

Notes on financial statements

36. Provisions continued

Therefore, 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 as its current best estimate, as defined in paragraphs 36-40 of IAS 37 'Provisions, contingent liabilities and contingent assets', of the amount which may be used in calculating the penalty under Section 311 of the Clean Water Act. This reflects an estimate of total flow from the well of approximately 4 million barrels, and an estimate of barrels captured by vessels on the surface, currently estimated at 811,000 barrels. In utilizing this estimate, BP has taken into consideration not only its own analysis of the flow and discharge issue, but also the analyses and conclusions of other parties, including the US government. The estimate of BP and of other parties as to how much oil was discharged to the Gulf of Mexico may change, perhaps materially, over time. Changes in estimates as to flow and discharge could affect the amount actually assessed for Clean Water Act fines and penalties. The year-end provision continued to be based on a per-barrel penalty of \$1,100 for the reasons discussed above, including BP's continued conclusion that it did not act with gross negligence or engage in wilful misconduct.

Therefore, 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 as its current best estimate, as defined in paragraphs 36-40 of IAS 37 'Provisions, contingent liabilities and contingent assets', of the amount which may be used in calculating the penalty under Section 311 of the Clean Water Act. This reflects an estimate of total flow from the well of approximately 4 million barrels, and an estimate of barrels captured by vessels on the surface, currently estimated at 811,000 barrels. In utilizing this estimate, BP has taken into consideration not only its own analysis of the flow and discharge issue, but also the analyses and conclusions of other parties, including the US government. The estimate of BP and of other parties as to how much oil was discharged to the Gulf of Mexico may change, perhaps materially, over time. Changes in estimates as to flow and discharge could affect the amount actually assessed for Clean Water Act fines and penalties. The year-end provision continued to be based on a per-barrel penalty of \$1,100 for the reasons discussed above, including BP's continued conclusion that it did not act with gross negligence or engage in wilful misconduct.

The amount and timing of these costs will depend upon what is ultimately determined to be the volume of oil spilled and the per-barrel penalty rate that is imposed. 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. No other amounts have been provided as at 31 December 2011 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.

as at 31 December 2009.

The material financial assumptions used for estimating the benefit obligations of the various plans are set out below. The assumptions are reviewed by management at the end of each year, and are used to evaluate accrued pension and other post-retirement benefits at 31 December. The same assumptions are used to determine pension and other post-retirement benefit expense for the following year, that is, the assumptions at 31 December 2011 are used to determine the pension liabilities at that date and the pension expense for 2012.

Financial assumptions	2011		2010		UK		US		%
	2011	2010	2009	2008	2010	2009	2010	2009	Change
Discount rate for pension plan liabilities	4.8	5.5	5.8	4.3	4.7	5.4	4.7	5.3	5.8
Discount rate for other post-retirement benefit plans	n/a	n/a	n/a	4.5	6.3	5.8	n/a	n/a	n/a
Rate of increase in salaries	5.1	5.4	5.3	3.7	4.1	4.2	3.7	3.8	3.8
Rate of increase for pensions in payment	3.2	3.5	3.4	-	-	-	1.7	1.8	1.8
Rate of increase in deferred pensions	3.2	3.5	3.4	-	-	-	1.2	1.3	1.3
Inflation	3.2	3.5	3.4	1.8	2.3	2.4	2.2	2.3	2.3

Our discount rate assumptions are based on third-party AA corporate bond indices and for our largest plans in the UK, US and Germany we use yields that reflect the maturity profile of the expected benefit payments. The inflation rate assumptions for our UK and US plans are based on the difference between the yields on index-linked and fixed interest long-term government bonds. In other countries we use either this approach, or the central bank inflation target, or advice from the local authority depending on the information that is available to us. The inflation rate assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.