regarding the protocols under the Economic and Property Damages Settlement and judicial interpretation of these protocols, and the outcomes of any further litigation including in relation to potential opt-outs from the settlement or otherwise. See Note 36 for further information.

The \$20-billion trust fund described above is available to satisfy the OPA 90 claims and litigation referred to above. BP's rights and obligations in relation to the trust fund have been recognized and \$20 billion, adjusted to take account of the time value of money, was charged to the income statement in 2010.

Other items

Provisions at 31 December 2012 also include amounts in relation to completing the oil spill response, BP's commitment to a 10-year research programme in the Gulf of Mexico, the discounted cost of the agreement with the US government to settle all federal criminal charges, estimated penalties for liability under Clean Water Act Section 311 and estimated legal fees. These are not covered by the trust fund.

The provision does not reflect any amounts in relation to fines and penalties except for those relating to the Clean Water Act, as it is not possible to estimate reliably either the amount or timing of such additional items. BP also considers that it is not possible to measure reliably any obligation in relation to litigation other than as included within the settlement with the PSC as set forth in Note 36 and the settlement with the US government for federal criminal charges. These items are therefore disclosed as contingent liabilities. Further information on provisions is provided below and in Note 36. Further information on contingent liabilities is provided in Note 43.

Provision movements

A provision has been recognized for estimated future expenditure relating to the incident, for items that can be measured reliably at this time, in accordance with BP's accounting policy for provisions, as set out in Note 1.

The total amount recognized as an increase in provisions during the year was \$6,868 million, including \$1,985 million for items covered by the trust fund and \$4,883 million for other items (2011 \$5,183 million, including \$4,038 million for items covered by the trust fund and \$1,145 million for other items). In addition, \$794 million was derecognized relating to items that will be covered by the trust fund but which can no longer be reliably estimated. After deducting amounts utilized during the year totalling \$5,864 million, including payments from the trust fund of \$4,624 million and payments made directly by BP of \$1,240 million (2011 \$6,208 million, including payments from the trust fund of \$3,707 million and payments made directly by BP of \$2,501 million), and after reclassifications and adjustments for discounting, the remaining provision as at 31 December 2012 was \$15,200 million (2011 \$15,333 million).

Movements in the provision are presented in the table below.

	\$ million		
	2012	2011	2010
At 1 January	15,333	16,335	–
Increase in provision – items not covered by the trust fund	4,883	1,145	17,694
– items covered by the trust fund	1,985	4,038	12,567
Derecognition of provision for items that cannot be reliably estimated ^a	(794)	–	–
Unwinding of discount	7	6	4
Reclassified to other payables	(350)	–	–
Change in discount rate	–	17	5
Utilization – paid by BP	(1,240)	(2,501)	(10,912)
– paid by the trust fund	(4,624)	(3,707)	(3,023)
At 31 December	15,200	15,333	16,335
Of which – current	5,449	9,437	7,938
– non-current	9,751	5,896	8,397

^a Relates to items covered by the trust fund.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors. Furthermore, 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 (including any determination of BP's culpability based on any findings of negligence, gross negligence or wilful misconduct), 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. See Note 43 for further information.

Impact upon the group income statement

The group income statement for 2012 includes a pre-tax charge of \$5,014 million (2011 pre-tax credit of \$3,742 million) in relation to the Gulf of Mexico oil spill. The amount charged to date comprises costs incurred up to 31 December 2012, settlements agreed with the co-owners of the Macondo well and other third parties, estimated obligations for future costs that can be estimated reliably at this time and rights and obligations relating to the trust fund. Finance costs of \$19 million (2011 \$58 million) reflect the unwinding of the discount on the trust fund liability and provisions. The amount of the provision recognized during the year can be reconciled to the income statement amount as follows:

	\$ million		
	2012	2011	2010
Net increase in provision	6,868	5,183	30,261
Derecognition of provision for items that cannot be reliably estimated	(794)	–	–
Change in discount rate relating to provisions	–	17	5
Costs charged directly to the income statement	257	512	3,339
Trust fund liability – discounted	–	–	19,580
Change in discounting relating to trust fund liability	–	43	240
Recognition of reimbursement asset, net	(1,191)	(4,038)	(12,567)
Settlements credited to the income statement	(145)	(5,517)	–
(Profit) loss before interest and taxation	4,995	(3,800)	40,858

Costs charged directly to the income statement relate to expenditure prior to the establishment of a provision at the end of the second quarter 2010 and ongoing operating costs of the GCRO. The accounting associated with the recognition of the trust fund liability and the expenditure which will be settled from the trust fund is described above.

The total amount in the income statement is analysed in the table below. Costs charged directly to the income statement in 2010 in relation to spill response, environmental and litigation and claims are those that arose prior to recording a provision at the end of the second quarter of that year.

			\$ million
	2012	2011	2010
Trust fund liability – discounted	–	–	19,580
Change in discounting relating to trust fund liability	–	43	240
Recognition of reimbursement asset, net	(1,191)	(4,038)	(12,567)
Other	–	–	8
Total (credit) charge relating to the trust fund	(1,191)	(3,995)	7,261
Spill response – amount provided	109	586	10,883
Spill response – costs charged directly to the income statement	9	85	2,745
Total charge relating to spill response	118	671	13,628
Environmental – amount provided	801	1,167	929
Environmental – change in discount rate relating to provisions	–	17	5
Environmental – costs charged directly to the income statement	–	–	70
Total charge relating to environmental	801	1,184	1,004
Litigation and claims – amount provided, net of derecognition of provision	5,164	3,430	14,939
Litigation and claims – costs charged directly to the income statement	–	–	184
Total charge relating to litigation and claims	5,164	3,430	15,123
Clean Water Act penalties – amount provided	–	–	3,510
Other costs charged directly to the income statement	248	427	332
Settlements credited to the income statement	(145)	(5,517)	–
(Profit) loss before interest and taxation	4,995	(3,800)	40,858
Finance costs	19	58	77
(Profit) loss before taxation	5,014	(3,742)	40,935

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

APPENDIX F – NOTE 36 PROVISIONS

The following is extracted in full and unedited text from the BP Annual Report and Form 20-F 2012:

36. Provisions

	\$ million						
	Decommissioning	Environmental	Spill response	Litigation and claims	Clean Water Act penalties	Other	Total
At 1 January 2012	17,240	3,264	336	10,976	3,510	2,316	37,642
Exchange adjustments	261	3	–	–	–	19	283
Acquisitions	–	–	–	–	–	24	24
New or increased provisions	3,756	1,350	109	6,080	–	1,260	12,555
Derecognition of provision for items that cannot be reliably estimated	–	–	–	(794)	–	–	(794)
Write-back of unused provisions	–	(65)	–	(50)	–	(271)	(386)
Unwinding of discount	107	9	–	18	–	6	140
Utilization	(651)	(841)	(100)	(5,979)	–	(411)	(7,892)
Reclassified as liabilities directly associated with assets held for sale	(3,048)	(91)	–	–	–	(11)	(3,150)
Deletions	(350)	(1)	–	–	–	(60)	(411)
At 31 December 2012	17,315	3,628	345	10,251	3,510	2,872	37,921
Of which – current	721	1,235	277	4,506	–	848	7,587
– non-current	16,594	2,393	68	5,745	3,510	2,024	30,334

	\$ million						
	Decommissioning	Environmental	Spill response	Litigation and claims	Clean Water Act penalties	Other	Total
At 1 January 2011	10,544	2,465	1,043	11,967	3,510	2,378	31,907
Exchange adjustments	(27)	(4)	–	(13)	–	(12)	(56)
Acquisitions	163	–	–	9	–	118	290
New or increased provisions	4,596	1,677	586	3,821	–	1,145	11,825
Write-back of unused provisions	(1)	(140)	–	(92)	–	(416)	(649)
Unwinding of discount	195	27	–	15	–	6	243
Change in discount rate	3,211	90	–	45	–	10	3,356
Utilization	(342)	(840)	(1,293)	(4,715)	–	(876)	(8,066)
Reclassified as liabilities directly associated with assets held for sale	(51)	–	–	–	–	–	(51)
Deletions	(1,048)	(11)	–	(61)	–	(37)	(1,157)
At 31 December 2011	17,240	3,264	336	10,976	3,510	2,316	37,642
Of which – current	596	1,375	282	8,518	–	467	11,238
– non-current	16,644	1,889	54	2,458	3,510	1,849	26,404

Provisions not related to the Gulf of Mexico oil spill

The group makes full provision for the future cost of decommissioning oil and natural gas wells, facilities and related pipelines on a discounted basis upon installation. The provision for the costs of decommissioning these wells, production facilities and pipelines at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a real discount rate of 0.5% (2011 0.5%). The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately 20 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of these costs.

Provisions for environmental remediation are made when a clean-up is probable and the amount of the obligation can be estimated reliably. Generally, this coincides with commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The provision for environmental liabilities has been estimated using existing technology, at current prices and discounted using a real discount rate of 0.5% (2011 0.5%). The weighted average period over which these costs are generally

expected to be incurred is estimated to be approximately five years. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions, and also the group's share of the liability.

The litigation category includes provisions for matters related to, for example, commercial disputes, product liability, and allegations of exposures of third parties to toxic substances. Included within the other category at 31 December 2012 are provisions for deferred employee compensation of \$618 million (2011 \$666 million). These provisions are discounted using either a nominal discount rate of 2.5% (2011 2.5%) or a real discount rate of 0.5% (2011 0.5%), as appropriate.

Provisions relating to the Gulf of Mexico oil spill

The Gulf of Mexico oil spill is described on [pages 59-62](#) and in Note 2. Provisions relating to the Gulf of Mexico oil spill, included in the table above, are separately presented below:

	\$ million				
	Environmental	Spill response	Litigation and claims	Clean Water Act penalties	Total
At 1 January 2012	1,517	336	9,970	3,510	15,333
New or increased provisions – items not covered by the trust funds	48	62	4,773	–	4,883
– items covered by the trust funds	753	47	1,185	–	1,985
Derecognition of provision for items that cannot be reliably estimated	–	–	(794)	–	(794)
Unwinding of discount	1	–	6	–	7
Utilization – paid by BP	(76)	(100)	(1,064)	–	(1,240)
– paid by the trust funds	(381)	–	(4,243)	–	(4,624)
– reclassified to other payables	–	–	(350)	–	(350)
At 31 December 2012	1,862	345	9,483	3,510	15,200
Of which – current	845	277	4,327	–	5,449
– non-current	1,017	68	5,156	3,510	9,751
Of which – payable from the trust funds	1,438	47	4,957	–	6,442

	\$ million				
	Environmental	Spill response	Litigation and claims	Clean Water Act penalties	Total
At 1 January 2011	809	1,043	10,973	3,510	16,335
New or increased provisions – items not covered by the trust funds	34	586	525	–	1,145
– items covered by the trust funds	1,133	–	2,905	–	4,038
Unwinding of discount	6	–	–	–	6
Change in discount rate	17	–	–	–	17
Utilization – paid by BP	(33)	(1,293)	(1,175)	–	(2,501)
– paid by the trust funds	(449)	–	(3,258)	–	(3,707)
At 31 December 2011	1,517	336	9,970	3,510	15,333
Of which – current	961	282	8,194	–	9,437
– non-current	556	54	1,776	3,510	5,896
Of which – payable from the trust funds	1,066	–	8,809	–	9,875

As described in Note 2, BP has recorded provisions at 31 December 2012 relating to the Gulf of Mexico oil spill including amounts in relation to environmental expenditure, spill response costs, litigation and claims, and Clean Water Act penalties, each of which is described below. The total amounts that will ultimately be paid by BP are subject to significant uncertainty as described in Note 2 and below.

Environmental

The amounts committed by BP for a 10-year research programme to study the impact of the incident on the marine and shoreline environment of the Gulf of Mexico have been provided for. BP's commitment is to provide \$500 million of funding, and the remaining commitment, on a discounted basis, of \$376 million was included in provisions at 31 December 2012. This amount is expected to be spent over the remaining life of the programme.

As a responsible party under the Oil Pollution Act of 1990 (OPA 90), BP faces claims by the United States, as well as by State, tribal, and foreign trustees, if any, for natural resource damages ("Natural Resource Damages claims"). These damages include, among other things, the reasonable costs of assessing the injury to natural resources. BP has been incurring natural resource damage assessment costs and a provision has been made for the estimated costs of the assessment phase. Since May 2010, more than 200 initial and amended work plans have been developed to study resources and habitat. The study data will inform an assessment of injury to the Gulf Coast natural resources and the development of a restoration plan to mitigate the identified injuries. Detailed analysis and interpretation continue on the data that have been collected. The expected assessment spend is

based upon past experience as well as identified projects. During 2011, BP entered 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. The total amount provided for natural resource damage assessment costs and early restoration projects was \$1,486 million at 31 December 2012. 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. See Note 43 for further information.

Spill response

Further amounts were provided relating to the spill response during 2012, totalling \$0.1 billion (2011 \$0.6 billion). By the end of 2012, the US Coast Guard's Federal On-Scene Coordinator (FOSC) had deemed removal actions complete on 4,029 miles of shoreline out of 4,376 miles that were in the area of response. Approximately 108 shoreline miles were pending further monitoring or inspection and a determination that removal actions are complete. The remaining 239 miles are in the patrolling and maintenance phase which will continue until the FOSC determines that operational removal activity is complete.

Litigation and claims

BP faces various claims, principally under OPA 90 but also including under general maritime law, by individuals and businesses for removal costs, 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 by state and local government entities for removal costs, physical damage to real or personal property, loss of government revenue and increased public services costs ("State and Local Claims"). BP also faces other litigation related to the Incident brought under US state law and the laws of certain non-US jurisdictions, as well as claims by private parties under US federal securities laws and other state and federal statutes. See Legal proceedings on [pages 162-171](#) for further information.

The litigation and claims provision includes amounts that can be estimated reliably for the future cost of settling Individual and Business Claims, and State and Local Claims under OPA 90, including certain amounts as set forth below related to the settlements with the PSC, the cost of the agreement with the US government to resolve all federal criminal claims, and claims administration costs and legal fees. During 2012, a provision was recognized in the amount of \$525 million in respect of the cost of the agreement with the US Securities and Exchange Commission (SEC) to resolve all of the US government's federal securities claims against the company (the SEC settlement). The remaining obligation for the SEC settlement at 31 December 2012 has been reclassified to other payables (as discussed below).

BP announced on 3 March 2012 that a proposed settlement had been reached with the Plaintiffs' Steering Committee (PSC), subject to final written agreement and court approvals, to resolve the substantial majority of legitimate economic loss and property damage claims and exposure-based medical claims (Individual and Business claims) stemming from the Deepwater Horizon accident and oil spill. The PSC acts on behalf of the individual and business plaintiffs in the multi-district litigation proceedings pending in New Orleans (MDL 2179). The proposed settlement was an adjusting event after the 2011 reporting period and BP's estimate at that time of the cost of the settlement of \$7.8 billion was therefore reflected in the 2011 financial statements. On 18 April 2012, BP announced that it had reached definitive and fully documented settlement agreements with the PSC consistent with the terms of that settlement. In November 2012, the court held a fairness hearing with respect to the Economic and Property Damages Settlement Agreement and Medical Benefits Settlement Agreement and subsequently granted final approval to the Economic and Property Damages Settlement on 21 December 2012 and to the medical benefits settlement on 11 January 2013. See Legal proceedings on [pages 162-171](#) for further information.

Under the terms of the PSC settlement agreement, several qualified settlement funds (QSFs) were established during the year. These QSFs, which are funded through the Trust, each relate to specific elements of the agreement and are available to make payments to claimants in accordance with those elements of the agreement.

The total amount allocated to the seafood industry under the PSC settlement is fixed at \$2.3 billion and thus amounts contributed from the Trust to the seafood compensation fund extinguish BP's liability, so the provision and related reimbursement asset are derecognized, irrespective of whether amounts have been paid out of the fund to claimants. Utilization of the provision in 2012 included \$2,230 million contributed to the seafood compensation fund. Additionally, a further \$67 million was paid to seafood industry claimants through the transition claims process. At 31 December 2012, \$1,847 million remained in the seafood compensation fund for which the related provision and reimbursement asset had been derecognized.

As at 31 December 2011, the provision for items covered by the settlement with the PSC for Individual and Business claims was \$7.8 billion. During 2012, BP increased its estimate of the cost of claims administration by \$280 million and also increased the provision by a further \$400 million as described below.

Business economic loss claims received by the Deepwater Horizon Court Supervised Settlement Program (DHCSSP) to date are being paid at a significantly higher average amount than previously assumed by BP in formulating the original estimate of the cost. Further, BP's initial estimate of aggregate liability under the settlement agreements was premised on BP's interpretation of certain protocols established in the Economic and Property Damages Settlement Agreement. As part of its monitoring of payments made by the DHCSSP, BP identified multiple claim determinations that appeared to result from an interpretation of the settlement agreement by the claims administrator that BP believes was incorrect. This interpretation produced a higher number and value of awards than the interpretation BP assumed in making the initial estimate. Pursuant to the mechanisms in the settlement agreement, the claims administrator sought clarification from the court on this matter and on 30 January 2013, the court initially upheld the claims administrator's interpretation of the agreement.

In its unaudited fourth quarter and full year 2012 results announcement dated 5 February 2013 (the 'preliminary announcement'), BP stated that if the initial trend of higher average payments than assumed by BP in its original estimate of the cost continued, then it was likely that BP's provision for these claims would be increased significantly. Management's initial assessment of the ruling regarding the interpretation of the settlement agreement led to an increase in the estimated cost of the settlement with the PSC of \$400 million, bringing the total estimated cost to \$8.5 billion. This estimate was based upon management's initial assessment of the ruling's impact on claims already submitted to and processed by the DHCSSP. At that time, BP was seeking reversal of the court's decision in relation to this matter, and management concluded that it was not possible to estimate reliably the impact of the interpretation on any future claims not yet received or processed by the DHCSSP.

On 6 February 2013, the court reconsidered and vacated its ruling of 30 January 2013 and stayed the processing of certain types of business economic loss claims. The court lifted the stay on 28 February 2013. On 5 March 2013, the court affirmed the claims administrator's interpretation of the agreement and rejected BP's position as it relates to business economic loss claims. BP strongly disagrees with the ruling of 5 March 2013 and the current implementation of the agreement by the claims administrator. BP intends to pursue all available legal options including rights of appeal, to challenge this ruling. Other business economic loss claims continue to be paid at a higher average amount than previously assumed by BP in determining its initial estimate of the total cost. Management has continued to analyse the claims in the period since 5 February 2013 to gain a better understanding of whether or not the number and average value of claims received and processed to date are predictive of future claims (and so would allow management to estimate the total cost reliably). Management has concluded, based upon this analysis, that it is not possible to determine whether the claims experience to date is, or is not, an appropriate basis for estimating the total cost. Therefore, given the inherent uncertainty that exists as BP pursues all available legal options to challenge the recent ruling, and the higher number of claims received and higher average claims payments than previously assumed by BP, which may or may not continue, management has concluded that no reliable estimate can be made of any business economic loss claims not yet received or processed by the DHCSSP.

Therefore, the provision for business economic loss claims at 31 December 2012 included in these financial statements now includes only the estimated cost of claims already received and processed by the DHCSSP. As a consequence, an amount of \$0.8 billion previously provided for future claims not yet received or processed by the DHCSSP, has been derecognized, with a corresponding reduction in the reimbursement asset and therefore no net impact on the income statement, as no reliable estimate can be made for this liability. It is therefore disclosed as a contingent liability in Note 43. A provision will be re-established when a reliable estimate can be made of the liability as explained more fully below.

BP's current estimate of the total cost of those elements of the PSC settlement that can be estimated reliably, which excludes any future business economic loss claims not yet received or processed by the DHCSSP, is \$7.7 billion.

If BP is successful in its challenge to the court's ruling, the total estimated cost of the settlement agreement will, nevertheless, be significantly higher than the current estimate of \$7.7 billion because business economic loss claims not yet received or processed are not reflected in the current estimate and the average payments per claim determined so far are higher than anticipated. If BP is not successful in its challenge to the court's ruling, a further significant increase to the total estimated cost of the settlement will be required but BP will continue to challenge the current interpretation and implementation of the settlement agreement by the claims administrator using all legal avenues available, including rights of appeal. However, there can be no certainty as to how the dispute will ultimately be resolved or determined. To the extent that there are insufficient funds available in the Trust fund, payments under the PSC settlement will be made by BP directly and charged to the income statement.

Significant uncertainties exist in relation to the amount of claims that are to be paid and will become payable through the claims process. 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. In addition, there is further uncertainty in relation to interpretations of the claims administrator regarding the protocols under the settlement agreement and judicial interpretation of these protocols, and the outcomes of any further litigation including in relation to potential opt-outs from the settlement or otherwise. The PSC settlement is uncapped except for economic loss claims related to the Gulf seafood industry.

While BP has determined its current best estimate of the cost of those aspects of the settlement with the PSC that can be measured reliably, it is possible that the actual cost of those items could be significantly higher than this estimate due to the uncertainties noted above. In addition, the provision will be re-established for remaining business economic loss claims as more information becomes available, the interpretation of the protocols is clarified and the claims process matures, enabling BP to estimate reliably the cost of these claims. BP will continue to analyse claims data and re-evaluate the assumptions underlying the provision.

The provision recognized for litigation and claims includes an estimate for State and Local government 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. In January 2013, the States of Alabama, Mississippi and Florida formally presented their claims to BP under OPA 90 for alleged losses including economic and property damage as a result of the Gulf of Mexico oil spill (see Note 43 for further information).

BP reached an agreement in November 2012 with the US government, subject to court approval, to resolve all criminal claims arising from the incident under which BP will pay \$4 billion in instalments over a period of five years. A provision of \$3.85 billion has been recognized, representing the discounted cost of the agreement. This settlement was approved by the court in January 2013 and is not covered by the Trust. In addition, BP reached a settlement with the US Securities and Exchange Commission (SEC), which was approved by the court in December 2012, resolving all of the US government's securities claims against the company, under which BP has agreed to a civil penalty of \$525 million, payable in three instalments over a period of three years. On 10 December 2012, a federal judge issued a final judgment regarding the SEC's claims and the terms of the settlement. During 2012, a provision was recognized in the amount of \$525 million in respect of the cost of the SEC settlement. The remaining obligation of \$350 million for the SEC settlement at 31 December 2012, which is not covered by the trust fund, has been reclassified to other payables.

BP also faces other litigation for which no reliable estimate of the cost can currently be made. Therefore no amounts have been provided for these items. See Note 43 for further information.

Clean Water Act penalties

A provision has been made for the estimated penalties for strict liability under Section 311 of the Clean Water Act. Such penalties are subject to a statutory maximum calculated as the product of a per-barrel maximum penalty rate and the number of barrels of oil spilled. Uncertainties currently exist in relation to both the penalty rate that will ultimately be imposed and the volume of oil spilled.

A charge for potential Clean Water Act Section 311 penalties was first included in BP's second-quarter 2010 interim financial statements. At the time that charge was taken, the latest estimate from the intra-agency Flow Rate Technical Group created by the National Incident Commander in charge of the spill response was between 35,000 and 60,000 barrels per day. The mid-point of that range, 47,500 barrels per day, was used for the purposes of calculating the charge. For the purposes of calculating the amount of the oil flow that was discharged into the Gulf of Mexico, the amount of oil that had been or was projected to be captured in vessels on the surface was subtracted from the total estimated flow up until when the well was capped on 15 July

2010. The result of this calculation was an estimate that approximately 3.2 million barrels of oil had been discharged into the Gulf. This 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 through 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 actual penalty a court may impose could be lower than \$1,100 per barrel if it were determined that such a lower penalty was appropriate based on the factors a court is directed to consider in assessing a penalty. In particular, in determining the amount of a civil penalty, Section 311 directs a court to consider a number of enumerated factors, including “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.” Civil penalties above \$1,100 per barrel up to a statutory maximum of \$4,300 per barrel of oil discharged would only be imposed if alleged gross negligence or wilful misconduct were proven. BP intends to argue for a penalty lower than \$1,100 per barrel based on several of these factors. However, the \$1,100 per-barrel rate has been utilized for the purposes of calculating the provision after considering and weighing all possible outcomes and in light of: (i) the company’s conclusion that it did not act with gross negligence or engage in wilful misconduct; and (ii) the uncertainty as to whether a court would assess a penalty below the \$1,100 statutory maximum.

On 2 August 2010, the United States Department of Energy and the Flow Rate Technical Group had issued an estimate that 4.9 million barrels of oil had flowed from the Macondo well, and 4.05 million barrels had been discharged into the Gulf (the difference being the amount of oil captured by vessels on the surface as part of BP’s well containment efforts).

It was and remains BP’s view, based on the analysis of available data by its experts, that the 2 August 2010 Government estimate is not reliable. BP believes that the 2 August 2010 discharge estimate is overstated by at least 20%. If the flow rate were 20% lower than the 2 August 2010 estimate, then the amount of oil that flowed from the Macondo well would be approximately 3.9 million barrels and the amount discharged into the Gulf would be approximately 3.1 million barrels (using a current estimate of barrels captured by vessels on the surface of 810,000 in line with the stipulation entered with the US government – see Legal Proceedings on [pages 162-171](#)), which is not materially different from the amount we used for our original estimate at the end of the second quarter 2010.

For the purposes of calculating a provision for fines and penalties under Section 311 of the Clean Water Act, BP has continued to use an estimate of 3.2 million barrels of oil discharged to the Gulf of Mexico and a penalty of \$1,100 per barrel, as its current best estimate, as defined in paragraphs 36-40 of IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’, of the amounts which may be used in calculating the penalty under Section 311 of the Clean Water Act and as a result, the provision at the end of the year was \$3,510 million.

The amount and timing of the amount to be paid ultimately will depend upon what is determined by the court in the federal multi-district litigation proceedings in New Orleans (MDL 2179) to be the volume of oil spilled and the penalty rate that is imposed or upon any settlement, if one were to be reached. It is not currently practicable to estimate the timing of expending these costs and the provision has been included within non-current liabilities on the balance sheet. Save in relation to the amounts described in this note, and in Note 2, no other amounts have been provided as at 31 December 2012 in relation to other potential fines and penalties because it is not possible to measure the obligation reliably. Fines and penalties are not covered by the trust fund.

Items not provided for and uncertainties

BP considers that it is not possible, at this time, to measure reliably any obligation in relation to Natural Resource Damages claims under OPA 90 (other than the estimated costs of the assessment phase and the costs of early restoration agreements referred to above). It is also not possible to measure reliably any obligation in relation to business economic loss claims under the PSC settlement not yet received or processed by the DHCSSP, or any other potential litigation (including through excluded parties from the PSC settlement and any obligation in relation to other potential private or governmental litigation), fines, or penalties, other than as described above. These items are therefore disclosed as contingent liabilities – see Note 43 for further information.

The total amounts that will ultimately be paid by BP in relation to all obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP will be dependent on many factors. Furthermore, 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 (including any determination of BP’s culpability based on any findings of negligence, gross negligence or wilful misconduct), 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 described further in Note 43.

APPENDIX G – NOTE 43 CONTINGENT LIABILITIES

The following is extracted in full and unedited text from the BP Annual Report and Form 20-F 2012:

43. Contingent liabilities

Contingent liabilities relating to the Gulf of Mexico oil spill

As a consequence of the Gulf of Mexico oil spill, as described on [pages 59-62](#), BP has incurred costs during the year and recognized provisions for certain future costs. Further information is provided in Note 2 and Note 36.

BP has provided for its best estimate of amounts expected to be paid from the \$20-billion trust fund. This includes certain amounts expected to be paid pursuant to the Oil Pollution Act of 1990 (OPA 90) as described in Note 36. It is not possible, at this time, to measure reliably other obligations arising from the accident that are under the terms of the trust fund, namely any obligation in relation to Natural Resource Damages claims (except for the estimated costs of the assessment phase and the costs relating to early restoration agreements as described in Note 36), claims asserted in civil litigation including any further litigation through excluded parties from the PSC settlement, the cost of business economic loss claims under the PSC settlement not yet received or processed by the Deepwater Horizon Court Supervised Settlement Program (DHCSSP), any further obligation that may arise from state and local government presentment claims under OPA 90 and any obligation in relation to other potential private or governmental litigation, 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 2012. The \$20-billion trust fund may not be sufficient to satisfy all claims under OPA 90 or otherwise that will ultimately be paid.

Natural resource damages resulting from the oil spill are currently being assessed (see Note 36 for further information). 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 mitigate 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 Damages claims, therefore no amounts have been provided as at 31 December 2012.

As set out more fully in Note 36, business economic loss claims received by the DHCSSP to date are being paid at a significantly higher average amount than previously assumed by BP. Further, BP has identified multiple business economic loss claim determinations under the PSC settlement that appeared to result from an interpretation of the Economic and Property Damages Settlement Agreement by the claims administrator that BP believes was incorrect. This interpretation produced a higher number and value of awards than the interpretation BP assumed in making the initial estimate of the cost of the settlement. Pursuant to the mechanisms in the settlement agreement, the claims administrator sought clarification from the court on this matter and on 30 January 2013, the court initially upheld the claims administrator's interpretation of the agreement. On 6 February 2013, the court reconsidered and vacated this ruling and stayed the processing of certain types of claims. The court lifted the stay on 28 February 2013. On 5 March 2013, the court affirmed the claims administrator's interpretation of the agreement and rejected BP's position as it relates to business economic loss claims. BP strongly disagrees with the ruling of 5 March 2013 and the current implementation of the agreement by the claims administrator. BP intends to pursue all available legal options, including rights of appeal, to challenge this ruling. Management has concluded that it is not possible to determine whether the claims experience to date is, or is not, an appropriate basis for estimating the total cost. Therefore given the inherent uncertainty that exists as BP pursues all available legal options to challenge the ruling, including rights of appeal to challenge the decision and the higher number of claims received and higher average claims payments than previously assumed by BP, which may or may not continue, management has concluded that no reliable estimate can be made of any business economic loss claims not yet received or processed by the DHCSSP. Therefore the potential cost of such claims is not provided for and is disclosed as a contingent liability. See Note 36 for further information.

In January 2013, the States of Alabama, Mississippi and Florida formally presented their claims to BP under OPA 90 for alleged losses including economic and property damage as a result of the Gulf of Mexico oil spill. BP is evaluating these claims. The State of Louisiana has also asserted similar claims. The amounts claimed, certain of which include punitive damages or other multipliers, are very substantial. However BP considers the methodologies used to calculate these claims to be seriously flawed, not supported by the legislation and to substantially overstate the claims. Claims have also been presented by various local governments which are substantial in aggregate and more claims are expected to be presented. The amounts alleged in the presentments for State and Local government claims total over \$34 billion. BP will defend vigorously against these claims if adjudicated at trial.

BP is named as a defendant in approximately 750 civil lawsuits brought by individuals, businesses, insurers and government entities in US federal and state courts, as well as certain foreign 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. 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 claims. Therefore no amounts have been provided for these items as at 31 December 2012. See Legal proceedings on [pages 162-171](#) for further information.

For those items not covered by the trust fund it is not possible to measure reliably any obligation in relation to other litigation or potential fines and penalties except, subject to certain assumptions detailed in Note 36, for those relating to the Clean Water Act. 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 large number of 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.

Under the settlement agreements with Anadarko and MOEX, and with Cameron International, the designer and manufacturer of the Deepwater Horizon blowout preventer, with M-I L.L.C. (M-I), the mud contractor, and with Weatherford, the designer and manufacturer of the float collar used on the Macondo well, BP has agreed to indemnify Anadarko, MOEX, Cameron, M-I and Weatherford 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 any obligation in relation to such claims and therefore no amount has been provided as at 31 December 2012.

The magnitude and timing of possible obligations in relation to the Gulf of Mexico oil spill are subject to a very high degree of uncertainty as described further in Risk factors on [pages 38-44](#). Furthermore, for those items for which a provision has been recorded, as noted in Note 36, significant uncertainty also exists in relation to the ultimate exposure and cost to BP. 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.

Other contingent liabilities

There were contingent liabilities at 31 December 2012 in respect of guarantees and indemnities entered into as part of the ordinary course of the group's business. No material losses are likely to arise from such contingent liabilities. Further information is included in Note 26.

Lawsuits arising out of the Exxon Valdez oil spill in Prince William Sound, Alaska, in March 1989 were filed against Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the other oil companies that own Alyeska. Alyeska initially responded to the spill until the response was taken over by Exxon. BP owns a 46.9% interest (reduced during 2001 from 50% by a sale of 3.1% to Phillips) in Alyeska through a subsidiary of BP America Inc. and briefly indirectly owned a further 20% interest in Alyeska following BP's combination with Atlantic Richfield Company (Atlantic Richfield). Alyeska and its owners have settled all the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska for a portion of the costs and damages that Exxon has incurred. BP will defend any such claims vigorously. It is not possible to estimate any financial effect.

In the normal course of the group's business, legal proceedings are pending or may be brought against BP group entities arising out of current and past operations, including matters related to commercial disputes, product liability, antitrust, premises-liability claims, general environmental claims and allegations of exposures of third parties to toxic substances, such as lead pigment in paint, asbestos and other chemicals. BP believes that the impact of these legal proceedings on the group's results of operations, liquidity or financial position will not be material.

With respect to lead pigment in paint in particular, Atlantic Richfield, a subsidiary of BP, has been named as a co-defendant in numerous lawsuits brought in the US alleging injury to persons and property. Although it is not possible to predict the outcome of the legal proceedings, Atlantic Richfield believes it has valid defences that render the incurrence of a liability remote; however, the amounts claimed and the costs of implementing the remedies sought in the various cases could be substantial. The majority of the lawsuits have been abandoned or dismissed against Atlantic Richfield. No lawsuit against Atlantic Richfield has been settled nor has Atlantic Richfield been subject to a final adverse judgment in any proceeding. Atlantic Richfield intends to defend such actions vigorously.

The group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the group does not anticipate that there will be any material impact upon the group's results of operations, financial position or liquidity.

The group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in these accounts in accordance with the group's accounting policies. While the amounts of future costs could be significant and could be material to the group's results of operations in the period in which they are recognized, it is not practical to estimate the amounts involved. BP does not expect these costs to have a material effect on the group's financial position or liquidity.

The group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations. BP believes that the impact of any reasonably foreseeable changes to these provisions on the group's results of operations, financial position or liquidity will not be material.

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is because external insurance is not considered an economic means of financing losses for the group. Losses will therefore be borne as they arise rather than being spread over time through insurance premiums with attendant transaction costs. The position is reviewed periodically.

APPENDIX H – SUMMARY OF EFFECT OF AMENDMENTS TO THE RESULTS IN THE PRELIMINARY ANNOUNCEMENT

The following reconciliation is provided in summary form only as an aid to understanding the following amendments:

Adjustment 1

As noted and explained in the preceding extracts from the BP Annual Report and Form 20-F 2012, and particularly as stated in Note 36 in Appendix F, certain limited amendments have been made to the unaudited results previously given in the Preliminary Announcement. These changes relate to the Gulf of Mexico oil spill and are restricted to the Group balance sheet only and various related notes. They do not affect the Group income statement, Group statement of comprehensive income, Group statement of changes in equity or Group cash flow statement.

Group balance sheet

\$ million	Preliminary Announcement	Amendment	BP Annual Report and Form 20-F 2012
Balance sheet as at 31 December 2012			
Non-current assets			
Trade and other receivables	5,272	(518)	4,754
Current assets			
Trade and other receivables	37,940	(276)	37,664
Current liabilities			
Provisions	(7,863)	276	(7,587)
Non-current liabilities			
Provisions	(30,852)	518	(30,334)

Impact of Gulf of Mexico oil spill

\$ million	Preliminary Announcement	Amendment	BP Annual Report and Form 20-F 2012
Balance sheet as at 31 December 2012			
Current assets			
Trade and other receivables	4,515	(276)	4,239
Current liabilities			
Provisions	(5,725)	276	(5,449)
Non-current assets			
Other receivables	2,782	(518)	2,264
Non-current liabilities			
Provisions	(10,269)	518	(9,751)

Adjustment 2

In addition, an adjustment has been made to correct a \$4.7 billion understatement of revenue and purchases for the year ended 31 December 2012, as follows:

Group income statement

\$ million	Preliminary Announcement	Amendment	BP Annual Report and Form 20-F 2012
Income statement for the year 2012			
Sales and other operating revenues	370,866	4,714	375,580
Total revenues and other income	383,571	4,714	388,285
Purchases	288,528	4,714	293,242