BP PLC
Form 20-F
March 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 December 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-6262

BP p.l.c.

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1 St James s Square, London SW1Y 4PD

United Kingdom

(Address of principal executive offices)

Dr Brian Gilvary

BP p.l.c.

1 St James s Square, London SW1Y 4PD

United Kingdom

Tel +44 (0) 20 7496 5311

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Ordinary Shares of 25c each	New York Stock Exchange*
Floating Rate Guaranteed Notes due 2014	New York Stock Exchange
Floating Rate Guaranteed Notes due May 2015	New York Stock Exchange
Floating Rate Guaranteed Notes due November 2015	New York Stock Exchange
Floating Rate Guaranteed Notes due 2016	New York Stock Exchange
Floating Rate Guaranteed Notes due May 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due September 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due 2019	New York Stock Exchange
3.625% Guaranteed Notes due 2014	New York Stock Exchange
1.700% Guaranteed Notes due 2014	New York Stock Exchange

0.700% Guaranteed Notes due 2015	**New York Stock Exchange**
3.875% Guaranteed Notes due 2015	**New York Stock Exchange**
3.125% Guaranteed Notes due 2015	**New York Stock Exchange**
2.248% Guaranteed Notes due 2016	**New York Stock Exchange**
3.200% Guaranteed Notes due 2016	**New York Stock Exchange**
1.375% Guaranteed Notes due 2017	**New York Stock Exchange**
1.375% Guaranteed Notes due 2018	**New York Stock Exchange**
2.241% Guaranteed Notes due 2018	**New York Stock Exchange**
1.846% Guaranteed Notes due 2017	**New York Stock Exchange**
4.750% Guaranteed Notes due 2019	**New York Stock Exchange**
2.237% Guaranteed Notes due 2019	**New York Stock Exchange**
4.500% Guaranteed Notes due 2020	**New York Stock Exchange**
4.742% Guaranteed Notes due 2021	**New York Stock Exchange**
3.561% Guaranteed Notes due 2021	**New York Stock Exchange**
2.500% Guaranteed Notes due 2022	**New York Stock Exchange**
3.245% Guaranteed Notes due 2022	**New York Stock Exchange**
2.750% Guaranteed Notes due 2023	**New York Stock Exchange**
3.994% Guaranteed Notes due 2023	**New York Stock Exchange**
3.814% Guaranteed Notes due 2024	**New York Stock Exchange**

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

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Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 25c each	20,426,632,529
Cumulative First Preference Shares of £1 each	7,232,838
Cumulative Second Preference Shares of £1 each	5,473,414

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes ¨ No ¨

* This requirement does not apply to the registrant in respect of this filing.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

International Financial Reporting

Standards as issued by the

U.S. GAAP ¨ International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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Annual Report and

Form 20-F 2013

bp.com/annualreport

Building a stronger,

safer BP

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BP in 2013

Our actions continue to make BP stronger and safer. We are growing shareholder returns through operational efficiency and financial discipline. We report on our progress here.

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Information about this report

Frequent abbreviations

ADR

American depositary receipt.

ADS

American depositary share.

Barrel (bbl)

159 litres, 42 US gallons.

bcf

Billion cubic feet.

bcf/d

Billion cubic feet per day.

bcfe

Billion cubic feet equivalent.

bcma

Billion cubic metres per annum.

b/d

Barrels per day.

boe

Barrels of oil equivalent.

GAAP

Generally accepted accounting practice.

Gas

Natural gas.

This document constitutes the Annual Report and Accounts in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the US Securities Exchange Act of 1934, for BP p.l.c. for the year ended 31 December 2013. A cross reference to Form 20-F requirements is included on page 282.

The *BP Annual Report and 20-F 2013* reflects a number of significant changes in regulations in the UK. The most significant change is the requirement to produce a new strategic report that replaces the previous business review. The regulations require certain new disclosure to be included in the strategic report including a description of company s strategy and business model we have included a more focused and graphical presentation of BP s strategy and business model in this report, compared with the 2012 report.

This document contains the Strategic report on pages 1-58 and the inside cover (Who we are section) and the Directors report on pages 59-80, 109-114, 116, 200-223 and 235-280. The Strategic report and the Directors report together include the management report required by DTR 4.1 of the UK Financial Conduct Authority s Disclosure and Transparency Rules. The Directors remuneration report is on pages 81-108. The consolidated financial statements of the group are on pages 115-199 and the corresponding reports of the auditor are on pages 120-121.

BP Annual Report and Form 20-F 2013 and *BP Strategic Report 2013* (comprising the Strategic report and supplementary information) may be downloaded from *bp.com/annualreport.* No material on the BP website, other than the items identified as *BP Annual Report and Form 20-F 2013* or *BP Strategic Report 2013* (comprising the Strategic report and supplementary information), forms any part of those documents. References in this document to other documents on the BP website, such as the *BP Energy Outlook,* are included as an aid to their location and are not incorporated by reference into this document.

BP p.l.c. is the parent company of the BP group of companies. The company was incorporated in 1909 in England and Wales and changed its name to BP p.l.c. in 2001. Where we refer to the company, we mean BP

Hydrocarbons

Liquids and natural gas.

IFRS

International Financial Reporting Standards.

Liquids

Crude oil, condensate and natural gas liquids.

LNG

Liquefied natural gas.

LPG

Liquefied petroleum gas.

mb/d

Thousand barrels per day.

mboe/d

Thousand barrels of oil equivalent per day.

mmboe

Million barrels of oil equivalent.

mmBtu

Million British thermal units.

mmcf

Million cubic feet.

mmcf/d

Million cubic feet per day.

MW

Megawatt.

p.l.c. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiaries, and information in this document reflects 100% of the assets and operations of the company and its subsidiaries that were consolidated at the date or for the periods indicated, including non-controlling interests.

BP s primary share listing is the London Stock Exchange. Ordinary shares are also traded on the Frankfurt Stock Exchange in Germany and, in the US, the company s securities are traded on the New York Stock Exchange (NYSE) in the form of ADSs (see page 274 for more details).

The term shareholder in this report means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and indirect. As BP shares, in the form of ADSs, are listed on the NYSE, an Annual Report on Form 20-F is filed with the US Securities and Exchange Commission (SEC). Ordinary shares are ordinary fully paid shares in BP p.l.c. of 25 cents each. Preference shares are cumulative first preference shares and cumulative second preference shares in BP p.l.c. of £1 each.

Trade marks of the BP group appear throughout this Annual Report and Form 20-F in italics.

They include:

Aral

ARCO

BP

Castrol

Castrol EDGE

Field of the Future

Fluid Strength Technology

Hummingbird

LoSal

Project 20K

SaaBre

Veba Combi-Cracking (VCC)

Permasense is a trade mark of Permasense Limited.

Pick n Pay is a registered trademark of Pick n Pay Stores Limited.

NGLs

Natural gas liquids.

PSA

Production-sharing agreement.

RC

Replacement cost.

SEC

The United States Securities and Exchange Commission.

Therm

100,000 British thermal units.

Tonne

2,204.6 pounds.

Registered office and our worldwide headquarters:

BP p.l.c.

1 St James s Square

London SW1Y 4PD

UK

Tel +44 (0)20 7496 4000

Registered in England and Wales No. 102498.

Stock exchange symbol BP .

Our agent in the US:

BP America Inc.

501 Westlake Park Boulevard

Houston, Texas 77079

US

Tel +1 281 366 2000

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BP at a glance

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BP around the world

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Chairman s letter

10-year dividend history

UK (pence per ordinary share)

US (cents per ADS)

One ADS represents six 25 cent ordinary shares.

Dear fellow shareholder,

In 2013 BP continued the programme of renewal we began following the crisis of 2010. The measures taken to secure and reshape the group are taking hold. As this report shows, BP is stronger and safer as a result.

Change within the group has taken place against the backdrop of a rapidly evolving world. The energy landscape is developing at pace, for example, the growth of shale gas in the US. But the long-term supply challenge has not gone away. More energy is required to meet the needs and aspirations of a rising global population. The *BP Energy Outlook* projects an average increase in energy demand of 1.5% per year through to 2035. That s like adding the needs of a country twice the size of the US over the next twenty years.

We are also seeing that society has ever higher expectations of business. This is reflected in the increasing scrutiny placed on the commercial sector, particularly by politicians and the media. Companies must work hard to maintain people s trust and respect.

Shareholders expectations are shifting too, particularly in the extractive industries sector. Some investors feel that international oil companies have spent too much for too little return. A decade of mergers and acquisitions in our industry has generated little production growth. Capital expenditure has increased but profit margins have been squeezed. Rightly, shareholders expect better returns.

The board recognizes this changing world and the importance of our response. Throughout 2013 we gave close attention to strategy, project appraisal and capital discipline, working with Bob Dudley and his team to ensure the group spends its money wisely. BP s strategy is rooted in three imperatives: clear priorities, a quality portfolio and distinctive capabilities.

Our first clear priority is to run safe and reliable operations. We must also make disciplined financial choices, selecting the smart options that can help meet demand and generate value. Furthermore, we must be competitive in how we execute our projects.

Our quality portfolio, which is at the core of our strategy, is the result of the choices we make. It contains assets that enable us to play to our areas of greatest strength, from exploration to high-value upstream projects particularly deepwater operations, giant fields and gas value chains and high-quality downstream businesses.

To these assets and activities we apply our distinctive capabilities the expertise of our people, advanced technology and the ability to build the strong relationships required to access resources and deliver complex projects.

In all of this, we are focused on value before volume. In other words we don t simply chase production for the sake of it, rather we choose projects where we can generate the most value through our production.

We know we must be disciplined, sticking to clear limits on capital expenditure, and balancing rewards for shareholders today with the long-term capital investment required for tomorrow. Safety and strong governance must underpin everything we do.

2013 was a busy and successful year for BP, with progress in our underlying operations. Our growing confidence was reflected in the dividend increase announced in October

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Board performance

For information about the board and its committees see page 71.

Remuneration

For information about our approach to executive directors remuneration see page 20.

Top: Members of BP s safety, ethics and environment assurance committee (SEEAC) visited Canada to see the oil sands operations at the Sunrise project site and meet local community leaders and staff.

Bottom: Members of SEEAC travelled to the Gelsenkirchen refinery in Germany to speak with apprentices and control room operators about risk management and processes.

2013 the third increase in two years. We also returned value to shareholders through the $8-billion share repurchase programme announced in March 2013. Additional distributions are planned as we make further divestments to reshape our portfolio. The milestones set for 2014 will be an important measure of progress and your board is monitoring this closely.

I am particularly pleased that in 2013 we completed our transaction with Rosneft, closing one chapter in Russia and opening another. This is an important investment with the potential to create substantial value for BP over the years to come.

2013 also saw the shocking attack at the In Amenas facility in Algeria. Our thoughts remain with the families and friends of those who died. The response of management to this tragedy was strong and the board acted positively and promptly.

We continue to address uncertainty in the US. In 2013, we once again met our responsibilities to the region by paying legitimate claims arising from the 2010 accident and oil spill in the Gulf of Mexico. And we met our responsibilities to shareholders by challenging and resisting any attempt to take advantage of BP with claims that are not legitimate. We will fight through the courts until matters are resolved properly, however long that takes. In the meantime, the board is working to ensure that BP is not distracted from growing the business and creating shareholder value.

Boards set the tone and values that shape performance and behaviour over the long term. An effective board creates an enduring framework within which management can lead. Having been through challenging times, the BP board has grown into a strong team with experienced non-executives drawn from relevant industries. This year, more than ever, they have been out to see BP s operations for themselves, from India to Indiana. We continue to be assisted on geopolitical matters by the international advisory board.

Our approach to governance has enabled us to focus on critical strategic issues, with our board committees taking on the many oversight and compliance matters that require attention.

Remuneration continues to be a board matter of particular importance to shareholders, with executive pay policy now subject to a vote at the annual general meeting. BP has a record of ensuring there are clear links between strategy, performance and remuneration. This will continue.

I believe diversity helps to strengthen the effectiveness of a board. We plan succession well ahead and are developing a pipeline of potential board candidates. We are committed to progress and finding the right people for our board.

I would like to end by thanking you, our shareholders, for your continued support. I also want to acknowledge the people who drive your company forward every working day. From Bob Dudley and his management team to employees across the business; our people are doing a great job of transforming BP. Their hard work has moved us forward, with the promise of more to come.

Carl-Henric Svanberg

Chairman

6 March 2014

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Group chief executive s letter

95.3%

2013 refining availability.

129%

Reserves replacement ratio, excluding the impact of acquisitions and divestments.

See footnote b on page 14.

Dear fellow shareholder,

For BP, 2013 was a year of good progress in building a safer, stronger and better performing company. We made new discoveries, started up new operations, strengthened our portfolio and secured a new future in Russia. We also maintained our investment in the US while standing up for what we believe to be right.

Within BP, sadly, 2013 will also be remembered for the terrorist attack in Algeria in January, when four staff members and 36 colleagues from other companies were killed. Those who died had many friends in BP and our thoughts remain with their loved ones, and with those who survived that terrible ordeal. I was proud of the way people in BP responded with great compassion, but also with great fortitude.

This report contains a wealth of information on our performance. I would like to draw out a few of the year s highlights, all of which demonstrate how we are implementing our strategy, with its emphasis on clear priorities, a quality portfolio and distinctive capabilities.

Clear priorities: safety, capital discipline, project execution

The first of our priorities is to run safe and reliable operations. In 2013 we made good progress overall, but unfortunately we also suffered two driving-related fatalities as well as the loss of the four employees murdered at In Amenas. Our thoughts are with those who have been bereaved. We will implement the lessons learned.

In terms of general safety performance, however, we saw some encouraging progress. The number of tier 1 process safety events the most significant incidents fell to 20 from 43 in 2012 and 74 in 2011. We are definitely heading in the right direction, but there is always more to do and we remain vigilant.

We also saw improvements in measures that reflect the underlying health of our business. For example, in upstream BP-operated plant efficiency[a] reached 88%, and refining availability in downstream averaged 95.3% the highest level for 10 years. These numbers reinforce my view that safety and value have the same roots: systematic, disciplined operations, undertaken by people who respect each other and work as one team.

In terms of capital discipline, in 2013 we invested $24.6 billion[b], which kept us within our $25-billion limit, and we expect to keep capital expenditure broadly the same in 2014. We know we have to invest wisely so we maintain our shareholders trust.

Turning to project execution, we saw three upstream major projects start up in 2013 in the Gulf of Mexico, Angola and Australia. Three more followed closely in the first months of 2014 the Chirag oil project in Azerbaijan and the Mars B and Na Kika Phase 3 projects in the Gulf of Mexico.

Quality portfolio

Beyond these start-ups, we extended our portfolio as a platform for growth in several other ways.

For example, we grew our exploration position by participating in seven potentially commercial discoveries, in Angola, Brazil, Egypt, India and the Gulf of Mexico. We also drilled 17 exploration wells, more than in the previous two years put together. BP has built up great skills in finding oil and gas and we are seeing the results of investing in our explorers.

And in the US lower 48 which excludes Alaska and Hawaii we intend to create a separate BP business to manage our onshore oil and gas assets, which we believe will help to unlock the significant value associated with our extensive resource position there.

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Our strategy

For more on our strategic priorities and

longer-term objectives see page 13.

Our reserves replacement ratio was 129% of production. When we include the net growth in our Russian portfolio as a result of the change of our holdings, the reserves replacement ratio on a combined basis was 199%.[c]

In the Downstream, we completed the commissioning of all major units for the Whiting refinery. This landmark modernization programme, our fourth major project start-up in 2013, is turning what began as a 19th century plant into a truly 21st century one. It is now able to compete strongly by processing a wide range of crudes, including heavy oil from Canada.

Top: Bob Dudley and Iraq Oil Minister Abdul Karim Al Luaibi (right) being shown the first meter to be installed on one of the wells in Kirkuk. In October BP signed an agreement with the government of Iraq on providing technical assistance relating to the Kirkuk oil field.

More generally, our Downstream business has transformed its shape over the last five years. In the US, we have sold two facilities and we now have three modern refineries that are well configured and well connected to important markets. In lubricants, 40% of revenue now comes from our premium brands. In petrochemicals, we are also focusing on high-growth regions and new technologies.

Distinctive capabilities

Bottom: Investors see how BP manages the risks of deepwater drilling at a field trip in Houston. They tested our well simulator which gives rig operators a better understanding of both prevention and response techniques.

New acetic acid and ethylene technologies announced by the petrochemical team in 2013 are among a series of innovations we have developed in support of our exploration, production, refining and marketing activities. These include advanced seismic imaging capacity using one of the world s largest civilian supercomputers enhanced oil recovery techniques and leading lubricant processes.

Our technologies are complemented by the capabilities of our people, which we continue to deepen through training and development, and our experience in building and maintaining relationships.

New future in Russia

Relationships have been vital in securing a new future for BP in Russia as a 19.75% shareholder in Rosneft. Rosneft is implementing its strategy for growth across a promising portfolio and paid us a dividend of $456 million in 2013. We look forward to exploring opportunities

[a] See footnote a on page 25.

[b] Excludes acquisitions and Rosneft transaction.

[c] See page 247 for further information.

for BP to work with Rosneft in the years ahead.

Making our case in the US

BP has continued to meet its commitment to environmental and economic restoration in the Gulf of Mexico. We have also been swift to counter illegitimate claims and to argue for a fair resolution to compensation matters. By the end of the year the total cumulative cost to the company had reached $42.7 billion, the scale of that amount underlining once again that BP is living up to its responsibilities in the region and to the US as a whole. The US remains vitally important to today s BP, with around 20,000 employees across the country and we estimate that our economic activity supports a further 240,000 additional jobs. Nearly 40% of our shares are held in the US, and we invest more there than in any other country.

Looking ahead

We are a smaller but stronger company, having divested $38 billion of assets over three years. In October we announced that we would divest around a further $10 billion of assets before the end of 2015 a decision that reflects our commitment to balancing reinvestment with rewards for our shareholders. We expect to use the proceeds predominantly for distributions to shareholders, with a bias to share buybacks.

Our unrelenting focus on capital discipline and systematic operating is increasing the free cash flow[d] we have available. We are on track to meet our goal of generating more than $30 billion of operating cash flow in 2014, an increase of more than 50% on 2011.[e]

I m looking forward to 2014 with great confidence. I think you will see a re-energized and refocused BP a company that is set to become stronger and safer in every way, as we fulfil our mission of delivering energy to customers and value to shareholders.

Bob Dudley

Group Chief Executive

[d] See footnote c on page 56.

[e] See footnote b on page 56.

6 March 2014

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Our market outlook

We believe that a diverse mix of fuels and technologies will be essential to meet the growing demand for energy and the challenges facing our industry.

Our third PTA plant in Zhuhai, China, is planned to begin production in late 2014. It is expected to bring total capacity at the site to more than 2.7 million tonnes per year.

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Thunder Horse in the Gulf of Mexico is one of the largest integrated offshore drilling and production platforms in the world.

Population and economic growth are the main drivers of global energy demand. The world s population is projected to increase by 1.7 billion from 2012 to 2035, with real income likely to more than double over the same period.

Therefore, the overall trend is likely to be one of increased energy demand, even with energy and climate policies and a shift towards less energy-intense activities in fast-growing economies. We expect demand for energy to increase by as much as 41% between 2012 and 2035.

Challenges and opportunities

We seek energy sources that have the following attributes:

Affordability meeting growing demand for secure and sustainable energy presents an affordability challenge. Fossil fuels will become increasingly difficult to access and many lower-carbon resources will

A diverse mix

We believe a diverse mix of fuels and technologies can enhance national and global energy security while supporting the transition to a lower-carbon economy. These are reasons why BP s portfolio includes oil sands, shale gas, deepwater oil and gas, and biofuels.

Oil and natural gas

Oil and natural gas are likely to play a significant part in meeting demand for several decades.

We believe these energy sources will represent about 54% of total energy consumption in 2035. Even under the International Energy Agency s most ambitious climate policy scenario (the 450 scenario), oil and gas would still make up 47% of the energy mix in 2035.[a] The 450 scenario assumes governments adopt commitments to limit the long-term concentration of greenhouse gases in the atmosphere to 450 parts-per-million of CO_2 equivalent.

remain costly to produce at scale.

Security each country knowing where its supplies will come from. More than 60% of the world s known reserves of natural gas are in just five countries and at least 80% of global oil reserves are located in nine countries, most of which are distant from the hubs of energy consumption. This represents a security challenge in its own right.

Sustainability avoiding an unacceptable environmental and social impact that ultimately negates the economic benefits. While energy is available to meet growing demand, action is needed to limit carbon dioxide (CO_2) and other greenhouse gases emitted through fossil fuel use.

We expect oil to remain the dominant source for transport fuels, accounting for as much as 87% of demand in 2035.

Natural gas, in particular, is likely to play an increasingly strategic role. Shale gas is expected to contribute 47% of the growth in global natural gas supplies between 2012 and 2035. The shale gas revolution has already had a significant impact on gas prices and demand in the US and may encourage similar developments elsewhere although the scale and speed of the roll out of shale gas technology will vary between countries. When used in place of coal for power, natural gas can reduce CO_2 emissions by half.

[a] From *World Energy Outlook 2013.* © OECD/International Energy Agency 2013, page 573.

2013 pricing

See Upstream on page 26 and

Downstream on page 32.

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BP Energy Outlook contains our projections of future energy trends and factors that could affect them, based on our views of likely economic and population growth and developments in policy and technology. Available in PDF, Excel and video format.

See *bp.com/energyoutlook*.

Energy consumption by region

(billion tonnes of oil equivalent)

Source: *BP Energy Outlook 2035.*

Energy consumption by fuel

(billion tonnes of oil equivalent)

* Includes biofuels.

Source: *BP Energy Outlook 2035.*

New sources of hydrocarbons are more difficult to reach, extract and process. BP and others in our industry are working to improve techniques for maximizing recovery from existing and currently inaccessible or undeveloped fields. In many cases, the extraction of these resources might be more energy intensive, which means operating costs and greenhouse gas emissions from operations may also increase.

Renewable energy

Renewables will play an increasingly important role in addressing the challenges of energy security and climate change over the long term. Renewables are already the fastest-growing energy source, but they are starting from a low base.

By 2035, we estimate renewable energy, excluding large-scale hydro electricity, is likely to meet around 7% of total global energy demand.

Energy efficiency and innovation

Greater efficiency addresses several aspects of the energy challenge. It helps with affordability because less energy is needed. It helps with security because it reduces dependence on imports. And it helps with sustainability because it reduces emissions.

of energy resources, mutual benefits for resource owners and development partners, and an appropriate legal and regulatory environment.

We believe open and competitive markets are the most effective way to encourage companies to find, produce and distribute diverse forms of energy sustainably. The US experience with shale gas shows how an open and competitive environment can drive technological innovation and unlock resources.

We also believe that putting a price on carbon one that treats all carbon equally, whether it comes out of a smokestack or a car exhaust will make energy efficiency and conservation more attractive to businesses and individuals and lower-carbon energy sources more cost competitive. A global carbon price should be the long-term goal, but regional and national approaches are a good first step, provided temporary financial relief is given to sectors that are exposed to international competition.

Beyond 2035

We expect that growing population and per capita incomes will continue to drive growing demand for energy. These dynamics will be

Innovation can play a key role in improving technology design, process and use of materials, bringing down cost and increasing efficiency. In transport, for example, we believe that efficient technologies and combustion engines that use biofuels could offer the most cost-effective pathway to a secure, lower-carbon future.

Policy, prices and access

If the world s growing demand for energy is to be met in a sustainable way, we believe that governments must set a stable and enduring framework for the private sector to invest and for consumers to choose wisely. This includes secure access for exploration and development

shaped by future technology developments, changes in tastes, and future policy choices all of which are inherently uncertain. Concerns about energy security, affordability and environmental impacts are all likely to be important considerations. These factors may accelerate the trend towards more diverse sources of energy supply, a lower average carbon footprint, increased efficiency and demand management.

Strategy

Find out how BP can help meet energy

demand for years to come on

page 13.

Air BP is one of the world s largest aviation fuels suppliers, marketing aviation fuels and specialist products in more than 45 countries. It sells over seven billion gallons of fuel per year.

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Our business model

We aim to create shareholder value across the

hydrocarbon value chain.

Toledo refinery in Ohio has been in constant operation since 1919. The facility has the capacity to process up to 160,000 barrels of crude per day.

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The redevelopment project at Valhall was one of
BP s most complex field expansion developments and gives the field a further
40-year design life.

A rising global population and increasing levels of prosperity are set to create growing demand for energy for years to come. We can help to meet that demand by producing oil and gas safely and reliably.

We believe that the best way to achieve sustainable success as a group is to act in the long-term interests of our shareholders, our partners and society. We aim to create value for our investors and benefits for the communities and societies in which we operate, with the responsible supply of energy playing a vital role in economic development.

Every stage of the hydrocarbon value chain offers opportunities for us to create value both through the successful execution of activities that are core to our industry, and through the application of our own distinctive strengths and capabilities in performing those activities. In renewable energy our focus is on integrating biofuels into the hydrocarbon value chain, and on wind operations in the US.

Our approach spans everything from exploration to marketing. Integration across the group allows us to share functional excellence more efficiently across areas such as safety and operational risk, environmental and social practices, procurement, technology and treasury management.

A relentless focus on safety remains the top priority for everyone at BP. Rigorous management of risk helps to protect the people at the front line, the places in which we operate and the value we create. We understand that operating in politically complex regions and technically demanding geographies requires particular sensitivity to local environments.

Our businesses

For more information on our upstream,

downstream and alternative energy

businesses, see pages 25, 31 and 37

respectively.

Our business model

Finding oil and gas	Developing and extracting	Transporting and trading	Manufacturing and marketing
First, we acquire the rights to explore for oil and gas. Through our exploration activities we are able to renew our portfolio, discover new resources and replenish our development options.	When we find hydrocarbon resources, we create value by seeking to progress them into proved reserves or by divesting if they do not fit with our strategy. If we believe developing and producing the reserves will be advantageous for BP, we produce the oil and gas, then sell it to the market or distribute it to our downstream facilities.	We move oil and gas through pipelines and by ship, truck and train. Using our trading and supply skills and knowledge, we buy and sell at each stage in the value chain. Our presence across major trading hubs gives us a good understanding of regional and international markets and allows us to create value through entrepreneurial trading.	Using our technology and expertise, we manufacture fuels and products, creating value by seeking to operate a high-quality portfolio of well- located assets safely, reliably and efficiently. We market our products to consumers and other end-users and add value through the strength of our brands.

Our illustrated business model see page 2.

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Our strategy

Our goal is to be a focused oil and gas company that delivers value over volume.

[a] See footnote a on page 56.

[b] Equivalent to net cash used in investing activities.

[c] See footnote c on page 56.

[d] See footnote h on page 24.

[e] Excludes acquisitions and asset exchanges.

[f] Unit cash margin is net cash provided by operating activities

by the relevant projects in our Upstream segment, divided

by the total number of barrels of oil equivalent produced

for the relevant projects.

[g] Assuming a constant oil price of $100 per barrel.

[h] See footnote b on page 56.

[i] See footnote d on page 56.

We are pursuing our strategy by setting clear priorities, actively managing a quality portfolio and employing our distinctive capabilities. Our financial objective is to create shareholder value by generating sustainable free cash flow (operating cash flow less net investment). This disciplined approach enables us to invest for the future while aiming to increase distributions to our investors.

Clear priorities

First, we aim to run safe, reliable and compliant operations leading to better operational efficiency and safety performance. We also aim to achieve competitive project execution, which is about delivering projects efficiently so they are on time and on budget. And we aim to make disciplined financial choices, so we can achieve continued growth in operating cash from our underlying businesses and disciplined allocation of capital.

Quality portfolio

Our portfolio of projects and operations is focused where we can generate the most value, and not necessarily the most volume, through our production.

Distinctive capabilities

Our ability to deliver against our priorities and build the right portfolio depends on our distinctive capabilities. We apply advanced technology across the hydrocarbon value chain, from finding resources to developing energy-efficient and high-performance products for customers. We rely on our strong relationships with governments, partners, civil society and others to enable our operations in around 80 countries across the globe. And, the proven expertise of our employees comes to the fore in a wide range of disciplines.

Our strategy in action

See page 14 for more information

on how we are going to measure our

We undertake active portfolio management to concentrate on areas where we can play to our strengths. This means we continue to grow our exploration position, reloading our upstream pipeline. We focus on high-value upstream assets in deepwater, giant fields and selected gas value chains. And, with our downstream businesses, we plan to leverage our newly upgraded assets, customer relationships and technology to grow free cash flow.

progress.

10-point plan 2011-2014

In 2011 we laid out a 10-point plan designed to stabilize the company and restore trust and value in response to the tragic Deepwater Horizon accident. Our priority was to make BP a safer, more risk-aware business. The plan included a series of milestones by which our progress could be tracked, from 2012 through to 2014. Information on our progress during 2013 can be found in Group performance on page 22.

1 A relentless focus on safety and managing risk through the systematic application of global standards.

2 We will play to our strengths in exploration, deep water, giant fields and gas value chains.

3 Stronger and more focused with an asset base that is high graded and higher performing.

4 Simpler and more standardized with fewer assets and operations in fewer countries; more streamlined internal reward and performance

6 Active portfolio management to continue by completing $38 billion of disposals over the four years to the end of 2013, in order to focus on our strengths.

7 We expect to bring new upstream projects onstream with unit operating cash margins[f] around double the 2011 average by 2014.[g]

8 We are aiming to generate an increase of around 50% in net cash provided by operating activities by 2014 compared with 2011.[h]

management processes.

5 Improved transparency through reporting TNK-BP as a separate segment and breaking out the numbers for the three downstream businesses.

9 We intend to use half our incremental operating cash for reinvestment, half for other purposes.

10 Strong balance sheet with intention to target our level of gearing[i] in the lower half of the 10-20% range over time.

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Our strategy in action

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We prioritize the safety and reliability of our operations to protect the welfare of our workforce and the environment. This also helps preserve value and secure our right to operate around the world.	Recordable injury frequency, loss of primary containment, greenhouse gas emissions, tier 1 process safety events.	**A commitment to safe operations** Toledo refinery sets a safety record. See page 42.	**31** fewer reported losses of primary containment than 2012.
We rigorously screen our investments and we work to keep our annual capital expenditure within a set range. Ongoing management of our portfolio helps ensure focus on more value-driven propositions. We balance funds between shareholder distributions and investment for the future.	Operating cash flow, gearing[a], total shareholder return, replacement cost profit (loss) per ordinary share.	**Maximizing value at Mad Dog** Changing plans to make the best financial choices. See page 29.	**$21.1bn** operating cash flow.
We seek efficient ways to deliver projects on time and on budget, from planning through to day-to-day operations. Our wide-ranging project experience makes us a valued partner and enhances our ability to compete.	Major project delivery.	**Increasing oil production in Azerbaijan** Local construction of BP s heaviest platform in the Caspian Sea. See page 48.	**4** major project start-ups in Upstream and Downstream.
We target basins and prospects with the greatest potential to create value, using our leading subsurface capabilities. This allows us to build a strong pipeline of future growth opportunities.	Reserves replacement ratio.[b]	**Discovering gas in India** Two significant discoveries with Reliance Industries.	**129%** reserves replacement ratio.

See page 30.

We are strengthening our portfolio of high return and longer life assets across deep water, giant fields and gas value chains to provide BP with momentum for decades to come.	Production.[c]	**Preparing for Shah Deniz Stage 2** Largest gas sales contracts in Azerbaijan s history.	**3.2** million barrels of oil equivalent per day.

See page 27.

We benefit from our high-performing fuels, lubricants, petrochemicals and biofuels businesses. Through premium products, powerful brands and supply and trading, Downstream provides strong cash generation for the group.	Refining availability.	**Creating our North American advantaged refinery** Modernization project improves utilization and margin capture at Whiting.	**95.3%** refining availability.

See page 33.

Creating shareholder value by generating

sustainable free cash flow

Advanced technology

We develop and deploy technologies we expect to make the greatest impact on our businesses from enhancing the safety and reliability of our operations to creating competitive advantage in energy discovery,

Strong relationships

We form enduring partnerships in the countries in which we operate, building strong relationships with governments, customers, partners such as Rosneft, suppliers and communities to create mutual

Proven expertise

We attract and develop the talented people required to drive our business forward.

They apply their diverse skills and expertise to deliver complex projects across recovery, efficiency and products.

advantage.
Co-operation helps unlock resources found in challenging locations and transforms them into products for our customers.

all areas of our business.

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Our distinctive capabilities

We use technology to find and produce more hydrocarbons, improve our processes for converting raw materials and develop lower-carbon products.

The development of technology from research and development through to wide-scale deployment can take several years. For example, to reach the next generation of deepwater oil reserves, where rock pressures can reach 20,000 pounds per square inch, we are developing new subsea technologies through our *Project 20K*.

Technology programmes in our upstream business include advanced seismic imaging to help us find more oil and gas and enhanced oil recovery to get more from existing fields. New techniques are making recovery of unconventional oil and gas, like shale, economically viable.

See *bp.com/technology.*

We focus our downstream technology programmes on the safety, integrity and performance of our refineries and petrochemical plants and on creating high quality, energy efficient, cleaner fuels, lubricants and petrochemicals.

BP employs more than 2,000 scientists and technologists.

Our long-term research programmes with universities and research institutions around the world are exploring areas from reservoir fluid flow to energy biosciences. We have a strategic approach to university relationships across our portfolio for the purposes of research, recruitment, policy insights and education.

In 2013 we invested $707 million in research and development (2012 $674 million). See Financial statements Note 8.

Seismic imaging

We use our imaging expertise to increase the productivity and quality of the data we capture on land and offshore. With 80% of future offshore oil and gas reserves thought to be

Enhanced oil recovery (EOR)

Our *LoSal* EOR technology can help develop previously unexploited resources from existing oil fields. *LoSal* uses water with a low salt content to release more molecules of

The Pangbourne technology centre is home to chemists and liquid engineers dedicated to providing products and services for *Castrol* s customers.

under salt canopies up to 7 kilometres high, our new supercomputer in Houston helps to reduce the completion times for imaging jobs from several months to a matter of days.

oil from the sandstone rock where they are held.

Production optimization

Our *Field of the Future* technologies provide real-time information to help manage operational risk, improve plant equipment reliability and optimize production. We use these technologies to monitor more than 600 wells.

Shipping efficiency

Our virtual arrival system can reduce fuel consumption and emissions by allowing vessels, ports and other parties to work together and agree an optimum arrival time for each vessel.

Our employees enable BP to deliver our strategy and meet our commitments to investors, partners and the wider world.

Our people are talented in a wide range of disciplines, from geoscience, mechanical engineering and research technology to government affairs, trading, marketing, legal and others. And our approach to professional development programmes and training helps build individual capabilities, reducing a potential skills gap. This is vital in a world where oil and gas companies face an increasing challenge to find and retain skilled and experienced people.

We aim to achieve a balance between building internal expertise and recruiting external professionals and graduates. We have a strong, experienced leadership team and a pipeline of talent for the future.

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Improved conversion

Our *Veba Combi-Cracking* technology converts a wide variety of raw materials, ranging from crude oil residue to mixtures of coal and oil, into fuels. Using this technology we can convert 95% or more of our hydrocarbon resources to marketable products.

Corrosion prevention

Wireless Permasense® systems, developed in collaboration with Imperial College, London, are used across all our refineries to monitor the integrity of critical oil and gas assets.

Fuels and lubricants

We focus on providing energy-efficient and high-performance products to customers. *Castrol EDGE,* which is underpinned by our proprietary *Fluid Strength Technology,* reduces contact between engine surfaces to improve performance and reduce wear from friction.

Petrochemicals

Our *SaaBre* technology converts synthesis gas (carbon monoxide and hydrogen derived from hydrocarbons) into acetic acid. The process avoids the need to purify carbon monoxide or purchase methanol, reducing manufacturing costs and environmental impacts.

Biofuels

Conversion technology allows us to produce cellulosic ethanol using alternative raw materials such as agricultural waste and fast-growing energy grasses. At our biofuels technology centre in San Diego around 120 scientists are researching and advancing new biofuels technologies.

Our relationships are crucial to the success of our business. We work closely with governments, national oil companies and other resource holders. By acting responsibly and meeting our obligations we build long-lasting relationships.

From experience we know that trust can be lost, so we place enormous importance on meeting people s

contractors. Our activity creates value that benefits governments, customers, local communities and other partners.

Internally we put together collaborative teams of people with the skills and experience needed to address complex issues, work effectively with our partners and help create shared value.

expectations. We work in partnership on big and complex projects with everyone from other oil companies through to suppliers and

Our key performance indicators

We assess the group s performance according to a wide range of measures and indicators. Our key performance indicators (KPIs) help the board and executive management measure performance against our strategic priorities and business plans. We keep these metrics under periodic review and test their relevance to our strategy regularly. We believe non-financial measures such as safety and an engaged and diverse workforce have a useful role to play as leading indicators of future performance.

Changes to KPIs

This year, we introduced two new KPIs: tier 1 process safety events and major project delivery. These demonstrate two of our strategic objectives and are used as measures for executive remuneration.

We have removed the number of oil spills as a group KPI as this is reflected within the loss of primary containment and tier 1 process safety events KPIs. We continue to report on oil spills, see Safety on page 41.

Replacement cost profit (loss) per ordinary share (cents)

Replacement cost profit (loss) is a useful measure for investors because it is a profitability measure BP management use to assess performance and allocate resources.

It reflects the replacement cost of supplies and is calculated by removing inventory holding gains and losses and their associated tax effect from profit. This is a non-GAAP measure for the group. The IFRS equivalent can be found on page 236.

2013 performance The increase in replacement cost profit per ordinary share for the year compared with 2012 reflected the gain on disposal of our interest in TNK-BP.

Operating cash flow ($ billion)

Operating cash flow is net cash flow provided by operating activities, from the group cash flow statement. Operating activities are the principal revenue-generating activities of the group and other activities that are not investing or financing activities.

2013 performance Higher operating cash flow in 2013 reflected a lower cash outflow relating to the Gulf of Mexico oil spill, partly offset by higher cash outflows as a result of working capital build.

Gearing (net debt ratio) (%)

Our gearing (net debt ratio) shows investors how significant net debt is relative to equity from shareholders in funding BP s operations.

We aim to keep our gearing within the 10-20% range to give us the flexibility to deal with an uncertain environment.

Gearing is calculated by dividing net debt by total equity plus net debt. Net debt is equal to gross finance debt, plus associated derivative financial instruments, less cash and cash equivalents. Net debt and net debt ratio are non-GAAP measures. See Financial statements Note 28 for the nearest equivalent measure on an IFRS basis and for further information.

2013 performance
Gearing at the end of 2013 was 16.2%, down 2.5% on 2012 and within our target band of 10-20%.

Remuneration

To help align the focus of our board and executive management with the interests of our shareholders, certain measures are reflected in the variable elements of executive remuneration.

Overall annual bonuses, deferred bonuses and performance shares are all based on performance against measures and targets linked directly to strategy and KPIs. For details of our remuneration policy see page 96.

KPIs used to measure progress against our strategy.

KPIs used to determine 2013 and 2014 remuneration.

Refining availability (%)

Refining availability represents Solomon Associates operational availability. The measure shows the percentage of the year that a unit is available for processing after deducting the time spent on turnaround activity and all mechanical, process and regulatory maintenance downtime.

Refining availability is an important indicator of the operational performance of our Downstream businesses.

2013 performance
Refining availability increased by 0.5% from 2012 to 95.3% reflecting strong operations around our global refining portfolio.

Reported recordable injury frequency[a]

Reported recordable injury frequency (RIF) measures the number of reported work-related employee and contractor incidents that result in a fatality or injury (apart from minor first aid cases) per 200,000 hours worked.

The measure gives an indication of the personal safety of our workforce.

2013 performance Our workforce RIF, which includes employees and contractors combined, was 0.31, compared with 0.35 in 2012 and 0.36 in 2011. These successive reductions are encouraging and we continue pursuing improvement in personal safety.

Loss of primary containment[a]

Loss of primary containment (LOPC) is the number of unplanned or uncontrolled releases of oil, gas or other hazardous materials from a tank, vessel, pipe, railcar or other equipment used for containment or transfer.

By tracking these losses we can monitor the safety and efficiency of our operations as well as our progress in making improvements.

2013 performance Our reported LOPC shows 31 fewer reported incidents in 2013 than in 2012, with divestments accounting for a significant part of the reduction. We remain committed to using our operating management system to further improve our operations.

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Total shareholder return (%)

Total shareholder return (TSR) represents the change in value of a BP shareholding over a calendar year. It assumes that dividends are re-invested to purchase additional shares at the closing price on the ex-dividend date.

We are committed to maintaining a progressive and sustainable dividend policy.

2013 performance TSR grew as a result of increases in both the BP share price and in the dividend, with the improvement for ordinary shares slightly offset by exchange rate effects.

Reserves replacement ratio (%)

Proved reserves replacement ratio is the extent to which the year s production has been replaced by proved reserves added to our reserve base.

The ratio is expressed in oil-equivalent terms and includes changes resulting from discoveries, improved recovery and extensions and revisions to previous estimates, but excludes changes resulting from acquisitions and disposals. The ratio reflects both subsidiaries and equity-accounted entities.

The measure helps to demonstrate our success in accessing, exploring and extracting resources.

2013 performance The increase in our reserves replacement ratio included the impact of final investment decisions on two significant upstream projects in Oman and

Major project delivery

Major projects are defined as large-scale projects with a high degree of complexity and a BP net investment of at least $250 million.

We monitor the progress of our major projects to gauge whether we are delivering our core pipeline of activity. Projects take many years to complete, requiring differing amounts of resource, so a smooth or increasing trend should not be anticipated.

2013 performance In total we delivered four major projects. Three started up in Upstream Atlantis North expansion Phase 1 in the Gulf of Mexico; Angola LNG; and North Rankin Phase 2 in Australia, and one in Downstream the Whiting refinery modernization project.

Production (mboe/d)

We report the volume of crude oil, condensate, natural gas liquids (NGLs) and natural gas produced by subsidiaries and equity-accounted entities. These are converted to barrels of oil equivalent (boe) at 1 barrel of NGL = 1boe and 5,800 standard cubic feet of natural gas = 1boe.

2013 performance BP s total reported production including our Upstream segment, and our share of TNK-BP (from 1 January to 20 March) and Rosneft (from 21 March to 31 December), was 3% lower than in 2012. This was mainly due to the effect of divestments in Upstream.

Azerbaijan.

Tier 1 process safety events[a]

We report tier 1 process safety events (PSE), which are the losses of primary containment of greatest consequence causing harm to a member of the workforce, costly damage to equipment or exceeding defined quantities.

2013 performance Our reduction in reported tier 1 PSEs is supported by our efforts to drive improvement in process safety. Divestments also account for part of the reduction. We are aware there is always more to do to improve.

[a] This represents reported incidents occurring within BP s operational HSSE reporting boundary. That boundary includes BP s own operated facilities and certain other locations or situations.

Greenhouse gas emissions

(million tonnes of CO_2 equivalent)

We report greenhouse gas (GHG) emissions material to our business on a carbon dioxide-equivalent basis. This includes CO_2 and methane for direct emissions.[b] Our GHG reporting encompasses all BP s consolidated entities as well as our share of equity-accounted entities other than BP s share of TNK-BP and Rosneft. Rosneft s emissions data can be found on its website.

2013 performance Our total greenhouse gas emissions decreased by 18%, primarily due to the divestment of our Texas City and Carson refineries.

[b] For indirect emissions data see page 45.

Group priorities engagement[c] (%)

We track how engaged our employees are with our strategic priorities for building long-term value. The measure is derived from answers to 12 questions about BP as a company and how it is managed in terms of leadership and standards.

2013 performance We saw continued improvement in 2013, and there was an increase in understanding of our operating management system, an area of focus identified the previous year. While the survey showed an increase in employee confidence in BP s leadership, work is needed to further strengthen this.

[c] Relates to BP employees.

Diversity and inclusion[c] [d] (%)

Each year we report the percentage of women and individuals from countries other than the UK and US among BP s group leaders.

This means we can track progress in building a diverse and well-balanced leadership team, helping to create a sustainable pipeline of diverse talent for the future.

2013 performance We have increased the percentage of female leaders again this year and have extended our focus on diversity and inclusion beyond the board and group leaders to include other levels of management.

[d] Minor amendments have been made to 2012.

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Our approach to executive

directors remuneration

Remuneration is directly linked to strategy and performance, with

particular emphasis on matching rewards to results over the long term.

A simple approach

Total remuneration is determined by a relatively simple approach to attract and retain high calibre executives. The largest components are share based and vest over a number of years further aligning executives interests with those of our shareholders.

Underpinned by six key principles

The remuneration policy for executive directors and the

decisions of the remuneration committee of the board

are guided by six key principles:

1 Linked to strategy

A substantial portion of executive remuneration is linked to success in implementing the company s strategy.

Strategic priorities and group key performance indicators (KPIs) provide key metrics for the performance shares and deferred bonus, and are focused through the annual plan to provide the measures for annual bonus.

2 Performance related

The major part of total remuneration varies with performance, with the largest elements share based, further aligning interests with shareholders.

High pay requires high performance. Achieving the maximum pay requires sustained high performance over several years.

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3 Long-term based

The structure of pay is designed to reflect the long-term nature of BP s business and the significance of safety and environmental risks.

The largest components of total remuneration are share based and vest over the longest period. The deferred bonus plan requires sustained safety and environmental performance

over three years. The matched shares that vest under the plan have an additional three-year retention period, resulting in a six-year time frame. Similarly, performance shares have a six-year time frame a three-year performance period followed by an additional three-year retention period for those shares that vest.

4 Informed judgement

There are quantitative and qualitative assessments of performance with the remuneration committee making informed judgements within a framework approved by shareholders.

The committee has a preference for quantifiable targets that can be factually measured and objectively assessed according to well understood principles and definitions. It seeks the views of other relevant committees when arriving at conclusions. It is not constrained when conditions change requiring different perspectives or when unanticipated events, both good and bad, occur.

5 Shareholder engagement

The remuneration committee actively seeks to understand shareholder preferences and be transparent in explaining its policy and practice.

During 2013 the remuneration committee chairman met personally with shareholders representing nearly 15% of total outstanding shares. A number of adjustments to policy were made in response to the feedback received (see page 82).

94%

of votes cast were in favour of the 2012 Directors remuneration report.

6 Fair treatment

Total overall pay takes account of both the external market and company conditions to achieve a balanced, fair outcome.

The committee attempts to balance sometimes conflicting perspectives to arrive at total pay results that not only reflect performance relative to strategy, but also are deemed fair by external stakeholders and employees, as well as the executive team.

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Group performance

Our progress in 2013 has set us up well to deliver our 10-point plan and forms the foundations for delivering value in the long term.

~

In May we completed the successful commissioning of a state-of-the-art diesel hydrotreater and hydrogen plant at the Cherry Point refinery in Washington state.

{

The Mad Dog field in the Gulf of Mexico was discovered in 1998 and is one of BP s largest discoveries in the Gulf of Mexico to date.

We continued to operate within a disciplined financial framework in 2013 with organic capital expenditure[a] of $24.6 billion (within the expected $24-$25 billion range). Upstream BP-operated plant efficiency[b] of 88% and strong refining availability of 95.3% in Downstream demonstrated our progress in operational efficiency. We completed the transactions to increase our shareholding in Rosneft to 19.75%. And, we are continuing to meet our commitments in the Gulf of Mexico, while making our case in court.

2013-2014 milestones set out in our 10-point plan

Drilling up to 25 wells per year.

g We completed 17 exploration wells and made seven potentially commercial discoveries in 2013. It was our most successful year for exploration drilling in almost a decade.

A further nine major upstream project start-ups.

g Three major projects were started up in 2013 and another three in January and February 2014. We expect a further four major upstream projects to start up in 2014.

Unit operating cash margins[c] from new upstream projects in 2014 are expected to be double the 2011 average.[d]

g We continued to bring on major projects in key regions such as Angola and the Gulf of Mexico.

Bringing onstream the major upgrade to the Whiting refinery in the second half of 2013.

- We completed the commissioning of all major units for the refinery upgrade, transforming it into one of our advantaged downstream assets in our portfolio.

Completing our $38-billion divestment programme by the end of 2013.

- We completed our $38-billion divestment programme in 2012 effectively a year early. In October 2013, we announced our plan to divest a further $10 billion before the end of 2015.

We have a high-value, focused portfolio that plays to our strengths.

- Our divestments have removed complexity, strengthened the balance sheet and left us with a more distinctive set of assets that play to our strengths deep water, gas value chains, giant fields and high-quality downstream businesses.

Increasing overall operating cash flow[e] by 50% in 2014 compared with 2011.[f]

- We are on track to meet our goal of generating more than $30 billion of operating cash flow in 2014.

We expect to use around half of the extra cash for increased investment and around half for other purposes, including increased distributions to shareholders.

- As at 31 December 2013 we had bought back 753 million shares for a total amount of $5.5 billion, including fees and stamp duty, since 22 March 2013. The dividend paid in 2013 was 36.5 cents per share, up 30% compared with the dividend of 28 cents per share paid in 2011.

Segment performance

For Upstream and Downstream performance see pages 25 and 31 respectively.

[a] Organic capital expenditure excludes acquisitions, asset exchanges, and other inorganic capital expenditure.

[b] See footnote a on page 25.

[c] See footnote f on page 13.

[d] See footnote g on page 13.

[e] See footnote a on page 56.

[f] See footnote b on page 56.

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Group performance and outlook

Financial performance

			$ million
	2013	2012	2011
Profit before interest and taxation	**31,769**	19,769	39,815
Finance costs and net finance expense relating to pensions and other post-retirement benefits	**(1,548)**	(1,638)	(1,587)
Taxation	**(6,463)**	(6,880)	(12,619)
Non-controlling interests	**(307)**	(234)	(397)
Profit for the year[a]	**23,451**	11,017	25,212
Inventory holding (gains) losses, net of tax[b]	**230**	411	(1,800)
Replacement cost profit[c]	**23,681**	11,428	23,412
Net charge (credit) for non-operating items[d], net of tax	**(10,533)**	5,298	(2,195)
Net (favourable) unfavourable impact of fair value accounting effects[d], net of tax	**280**	345	(47)
Underlying replacement cost profit[c]	**13,428**	17,071	21,170
Capital expenditure and acquisitions	**36,612**	25,204	31,959

Profit for the year ended 31 December 2013 was $23,451 million. After adjusting for $230 million in respect of inventory holding losses and their associated tax effect, replacement cost (RC) profit was $23,681 million. After further adjusting for a net credit of $10,533 million for non-operating items and unfavourable fair value accounting effects (relative to management s measure of performance) of $280 million, both net of tax, underlying RC profit was $13,428 million.

Non-operating items in 2013, on a pre-tax basis, were mainly relating to the $12.5-billion gain on disposal of TNK-BP partially offset by an $845-million write-off attributable to block BM-CAL-13 offshore Brazil as a result of the Pitanga exploration well not encountering commercial quantities of oil or

gas, impairment charges and further charges associated with the Gulf of Mexico oil spill. More information on non-operating items, and fair value accounting effects, can be found on page 237. See Gulf of Mexico oil spill on page 38 and Financial statements Note 2 for further information on the impact of the Gulf of Mexico oil spill on BP s financial results.

For the year ended 31 December 2012, profit was $11,017 million, RC profit was $11,428 million and underlying RC profit was $17,071 million. There was a net post-tax charge of $5,298 million for non-operating items, which included a $5.0-billion pre-tax charge relating to the Gulf of Mexico oil spill.

Compared with 2012, underlying RC profit in 2013 was impacted by the absence of equity-accounted earnings from TNK-BP and lower earnings from both Downstream and Upstream, partially offset by the equity-accounted earnings from Rosneft from 21 March 2013 (when sale and purchase agreements with Rosneft and Rosneftegaz completed).

For the year ended 31 December 2011, profit was $25,212 million, RC profit was $23,412 million and underlying RC profit was $21,170 million. There was a net post-tax credit for non-operating items of $2,195 million, which included a $3.8-billion pre-tax credit relating to the Gulf of Mexico oil spill.

Compared with 2011, underlying RC profit in 2012 was impacted by significantly lower earnings from Upstream and the absence of equity-accounted earnings from TNK-BP from 22 October 2012 (when our investment was reclassified as an asset held for sale, as required under IFRS), partially offset by improved earnings from Downstream.

See Upstream on page 25, Downstream on page 31, Rosneft on page 35 and Other businesses and corporate on page 37 for further information on segment results.

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

Finance costs comprise interest payable less amounts capitalized, and interest accretion on provisions and long-term other payables.

Net finance expense relating to pensions and other post-retirement benefits in 2013 was $480 million (2012 $566 million, 2011 $400 million).

In 2013, we adopted the revised version of IAS 19 Employee Benefits , under which we apply the same expected rate of return on plan assets as we used to discount our pension liabilities. Financial information for prior periods has been restated see Financial statements Note 1 for further information.

Taxation

The charge for income taxes in 2013 was $6,463 million (2012 $6,880 million, 2011 $12,619 million). The effective tax rate was 21% in 2013 (2012 38%, 2011 33%). The decrease in the effective tax rate in 2013 compared with 2012 primarily relates to the gain on disposal of TNK-BP in 2013 for which there was no corresponding tax charge. The increase in the effective tax rate in 2012 compared with 2011 primarily reflects the impact of the provision for the settlement with the US government relating to the Gulf of Mexico oil spill, which is not tax deductible.

[a] Profit attributable to BP shareholders.

[b] Inventory holding gains and losses represent the difference between the cost of sales calculated using the average cost to BP of supplies acquired during the year and the cost of sales calculated on the first-in first-out (FIFO) method, after adjusting for any changes in provisions where the net realizable value of the inventory is lower than its cost. BP s management believes it is helpful to disclose this information. An analysis of inventory holding gains and losses by segment is shown in Financial statements Note 7 and further information on inventory holding gains and losses is provided on page 269.

[c] Replacement cost (RC) profit or loss reflects the replacement cost of supplies and is arrived at by excluding inventory holding gains and losses from profit or loss. RC profit or loss is the measure of profit or loss for each operating segment that is required to be disclosed under International Financial Reporting Standards (IFRS). RC profit or loss for the group is not a recognized GAAP measure. Underlying RC profit or loss is RC profit or loss after adjusting for non-operating items and fair value accounting effects. Underlying RC profit or loss and fair value accounting effects are not recognized GAAP measures. For further information on RC profit or loss and underlying RC profit or loss, see Certain definitions on page 269.

[d] Non-operating items are charges and credits arising in consolidated entities and in TNK-BP and Rosneft that are included in the financial statements and that BP discloses separately because it considers such disclosures to be meaningful and relevant to investors. The main categories of non-operating items included here are: impairments; gains and losses on sale of businesses and fixed assets; environmental remediation costs; restructuring, integration and rationalization costs; and changes in the fair value of embedded derivatives. Fair value accounting effects are non-GAAP adjustments to our IFRS profit relating to certain physical inventories, pipelines and storage capacity. Management uses a fair-value basis to value these items which, under IFRS, are accounted for on an accruals basis with the exception of trading inventories, which are valued using spot prices. The adjustments have the effect of aligning the valuation basis of the physical positions with that of the derivative instruments, which are required to be fair valued under IFRS, in order to provide a more representative view of the ultimate economic value. See page 238 and Certain definitions on page 269 for more information.

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Operating cash flow

Operating cash flow is net cash provided by operating activities, as presented in the group cash flow statement on page 125. Operating cash flow in 2013 was $21.1 billion (2012 $20.5 billion, 2011 $22.2 billion). Excluding the impact of the Gulf of Mexico oil spill, net operating cash flow in 2013 was $21.2 billion (2012 $22.9 billion, 2011 $29.0 billion).

Shareholder distributions

Total dividends paid in 2013 were 36.5 cents per share, up 11% compared with 2012 on a dollar basis and 12% in sterling terms. This equated to a total cash distribution to shareholders of $5.4 billion during the year.

Group reserves and production

	2013	2012	2011
Estimated net proved reserves			
(net of royalties)[a]			
Liquids[b]			million barrels
Subsidiaries	**4,349**	4,672	5,331
Equity-accounted entities[c]	**5,721**	5,378	5,234
	10,070	10,050	10,565
Natural gas			billion cubic feet
Subsidiaries	**34,187**	33,264	36,381
Equity-accounted entities[c]	**11,788**	7,041	5,278
	45,975	40,305	41,659
Total hydrocarbons[d]			million barrels of oil equivalent
Subsidiaries	**10,243**	10,408	11,604
Equity-accounted entities[c]	**7,753**	6,592	6,144
	17,996	17,000	17,748
Production (net of royalties)[e]			
Liquids[f]			thousand barrels per day
Subsidiaries	**879**	896	992
Equity-accounted entities[g]	**1,134**	1,160	1,165
	2,013	2,056	2,157
Natural gas			million cubic feet per day
Subsidiaries	**5,845**	6,193	6,393
Equity-accounted entities[g]	**1,216**	1,200	1,125
	7,060	7,393	7,518
Total hydrocarbons[d]			thousand barrels of oil equivalent per day
Subsidiaries	**1,887**	1,963	2,094
Equity-accounted entities[g]	**1,343**	1,367	1,360
	3,230	3,331	3,454

[a] Volumes of equity-accounted entities include volumes of equity-accounted investments of those entities.
[b] Liquids comprise crude oil, condensate, NGLs and bitumen.
[c] Includes BP s share of Rosneft and TNK-BP reserves. See Rosneft on page 36 and Supplementary information on oil and natural gas on page 200 for further information.
[d] Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.
[e] Because of rounding, some totals may not agree exactly with the sum of their component parts.
[f] Liquids comprise crude oil, condensate and NGLs.
[g] Includes BP s share of Rosneft and TNK-BP production. See Rosneft on page 36 and Oil and gas disclosures for the group on page 245 for further information.

Total hydrocarbon proved reserves, on an oil equivalent basis including equity-accounted entities, comprised 17,996mmboe (10,243mmboe for subsidiaries and 7,753mmboe for equity-accounted entities) at 31 December 2013, an increase of 6% (decrease of 2% for subsidiaries and increase of 18% for equity-accounted entities) compared with the 31 December 2012 reserves of 17,000mmboe (10,408mmboe for subsidiaries and 6,592mmboe for equity-accounted entities). Natural gas represented about 44% (58% for subsidiaries and 26% for equity-accounted entities) of these reserves. The change includes a net increase from acquisitions and disposals of 641mmboe (200mmboe net decrease for subsidiaries and 841mmboe net increase for equity-accounted entities). Net divestments in our subsidiaries occurred in the UK, the US, China and Canada. We had sales and purchases, as a consequence of our divestment of TNK-BP and investment in Rosneft.

Our total hydrocarbon production during 2013 averaged 3,230 thousand barrels of oil equivalent per day (mboe/d). This comprised 1,887mboe/d for subsidiaries and 1,343mboe/d for equity-accounted entities, a decrease of 4% (decreases of 2% for liquids and 6% for gas) and a decrease of 2% (decrease of 2% for liquids and increase of 1% for gas) respectively compared with 2012.

More information on reserves and production, see Oil and gas disclosures for the group on page 245.

Critical accounting policies

The accounting policies, judgements, estimates and assumptions which most affect the financial statements are described in Note 1 to the financial statements.

Outlook

This discussion contains forward-looking statements, which by their nature involve risk and uncertainty because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of BP. You are urged to read Risk factors on page 51 and Cautionary statement on page 271, which describe the risks and uncertainties that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

We expect net cash provided by operating activities of between $30-$31 billion in 2014.[h]

We expect capital expenditure, excluding acquisitions and asset exchanges, to be around $24-$25 billion in 2014, and between $24-$26 billion in the years 2015 to 2018.

We will continue to target our net debt ratio in the 10-20% range while uncertainties remain. Net debt is a non-GAAP measure.

Depreciation, depletion and amortization in 2014 is expected to be around $1 billion higher than in 2013.

For 2014, the underlying effective tax rate (ETR) (which excludes non-operating items and fair value accounting effects) is expected to be around 35%, which is the same as the underlying ETR in 2013.

[h] Assumes $100/bbl oil and $5/mmBtu Henry Hub gas. The projection includes BP s estimate of the Rosneft dividend and the impact of payments in respect of federal criminal and securities claims with the US government and SEC where settlements have already been reached, but does not reflect any cash flows relating to other liabilities, contingent liabilities, settlements or contingent assets arising from the Gulf of Mexico oil spill, which may or may not arise at that time.

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Upstream

In 2013 we continued to actively manage and simplify our portfolio, strengthening our incumbent positions to provide a platform for growing value.

~

Skarv started up in December 2012 and produces up to 160mboe/d. The field development includes around 50 miles of gas export pipeline that allows export to markets in Europe.

Our business model and strategy

Our Upstream segment is responsible for our activities in oil and natural gas exploration, field development and production, and midstream transportation, storage and processing. We also market and trade natural gas, including liquefied natural gas, power and natural gas liquids. In 2013 our activities took place in 27 countries.

We deliver our exploration, development and production activities through five global technical and operating functions:

- The **exploration** function is responsible for renewing our resource base through access, exploration and appraisal, while the **reservoir development** function is responsible for the stewardship of our resource portfolio.

- The **global wells organization** and the **global projects organization** are responsible for the safe, reliable and compliant execution of wells (drilling and completions) and major projects, respectively.

- The **global operations organization** is responsible for safe, reliable and compliant operations, including upstream production assets and midstream transportation and processing activities.

The delivery of these activities is optimized and integrated with support from global functions with specialist areas of expertise: technology, finance, procurement and supply chain, human resources and information technology.

Technologies such as seismic imaging, enhanced oil recovery and real-time data support our upstream strategy by helping to gain new access, increasing recovery and reserves and improving production efficiency (see Our distinctive capabilities on page 16).

We actively manage our portfolio and are placing increasing emphasis on accessing, developing and producing from fields able to provide the greatest value (this includes those with the potential to make the highest contribution to our operating cash flow). We sell assets that we believe have more value to others. This allows us to focus our leadership, technical resources and organizational capability on the resources we believe are likely to add the most value to our portfolio.

Our strategy is to invest to grow long-term value by continuing to build a portfolio of material, enduring positions in the world s key hydrocarbon basins. Our strategy is enabled by:

A continued focus on safety and the systematic management of risk.

A simpler, more focused portfolio with strengthened incumbent positions and reduced operating complexity.

Playing to our strengths exploration, deep water, giant fields and gas value chains.

An execution model that drives improvement in efficiency and reliability through both operations and investment.

A bias to oil with selective gas value chains focusing on where we have strong core positions, can play in premium growth markets or bring advantaged technology to bear.

Strong relationships built on mutual advantage, deep knowledge of the basins in which we operate, and technology.

Outlook

We have announced plans to establish a separate BP business to manage our onshore oil and gas assets in the US lower 48, which we expect to be operational in early 2015. Our goal is to build a stronger, more competitive and sustainable business that we expect to be a key component of BP s portfolio in the future.

We expect reported production in 2014 to be lower than 2013, mainly due to the expiration of the Abu Dhabi onshore concession, with an impact of around 140mboe/d, and divestments. After adjusting for the impacts of the concession expiry, divestments and entitlement effects in our production-sharing agreements (PSAs), we expect underlying production to be higher in 2014.

In addition to the Chirag oil, Mars B and Na Kika Phase 3 projects, which started up in January and February, we expect a further four major projects to come onstream in 2014, which will contribute to the group s plan to generate an increase of around 50% in operating cash flow in 2014 compared with 2011.[c]

Capital investment in 2014 is expected to increase, largely reflecting the progression of our major projects.

[a] Plant efficiency is the actual production of a plant facility expressed as a percentage of the total achievable installed production capacity of the asset including the reservoir, well, plant and export systems.

[b] Underlying replacement cost (RC) profit before interest and tax is not a recognized GAAP measure. See footnote c on page 23 for further information. The equivalent measure on an IFRS basis is RC profit before interest and tax.

[c] See footnote b on page 56.

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Our markets

	2013	2012	2011
Average oil marker prices[a]			$ per barrel
Brent	**108.66**	111.67	111.26
West Texas Intermediate	**97.99**	94.13	95.04
Average natural gas marker prices	$ per million British thermal units		
Average Henry Hub gas price[b]	**3.65**	2.79	4.04
			pence per therm
Average UK National Balancing Point gas price[a]	**67.99**	59.74	56.33

[a] All traded days average.
[b] Henry Hub First of Month Index.

Crude oil benchmark prices

Brent remains an integral marker to the production portfolio, from which a significant proportion of production is priced directly or indirectly. Certain regions use other local markers, which are derived using differentials or a lagged impact from the Brent crude oil price.

Crude oil prices, as demonstrated by the industry benchmark of dated Brent, averaged $108.66 per barrel in 2013, compared with an average of $111.67 per barrel in 2012. This represented the third consecutive year with the dated Brent average price above $100 per barrel. Prices weakened in early 2013 amid strong growth of light, sweet oil production in the US, but rebounded later in the year due to a range of supply disruptions and heightened market perceptions of risks to supply.

Brent ($/bbl)

Amid continued high oil prices, global oil consumption increased, rising by roughly 1.2 million barrels per day for the year compared with 2012 (1.3%), in part boosted by cold weather early in the year.[c] The growth in consumption was slightly exceeded by growth in non-OPEC production, which was dominated by continued strong growth in US output. However, OPEC crude oil production fell due to ongoing Iran sanctions and renewed outages in Libya. As a result, OECD commercial oil inventories remained relatively balanced.

Global oil consumption in 2012 grew by roughly 0.9 million barrels per day compared with 2011 (0.9%).[d] OPEC production met most of the growth in consumption, driven by the recovery in Libyan production.

We expect oil price movements in 2014 to continue to be driven by the pace of global economic growth and its resulting implications for oil consumption, by supply growth in North America, and OPEC production decisions. Risks to supply remain a key uncertainty.

[c] From *Oil Market Report 21 January 2014*©, OECD/IEA 2014, page 1.
[d] *BP Statistical Review of World Energy June 2013.*

Natural gas prices

Natural gas prices continued to show wide differentials between regions in 2013, although widening of the differentials stagnated as US gas prices recovered from their 2012 lows. The Henry Hub First of Month Index averaged $3.65 in 2013, an increase of 31% versus 2012.

Henry Hub ($/mmBtu)

The US natural gas market saw a gradual return to balance in 2013, following the dramatic loss of heating demand in 2012 due to unusually warm winter weather, which pushed gas prices down to 10-year lows. A return to more normal weather in 2013 restored heating demand for gas, which meant less pressure on gas to compete with coal for a share of the power generation market, allowing gas prices to recover. US gas supply continued to expand in 2013, reaching yet another record production level, supported in particular by rising liquids-rich (wet) gas production.

In Europe, gas prices at the UK National Balancing Point increased by 14% to an average of 67.99 pence per therm for 2013. Record-low inventory levels, coming out of a prolonged winter, coupled with declining European gas production and continued diversion of LNG to the higher-priced Asian market, caused European spot prices to climb to a five-year high. European demand remained weak, especially in power generation where gas remained uncompetitive against coal.

Global LNG supply expanded in 2013, following a contraction in supply in 2012. However the LNG market remained tight, with continued strong demand in Asia due to economic growth and nuclear power outages, and also in Latin America due to the impact of a drought on hydroelectric production.

In 2012 the strength of shale gas production in the US, combined with an unusually warm winter, led the average Henry Hub First of Month Index to fall by 31% to $2.79/mmBtu. In the UK, National Balancing Point prices averaged 59.74 pence per therm, 6% above prices in 2011.

In 2014 we expect gas markets to continue to be driven by the economy, weather, production, trade developments and continued uncertainty surrounding nuclear power generation in Japan. Futures markets indicate that the large gap between US and European gas prices is expected to persist through 2014.

Financial performance

			$ million
	2013	2012	2011
Sales and other operating revenues[e]	**70,374**	72,225	75,754
RC profit before interest and tax	**16,657**	22,491	26,358
Net (favourable) unfavourable impact of non-operating items and fair value accounting effects[f]	**1,608**	(3,055)	(1,141)
Underlying RC profit before interest and tax[g]	**18,265**	19,436	25,217
Capital expenditure and acquisitions	**19,115**	18,520	25,821
BP average realizations[h]			$ per barrel
Crude oil	**105.38**	108.94	107.91
Natural gas liquids	**38.38**	42.75	51.18
Liquids[i]	**99.24**	102.10	101.29
			$ per thousand cubic feet
Natural gas	**5.35**	4.75	4.69
US natural gas	**3.07**	2.32	3.34
			$ per thousand barrels of oil equivalent
Total hydrocarbons[j]	**63.58**	61.86	62.31

[e] Includes sales to other segments.

[f] Fair value accounting effects are not a recognized GAAP measure and represent the (favourable) unfavourable impact relative to management s measure of performance (see page 238 for further details).

[g] Underlying RC profit is not a recognized GAAP measure. See footnote c on page 23 for information on underlying RC profit.

[h] Realizations are based on sales of consolidated subsidiaries only, which excludes equity-accounted entities.

[i] Liquids comprise crude oil, condensate and natural gas liquids (NGLs).

[j] Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

Sales and other operating revenues for 2013 were $70 billion (2012 $72 billion, 2011 $76 billion). The decrease in 2013, compared with 2012, primarily reflected lower volumes due to disposals and lower realizations, partially offset by higher gas marketing and trading revenues. The decrease in 2012, compared with 2011, primarily reflected lower production and persistently low Henry Hub gas prices.

In 2013 replacement cost (RC) profit before interest and tax for the segment was $16.7 billion (2012 $22.5 billion, 2011 $26.4 billion). The 2013 result included a net non-operating charge of $1,364 million, primarily related to an $845-million write-off attributable to block BM-CAL-13 offshore Brazil as a result of the Pitanga exploration well not encountering commercial quantities of oil or gas, and impairment and other charges partly offset by fair value gains on embedded derivatives and disposal gains. In addition, fair value accounting effects had an unfavourable impact of $244 million relative to management s measure of performance. The 2012 result included net non-operating gains of $3,189 million, primarily as a result of gains on disposals being partly offset by impairment charges. In addition, fair value accounting effects had an unfavourable impact of $134 million. The 2011 result included net non-operating gains of $1,130 million, primarily as a result of gains on disposals being partly offset by impairments, a charge associated with the termination of our agreement to sell our 60% interest in Pan American Energy LLC (PAE) to Bridas Corporation and other non-operating items. In addition, fair value accounting effects had a favourable impact of $11 million.

After adjusting for non-operating items and fair value accounting effects, underlying RC profit before interest and tax in 2013 was $18.3 billion (2012 $19.4 billion, 2011 $25.2 billion). Compared with 2012, the decrease in 2013 reflected lower production due to divestments, lower liquids realizations and higher costs, including exploration write-offs and higher depreciation, depletion and amortization, partly offset by an increase in underlying volumes, a benefit from stronger gas marketing and trading activities, a one-off benefit to production taxes as a result of fiscal relief allowing immediate deduction of past costs, a one-off benefit, mainly in respect of prior years, resulting from the US Federal Energy Regulatory Commission approval of cost pooling settlement agreements between the owners of the Trans-Alaska Pipeline System (TAPS) and higher gas realizations. Compared with 2011, the 2012 result reflected higher costs (primarily higher depreciation, depletion and amortization, as well as ongoing sector inflation), lower production and lower realizations.

Total capital expenditure including acquisitions and asset exchanges in 2013 was $19.1 billion (2012 $18.5 billion, 2011 $25.8 billion).

Provisions for decommissioning decreased from $17.4 billion at the end of 2012 to $17.2 billion at the end of 2013. The decrease reflects primarily a reduction due to the change in discount rate and utilization of provisions largely offset by updated estimates of the cost of future decommissioning and additions. Decommissioning costs are initially capitalized within fixed assets and are subsequently depreciated as part of the asset.

Acquisitions and disposals

In total, disposal transactions generated $1.3 billion in proceeds during 2013, with a corresponding reduction in net proved reserves of 200mmboe, all within our subsidiaries. There were no significant acquisitions in 2013.

Disposals

The major disposal transactions during 2013 were the sale of our interests in the Harding (BP 70%), Maclure (BP 37.04%), Braes (BP 27.7%),

Major projects portfolio

Braemar (BP 52%) and Devenick (BP 88.7%) fields in the North Sea to TAQA Bratani Ltd for $1,058 million plus future payments which, depending on oil price and production, are currently expected to exceed $180 million after tax; and the sale of our interests in the Yacheng (BP 34.3%) field in China for $308 million, both of which are subject to post-closing adjustments. More information on disposals is provided in Upstream analysis by region on page 239 and Financial statements Note 5.

Exploration

The group explores for oil and natural gas under a wide range of licensing, joint arrangement and other contractual agreements. We may do this alone or, more frequently, with partners. BP acts as operator for many of these ventures.

New access in 2013

We gained access to new potential resources covering more than 43,000km^2 in seven countries (Canada, Brazil, Greenland, Norway, Egypt, the UK and China). In addition, we entered into three farm-out agreements with Kosmos Energy, covering around 25,000km^2 over three blocks offshore Morocco, one of which is still subject to government approval.

During the year we participated in seven potentially commercial discoveries including the following that we announced: two off the east coast of India on blocks KG D6 and CYD5; one in Egypt with the Salamat well in the East Nile Delta; one in the pre-salt play of Angola with the Lontra well in Block 20, operated by Cobalt International Energy, Inc.; one in the Paleogene play in the Gulf of Mexico with the Gila prospect; and one in Brazil on block BM-POT-17 in the Potiguar basin, operated by Petrobras.

Exploration and appraisal costs

Exploration and appraisal costs, excluding lease acquisitions, were $4,811 million (2012 $4,356 million, 2011 $2,413 million). These costs included exploration and appraisal drilling expenditures, which were capitalized within intangible fixed assets, and geological and geophysical exploration costs, which were charged to income as incurred. Approximately 47% of exploration

and appraisal costs were directed towards appraisal activity. We participated in 140 gross (41 net) exploration and appraisal wells in 11 countries.

Exploration expense

Total exploration expense of $3,441 million (2012 $1,475 million, 2011 $1,520 million) included the write-off of expenses related to unsuccessful drilling activities in Brazil ($388 million), the UK North Sea ($262 million), Angola ($232 million), the Gulf of Mexico ($210 million), Jordan ($121 million) and others ($91 million). It also included an $845-million write-off associated with the value ascribed to block BM-CAL-13 offshore Brazil as part of the accounting for the acquisition of upstream assets from Devon Energy in 2011 and a $257-million write-off for costs relating to the Risha concession in Jordan. In addition, exploration expense included an $88-million credit related to a reduction in provisions for the decommissioning of idle infrastructure, which is required by the Bureau of Ocean Energy Management Regulation and Enforcement s Notice of Lessees 2010 G05 issued in October 2010.

Upstream reserves

	2013	2012	2011
Estimated net proved reserves (net of royalties)			
Liquids[a]			million barrels
Subsidiaries[b]	**4,349**	4,672	5,331
Equity-accounted entities[c]	**745**	838	929
	5,094	5,510	6,260
Natural gas			billion cubic feet
Subsidiaries[d]	**34,187**	33,264	36,381
Equity-accounted entities[c]	**2,517**	2,549	2,397
	36,704	35,813	38,778
Total hydrocarbons			million barrels of oil equivalent
Subsidiaries	**10,243**	10,408	11,604
Equity-accounted entities[c]	**1,179**	1,277	1,342
	11,422	11,685	12,946

[a] Liquids comprise crude oil, condensate, NGLs and bitumen.
[b] Includes 21 million barrels (14 million barrels at 31 December 2012 and 20 million barrels at 31 December 2011) in respect of the 30% non-controlling interest in BP Trinidad & Tobago LLC.
[c] BP s share of reserves of equity-accounted entities in the Upstream segment. During 2013, upstream operations in Abu Dhabi, Argentina and Bolivia, as well as some of our operations in Angola and Indonesia, were conducted through equity-accounted entities.
[d] Includes 2,685 billion cubic feet of natural gas (2,890 billion cubic feet at 31 December 2012 and 2,759 billion cubic feet at 31 December 2011) in respect of the 30% non-controlling interest in BP Trinidad & Tobago LLC.

Reserves booking

Reserves booking from new discoveries will depend on the results of ongoing technical and commercial evaluations, including appraisal drilling. The Upstream segment s total hydrocarbon reserves, on an oil equivalent basis including equity-accounted entities comprised 11,422mmboe (10,243mmboe for subsidiaries and 1,179mmboe for equity-accounted entities) at 31 December 2013, a decrease of 2% (decrease of 2% for subsidiaries and decrease of 8% for equity-accounted entities) compared with the 31 December 2012 reserves of 11,685mmboe (10,408mmboe for subsidiaries and 1,277mmboe for equity-accounted entities).

Proved reserves replacement ratio

The proved reserves replacement ratio is the extent to which production is replaced by proved reserves additions. This ratio is expressed in oil equivalent terms and includes changes resulting from revisions to previous estimates, improved recovery and extensions and discoveries. For 2013 the proved reserves replacement ratio for the Upstream segment, excluding acquisitions and disposals, was 93% for subsidiaries and equity-accounted entities, 105% for subsidiaries alone and 30% for equity-accounted entities alone. For more information on proved reserves replacement for the group, see page 247.

Developments

The map on page 28 shows our major development areas, which include Alaska, Angola, Australia, Azerbaijan, Canada, Egypt, the deepwater Gulf of Mexico and the UK North Sea.

Three major project start-ups were achieved in 2013: Atlantis North expansion Phase 1 in the Gulf of Mexico; Angola LNG; and North Rankin Phase 2 in Australia.

We made good progress in the four areas we believe most likely to provide us with higher-value barrels Angola, Azerbaijan, the North Sea and the Gulf of Mexico.

Angola we had our first LNG cargo in June and at the end of 2013 around 1 million cubic metres of LNG had been produced. The Plutão, Saturno, Vénus and Marte (PSVM) project reached plateau production of 150mb/d and the Cravo, Lirio, Orquidea, Violeta (CLOV) floating production storage and offloading vessel (FPSO) sailed away from Angola Paenal in January 2014 to start the offshore hook-up and commissioning campaign.

Azerbaijan the Shah Deniz consortium a seven-member group led by BP selected the Trans Adriatic Pipeline to deliver gas volumes from the Shah Deniz Stage 2 project to customers in Greece, Italy and southern Europe. In

August, 25-year sales agreements were concluded for over 10bcma of gas, to be produced from the Shah Deniz field as a result of Stage 2. This adds to existing agreements to sell 6bcma in Turkey. The final investment decision on the project was made in December.

North Sea we continued to see high levels of activity, including the ramp-up of major project volumes, a significant level of turnaround activity, progress in the major redevelopment of the west of Shetland Schiehallion and Loyal fields, the installation of the platform jackets on the Clair Ridge project, a major milestone, and the sale of a number of non-strategic assets.

Gulf of Mexico we had 10 rigs operating at the end of the year, the highest number ever. Atlantis North expansion Phase 1 started up in April. Following our strategic divestment programme, we now have a very focused portfolio with growth potential around four operated and three non-operated hubs.

In April the decision was taken not to move forward with the existing development plan for the Mad Dog Phase 2 project in the deepwater Gulf of Mexico, as market conditions and industry cost inflation made the project less attractive than previously modelled. This decision resulted in an impairment of $159 million. BP and its co-owners reviewed alternative development concepts and the current concept being considered is a single production host designed for future flexibility in evaluating how best to capture additional potential resource.

Development expenditure of subsidiaries incurred in 2013, excluding midstream activities, was $13.6 billion (2012 $12.6 billion, 2011 $10.4 billion).

Production

Our oil and natural gas production assets are located onshore and offshore and include wells, gathering centres, in-field flow lines, processing facilities, storage facilities, offshore platforms, export systems (e.g. transit lines), pipelines and LNG plant facilities. The principal areas of production are Angola, Argentina, Australia, Azerbaijan, Egypt, Trinidad, the UAE, the UK and the US.

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	2013	2012	2011
Production (net of royalties)[a]			
Liquids[b]		thousand barrels per day	
Subsidiaries	**879**	896	992
Equity-accounted entities	**297**	284	294
	1,176	1,179	1,285
Natural gas		million cubic feet per day	
Subsidiaries	**5,845**	6,193	6,393
Equity-accounted entities	**415**	416	415
	6,259	6,609	6,807
Total hydrocarbons[c]	thousand barrels of oil equivalent per day		
Subsidiaries	**1,887**	1,963	2,094
Equity-accounted entities	**369**	355	366
	2,256	2,319	2,460

[a] Includes BP s share of production of equity-accounted entities in the Upstream segment. Because of rounding, some totals may not agree exactly with the sum of their component parts.
[b] Liquids comprise crude oil, condensate and NGLs.
[c] Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

Our total hydrocarbon production during 2013 averaged 2,256 thousand barrels of oil equivalent per day (mboe/d). This comprised 1,887mboe/d for subsidiaries and 369mboe/d for equity-accounted entities, a decrease of 4% (decreases of 2% for liquids and 6% for gas) and an increase of 4% (increase of 5% for liquids and no change for gas) respectively compared with 2012. More information on production can be found in Oil and gas disclosures for the group on page 245.

In aggregate, after adjusting for the impact of price movements on our entitlement to production in our PSAs and the effect of acquisitions and disposals, underlying production was 3.2% higher compared with 2012. This primarily reflects new major project volumes in Angola, the North Sea and the Gulf of Mexico.

The group and its equity-accounted entities have numerous long-term sales commitments in their various business activities, all of which are expected to be sourced from supplies available to the group that are not subject to priorities, curtailments or other restrictions. No single contract or group of related contracts is material to the group.

Gas marketing and trading activities

We market and trade natural gas, power and natural gas liquids (NGLs). This provides us with routes into liquid markets for the gas we produce. It also generates margins and fees from selling physical products and derivatives to third parties, together with income from asset optimization and trading. The integrated supply and trading function manages the group s trading activities in natural gas, power and NGLs. This means we have a single interface with the gas trading markets and one consistent set of trading compliance processes, systems and controls.

Gas and power marketing and trading activity is undertaken primarily in the US, Canada and Europe to market both BP production and third-party natural gas, to support group LNG activities and manage market price risk, as well as to create incremental trading opportunities through the use of commodity derivative contracts. Additionally, this activity generates fee income and enhances margins from sources such as the management of price risk on behalf of third-party customers. These markets are large, liquid and historically volatile. Market conditions have become more challenging in recent years as volatility and geographic basis/seasonal spreads have fallen to very low levels with the emergence of shale gas in the US and generally over-supplied markets in Europe. However, the traded LNG business has benefited from wide price variations between the main gas consuming regions of North America, Europe and Asia. As part of the LNG strategy, during 2013 we entered into a 20-year gas liquefaction tolling contract for 4.4 million tons per annum capacity which is located in Texas, US.

The gas and power marketing and trading function operates primarily from offices in Houston and London and employs around 1,200 people.

The group s risk governance framework seeks to manage and oversee the financial risks associated with this trading activity, which is described in Financial statements Note 19.

In connection with its trading activities, the group uses a range of commodity derivative contracts, storage and transport contracts. The range of contracts that the group enters into is described in Certain definitions commodity trading contracts on page 270.

Analysis by region

See Upstream analysis by region on page 239.

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Downstream

2013 was a year of improved safety performance, operational improvements and delivery of significant milestones to enhance the quality of our portfolio.

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Cherry Point refinery processes around 230,000 barrels of crude oil per day, primarily for transportation fuels.

Our business model and strategy

Our Downstream segment is the product and service-led arm of BP, focused on fuels, lubricants and petrochemicals. We have significant operations in Europe, North America and Asia, and also manufacture and market our products across Australasia, southern Africa and Central and South America.

The segment comprises three businesses:

- **Fuels** fuels value chains (FVCs) including refineries, fuels marketing businesses and global oil supply and trading activities. We sell refined petroleum products including gasoline, diesel, aviation fuel and LPG.

- **Lubricants** manufactures and markets lubricants and related products and services globally, adding value through brand, technology and relationships, such as collaboration with original equipment manufacturing partners.

- **Petrochemicals** manufactures products at locations around the world, using proprietary BP technology. These products are then used by others to make vital consumer products such as paint, plastic bottles and textiles.

We aim to operate all of our businesses as safe and reliable value chains. We participate in multiple stages of each value chain as we believe we can deliver greater returns from integration than from owning a collection of discrete assets. These value chains, combined with our advantaged manufacturing operations, supply and trading capability and expertise in technology, allow us to pursue long-term competitive returns and sustainable growth, serving customers and promoting BP and our brands through high quality products.

We research, develop and deploy a wide range of technologies, processes and techniques, aiming to enhance safety and risk management, increase efficiency and reliability, improve our margins and create new market opportunities.

Our strategy focuses on four priorities executed in a systematic and disciplined way:

- Safety performance.
- High-quality downstream portfolio.
- Competitive returns.
- Material and growing cash flows for the group through exposure to growth opportunities and markets.

This strategy is about winning sustainably in the markets where we choose to participate. We seek to outperform the best competitor in a region and do it safely; investing to strengthen our established positions while maintaining overall capital employed, and still seeking to shift the mix of participation and capital employed from established to growing markets. We do this while operating within a stable financial framework to deliver attractive returns and growth in earnings and cash flow.

The delivery of these activities is optimized and integrated with support from global functions with specialist areas of expertise: technology, finance, procurement and supply chain, human resources, global business services and information technology.

Outlook

- In 2014 we anticipate refining margins will remain under pressure due to high gasoline stocks and new competitor capacity additions, as well as weak demand in many markets.
- We expect the financial impact of refinery turnarounds in 2014 to be lower than in 2013.
- Whiting continues to progressively increase heavy crude processing, and we expect to reach heavy crude processing levels of 280,000 barrels per day during the second quarter 2014.
- We anticipate demand for lubricants in 2014 will be similar to 2013.
- We expect a similarly challenging environment for petrochemicals in 2014, characterized by excess supply.

Capital expenditure is forecast to be slightly lower in 2014 than in 2013, post commissioning of all major units of the Whiting refinery modernization project.

[a] Underlying RC profit before interest and tax is not a recognized GAAP measure. See footnote c on page 23 for further information. The equivalent measure on an IFRS basis is RC profit before interest and tax.

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Our markets

Economic growth in 2013 varied widely, with certain economies shrinking and others showing some signs of recovery. OECD oil consumption was up slightly in 2013, rising for the first time since 2010. Demand in non-OECD economies also continued to grow, but at a slower rate than 2012 partly due to reduced GDP growth, for example in India, South East Asia and the Middle East.

In oil markets in 2013, European refineries were impacted by limited economic options to process sour grades, such as Urals, and by the loss of Libyan sweet crude supplies for much of the year. In addition, crude supplies were constrained by the loss of Iranian oil due to US and European trade embargoes and by ongoing decline in European oil production. This was partially offset by Saudi Arabia crude production, which reached a 30-year high.

Non-OPEC oil supply increased by over 1 million barrels per day in 2013, primarily in the US due to increased production of shale oil. North American crudes remained cheaper than waterborne crudes of a similar quality, such as European Brent and Gulf Coast LLS, due to increased production, combined with logistical constraints in transporting inland crude production to the coast. Our refineries, particularly Toledo and Whiting in the US, benefited from a location advantage as they were able to access these discounted crudes. In addition, these refineries benefited from a wider discount of Canadian heavy to West Texas intermediate (WTI) crude in 2013, a factor that will become increasingly important to the BP refining portfolio in 2014 with the commissioning of the Whiting refinery modernization project.

Refining marker margin

We track the margin environment by way of a global refining marker margin (RMM). Refining margins are a measure of the difference between the price a refinery pays for its inputs (crude oil) and the market price of its products. Although refineries produce a variety of petroleum products, we track the margin environment using a simplified indicator that reflects the margins achieved on gasoline and diesel only. The RMM may not be representative of the margin achieved by BP in any period because of BP s particular refinery configurations and crude and product slates. The RMM does not include estimates of fuel costs or other variable costs.

				$ per barrel
	Crude marker	**2013**	2012	2011
Refining marker margin (RMM)				
US North West	Alaska North Slope	**15.2**	18.0	14.1
US Midwest	West Texas Intermediate	**21.7**	27.8	24.7
Northwest Europe	Brent	**12.9**	16.1	11.9
Mediterranean	Azeri Light	**10.5**	12.7	9.0
Australia	Brent	**13.4**	14.8	12.2
BP average RMM		**15.4**	18.2	14.5

In February 2013 BP updated the RMM methodology and regions to reflect the changes to our US portfolio after the refinery divestments and account for trends in regional crude markets since the RMM was established. The effect of this update is that the 2012 and 2011 BP average RMMs were restated from $15.0 per barrel (as originally reported) to $18.2 per barrel and from $11.6 per barrel to $14.5 per barrel, respectively.

Global refining marker margin ($/bbl)

The average RMM for 2013 was $2.8 per barrel lower compared to 2012, with a slightly stronger first half and falling sharply in the second half of the year. However, it was higher than 2011. Margins in 2013 declined primarily due to increased product and gasoline supply, high gasoline inventories, competitor capacity additions and lower seasonal turnarounds.

Financial performance

			$ million
	2013	2012	2011
Sale of crude oil through spot and term contracts	**79,394**	56,383	57,055
Marketing, spot and term sales of refined products	**258,015**	274,666	273,940
Other sales and operating revenues	**13,786**	15,342	13,038
Sales and other operating revenues[a]	**351,195**	346,391	344,033
RC profit before interest and tax[b]			
Fuels	**1,518**	1,403	2,999
Lubricants	**1,274**	1,276	1,350
Petrochemicals	**127**	185	1,121
	2,919	2,864	5,470
Net (favourable) unfavourable impact of non-operating items and fair value accounting effects[c]			
Fuels	**712**	3,609	640
Lubricants	**(2)**	9	(100)
Petrochemicals	**3**	(19)	(1)
	713	3,599	539
Underlying RC profit before interest and tax[b d]			
Fuels	**2,230**	5,012	3,639
Lubricants	**1,272**	1,285	1,250
Petrochemicals	**130**	166	1,120
	3,632	6,463	6,009
Capital expenditure and acquisitions	**4,506**	5,249	4,285

[a] Includes sales to other segments.

[b] Income from petrochemicals produced at our Gelsenkirchen and Mülheim sites is reported within the fuels business. Segment-level overhead expenses are included within the fuels business.

[c] Fair value accounting effects are not a recognized GAAP measure and represent the (favourable) unfavourable impact relative to management s measure of performance (see page 238 for further details). For Downstream, these arise solely in the fuels business.

[d] Underlying RC profit is not a recognized GAAP measure. See footnote c on page 23 for information on underlying RC profit.

Sales and other operating revenues in 2013 were $351 billion (2012 $346 billion, 2011 $344 billion). This increase in 2013, compared with 2012 reflects increased crude sales volumes, largely offset by lower prices. The increase in 2012, compared with 2011, reflected higher prices almost offset by lower volumes and foreign exchange losses.

In 2013 RC profit before interest and tax for the segment was $2.9 billion (2012 $2.9 billion, 2011 $5.5 billion). The 2013 result included a net non-operating charge of $535 million, primarily relating to impairment charges in our fuels business, versus charges of $3,172 million in 2012 mainly related to impairment charges and $602 million in 2011 for impairment charges associated with our disposal programme, partially offset by gains on disposal. In addition, fair value accounting effects had an unfavourable impact of $178 million in 2013 versus an unfavourable impact of $427 million in 2012 and a favourable impact of $63 million in 2011.

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After adjusting for non-operating items and fair value accounting effects, underlying RC profit before interest and tax was $3.6 billion (2012 $6.5 billion, 2011 $6.0 billion).

The fuels business delivered an underlying RC profit before interest and tax of $2,230 million for the year (2012 $5,012 million, 2011 $3,639 million). Compared with 2012, 2013 saw significantly weaker refining margins. Margins were weakened by reduced throughput due to the planned crude unit outage at our Whiting refinery and commissioning of the new units that were part of the refinery modernization project and the absence of earnings from the divested Texas City and Carson refineries. This was partially offset by a significantly improved supply and trading contribution and lower overall turnaround activity during the year. Compared with 2011, the 2012 result reflected strong operations that enabled us to capture the higher refining margin environment, partly offset by a lower supply and trading contribution.

The lubricants business delivered an underlying RC profit before interest and tax of $1,272 million for the year (2012 $1,285 million, 2011 $1,250 million). These results reflect sustained underlying performance for the lubricants business.

The petrochemicals business delivered an underlying RC profit before interest and tax of $130 million for the year (2012 $166 million, 2011 $1,120 million). Compared with 2012, the 2013 result reflected weaker product margins resulting from over supply in certain markets partially offset by lower turnaround activity in the US and Europe.

Our petrochemicals production[a] of 13,943 thousand tonnes (kte) in 2013 was lower than the previous two years (2012 14,727kte, 2011 14,866kte) due to the sale of our BPCM Kuantan PTA plant in 2012 as well as reduced output in both years for commercial reasons given the low-margin environment.

A summary of our interests in petrochemicals production capacity as at 31 December 2013 is provided on page 244.

[a] Petrochemicals production includes 1,494kte of petrochemicals produced at our Gelsenkirchen and Mülheim sites in Germany for which the income is reported in our fuels business.

Our fuels business

The fuels strategy focuses largely on fuels value chains (FVCs) which include large-scale, highly upgraded and feedstock advantaged refineries that are integrated with logistics and marketing as well as fuels marketing businesses primarily supplied by our global supply and trading organization.

The FVCs seek to optimize the activities of our assets across the supply chain through: advantaged feedstock delivery to the refineries; manufacture of high-quality fuels; distribution through pipeline and terminal infrastructure; and marketing and sales to our customers on a regional basis. This integration, together with a focus on excellent execution and cost management as well as a strong brand, market presence and customer base, are key to our financial performance.

Refining

At 31 December 2013 we owned or had a share in 14 refineries producing refined petroleum products that we supply to retail and commercial customers. A summary of our interests in refineries and average daily crude distillation capacities as at 31 December 2013 is provided on page 243. As part of our plan to reshape BP s US fuels business, we completed the sales of the Texas City and Carson, California refineries and associated logistic and marketing assets.

The Texas City refinery and a portion of our retail and logistics network in the south-east US were sold to Marathon Petroleum Corporation on 1 February 2013 for consideration of up to $2.5 billion. On 3 June 2013 we completed the sale of the Carson refinery in California, ARCO network and related regional logistics assets to Tesoro Corporation for approximately $2.4 billion.

Strategic investments in our refineries are focused on maintaining the safety and reliability of our assets while improving unit margins versus the competition. The most important of these strategic investments in 2013 was the Whiting refinery modernization project. During the year the new coker, crude oil unit, gasoil hydrotreater, and an upgraded sulphur recovery complex were all commissioned. We plan to progressively ramp up heavy crude processing to approximately 280,000 barrels per day during the second quarter of 2014. This major investment transforms Whiting into one of the key advantaged downstream assets in our portfolio, with the capacity to process a greater proportion of heavy crudes, and underpins our ability to deliver increased cash flow from 2014 onwards.

Refinery operations were strong this year, with Solomon refining availability of 95.3%. Utilization rates were at 86% principally due to the planned crude unit outage at our Whiting refinery as part of the modernization project. Overall refinery throughputs in 2013 were lower than those in 2012, mostly driven by the divestment of the Texas City and Carson refineries and associated logistics and marketing activities in 2013.

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	thousand barrels per day		
Refinery throughputs[a]	**2013**	2012	2011
US	**726**	1,310	1,277
Europe	**766**	751	771
Rest of world	**299**	293	304
Total	**1,791**	2,354	2,352
			%
Refining availability[b]	**95.3**	94.8	94.8
	thousand barrels per day		
Sales volumes			
Marketing sales[c]	**3,084**	3,213	3,311
Trading/supply sales[d]	**2,485**	2,444	2,465
Total refined product sales	**5,569**	5,657	5,776
Crude oil[e]	**2,142**	1,518	1,532
Total	**7,711**	7,175	7,308

[a] Refinery throughputs reflect crude oil and other feedstock volumes.

[b] Refining availability represents Solomon Associates operational availability, which is defined as the percentage of the year that a unit is available for processing after subtracting the annualized time lost due to turnaround activity and all planned mechanical, process and regulatory maintenance downtime.

[c] Marketing sales include sales to service stations, end-consumers, bulk buyers and jobbers (i.e. third parties who own networks of a number of service stations) and small resellers.

[d] Trading/supply sales are sales to large unbranded resellers and other oil companies.

[e] Crude oil sales relate to transactions executed by our integrated supply and trading function, primarily for optimizing crude oil supplies to our refineries and in other trading. Fifty-nine thousand barrels per day relate to revenues reported by the Upstream segment.

Logistics and marketing

Downstream of our refineries, we operate an advantaged infrastructure and logistics network which includes pipelines, storage terminals and road or rail tankers, where we seek to drive excellence in operational and transactional processes, and deliver compelling customer offers in the various markets in which we operate.

We blend and market biofuels in our FVCs; almost 6.5 billion litres of biofuels were blended into finished product in 2013, mainly in Europe and the US. Biogasoline (bioethanol) and biodiesel (hydrogenated vegetable oils and fatty acid methyl esters) demand continues to grow, primarily in Europe and the US, as regulatory requirements demand higher blending levels. In response we continue to develop blend capabilities and to work with regulators, biofuels suppliers and other stakeholders to improve the sustainability of the biofuels we blend and supply.

We supply fuel and related convenience services to retail consumers through company-owned and franchised retail sites, as well as other channels, including wholesalers and jobbers. In addition, we supply commercial customers within the transport and industrial sectors.

	Number of retail sites operated under a BP brand		
Retail sites[f]	**2013**	2012	2011
US	**7,700**	10,100	11,300

Europe	**8,000**	8,300	8,200
Rest of world	**2,100**	2,300	2,300
Total	**17,800**	20,700	21,800

[f] The number of retail sites includes sites not operated by BP but instead operated by dealers, jobbers, franchisees or brand licensees that operate under a BP brand. These may move to or from the BP brand as their fuel supply or brand licence agreements expire and are renegotiated in the normal course of business. Retail sites are primarily branded *BP, ARCO* and *Aral.* Excludes our interests in equity-accounted entities that are dual-branded.

Supply and trading

BP s integrated supply and trading function is responsible for delivering value across the overall crude and oil products supply chain. This structure enables the optimization of BP s FVCs to maintain a single interface with the oil trading markets and to operate with a single set of trading compliance processes, systems and controls. The oil trading function (including support functions) has trading offices in Europe, the US and Asia and employs around 1,800 people. This enables the function to maintain a presence in the more actively traded regions of the global oil markets in order to gain an overall understanding of the supply and demand forces across this market. It has a two-fold strategic purpose in our Downstream business.

First, it seeks to identify the best markets and prices for our crude oil, source optimal feedstocks for our refineries, and provide competitive supply for our marketing businesses. Wherever possible, the group will

look to optimize value across the supply chain. For example, BP will often sell its own crude and purchase alternative crudes from third parties for its refineries where this will provide incremental margin.

Second, the function seeks to create and capture incremental trading opportunities by entering into a full range of exchange-traded commodity derivatives, over-the-counter (OTC) contracts and spot and term contracts. In order to facilitate the generation of trading margin from arbitrage, blending and storage opportunities, it also owns and contracts for storage and transport capacity.

The group s risk governance framework seeks to manage and oversee the financial risks associated with this trading activity, which is described in Financial statements Note 19.

The range of contracts that the group enters into is described in Certain definitions commodity trading contracts on page 270.

Aviation

Our global aviation business, Air BP, is one of the world s largest and best-known aviation fuels suppliers, serving many major commercial airlines as well as the general aviation sectors. We have marketing sales in excess of 465,000 barrels per day. Air BP s strategic aim is to maintain its position in the core locations of Europe and the US, while expanding its portfolio in airports that offer long-term competitive advantage in material growing markets such as Asia and South America.

LPG

We have neared completion of the sale of our global LPG marketing business, which sells bulk and bottled LPG products. We will retain focus on LPG when it is deeply integrated in refinery operations and autogas sectors in order to optimize refinery and retail operations. As of 31 December 2013, the sales of the LPG business in six out of eight countries had been completed. The remaining two countries are expected to be completed in 2014.

Our lubricants business

Our strategy is to leverage technology, brand, and relationships, with a focus on our premium brands, to deliver growth and sustainable returns.

Our lubricants business manufactures and markets lubricants and related products and services to the automotive, industrial, marine, aviation and energy markets across the world. Our key brands are *Castrol, BP* and *Aral. Castrol* is a recognized brand worldwide and we believe it provides us with a significant competitive advantage. In technology, we apply our expertise to create quality lubricants and high performance fluids for customers in on-road, off-road, air, sea and industrial applications globally. We divide our lubricants business up into five customer sectors: automotive, marine, industrial, aviation and energy.

We are one of the largest purchasers of base oil in the market, but have chosen not to produce at scale in base oil or additives manufacturing. Our participation in the value chain is focused on areas of competitive differentiation and strength. These fall into three main areas:

- We develop formulation and the application of cutting-edge technologies.

- We create and develop product brands and clearly communicate their benefits to our customers.

- We build and extend our relationships with customers so we can better understand and meet their needs.

In 2013, the automotive sector saw signs of recovery in new passenger vehicle demand across several key markets including China, the US and certain European countries. For 2013, lubricants base oil prices averaged below 2012, which benefited margins. A significant share of profit growth has come from emerging markets, where we are developing a strong base to capture further growth.

The global lubricants market remained challenging in 2013 as a result of economic slowdown and low demand growth. The automotive sector saw declines in new passenger vehicle demand across Europe and India, which were partially offset with growth in North America, China and Brazil. Industrial demand remained under pressure from a weak manufacturing sector.

We continue to increase lubricants revenues through our strategy of exposure to growing markets, technology investments and targeted marketing programmes. More than 35% of sales revenues were from non-OECD countries in 2013.

Our lubricants business continued to increase the proportion of total sales resulting from premium product sales; in 2013 the percentage of premium sales was 40% compared with 39% in 2012 and 37% in 2011.

In January 2014, BP announced that it had agreed to sell its specialist global aviation turbine oils business. The transaction, which is subject to regulatory and other approvals, is expected to be completed in the second quarter of 2014.

Our petrochemicals business

Our strategy is to own and develop petrochemical value chain businesses which are built around proprietary technology. We apply this technology to existing businesses and to access new growth markets where we wish to build material shares. Overall, the business targets attractive absolute returns and material, increasing cash flows by satisfying demand growth, particularly in Asia.

We manufacture and market four main product lines:

- Purified terephthalic acid (PTA).
- Paraxylene.
- Acetic acid.
- Olefins and derivatives.

We also produce a number of other speciality petrochemicals products.

Our portfolio is underpinned with proprietary technology and leading cost positions allowing BP assets to remain competitive against the newest world-scale units being built in China. These capacity additions and technology advances have resulted in a sharp fall in margins leading to losses for the older, less efficient producers. New capacity additions are targeted principally in the higher-growth Asian markets.

We both own and operate assets, and have also invested in a number of joint arrangements in Asia, where our partners are leading companies within their domestic market. For example, the construction of our new, third PTA plant with our partner, Zhuhai Port Co. in Guangdong, China is progressing well and is planned to begin production in late 2014. The retro-fit of key elements of our PTA technology to existing plants is under way. We expect these investments to have a material impact on efficiency and reduce annual operating costs.

Our technology team develops, deploys and optimizes chemicals technology to advance the competitiveness of the installed asset base and deliver competitively advantaged projects to access growth. We plan to continue deploying our technology in new asset platforms to access Asian demand and advantaged feedstock sources.

In 2013 we announced two new proprietary petrochemicals technologies, *SaaBre* and *Hummingbird*. *SaaBre* significantly reduces the cost of production of acetic acid from syngas and avoids the need to purify carbon monoxide or purchase methanol. *SaaBre* technology could also be used to produce methanol and ethanol. *Hummingbird* simplifies the process of converting ethanol to ethylene, a key component for the manufacture of plastics. *Hummingbird* could open the way for the production of biopolymers from bioethanol. Both technologies are expected to deliver significant reductions in variable manufacturing costs and simplify the manufacturing process.

In December 2013, we agreed to purchase all interests held by our partners, Mitsui Chemicals, Inc. (MCI) and Mitsui & Co. Ltd. (MBK) in PT Amoco Mitsui PTA Indonesia (AMI) which produces and markets PTA in the Republic of Indonesia. This transaction completed on 28 February 2014 and is consistent with our strategy of growing our PTA business in our chosen markets.

In September 2013, we signed a non-binding memorandum of understanding with Oman Oil Corporation to assess jointly a facility in Oman for the manufacture of acetic acid, deploying our *SaaBre* technology.

The economic environment for some of our products is likely to remain under pressure in 2014. The impact of capacity additions in Asia continues to depress margins for PTA. The environments for our acetic acid and olefins and derivative value chains are expected to improve in the latter part of 2014 as the high growth markets absorb excess capacity.

Rosneft

In March 2013 BP completed sale and purchase agreements with Rosneft and Rosneftegaz.

Central processing and pumping facility at the Yuganskneftegaz field, onshore Russia.

BP and Rosneft

- BP sold its investment in TNK-BP in exchange for $11.8 billion in cash and an 18.5% stake in Rosneft. Together with its existing 1.25% shareholding, BP now holds a 19.75% stake in the company.

- BP s shareholding in Rosneft allows us to benefit from a diversified set of existing and potential projects in the Russian oil and gas sector. BP considers Rosneft share price appreciation and dividend growth as primary sources of value for its shareholders.

- Rosneft s strategy is to pursue sustainable growth of crude oil production, develop its gas business and complete its refinery modernization programme.

- BP is positioned to contribute to Rosneft s strategy through the sharing of technology, people, processes and best practice. We also have the potential to undertake standalone projects with Rosneft, both in Russia and internationally.

Bob Dudley was elected to the Rosneft board of directors in June 2013, and became a member of the Rosneft board s strategic planning committee.

Rosneft 2013 summary

Rosneft announced in June 2013 that it had completed the process of integrating TNK-BP and subsequently the Rosneft board approved a modified business plan for 2013 incorporating the acquisition of TNK-BP.

Rosneft concluded long-term crude oil supply agreements with China National Petroleum Corporation (CNPC) and Sinopec, signalling China as an additional market for Russian crude.

Rosneft completed the acquisition of the remaining 49% in the Itera joint venture, 51% of Sibneftegaz and agreed to buy gas assets from ALROSA.

Rosneft made a voluntary offer in October 2013 to buy out the non-controlling shareholders of RN Holding (formerly TNK-BP Holding). By the closing date of the offer in January 2014, Rosneft had received acceptances of its offer from over 98% of such shareholders.

Upstream

Rosneft is the largest oil company in Russia and the largest publicly traded oil company in the world based on hydrocarbon production volume. Rosneft also has significant hydrocarbon reserves.

Rosneft has assets in all key hydrocarbon regions of Russia: Western Siberia, Eastern Siberia, Timan-Pechora, Volga-Urals, North Caucasus and Far East. Internationally, Rosneft participates in exploration projects or has operations in countries including the US, Canada, Vietnam, Venezuela, Brazil, Algeria, UAE, Kazakhstan and Norway. Rosneft and Gazprom, the majority of whose shares are owned by the Russian state, have exclusive rights to explore and develop significant hydrocarbon resources in the Russian Arctic offshore (including the Sea of Okhotsk). To progress Arctic exploration, Rosneft has concluded partnerships with ExxonMobil, ENI, Statoil, CNPC and Inpex.

In 2013 Rosneft signed new gas sales contracts with Enel, Fortum and others to monetize produced gas. Also Russian legislation introduced in December 2013 allows Rosneft and Novatek to export LNG for the first time.

Downstream

Rosneft has interests in 23 refineries including four in Germany through its Ruhr Oel GmbH partnership with BP. In 2013 Rosneft acquired a 21% share in the Saras S.p.A. refinery in Italy.

Rosneft refinery throughput in 2013 amounted to 1,818mb/d. Rosneft continues to implement its refinery modernization programme which is intended to significantly upgrade and expand its refining capacity. As at 31 December 2013, Rosneft owned and operated more than 2,400 retail service stations, representing the largest network in Russia. This included BP-branded sites acquired as part of Rosneft s acquisition of TNK-BP which will continue to operate under the BP brand. Rosneft s downstream operations also include jet fuel, bunkering, bitumen and lubricants.

Rosneft segment performance

BP s investment in Rosneft is managed and reported as a separate segment under IFRS. The Rosneft segment result includes equity-accounted earnings from Rosneft, representing BP s share in Rosneft and foreign currency effects on the dividends received in 2013. For more information on the sale and purchase agreements, see Financial statements Note 6.

	$ million
	2013[a]
Profit before interest and tax[b c]	**2,053**
Inventory holding (gains) losses	**100**
Replacement cost profit before interest and tax[c]	**2,153**
Net charge (credit) for non-operating items	**45**
Underlying replacement cost profit before interest and tax[c d]	**2,198**

[a] From 21 March 2013.

[b]

BP s share of Rosneft s earnings after finance costs, taxation and non-controlling interests is included in the BP group income statement within profit before interest and taxation.

[c] Includes $5 million of foreign exchange losses arising on the dividend received. This amount is not reflected in the following table.

[d] Underlying replacement cost profit is not a recognized GAAP measure. See footnote c on page 23 for information on underlying replacement cost profit.

Replacement cost profit before interest and tax for the Rosneft segment was $2.2 billion in 2013. The result included a net non-operating charge of $45 million, primarily relating to impairment charges. After adjusting for non-operating items, underlying replacement cost profit before interest and tax in 2013 was $2.2 billion.

BP received a dividend from Rosneft in 2013 of $456 million, after the deduction of withholding tax.

BP completed the exercise to determine the fair value of its share of Rosneft s assets and liabilities as at 21 March 2013, as required under IFRS, and the results of this exercise are reflected in the 2013 reported amounts.

BP s share of the components of Rosneft s net income are shown in the table below.

	$ million
	2013[a]
Income statement (BP share)	
Profit before interest and tax	**2,786**
Finance costs	**(264)**
Taxation	**(422)**
Non-controlling interests	**(42)**
Net income	**2,058**
Inventory holding (gains) losses, net of tax	**100**
Net income on a replacement cost basis	**2,158**
Net charge (credit) for non-operating items, net of tax	**45**
Net income on an underlying replacement cost basis	**2,203**

Balance sheet

	$ million
	31 December 2013
Investments in associates	**13,681**

Production and reserves

	2013
Production (net of royalties) (BP share)[e f]	
Liquids (mb/d)[g]	**650**
Natural gas (mmcf/d)	**617**
Total hydrocarbons (mboe/d)[h]	**756**
Estimated net proved reserves (net of royalties) (BP share)	
Liquids (million barrels)[g]	**4,975**
Natural gas (billion cubic feet)	**9,271**

Total hydrocarbons (mmboe)	**6,574**
Average oil marker prices	$ per barrel
Urals (Northwest Europe CIF)	**107.38**
Russian domestic oil	**54.97**

[e] Reflects production for the period 21 March to 31 December, averaged over the full year.
[f] Information on BP s share of TNK-BP s production for comparative periods is provided on pages 248 and 250.
[g] Liquids comprise crude oil, condensate and natural gas liquids.
[h] Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

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Other businesses

and corporate

Other businesses and corporate comprises the Alternative Energy business, Shipping, Treasury (which includes interest income on the group s cash and cash equivalents), and corporate activities including centralized functions.

Financial performance

			$ million
	2013	2012	2011
Sales and other operating revenues[a]	**1,805**	1,985	2,957
Replacement cost profit (loss) before interest and tax	**(2,319)**	(2,794)	(2,468)
Net (favourable) unfavourable impact of non-operating items	**421**	798	822
Underlying replacement cost profit (loss) before interest and tax[b]	**(1,898)**	(1,996)	(1,646)
Capital expenditure and acquisitions	**1,050**	1,435	1,853

[a] Includes sales to other segments.

[b] Underlying replacement cost profit (loss) is not a recognized GAAP measure. See footnote c on page 23 for information on underlying replacement cost profit (loss).

The replacement cost loss before interest and tax for the year ended 31 December 2013 was $2.3 billion (2012 $2.8 billion, 2011 $2.5 billion). The 2013 result included a net charge for non-operating items of $421 million (2012 $798 million, 2011 $822 million).

After adjusting for non-operating items, the underlying replacement cost loss before interest and tax for the year ended 31 December 2013 was $1.9 billion (2012 $2.0 billion, 2011 $1.6 billion). This result reflected higher income on cash balances and lower corporate costs. The 2012 result was impacted by the loss of income from the sale of the aluminium business in 2011, adverse foreign exchange effects and higher corporate costs.

Alternative Energy

BP is committed to alternative energy and our strategy is focused on operating large scale businesses and commercializing our innovative technologies. BP continues to invest in expanding the scale of our biofuels business and in leveraging our unique capabilities and experience in agri-business, bio-technology and bio-refining. We also have an operating wind business. As at 31 December 2013, we have invested approximately $8.3 billion[c], exceeding our 2005 commitment of $8 billion over 10 years.

[c] The majority of costs were initially capitalized, although some were expensed under IFRS.

Biofuels

BP believes that it has a key role to play in enabling the transport sector to respond to the dual challenges of energy security and climate change. We have a focused programme of biofuels development based on the most efficient transformation of sustainable and low-cost sugars into a range of fuel molecules. Our strategy is to focus on the conversion of cost-advantaged feedstocks that are materially scalable and that can be competitive in an $80/bbl crude oil environment without subsidies.

We operate three sugar cane mills in Brazil producing bioethanol and sugar, and exporting power to the grid. We continue to evaluate options to increase production at these facilities and have already started work on expanding ethanol production capacity at one mill and this work is expected to be completed in 2014. Likewise, we are ramping up production at our Vivergo joint venture plant, which is the largest bioethanol facility in the UK and one of the largest in Europe. Once up to full production capacity of 420 million litres per year, the Vivergo facility will represent around 20% of the UK s total 2012-13 requirements under the Renewable Transport Fuels Obligation (RTFO).

BP continues to invest throughout the entire biofuels value chain, from growing sustainable higher-yielding and lower-carbon feedstocks through to the development, production and marketing of the advantaged fuel molecule biobutanol, which has higher energy content than ethanol and delivers improved fuel economy.

In conjunction with its partner DuPont, BP is undertaking leading-edge research into the production of biobutanol under the company name Butamax.

Across our biofuels business, BP s share of ethanol-equivalent production[d] for 2013 was 521 million litres (552 million litres gross) compared with 404 million litres a year ago. The majority of this production is from BP s sugar cane mills in Brazil. In the US, BP has made the strategic decision to focus its biofuels business on the research, development, and commercialization of cellulosic ethanol technology at its facilities in San Diego, California, and Jennings, Louisiana.

[d] Ethanol-equivalent production includes ethanol and sugar.

Wind

In wind power, our business is focused onshore in the US. In 2013 we marketed our wind business for sale. Despite receiving a number of bids, we determined it was not the right time to sell and instead are focusing on optimizing performance at our 16 wholly owned and joint-venture wind farms.

BP maintained its net wind generation capacity in the US at 1,558MW[e] during 2013. BP s net share of wind generation for 2013 was 4,203GWh (7,363GWh gross), compared with 3,587GWh (5,739GWh gross) a year ago.

[e] BP also has 32MW of wind capacity in the Netherlands, operated by our Downstream segment.

Emerging business and ventures

Our emerging business and ventures unit invests in technology entrepreneurs working at the frontiers of their fields across the entire energy spectrum. Investments focus on emerging, strategic technologies, oil and gas, downstream technologies including fuels and chemicals, and biotech and bioenergy. The unit has made 37 separate investments, with $210 million of committed capital.

Shipping

We transport our products across oceans, around coastlines and along waterways using a combination of BP-operated, time-chartered and spot-chartered vessels. All vessels conducting BP activities are subject to our health, safety, security and environmental requirements. The primary purpose of our shipping and chartering activities is the transportation of our hydrocarbon products. In addition, we may use surplus capacity to transport third-party products. In December 2013, BP announced it had signed a contract with Hyundai Mipo Dockyard Co., Ltd to build 14 new product tankers in Korea. The first of these will be delivered in 2016.

Treasury

Treasury manages the financing of the group centrally, ensuring liquidity is sufficient to meet group requirements, and manages key financial risks including interest rate, foreign exchange, pension and financial institution credit risk. From locations in the UK, the US and Singapore, Treasury provides the interface between BP and the international financial markets and supports the financing of BP s projects around the world. Treasury trades foreign exchange and interest rate products in the financial markets, hedging group exposures and generating incremental value through optimizing and managing cash flows and the short-term investment of operational cash balances. Trading activities are underpinned by the compliance, control and risk management infrastructure common to all BP trading activities. For further information, see Financial statements Note 19.

Insurance

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. Losses are borne as they arise, rather than being spread over time through insurance premiums with attendant transaction costs. This approach is reviewed on a regular basis and if specific circumstances require such a review.

Outlook

In 2014 Other businesses and corporate annual charges, excluding non-operating items, are expected to be in the range of $1.6-$2.0 billion.

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Gulf of Mexico oil spill

We remain committed to meeting our responsibilities to the US federal, state and local governments and communities of the Gulf Coast following the Deepwater Horizon accident.

We have made significant progress in completing the response to the accident and supporting economic and environmental recovery efforts in affected areas.

Completing the response

BP, working under the direction of the US Coast Guard s Federal On-Scene Coordinator, continued to complete the Deepwater Horizon operational response activities. By the end of 2013, operational activity continued on just 37 of the approximately 4,400 shoreline miles in the area of response. These 37 shoreline miles were all in Louisiana and were subject to patrolling and maintenance, final monitoring or inspection, or were pending final Coast Guard approval at the end of 2013. The US Coast Guard ended active clean-up in Mississippi, Alabama and Florida in June 2013.

The US Coast Guard has indicated that if oil is later discovered in a shoreline segment where removal actions have been deemed complete, they will follow long-standing response protocols established under the law and contact whoever it believes is the responsible party or parties.

Environmental restoration

BP is responsible for the reasonable and necessary costs of assessing potential injury to natural resources resulting from the oil spill as well as the reasonable and necessary costs of restoration as defined under the Oil Pollution Act of 1990. In 2013 activity was focused on natural resource damage assessment but some early restoration work has also begun.

Natural resource damage assessment

Scientists from BP, government agencies, academia and other organizations are studying a range of species and habitats to understand how wildlife populations and the environment may have been affected by the accident and oil spill. Since May 2010, more than 240 initial and amended work plans have been developed by state and federal trustees and BP to study resources and habitat. The study data will inform an assessment of injury to natural resources in the Gulf of Mexico and the development of a restoration plan to address the identified injuries. By the end of 2013, BP had paid approximately $1 billion to support the assessment process.

Early restoration projects

While the injury assessment is still ongoing, restoration work has begun. In April 2011 BP committed to provide up to $1 billion in early restoration funding to expedite recovery of natural resources injured as a result of the Deepwater Horizon accident and oil spill. BP and the trustees, as at December 2013, had reached agreement or agreement in principle on a total of 54 early restoration projects that are expected to cost approximately $698 million, including 10 projects that are already in place or under way.

Projects announced in 2013 include ecological projects that will restore habitat and resources, as well as projects that enhance recreational use of natural resources. These projects will proceed through a further regulatory review and public comment process. Once that process is complete, BP and the trustees will seek to proceed with approved projects. BP will provide project funding in exchange for restoration credit to be applied to the final assessment of natural resource damages.

Gulf of Mexico Research Initiative

In May 2010 BP committed $500 million over 10 years to fund independent scientific research through the Gulf of Mexico Research Initiative. The goal of the research initiative is to improve society s ability to understand, respond to and mitigate the potential impacts of oil spills to marine and coastal ecosystems. As at 31 December 2013, the aggregate contribution by BP was $169 million. The continued fulfilment of this commitment is one of the conditions of the US government criminal plea agreement (see below).

Economic recovery

BP continued to support economic recovery efforts in local communities through a variety of actions and programmes in 2013. By 31 December 2013, BP had spent $12.8 billion on economic recovery, including claims, advances, settlements and other payments, such as state tourism grants and funding for state-led seafood testing and marketing. BP has committed $2.3 billion to help resolve economic loss claims related to the Gulf of Mexico seafood industry, of which $1.2 billion has been paid in to the seafood compensation fund but has not yet been distributed to final claimants.

Plaintiffs Steering Committee settlements

BP reached settlements in 2012 with the Plaintiffs Steering Committee (PSC) to resolve the substantial majority of legitimate individual and business claims and medical claims stemming from the accident and oil spill. The PSC acts on behalf of individual and business plaintiffs in the multi-district litigation proceedings in New Orleans (see Legal update below). During 2013, amounts paid out under the PSC settlements totalled $2.7 billion.

As part of its monitoring of payments made by the court-supervised settlement programme for the economic and property damages settlement, BP identified and disputed multiple business economic loss claim determinations that appeared to result from an incorrect interpretation of the economic and property damages settlement agreement by the claims administrator. See further details under Legal update below. BP has also raised issues about misconduct and inefficiency in the facility administering the settlement.

The medical benefits class action settlement provides for claims to be paid to qualifying class members from the agreement s effective date. Following the resolution of all appeals relating to this settlement, the agreement s effective date was 12 February 2014. The deadline for submitting claims under the settlement is one year from the effective date.

OPA claims programme

There is a separate BP claims programme which handles claims under the Oil Pollution Act of 1990 (OPA) by individuals and businesses who are not covered by the PSC economic and property damages settlement, who have opted out of the settlement or who are pursuing claims separately, as permitted by the terms of the settlement. During 2013, amounts paid out in relation to the OPA claims programme totalled $31 million.

State and local claims

Several states and local government entities have presented claims for alleged losses, including economic and property damage, under OPA. BP has provided for the current best estimate of the amount required to settle these obligations. BP considers most of these claims to be unsubstantiated and the methodologies used to calculate them to be seriously flawed, not supported by OPA, not supported by documentation and to be substantially overstated. A total of $89 million was paid in relation to state and local claims in 2013.

For further information on the PSC settlements and state and local claims, see Legal proceedings on page 257, Financial Statements Note 2 and *bp.com/uslegalproceedings*.

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Legal update

BP is subject to a number of different legal proceedings in connection with the Deepwater Horizon incident. These include the legal proceedings relating to the PSC settlements; the multi-district litigation proceedings in New Orleans; a range of civil lawsuits, including claims brought by states and local government entities; other civil claims by individuals and businesses; and the multi-district litigation proceedings in Houston in relation to alleged violations of securities legislation. In 2012, BP reached a settlement with the US Department of Justice relating to all federal criminal charges and a settlement with the SEC resolving certain civil claims. Certain BP entities have been subject to suspension and debarment by the US Environmental Protection Agency (EPA).

PSC settlements

There have been various rulings from the district court and the US Court of Appeals for the Fifth Circuit (Fifth Circuit) on matters relating to interpretation of the PSC economic and property damages settlement agreement, including the meaning of the causation requirements of the agreement.

In 2013 a panel of the Fifth Circuit (the business economic loss panel) set aside the claims administrator s interpretation of the business economic loss framework of the settlement agreement and instructed the district court in New Orleans to undertake additional proceedings to determine the correct interpretation of the agreement. In December 2013, the district court ruled that, for the purposes of determining business economic loss claims, revenues must be matched with expenses incurred by claimants in conducting their business even where the revenues and expenses were recorded at different times. The district court assigned the development of more detailed matching requirements to the claims administrator. The claims administrator has issued a draft policy addressing the matching of revenue and expenses for business economic loss claims. The parties have made written submissions on the draft policy and the claims administrator will issue a final policy to which BP and the PSC have the right to object and seek review by the district court.

The district court also ruled that the settlement agreement did not contain a causation requirement beyond the revenue and related tests set out in an exhibit to that agreement. BP appealed the district court s ruling on causation to the business economic loss panel, but the panel affirmed the district court s ruling on 3 March 2014. BP is considering its appeal options, including a potential petition that all the active judges of the Fifth Circuit review the 3 March decision. The temporary injunction on business economic loss claims offers and payments will be lifted when the case is transferred back to the district court; the timing of this would be affected by the status of any such petition by BP.

A separate but related appeal was brought by objectors to the economic and property damages settlement challenging the overall fairness and lawfulness of the agreement. This appeal was heard by a different panel of the Fifth Circuit, which, in January 2014, upheld the district court s approval of the settlement agreement and left to the business economic loss panel the question of how to interpret the agreement, including the meaning of the agreement s causation requirements. BP and several of the objectors have filed petitions requesting that all the active judges of the Fifth Circuit review the decision to uphold the approval of the settlement.

BP has filed a lawsuit alleging that it relied on fraudulent representations by a former PSC lawyer when negotiating aspects of the PSC settlement relating to the $2.3-billion seafood compensation fund. The district court granted the lawyer s motion to stay this lawsuit, pending developments in the government s criminal investigation and possible indictment. The district court also denied BP s motion requesting that further payments from the seafood compensation fund be suspended on the basis that no further payment from the fund is imminent. The district court deferred ruling on a motion by BP seeking to determine the extent of the fraud and what portion, if any, of the seafood fund should be returned as a result.

Multi-district litigation proceedings in New Orleans

The multi-district litigation trial relating to liability, limitation, exoneration and fault allocation (MDL 2179) began in the federal district court in New Orleans in February 2013. The first phase of the trial focused on the causes of the accident and the allocation of fault among the defendants. The second phase focused on efforts to stop the flow of oil and the volume of oil spilled. BP is not aware of the timing of the district court s rulings in respect of these first two phases of the trial and the court could issue its decision at any time.

In a subsequent trial phase, for which no trial date has yet been set, the district court will consider the statutory per-barrel penalty rate to be applied in determining penalties under the Clean Water Act. There is significant uncertainty about the amount of Clean Water Act penalties to be paid, and the timing of payment, as these will depend on the finding as to negligence or gross negligence, the volume of oil spilled and the application of statutory penalty factors. The district court has wide discretion in its determination as to whether a defendant s conduct involved negligence or gross negligence as well as in its determinations on the volume of oil spilled and the application of statutory penalty factors.

Civil claims

BP p.l.c., BP Exploration & Production Inc. (BPXP the BP group company that conducts exploration and production operations in the Gulf of Mexico) and various other BP entities have been among the companies named as defendants in approximately 2,950 civil lawsuits resulting from the accident and oil spill, including the claims by several states and local government entities referred to above. The majority of these lawsuits assert claims under OPA, as well as various other claims, including for economic loss and real property damage, and claims under maritime law and state law. These lawsuits seek various remedies including economic and compensatory damages, punitive damages, removal costs and natural resource damages. Many of the lawsuits assert claims excluded from the PSC settlements, such as claims for recovery for losses allegedly resulting from the 2010 federal deepwater drilling moratoria and the related permitting process. Many of these lawsuits have been consolidated with the multi-district litigation proceedings in New Orleans.

Multi-district litigation proceedings in Houston

The MDL 2185 proceedings pending in federal court in Houston, including a purported class action on behalf of purchasers of American Depository Shares under US federal securities law, are continuing. A jury trial is scheduled to begin in October 2014.

SEC settlement

In connection with the 2012 settlement with the SEC resolving the SEC s Deepwater Horizon-related civil claims, as of 31 December 2013, BP had completed its first two payments totalling $350 million. A final $175 million payment, plus accrued interest, is scheduled for 2014.

US government criminal plea agreement

Under the terms of the criminal plea agreement reached with the US government in 2012 to resolve all federal criminal claims arising out of the Deepwater Horizon incident, BP is taking additional actions, enforceable by the court, to further enhance the safety of drilling operations in the Gulf of Mexico. The first annual update on BP s compliance with the plea agreement is expected to be available by 31 March 2014 and to be published at *bpxpcompliancereports.com*.

The plea agreement also provides for the US government to appoint two independent monitors a process safety monitor and an ethics monitor as well as an independent third-party auditor. The process safety monitor has been retained, for a period of up to four years from February 2014, and will review and provide recommendations concerning BPXP s process safety and risk management procedures for deepwater drilling in the Gulf of Mexico. The ethics monitor has been retained, for a term of up to four years from 2013, and will review and provide recommendations concerning BP s ethics and compliance programme. The third-party auditor has also been retained and will review and report to the probation officer, the US government and BP on BPXP s compliance with the plea agreement s implementation plan.

US Environmental Protection Agency (EPA) suspension and debarment

In November 2012, the EPA suspended BP p.l.c., BPXP and other BP companies from receiving new federal contracts or renewing existing ones. In 2013, the EPA debarred the Houston headquarters of BPXP, thus effectively preventing it from entering into new contracts or leases with the US government. In November 2013, the EPA continued the suspensions of the previously suspended companies, suspended two new BP entities and proposed discretionary debarment of all suspended BP entities. BP is challenging the EPA s suspension and debarment decisions. Neither the suspensions nor the proposed debarments affect existing contracts BP has with the US government, including those relating to current and ongoing drilling and production operations in the Gulf of Mexico. BP continues to work with the EPA in preparing an administrative agreement to resolve these suspension and debarment issues.

For further information on these matters, see Risk factors on page 51 and Legal proceedings on page 257.

Financial update

The group income statement for 2013 includes a pre-tax charge of $469 million in relation to the Gulf of Mexico oil spill. The charge for the year reflects adjustments to provisions and the ongoing costs of the Gulf Coast Restoration Organization. As at 31 December 2013, the total cumulative charges recognized to date amount to $42.7 billion. BP has provided for spill response costs, environmental expenditure, litigation and claims and Clean Water Act penalties that can be measured reliably. At 31 December 2013, provisions related to the Gulf of Mexico oil spill amounted to $9.3 billion (2012 $15.2 billion).

The cumulative income statement charge does not include amounts for obligations that BP considers are not possible, at this time, to measure reliably. Nothing is currently provided for natural resource damages, except for $1 billion for early restoration projects and no provision has been made for amounts arising from MDL 2185 (securities class action). In addition, management believes that no reliable estimate can be made of any business economic loss claims not yet received, processed and paid. This is because of the significant uncertainties which exist currently, as noted in the Plaintiffs Steering Committee section above (see also Financial statements Note 2). The additional amounts payable for these and other items (such as state and local claims) could be considerable.

The total amounts that will ultimately be paid by BP in relation to all the obligations relating to the accident and oil spill are subject to significant uncertainty. The ultimate exposure and cost to BP will be dependent on many factors, including any new information or future developments. These could have a material impact on our consolidated financial condition, results of operations and cash flows. The risks associated with the accident and oil spill could also heighten the impact of the other risks to which the group is exposed.

For details regarding the impacts and uncertainties relating to the Gulf of Mexico oil spill, see Risk factors on page 51 and Financial statements Note 2.

Deepwater Horizon Oil Spill Trust update

BP, in agreement with the US government, set up the $20-billion Deepwater Horizon Oil Spill Trust (the Trust) to provide confidence that funds would be available to satisfy individual and business claims, final judgments in litigation and litigation settlements, state and local response costs and claims, and natural resource damages and related costs. The Trust was fully funded by the end of 2012.

Payments made out of the Trust during 2013 totalled $3.1 billion for individual and business claims, medical settlement programme payments, natural resource damage assessment and early restoration, state and local government claims, costs of the court supervised settlement progamme and other resolved items. As at 31 December 2013, the aggregate cash balances in the Trust and the associated qualified settlement funds amounted to $6.7 billion, including $1.2 billion remaining in the seafood compensation fund, which is yet to be distributed, and $0.9 billion held for natural resource damage early restoration projects.

As at 31 December 2013, the cumulative charges to the Trust amounted to $19.3 billion. Thus, a further $0.7 billion could be charged in subsequent periods for items covered by the Trust with no net impact on the income statement. Additional liabilities in excess of this amount would be expensed to the income statement. See Legal proceedings on page 257 and Financial statements Note 2 for more information.

Clean Water Act penalties

BP has recognized a provision of $3.5 billion for the estimated civil penalties for strict liability under the Clean Water Act, which are based on a specified range per barrel of oil released. The penalty rate per barrel used to calculate this provision is based upon BP s conclusion, among other things, that it did not act with gross negligence or engage in wilful misconduct.

If BP is found to have been grossly negligent, the penalty is likely to be significantly higher than the amount currently provided. See further details under Multi-district litigation proceedings in New Orleans above and in Financial statements Note 2.

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Corporate responsibility

We believe we have a positive role to play in shaping the long-term future of energy.

Fire safety training in Angola.

Safety

We continue to promote deep capability and a safe operating culture across BP.

Group safety performance

In 2013 BP reported six fatalities. These were four employees in the terrorist attack at In Amenas, Algeria and two contractors in heavy goods vehicle incidents, one in Brazil and one in South Africa. We deeply regret the loss of these lives.

Personal safety performance

		2013	2012	2011
Recordable injury frequency (group)	incidents per 200,000 hours worked	**0.31**	0.35	0.36
Day away from work case frequency[b] (group)	incidents per 200,000 hours worked	**0.070**	0.076	0.090

[b] Incidents that resulted in an injury where a person is unable to work for a day (shift) or more.

Process safety performance

	2013	2012	2011
Tier 1 process safety events	**20**	43	74
Loss of primary containment number of all incidents[c]	**261**	292	361
Loss of primary containment number of oil spills[d]	**185**	204	228

Number of oil spills to land and water	**74**	102	102
Volume of oil spilled (thousand litres)	**724**	801	556
Volume of oil unrecovered (thousand litres)	**261**	320	281

[c] Does not include either small or non-hazardous releases.
[d] Number of spills greater than or equal to one barrel (159 litres, 42 US gallons).

We report tier 1 process safety events defined as the loss of primary containment from a process of greatest consequence causing harm to a member of the workforce or costly damage to equipment, or exceeding defined quantities. We use the American Petroleum Institute (API) RP-754 standard. Our loss of primary containment (LOPC) metric includes unplanned or uncontrolled releases from a tank, vessel, pipe, rail car or equipment used for containment or transfer of materials within our operational boundary excluding non-hazardous releases such as water. We seek to record all LOPCs regardless of the volume of the release and report on losses over a severity threshold.

Managing safety

We are working to continuously improve safety and risk management across BP. Three objectives guide our efforts:

- To promote deep capability and a safe operating culture across BP.
- To embed OMS as the way BP operates.
- To support self-verification and independent assurance that confirms our conduct of operating.

Within BP, operating businesses are accountable for delivering safe, compliant and reliable operations. They are supported in this by our safety and operational risk (S&OR) function whose role is to:

- Set clear requirements.
- Maintain an independent view of operating risk.
- Provide deep technical support to the operating businesses.
- Intervene and escalate as appropriate to cause corrective action.

Governance

BP reviews risks at all levels of the organization. Each business segment has a safety and operational risk committee, chaired by the business head, to oversee the management of safety and risk in their respective areas of the business. In addition, the group operations risk committee (GORC) reviews safety and risk management across BP.

The board s safety, ethics and environment assurance committee (SEEAC) receives updates from the group chief executive and the head of S&OR on management plans associated with the highest priority risks as part of its update on GORC s work. GORC also provides SEEAC with updates on BP s process and personal safety performance, and the monitoring of major incidents and near misses across the group. See Our management of risk on page 49.

Operating management system (OMS)

BP s OMS is a group-wide framework designed to provide a basis for managing our operations in a systematic way. OMS integrates BP requirements on health, safety, security, environment, social responsibility and operational reliability, as well as related issues such as maintenance, contractor management and organizational learning, into a common management system.

All BP businesses covered by the OMS are required to progressively align with this framework through an annual performance improvement cycle. Recently acquired operations need to transition to the OMS as the initial step in this process. The application of a comprehensive management system such as OMS across a global company is an ongoing process. See page 44 for information about joint arrangements.

Capability development

BP s capability development programmes are designed to equip our staff with the skills needed to run safe and efficient operations. The programmes cover our OMS, process safety and risk and safety leadership. Our global wells institute offers courses in areas such as applied deepwater well control, drilling engineering and well site leadership with more than 100 sessions delivered in 2013. It includes a simulator facility and an applied deepwater well control course where drilling personnel, including our contractors, can work together and practice a variety of well control situations. Trainers include experts from both inside and outside of the oil and gas industry.

Security and crisis management

The scale and spread of BP s operations means we must prepare for a range of potential business disruptions and emergency events. BP monitors for and aims to guard against hostile actions that could cause harm to our people or disrupt our operations, including physical and digital threats and vulnerabilities.

We also maintain disaster recovery, crisis and business continuity management plans and work to build day-to-day response capabilities to support local management of incidents and group-wide practices and response techniques. See page 44 for information on BP s approach to oil spill preparedness and response.

In January 2013, the In Amenas gas plant in Algeria, which is run as a joint operation between BP, Sonatrach (the national gas company of Algeria) and Statoil, came under armed terrorist attack. A total of 40 people from 10 countries and 10 organizations were killed in the attack. Four employees and a former employee lost their lives in the incident. BP and Statoil jointly carried out an extensive review of security arrangements in Algeria following the attack and we are working with Sonatrach on implementing a programme of security enhancements.

Safety in the Upstream business

In our Upstream business the recordable injury frequency for 2013 remained stable at 0.32, the same as in 2012. Our day away from work case frequency, incidents that resulted in an injury where a person is unable to work for a day (shift) or more, was 0.068 in 2013 compared to 0.053 in 2012. The number of reported loss of primary containment (LOPC) incidents was 143, down from 151 in 2012.

Safer drilling

Our global wells organization (GWO) is responsible for planning and executing our wells operations across the world. It brings wells expertise into a single organization to drive standardization and consistent implementation. It is also responsible for establishing new GWO standards on compliance, risk management, contractor management, performance indicators, technology and capability.

We have been developing and finalizing OMS conformance plans for activities which represent the highest risk areas in our wells operations. For example we have developed and applied new and revised engineering technical practices for activities such as well barriers and testing.

The Bly Report recommendations

BP s investigation into the Deepwater Horizon accident in 2010, the Bly Report, made 26 recommendations aimed at further reducing risk across BP s global drilling activities. They included strengthening contractor management, improving assurance on blowout preventers, well control, pressure-testing for well integrity, emergency systems, cement testing, rig audit and verification, and personnel competence.

At the end of 2013, 15 of the Bly Report recommendations had been completed. All 26 recommendations have been worked on in parallel and progress has been made towards each of them. By the end of 2013, over 75% of the deliverables that make up the 26 recommendations had been completed. A recommendation is defined as complete when it has been approved by senior management in our global wells organization and submitted for internal verification.

The outstanding recommendations relate to well control and well integrity, drilling and competence, the management of risk and change, and blowout preventers.

The board s safety, ethics and environment assurance committee monitors BP s global implementation of the measures recommended in the Bly Report, and progress is tracked quarterly by executive management. For the full report and periodic updates on progress see *bp.com/internalinvestigation*.

The Bly Report independent assessment

The BP board appointed Carl Sandlin as independent expert to provide an objective assessment of BP s global progress in implementing the deliverables from the Bly Report.

As part of his work, Mr Sandlin visited the regional wells teams with active operation twice in 2013. During each visit Mr Sandlin conducted reviews with their senior management and held discussions with key wells personnel and drilling contractors onsite.

The BP board and Mr Sandlin have agreed, in principle, that his engagement, initially scheduled to finish in June 2014, will be extended to June 2016.

Process safety monitor

Following legal settlements with the US government in 2012, BP has retained a process safety monitor for a term of up to four years from February 2014. The process safety monitor will review and provide recommendations concerning BP Exploration & Production Inc s process safety and risk management procedures for deepwater drilling in the Gulf of Mexico.

Sharing lessons learned

We continue to share what we have learned to advance global deepwater capabilities and practices that enhance safety in our company and the deepwater industry. We have conducted more than 200 briefings over the past three years to share lessons learned. We have worked with a range of industry partners including trade associations, host governments, national oil companies and regulators. For example we are working with the International Association of Oil & Gas Producers, Marine Well Containment Company, API and the International Association of Drilling Contractors.

Safety in the Downstream business

The process safety incident index (PSII) is a weighted index that reflects both the number and severity of events per 200,000 hours worked. In 2013 our PSII was down 60% compared to a baseline year of 2009. There were 101 LOPCs in 2013 down from 117 in 2012, with divestments accounting for a significant part of this reduction.

We measure personal safety performance through recordable injury frequency (RIF) and day away from work case frequency (DAFWCF) as well as severe vehicle accident rate (SVAR). In 2013 our RIF was 0.25 compared to 0.33 in 2012. The 2013 DAFWCF, the number of cases where an employee misses one or more days from work per 200,000 hours worked, was 0.063 compared to 0.089 in 2012.

Our SVAR which is the number of vehicle incidents that result in death, injury, a spill, a vehicle rollover, or serious disabling vehicle damage per one million kilometres travelled, was 0.10 in 2013 compared to 0.16 in 2012. Driving safety remains an area of focus for us.

We focus on the safe storage, handling and processing of hydrocarbons in our facilities across the Downstream business. BP takes measures to:

- Prevent loss of hydrocarbon containment through well designed, maintained and operated equipment.
- Reduce the likelihood of any hydrocarbon releases and the possibility of ignition.
- Provide safe locations, emergency procedures and other mitigation measures in the event of a release, fire or explosion.

Some areas where we worked to manage risks in our refining and petrochemicals portfolio in 2013 included:

- Corrosion: Improving the way we detect, measure and monitor corrosion with the aim of reducing the risk of leaks and increasing the reliability of our equipment. We are using industry benchmarks and technology to improve routine detection.
- Coaching: Nine manufacturing facilities participated in the Exemplar programme which aims to help sites apply our operating management system using continuous improvement processes.
- Site occupied buildings: We moved workforce further away from higher risk processing areas at our petrochemical plant in Zhuhai, China and installed an improved evacuation alert system at our chemical plant in Hull in the UK, as part of a multi-year programme.

Process safety expert for our Downstream business

The board s safety, ethics and environment assurance committee appointed Duane Wilson in May 2012 as process safety expert and assigned him to work in a global capacity with the Downstream business. In his role as process safety expert, Mr Wilson provides an independent perspective on the progress that BP s fuels, lubricants and petrochemicals businesses are making globally toward becoming industry leaders in process safety performance. Mr Wilson s contract has been extended to April 2015.

Working with partners and contractors

BP, like all our industry peers, rarely works in isolation we need to work with suppliers, contractors and partners to carry out our operations. In 2013, 54% of the 373 million hours worked by BP were carried out by contractors.

Our ability to be a safe and responsible operator depends in part on the conduct of our suppliers and contractors. To this end we set operational standards through legally-binding agreements. Training and dialogue also help build the capability of our contractors.

Contractors

We expect our contractors to comply with legal and regulatory requirements and to operate consistently with the principles of our code of conduct when working on our behalf. Our OMS includes requirements

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A contractor checks a pump in the production module on the Thunder Horse platform in the Gulf of Mexico, US.

and practices for working with contractors and our operations are obliged to plan and execute actions to reach conformance with OMS on contractor management.

We seek to set clear and consistent expectations of our contractors. In our Upstream business our standard model contracts include, for example, health, safety, security and environmental requirements.

Bridging documents are necessary in some cases to define how our safety management system and that of our contractors co-exist to manage risk on the work site.

In 2011 we undertook a review of how we manage contractors in our Upstream business, which examined best practice in BP and other industries that use contractors to perform potentially high-consequence activities. As a result of this review, we are focusing on developing deeper, longer-term relationships with selected contractors in our Upstream business. We have:

- Established global agreements that help to strengthen our relationships with strategic contractors and suppliers, manage risks more effectively and leverage economies of scale.
- Increased the rigour of health and safety qualification and selection criteria when approving contractor and supplier capabilities.
- Piloted guidance for the operating line on parts of our OMS that relate to working with contractors.
- Continued working with our strategic contractors and suppliers to create standardized technical specifications and quality requirements for certain equipment, initially focused on new projects.
- Worked on incorporating safety and quality key performance metrics into contracts for potentially high-consequence activities.

Our partners in joint arrangements

We seek to work with companies that share our commitment to ethical, safe and sustainable working practices. However, we do not control how our co-venturers and their employees approach these issues.

Typically, our level of influence or control over a joint arrangement is linked to the size of our financial stake compared with other participants. Our code of conduct provides that we will do everything we reasonably can to make sure joint arrangements follow similar principles to those in our code. In some joint arrangements we act as the operator. Our OMS provides that where we are the operator, and where legal and contractual arrangements allow, OMS applies to the operations of that joint arrangement.

In other cases, one of our joint arrangement partners may be the designated operator, or the operator may be an incorporated joint arrangement company owned by BP and other companies. In those cases our OMS does not apply as the management system to be used by the operator, but is available to our businesses as a reference point for their engagement with operators and co-venturers.

We introduced a group policy in 2013 to provide a consistent framework for identifying and managing BP s exposure related to safety and operational risk, as well as bribery and corruption risk, from our participation in new and existing non-operated joint arrangements.

Environment and society

Throughout the life cycle of our projects and operations, we aim to manage the environmental and social impacts of our presence.

Managing our impacts

At a group level, we review our management of material issues such as GHG emissions, water, oil spill response, sensitive and protected areas and human rights annually. Using our operating management system (OMS), we seek to identify emerging risks and assess methods to reduce them across the company.

Our OMS includes environmental and social practices that set out how our major projects identify and manage environmental and social impacts. The practices also apply to projects that involve new access, projects that could affect an international protected area and some BP acquisition negotiations.

In the early planning stages, these projects complete a screening process to identify the most significant environmental and social impacts. Projects are required to identify mitigation measures and implement these in design, construction and operations. From April 2010 to the end of 2013, 91 projects had completed the screening process, and used outputs from the process to implement measures to reduce negative impacts.

BP s environmental expenditure in 2013 totalled $4,288 million (2012 $7,230 million, 2011 $8,491 million). This figure includes a credit of $66 million relating to the Gulf of Mexico oil spill. For reference, expenditure related to the Gulf of Mexico oil spill was a charge of $919 million in 2012 and $1,838 million in 2011. See page 252 for a breakdown of environmental expenditure. See Regulation of the group s business Environmental regulation on page 254.

Oil spill preparedness and response

We issued new group-wide requirements for oil spill preparedness and response planning, and crisis management in July 2012. These incorporate what we have learned from the Deepwater Horizon accident. All of our businesses that have the potential to spill oil have been updating oil spill planning scenarios and response strategies in line with the requirements.

Meeting the requirements is a substantial piece of work and we believe this work has already resulted in a significant increase in our oil spill response capability. For example, this includes using specialized modelling techniques and the provision of response capabilities, such as stockpiles of dispersants and planning for major offshore recovery operations.

Enhancing response capabilities

Improving our existing oil spill modelling tools helps BP to better define different oil spill scenarios and associated response plans. For example, following modelling for exploration in the Omani desert, we modified the planned location of pipelines to reduce the impact to groundwater if a spill were to occur.

We consider the environmental and socio-economic sensitivities of a region to help inform oil spill response planning. Sensitivity mapping helps us to identify the various types of habitats, resources and communities that could potentially be impacted by oil spills and develop appropriate response strategies. Sensitivity mapping is conducted around the world and in 2013 we updated sensitivity maps in Angola, Australia, Azerbaijan, Egypt, Libya, Trinidad & Tobago and the UK.

The use of dispersants is an important option in oil spill response planning. We have gained a greater understanding of dispersants and their use as a response option through scientific research programmes. We are examining topics such as the effectiveness of dispersants in the deep ocean and the efficiency of naturally occurring marine microbes to degrade dispersed oil in the Gulf of Mexico and in the seas of Australia, Azerbaijan and Egypt.

We seek to work collaboratively with government regulators in planning for oil spill response, with the aim of improving any potential future response. For example, in 2013 we shared lessons on dispersant use, controlled burning response strategies and oil spill modelling with government regulators in Azerbaijan, Brazil and Libya.

See page 42 for information on progress on the recommendations of BP s internal investigation into the Deepwater Horizon accident.

Climate change

Climate change represents a significant challenge for society and the energy industry, including BP. In response to the challenges and opportunities, BP is taking a number of practical steps, such as increasing energy efficiency in our operations, factoring a carbon cost into the investment and engineering decisions for new projects, and investing in lower-carbon energy products. We also require our operations to incorporate energy use considerations in their business plans and to assess, prioritize and implement technologies and systems to improve energy usage.

Climate change adaptation

We consider and identify risks and potential impacts of a changing climate on our facilities and operations. Where climate change impacts are identified as a risk for a new project, our engineers seek to address them in the project design like any other physical and ecological hazard. We periodically review and adjust existing design criteria and engineering technology practices.

Greenhouse gas emissions

We report on GHG emissions on a carbon dioxide-equivalent (CO_2e) basis. This includes CO_2 and methane for direct emissions and CO_2 for indirect emissions, which are associated with the purchase of electricity, heat or steam into our operations. Our GHG reporting encompasses all BP s consolidated entities as well as our share of equity-accounted entities other than BP s share of TNK-BP and Rosneft. Rosneft s emissions data can be found on its website.

Our approach to calculating GHG emissions is aligned with the Greenhouse Gas Protocol and the IPIECA/API/OGP Petroleum Industry Guidelines for Reporting GHG Emissions. We calculate emissions based on the fuel consumption and fuel properties for major sources rather than the use of generic emission factors. We do not include nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride as they are not material and therefore it is not practical to collect this data.

Greenhouse gas emissions

	2013	2012	2011
Direct GHG emissions (Mte CO_2e)	**49.2**	59.8	61.8
Indirect GHG emissions (Mte CO_2e)	**6.6**	8.4	9.0

The decrease in our direct GHG emissions is primarily due to the divestment of our Texas City and Carson refineries.

Intensity

The ratio of our total greenhouse gas emissions to adjusted revenue of those entities (or share of entities) included in our GHG reporting was 0.15kte/$million in 2013. Adjusted revenue reflects total revenues and other income, less gains on sales of businesses and fixed assets. Additionally, we publish the ratios for greenhouse gas emissions to upstream production, refining throughput and chemicals produced at *bp.com/greenhousegas*.

Greenhouse gas regulation

In the future, we expect that additional regulation of GHG emissions aimed at addressing climate change will have an increasing impact on our businesses, operating costs and strategic planning, but may also offer opportunities for the development of lower-carbon technologies and businesses.

Accordingly, we require larger projects, and those for which emissions costs would be a material part of the project, to apply a standard carbon cost to the projected GHG emissions over the life of the project. The standard cost is based on our estimate of the carbon price that might realistically be expected in particular parts of the world. In industrialized countries, our standard cost assumption is currently $40 per tonne of CO_2e. We use this cost as a basis for assessing the economic value of the investment and as one consideration in optimizing the way the project is engineered with respect to emissions.

Water

BP recognizes the importance of access to fresh water and the need to manage water discharges at our operations. We assess risks, such as water scarcity, wastewater disposal and the long-term social and environmental pressures on water resources within the local area.

We are investing in research with several universities in the US to help understand future risks in water management, such as the allocation and use of water in the Middle East and the impact of water policies and regulation around the world.

Unconventional gas and hydraulic fracturing

Natural gas resources, including unconventional gas, have an increasingly important role in meeting the world s growing energy needs. New technologies are making it possible to extract unconventional gas resources safely, responsibly and economically. BP has unconventional gas operations in Algeria, Indonesia, Oman and the US.

Some stakeholders have raised concerns about the potential environmental and community impacts of hydraulic fracturing. BP seeks to apply responsible well design and construction, surface operation and fluid handling practices to mitigate these impacts.

Water and sand constitute on average 99.5% of the injection fluid. This is mixed with chemicals to create the fracturing fluid that is pumped underground at high pressure to fracture the rock, with the sand propping the fractures open. The chemicals used in the fracturing process help to reduce friction and control bacterial growth in the well. Some of these chemicals when used in certain concentrations are classified as hazardous by the relevant regulatory authorities, and each chemical used in the fracturing process is listed in the material safety data sheets kept at each operational site. We submit data on chemicals used at our hydraulically fractured wells in the US, to the extent allowed by our suppliers who own the chemical formulas, at *fracfocus.org*.

We aim to minimize air pollutant and greenhouse gas emissions by using responsible practices at our operating sites. For example, at our drilling sites in the US we use a process called green completions, whenever possible, to manage methane emissions associated with well completions following hydraulic fracturing. This process recovers natural gas for sale and minimizes the amount of natural gas either flared or vented from our wells.

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Environmental monitoring at our Terre de Grace oil sands lease area in Northern Alberta, Canada.

We seek to design and locate our equipment and manage our work patterns in ways that reduce potential impacts to communities such as increased traffic, noise, dust and light. We also listen to suggestions or complaints from nearby local communities and try to address their concerns.

More information about our approach to unconventional gas and hydraulic fracturing may be found at *bp.com/unconventionalgas*.

Canada s oil sands

Oil sands in Canada are the third-largest proven crude oil reserves in the world, after Saudi Arabia and Venezuela. About half of the world s total oil reserves that are open to private sector investment are contained in Canada s oil sands. BP is involved in three oil sands lease areas, all of which are located in the province of Alberta. We expect the Sunrise Energy Project, operated by Husky Energy, to be the first onstream with production expected to begin in late 2014. Engineering and appraisal activities are under way to design and plan the construction of the first phase of Pike, which is operated by Devon Energy. Terre de Grace, which is BP-operated, is currently under appraisal for development.

Our decision to invest in Canadian oil sands projects takes into consideration GHG emissions, impacts on land, water use, local communities and commercial viability. In the case of joint arrangements in which we are not the operator, we monitor both the progress of these projects and the mitigation of risk. In the Terre de Grace project where we are the operator, we are responsible for managing these potential impacts and the mitigation of risk.

More information on BP s investments in Canada s oil sands can be found at *bp.com/oilsands*.

Human rights

BP s human rights policy, published in 2013, outlines our commitment to respect internationally-recognized human rights, as set out in the International Bill of Human Rights and the International Labour Organization s Declaration on Fundamental Principles and Rights at Work. The policy applies to all employees and officers in BP wholly owned entities and in joint arrangements to the extent possible and reasonable given BP s level of participation.

The United Nations Guiding Principles on Business and Human Rights outline specific responsibilities for businesses in relation to human rights. We are committed to working towards aligning with the Guiding Principles using a risk-based approach. In 2013 our actions included:

Human rights workshops for senior leaders in Indonesia and the Middle East, with plans to roll these out in other high-priority regions.

Inclusion of human rights in our impact assessment for the LNG expansion project in Tangguh, Indonesia.

Collaboration with industry peers on the development of good practice guidance for integrating human rights into environmental and social impact assessments.

Participation in the work of oil and gas industry organization IPIECA s taskforce on developing shared industry approaches to managing human rights risks in the supply chain.

We plan to monitor the effectiveness of these actions. More information about our approach to human rights may be found at *bp.com/humanrights*.

Business ethics

Bribery and corruption are significant risks in the oil and gas industry. Our code of conduct requires that our employees or others working on behalf of BP do not engage in bribery or corruption in any form, whether in the public or private sector. We operate a group-wide anti-bribery and corruption standard, which applies to all BP employees and contractor staff. The standard requires annual bribery and corruption risk assessments; risk-based due diligence on all parties with whom BP does business; appropriate anti-bribery and corruption clauses in contracts; and the training of personnel in anti-bribery and corruption measures. Our processes are designed to enable us to choose suppliers carefully on merit, avoiding conflicts of interest and inappropriate gifts and entertainment.

We are working to respond effectively to the standards arising from the UK Bribery Act as well as other anti-corruption legislation such as the Foreign Corrupt Practices Act and certain regulations promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in the US.

Financial transparency

As a member of the Extractive Industries Transparency Initiative (EITI), we work with governments, non-governmental organizations and international agencies to improve transparency and disclosure of payments to governments. BP is supporting several countries that are working towards becoming EITI compliant.

In countries that have achieved EITI compliance, including Azerbaijan and Norway, BP submits an annual report on payments to their governments.

We have taken part in consultations in relation to new or proposed revenue transparency reporting requirements in the US and EU for companies in the extractive industries. We are awaiting the publication of the revised rules of the Dodd-Frank legislation from the SEC and are preparing to comply with the disclosure requirements.

We are contributing to the consultation process initiated by the UK government in preparation for the adoption of the EU accounting directive into UK law.

Enterprise and community development

In a number of BP locations, we run programmes to help build the skills of businesses and to develop the local supply chain. For example, we have helped some local companies reach the standards needed to supply BP and other organizations through training and sharing of our standards in areas such as health and safety.

BP s social investments, the contributions we make to social and community programmes in locations where we operate, support development activities that aim for a meaningful and sustainable impact. We look for social investment opportunities that are relevant to local needs, aligned with BP s business, and offer partnerships with local organizations.

In 2013, we contributed $78.8 million in social investment. More information about our social contribution can be found at *bp.com/society*.

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Employees

BP seeks employees who have the right skills for their roles and who understand and embody the values and expected behaviours that guide everything we do as a group.

BP headcount

Number of employees at 31 December[a]	US	Non-US	Total
2013			
Upstream	**9,300**	**15,400**	**24,700**
Downstream	**8,300**	**39,700**	**48,000**
Other businesses and corporate	**1,900**	**9,200**	**11,100**
Gulf Coast Restoration Organization	**100**		**100**
	19,600	**64,300**	**83,900**
2012			
Upstream	9,500	14,700	24,200
Downstream	11,900	39,900	51,800
Other businesses and corporate	1,900	8,400	10,300
Gulf Coast Restoration Organization	100		100
	23,400	63,000	86,400
2011			
Upstream	8,900	13,500	22,400
Downstream	12,000	39,500	51,500
Other businesses and corporate	1,900	8,200	10,100
Gulf Coast Restoration Organization	100		100
	22,900	61,200	84,100

[a] Reported to the nearest 100.

As at the end of December 2013, we had 83,900 employees. This includes 14,100 service station staff and 4,300 agricultural, operational and seasonal workers in Brazil. The numbers for 2011 and 2012 have been restated following the adoption of IFRS 11, see Financial statements Note 1 for further information.

During 2013, 4,300 people left BP through divestments, while there was an increase in seasonal workers in our biofuels business resulting in an overall headcount decrease of 3% from 2012.

Our values

Our values of safety, respect, excellence, courage and one team align explicitly with BP s code of conduct and translate into the responsible actions necessary for the work we do every day. Our values represent the qualities and actions we wish to see in BP, they guide the way we do business and the decisions we make. We are embedding BP s values into many of our group-wide systems and processes, including our recruitment, promotion and development assessments. See *bp.com/values* for more information.

People policies

We are focused on protecting the safety of our employees, engaging with them, and increasing the diversity of our workforce so that it reflects the societies in which we operate.

The group people committee, chaired by the group chief executive, has overall responsibility for key policy decisions relating to employees. The committee is responsible for governance of BP s people management processes. The committee discussed longer-term people priorities, reward, progress in our diversity and inclusion programme, recruitment priorities (including graduate recruitment), and improvements to our learning and development programmes in 2013.

Attracting and retaining our people

The increasing demand for energy products and the complexity of our projects means that attracting and retaining skilled and talented people is vital to the delivery of our strategy and plans. We want to develop the skills we need from within our existing workforce and we complement this with targeted external recruitment.

To address increasing demand for skilled people across the globe, 44% of our graduate recruitment came from universities outside the UK and US in 2013. We invest in universities worldwide to further develop the quality of our potential recruits.

We conduct external assessments for all new hires into BP at senior levels and for internal promotions to senior level and group leader level roles. These assessments help achieve rigour and objectivity in our hiring and talent processes. They give an in-depth analysis of leadership behaviour, intellectual capacity and the required experience and skills for the role being considered.

Building enduring capability

We provide development opportunities for all our employees, including international assignments, mentoring, team development days, workshops, seminars and online learning.

We continue to work to embed appropriate leadership skills throughout our organization. By 2013 our group-wide suite of leadership development programmes had been attended by employees from 32 countries and were conducted in six different languages.

We provide leading education opportunities for our people through our internal academies and institutes that deliver leadership development, technical learning and compliance programmes.

Diversity

We are a global company and aim for a workforce that is representative of the societies in which we operate.

We have set out our ambitions for diversity and our group people committee reviews performance on a quarterly basis. We aim for 25% of our group leaders the most senior managers of our businesses and functions to be women by 2020.

Workforce by gender

Numbers as at 31 December	Male	Female	Female %

Board directors	12	2	14
Group leaders	477	105	18
Subsidiary directors	494	107	18
All employees	58,500	25,400	30

At the end of 2013, 22% of our group leaders came from countries other than the UK and the US. We continue to increase the number of local leaders and employees in our operations so that they reflect the communities in which we operate and this is monitored at a local, business or national level.

We support the UK government-commissioned Lord Davies review which recommends increasing gender diversity on the boards of listed companies. See page 70 for information on our board composition.

Inclusion

Our goal is to create an environment of inclusion and acceptance. For our employees to be motivated and to perform to their full potential, and for the business to thrive, our people need to be treated with respect and dignity, and without discrimination.

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We aim to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees, including women; ethnic minorities and different nationalities; lesbian, gay, bisexual and transgender people; those with disabilities; and people of all ages. Where existing employees become disabled, our policy is to provide continuing employment and training wherever possible.

Employee engagement

Executive team members hold regular town hall style meetings and webcasts to communicate with our employees around the world. Team meetings and one-to-one meetings are complemented by formal processes through works councils in parts of Europe. We seek to maintain constructive relationships with labour unions.

We conduct an annual engagement survey among our employees. In 2013 approximately 37,000 employees in more than 70 countries gave their views on a wide range of business topics and to identify areas where we can improve.

We measure how engaged our employees are with our strategic priorities. The group priorities index is derived from 12 questions about employee perceptions of BP as a company and how it is managed in terms of leadership and standards. We saw continued improvement in 2013 with a score of 72% (2012 71%, 2011 67%).

Business leadership teams review the results of the survey and agree actions to address identified issues. In 2013, safety scores remained strong and there was an increase in employees understanding of the operating management system, an area of focus identified in the previous year. While the survey showed an increase in employee confidence in BP s leadership, work is needed to further strengthen this.

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Global business services (GBS) supports BP s business processes across the globe. Here, members of the family day organizing committee in Malaysia prepare the registration booth.

Share ownership

We encourage employee share ownership. For example, through our ShareMatch plan, which operates in more than 50 countries, we match BP shares purchased by our employees. We operate a single company-wide equity plan, which allows employee participation at different levels globally and is linked to the company s performance.

The BP code of conduct

The BP code of conduct sets the standard that all BP employees are required to work to. It is based on our values and it clarifies the ethics and compliance expectations for everyone who works at BP. The code defines what BP expects of its people in key areas such as safety, workplace behaviour, bribery and corruption and financial integrity.

Employees, contractors or other third parties who have concerns that laws, regulations or the code of conduct may be breached, can get help through OpenTalk, a helpline operated by an independent company. The number of cases raised through OpenTalk in 2013 was 1,121 (2012 1,295, 2011 796). The increase in OpenTalk cases over the past few years is due, in part, to initiatives to promote our code of conduct and speak up culture. This is supported by high scores in our employee engagement survey relating to employee understanding of the importance of speaking up. The most common issues raised in 2013 related to the people section of the code. This includes treating people fairly, with dignity and giving everyone equal opportunity; creating a respectful, harassment-free workplace; and protecting privacy and confidentiality.

In the US, former district court judge Stanley Sporkin acts as an ombudsperson. Employees and contractors can contact him confidentially to report any suspected breach of compliance, ethics or the code of conduct, including safety concerns.

We take steps to identify and correct areas of non-compliance and take disciplinary action where appropriate. In 2013, 113 employee dismissals were reported by BP s businesses for non-adherence to the code of conduct or unethical behaviour. This excludes dismissals of staff employed at our retail service station sites, for incidents such as thefts of small amounts of money.

Following legal settlements with the US government in 2012, BP agreed to retain an ethics monitor for a term of up to four years from 2013. The ethics monitor will review and provide recommendations concerning BP s ethics and compliance programme (see page 39).

Policy on political activity

BP has a policy of not participating directly in party political activity as a group or making any contributions to political candidates, whether in cash or in kind. Employees rights to participate in political activity are governed by the applicable laws in the countries in which we operate. For example, in the US, BP supports the operation of the BP employee political action committee to facilitate employee involvement and to assess whether contributions comply with the law and are publicly disclosed.

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Our management of risk

BP manages, monitors and reports on the principal risks and uncertainties that can impact our ability to deliver our strategy of meeting the world s energy needs responsibly while creating long-term shareholder value; these risks are described in the Risk factors on page 51.

Our management systems, organizational structures, processes, standards, code of conduct and behaviours together form a system of internal control that governs how we conduct the business of BP and manage associated risks.

BP s risk management system

BP s risk management system is designed to be a simple, consistent and clear framework for managing and reporting risks from the group s operations to the board. The system seeks to avoid incidents and maximize business outcomes by allowing us to:

- Understand the risk environment, and assess the specific risks and potential exposure for BP.
- Determine how best to deal with these risks to manage overall potential exposure.
- Manage the identified risks in appropriate ways.
- Monitor and seek assurance of the effectiveness of the management of these risks and intervene for improvement where necessary.
- Report up the management chain to the board on a periodic basis about how risks are being managed, monitored, assured and the improvements that are being made.

Our risk management activities

Day-to-day risk management management and staff at our facilities, assets and functions identify and manage risk, promoting safe, compliant and reliable operations. For example, our group-wide operating management system (OMS) integrates BP requirements on health, safety, security, environment, social responsibility, operational reliability and related issues. These BP requirements, along with business needs and the applicable legal and regulatory requirements, underpin the practical plans developed to help reduce risk and deliver strong, sustainable performance.

Business and strategic risk management our businesses and functions integrate risk into key business processes such as strategy, planning, performance management, resource and capital allocation, and project appraisal. We do this by collating risk data, assessing risk management activities, making further improvements and planning new activities. By using a standardized risk management report, we aim for a consistent view of risks across BP.

Oversight and governance the board, executive and functional leadership provide oversight to identify and understand significant risks to BP. They also put in place systems of risk management, compliance and control to mitigate these risks. Executive committees set policy and oversee the management of group risks, and dedicated board committees review and monitor certain risks throughout the year.

BP s group risk team analyses the group s risk profile and maintains the group risk management system. Our group audit team provides independent assurance to the group chief executive and board, through its committees, over whether the group s system of internal control is adequately designed and operating effectively to respond appropriately to the risks that are significant to BP.

Risk governance and oversight

Key risk governance and oversight committees include the following:

Executive committees

g Executive team meeting for strategic and commercial risks.

g Group operations risk committee for health, safety, security, environment and operations integrity risks.

g Group financial risk committee for finance, treasury, trading and cyber risks.

g Group disclosure committee for financial reporting risks.

g Group people committee for employee risks.

g Resource commitment meeting for risks related to investment decisions.

g Group ethics and compliance committee for risks associated with legal and regulatory compliance and ethics.

Board and its committees

g BP board.

- Audit committee.
- Safety, ethics and environment assurance committee.
- Gulf of Mexico committee.

Board committees
For information on the board and its committees see page 71.

Our risk profile

The nature of our business operations is long term, resulting in many of our identified risks being enduring in nature. Nonetheless, risks can develop and evolve over time and their potential impact or likelihood may vary in response to internal and external events.

As part of BP s annual planning process, we review the principal risks and uncertainties to the group. We identify those as having a high priority for particular oversight by the board and its various committees in the coming year; the risks identified for particular review in 2014 are listed below. These may be updated throughout the year in response to changes in internal and external circumstances. The oversight and management of the other risks is undertaken in the normal course of business throughout the business and in executive and board committees.

Further details of the principal risks and uncertainties we face are set out in the Risk factors on page 51. There can be no guarantee that our risk management activities will mitigate or prevent these, or other, risks from occurring.

Gulf of Mexico oil spill

There is a wide range of risks arising out of the Gulf of Mexico accident and oil spill. These include legal, operational, reputational and compliance risks.

BP s management and mitigation of these risks is overseen by the board s Gulf of Mexico committee, which seeks to ensure that BP fulfils all legitimate obligations whilst protecting and defending BP s interests.

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The committee s responsibilities include oversight and review of the following activities: the legal strategy for litigation; investigations and suspension and debarment actions arising from the accident and oil spill; the strategy connected with settlements and claims; the environmental work to remediate or mitigate the effects of the oil spill; management strategy and actions to restore the group s reputation in the US; and compliance with government settlement agreements arising out of the accident and oil spill.

See Legal proceedings page 257 and Gulf of Mexico committee page 78 for further information.

Strategic and commercial risks

10-point plan

In 2011 we set out a 10-point plan to address our priorities through 2014. Among other things, the plan aims to focus on safety and risk management, efficient investments and disposals, successful delivery of operating cashflows, renewal and repositioning of our portfolio, and delivery of our major projects to plan. We conduct regular planning and performance monitoring activity as part of managing the risks to delivery of this plan. For an update on our progress against the plan see page 22.

Geopolitical

The diverse locations of our operations around the world expose us to a wide range of political developments and consequent changes to the economic and operating environment. Geopolitical risk is inherent to many regions in which we operate; heightened political or social tensions or changes in key relationships could adversely affect the group. We seek to manage this risk actively through the development and maintenance of relationships with governments and stakeholders in each country and region. In addition, we closely monitor events (such as the situation that arose in the Ukraine in February 2014) and implement risk mitigation plans where appropriate.

Cybersecurity

The threats to the security of our digital infrastructure continue to evolve and, like many other global organizations, our reliance on computers and network technology is increasing. A cybersecurity breach could have a significant impact on business operations. We seek to manage this risk through cybersecurity standards, ongoing monitoring of threats, close co-operation with authorities and awareness initiatives throughout the company. We also maintain disaster recovery, crisis and business continuity management plans.

Compliance and control risks

Ethical misconduct and legal or regulatory non-compliance

Ethical misconduct or breaches of applicable laws or regulations could damage our reputation, adversely affect operational results and shareholder value, and potentially affect our licence to operate. Our code of conduct and our values and behaviours, applicable to all employees, are central to managing this risk. Additionally, we have various group requirements covering areas such as anti-bribery and corruption, anti-money laundering, competition/anti-trust law and trade sanctions. We keep abreast of new regulations and legislation and plan our response to them. We also operate a range of compliance training and monitoring programmes for our employees. We offer an independent confidential helpline, OpenTalk, for employees, contractors and other third parties. For information on our code of conduct, see page 48.

Under the terms of the US Department of Justice settlement (see Legal proceedings on page 257), an ethics monitor will also review and provide recommendations concerning BP s ethics and compliance programme.

Trading non-compliance

In the normal course of business, we are subject to risks around our trading activities which could arise from shortcomings or failures in our systems, risk management methodology, internal control processes or employees. We have specific operating standards and control processes to address these risks, including guidelines in relation to trading, and we seek to monitor compliance through our dedicated compliance teams. We also seek to maintain a positive and collaborative relationship with regulators and the industry at large.

Safety and operational risks

Process safety, personal safety and environmental risks

The nature of the group s operations exposes us to a wide range of significant health, safety and environmental risks such as incidents associated with releases of hydrocarbons when drilling wells, operating facilities and transporting hydrocarbons. We apply our operating management system (OMS), including group and engineering technical practices as applicable, to address these risks. See page 41 for more information on safety and our OMS. Activities include inspection, maintenance, testing, business continuity and crisis response planning, and competency development for our employees and contractors. In addition, we conduct our drilling activity through a global wells organization in order to promote a consistent approach for designing, constructing and managing wells.

Security

Hostile acts such as terrorism or piracy could harm our people and disrupt our operations. We monitor for emerging threats and vulnerabilities to manage our physical and digital security. Physical security threats tend to vary geographically and by type of business. Our central security team provides guidance and support to a network of regional security advisers who advise and conduct assurance with respect to the management of security risks affecting our people and operations. We also maintain disaster recovery, crisis and business continuity management plans.

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Risk factors

We urge you to consider carefully the risks described below. The potential impact of the occurrence, or recurrence, 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, including the 10-point plan.

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

Gulf of Mexico oil spill

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

There is significant uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the 2010 Gulf of Mexico oil spill (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, fines and penalties that become payable by BP (including as a result of 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. These uncertainties are likely to continue for a significant period and may cause our costs to increase materially. 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. See, in particular, Access and renewal; Liquidity, financial capacity and financial, including credit, exposure; Insurance; US government settlements and debarment; Regulatory; Liabilities and provisions; Reporting; and Process safety, personal safety and environmental risks 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 and the effects of the Incident on our reputation and cash flows 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 affected 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, costs and liabilities relating to the Incident have placed, and will continue to place, a significant burden on our cash flow, which could impede our ability to invest in new opportunities and deliver long-term growth.

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 exchange rate fluctuations and 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), increased supply from the development of new oil and gas sources, technological change, global economic conditions and the influence 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. Decreases in oil, gas or product prices are likely to have an adverse effect on revenues, margins and profitability, and a material rapid change, or a sustained change, in oil, gas or product prices may mean investment or other decisions need to be reviewed, assets may be impaired, and the viability of projects may be affected. 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.

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.

Periods of global recession or prolonged instability in financial markets could negatively impact parties with whom we do or may do business, the demand for our products and the prices at which they can be sold and could affect the viability of the markets in which we operate.

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, potential restrictions on the commercial viability of, or our ability to progress, upstream resources and reserves, and impacts on revenue generation and strategic growth opportunities. In addition, the changed nature of our participation in alternative energies could carry reputational, economic and technology risks.

Geopolitical 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 and regions 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 terrorism, 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. See page 4 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

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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 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 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 arrangements or associates and through contracting and sub-contracting arrangements. These arrangements often involve complex risk allocation, decision-making processes and indemnification arrangements, and BP has less control of such activities than we would have if BP had full ownership and 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 arrangement s or associate s best interests, or approve such matters without our consent. Additionally, our joint arrangement 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, then safety, the performance of the project and BP s costs may be adversely affected. Our joint arrangement 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 arrangement 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 or contractual arrangement. Should a key sub-contractor, such as a lessor of drilling rigs, no longer be 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 investment any future erosion of our relationship with Rosneft could adversely impact our business, strategic objectives, the level of our reserves and our reputation.

On 21 March 2013, we completed the sale of our 50% interest in TNK-BP to Rosneft and the purchase of additional shares in Rosneft. We now own a total shareholding in Rosneft of 19.75%. To the extent we fail to maintain a good commercial relationship with Rosneft in the future, or to the extent that as a non-controlling shareholder in Rosneft we are unable in the future to exercise significant 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 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 group strategy, investment selection and/or subsequent execution could lead to loss of opportunity, 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, regulatory or other reasons, 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 major projects over the plan period. Poor delivery of or operational challenges at 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 and our operating cash flows.

Digital infrastructure a breach of our digital security or a failure of our digital infrastructure 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 or failure of our digital infrastructure, due to intentional actions such as cyber-attacks, negligence or otherwise, could cause serious damage to business operations and, in some circumstances, could result in the loss of data or sensitive information, injury to people, loss of control of or damage to assets, harm to the environment, reputational damage, breaches of regulations, litigation, legal liabilities and reparation costs.

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

Crisis management and contingency plans are required to respond to, and to continue or recover operations following, a disruption or an incident. 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. 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.

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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 and retain 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.

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.

The group seeks to maintain a financial framework to ensure that it is able to maintain an appropriate level of liquidity and financial capacity, and commercial credit risk is measured and controlled to determine the group s total credit risk. Failure to accurately forecast, manage or maintain sufficient liquidity and credit to meet our needs (including a failure to understand and respond to potential liabilities) could impact our ability to operate and result in a financial loss. Trade and other receivables, including overdue receivables, may not be recovered whether an impairment provision has been recognized or not. Inability to determine adequately our credit exposure could lead to financial loss. Furthermore, a substantial and unexpected cash call or funding request could disrupt our financial framework or overwhelm our capacity to meet our obligations.

External events could materially impact the effectiveness of the group s financial framework. A credit crisis or significant economic shock 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.

In addition, a significant operational incident could result in decreases in our credit ratings which, together with the assessments published by analysts, the reputational consequences of any such incident and concerns about the group s costs arising from any such incident, ongoing contingencies, liquidity, financial performance and credit spreads, could increase the group s financing costs and limit the group s access to financing. The group s ability to engage in both its trading activities and non-trading businesses could also be impacted in such circumstances due to counterparty concerns about the group s financial and business risk profile and resulting collateral demands, which could be significant. 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. Any 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. If such constraints occur at a time when cash flows from our business operations are constrained, such as following a significant operational incident, 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

Incident.

See Financial statements Note 19 for more information on financial instruments and financial risk factors.

Insurance The limited capacity of the insurance market and BP s insurance strategy could, from time to time, expose the group 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 may 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 Incident.

Compliance and control risks

US government settlements and debarment our settlement with the US Department of Justice and the SEC in respect of certain charges related to the Incident 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. For a description of the terms of the DoJ and SEC settlements, see Legal proceedings on page 264. Under the DoJ settlement, BP has agreed to retain an independent third-party auditor who will review and report to the probation officer, the DoJ, and BP regarding BP Exploration & Production s (BPXP) compliance with the key terms of the settlement including the completion of safety and environmental management systems audits, operational oversight enhancements, oil spill response training and drills and the implementation of best practices. The DoJ settlement also provides for the appointment of an ethics monitor and a process safety monitor. See Gulf of Mexico oil spill on page 39. 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.

The US Environmental Protection Agency (EPA) has temporarily suspended a number of BP entities from participating in new federal contracts and subjected BPXP to mandatory debarment at its Houston headquarters. In addition, the EPA has initiated administrative proceedings to convert the temporary suspension of these BP entities into discretionary debarment. On 26 November 2013, the EPA issued a Notice of Continued Suspensions and Proposed Debarments that continued the suspensions of the previously suspended BP entities, suspended two new BP entities (BP Alternative Energy and BP Pipelines (Alaska) Inc.), and proposed discretionary debarment of all suspended BP entities. Both temporary suspension and mandatory debarment prevent a company from entering into new contracts or new leases with the US government that would be performed at the facility where a Clean Water Act violation occurred. See Legal proceedings on page 264. BP has a significant amount of operations in the US. See Upstream on page 25 and Oil and gas disclosures for the group on page 245. Prolonged suspension or debarment from entering new federal contracts, or further suspension or debarment proceedings in the future 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 in the future. In particular, prolonged suspension or debarment could prevent BP from accessing and developing material new oil and gas resources located in the US, or prevent BP from engaging in certain development arrangements with third parties that are standard in the oil and gas industry, which could make the development of certain of BP s existing reserves located in the US less commercially attractive than if relevant BP entities were not suspended or debarred.

As a result of the SEC settlement, as of 5 February 2013 and for a period of three years thereafter, we are no longer 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 SEC settlement date of 10 December 2012 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. We also 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, affect the adequacy of our provisions and limit our access to new exploration properties.

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. 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. We remain exposed to changes in the regulatory and legislative 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, the imposition of trade or other sanctions, government actions to cancel or renegotiate contracts or other factors. 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 and we remain exposed to increases in amounts payable to governments or government agencies. 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 curtail or cease certain operations, 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.

Due to the Incident and remedial provisions contained in or that may result from the DoJ and SEC settlements and other past events in the US, it is likely that there will be additional oversight and 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. BP may be subjected to a higher number of citations and/or level of fines imposed in relation to any alleged breaches of safety or environmental regulations. 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, require changes to our drilling operations, exploration, development and decommissioning plans, 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.

We buy, sell and trade oil and gas products in certain regulated commodity markets. Failure to respond to changes in or to comply with trading regulations could result in regulatory action and damage to our reputation.

See page 254 for more information on environmental regulation.

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

Incidents of ethical misconduct, non-compliance with the recommendations of the ethics monitor appointed under the terms of the DoJ settlement or non-compliance with applicable laws and regulations, including anti-bribery, anti-corruption and anti-manipulation laws and trade or other sanctions, could be damaging to our reputation and shareholder value and could subject us to litigation and regulatory action or penalties under the terms of the DoJ settlement or otherwise. Multiple events of non-compliance could call into question the integrity of our operations. For example, in our trading functions, 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 page 257. For further information on the risks involved in BP s trading activities, see Treasury and trading activities below.

Liabilities and provisions BP s potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Incident, together with the potential cost and burdens of implementing remedies sought in the various proceedings, 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 Incident 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, and additional lawsuits or private claims arising out of the Incident may be brought in the future.

While significant charges have been recognized in the income statement since the Incident occurred in 2010, the provisions recognized represent only the current best estimates of expenditures required to settle certain present obligations that can be reasonably estimated at the end of the reporting period, and there are future expenditures for which it is not possible to measure our obligations reliably. BP s total potential liabilities resulting from pending and future claims, lawsuits, settlements and enforcement actions relating to the Incident (including as a result of any potential determination of BP s negligence or gross negligence), together with the potential cost and burdens of implementing remedies sought in the various proceedings, cannot be fully estimated at this time and are subject to significant uncertainty but they have had, and are expected to continue to have, a material adverse impact on the group s business.

See Financial statements Note 2 and Legal proceedings on page 257.

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.

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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. See Legal proceedings on page 257.

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 arrangement partners and associates. See Strategic and commercial risks Joint and other contractual arrangements above.

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 hazardous, remote 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) addresses health, safety, security, environmental and operations risks, and aims 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.

Under the terms of the DoJ settlement (see Legal proceedings on page 264), a process safety monitor will review, evaluate, and provide recommendations concerning BPXP s process safety and risk management procedures for deepwater drilling in the Gulf of Mexico. Incidents of non-compliance with the recommendations of the process safety monitor 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.

Security hostile acts 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 facilities, 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.

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Liquidity and capital resources

Since the Gulf of Mexico oil spill in 2010 and the significant costs relating to the response activities and the uncertainty regarding the ultimate magnitude of its liabilities and timing of cash outflows, the group s situation has continued to stabilize. This has been reflected in the group s liquidity and capital resources position, which has continued to strengthen underpinned by a prudent financial framework.

The group s long-term credit ratings are A (positive outlook) from Standard & Poor s, and A2 (stable outlook) from Moody s Investor Services, both remaining unchanged during 2013.

We increased our financial flexibility in 2013 with the completion of the sale of BP s 50% share in TNK-BP to Rosneft in return for cash and shares. We received net $11.8 billion cash on completion (in addition to $0.7 billion already received as a dividend in December 2012), as well as increasing our shareholding in Rosneft from 1.25% to 19.75%.

Financial framework

We continue to refine our financial framework to support the pursuit of value growth for shareholders, while maintaining a secure financial base. BP intends to increase operating cash flow[a] by around 50% in 2014 compared with 2011[b], and thereafter maintain focus on growing sustainable free cash flow[c]. We expect that the improvement in operating cash flow will be delivered partly from the completion of the Deepwater Horizon Oil Spill Trust fund payments, and partly through high-margin projects coming onstream. Any growth in operating cash flow will be available to increase both organic capital expenditure and shareholder distributions.

The financial framework remains prudent and we expect to operate within a gearing[d] range of 10-20%, and to be robust to cash break-even levels in an oil price environment between $80 and $100 per barrel. We expect to continue to maintain a significant liquidity buffer while uncertainties remain.

Dividends and other distributions to shareholders

We are committed to maintaining a progressive and sustainable dividend policy through our focus on increasing sustainable free cash flows.

Since resuming dividend payments in 2011, we have steadily increased the dividend. From the quarterly dividend of 7 cents per share paid in 2011 it has increased by 36% to 9.5 cents per share paid in the fourth quarter of 2013. Going forward, the board will review the dividend level with the first and third quarter results each year.

The total dividend paid in cash to BP shareholders in 2013 was $5.4 billion with shareholders also having the option to receive a scrip dividend (2012 $5.3 billion cash). The dividend is determined in US dollars, the economic currency of BP.

During 2013 we started to buy back shares as part of an $8-billion share repurchase programme, fulfilling a commitment to offset any dilution to earnings per share from the Rosneft transaction. The total cash paid for share buybacks in 2013 was $5.5 billion (2012 nil). Details of share repurchases to satisfy the requirements of certain employee share-based payment plans are set out on page 278.

a

Operating cash flow is net cash provided by operating activities, as presented in the group cash flow statement on page 125.

[b] Assuming an oil price of $100 per barrel and a Henry Hub gas price of $5/mmBtu in 2014. The projection assumes BP s estimate of a Rosneft dividend. 2011 excludes BP s share of TNK-BP dividends. The projection includes BP s payment commitments under the Department of Justice and SEC settlements. It does not reflect any cash flows relating to other liabilities, contingent liabilities, settlements or contingent assets arising from the Gulf of Mexico oil spill which may or may not arise at that time. We are not able to reliably estimate the amount or timing of a number of contingent liabilities. See Financial statements Note 2 for further information.

[c] Free cash flow is operating cash flow less net cash used in investing activities, as presented in the group cash flow statement on page 125.

[d] Gearing refers to the ratio of the group s net debt to net debt plus equity and is a non-GAAP measure. See Financial statements Note 28 for information on gross debt, which is the nearest equivalent measure to net debt on an IFRS basis.

Financing the group s activities

The group s principal commodity, oil, is priced internationally in US dollars. Group policy has generally been to minimize economic exposure to currency movements by financing operations with US dollar debt. Where debt is issued in other currencies, including euros, it is generally swapped back to US dollars using derivative contracts, or else hedged by maintaining offsetting cash positions in the same currency. The cash balances of the group are mainly held in US dollars or swapped to US dollars and holdings are well-diversified to reduce concentration risk. The group is not therefore exposed to significant currency risk regarding its borrowings. Also see Risk factors on page 51 for further information on risks associated with prices and markets and Financial statements Note 19.

The group s finance debt at 31 December 2013 amounted to $48.2 billion (2012 $48.8 billion). Of the total finance debt, $7.4 billion is classified as short term at the end of 2013 (2012 $10.0 billion). The short-term balance includes $6.2 billion for amounts repayable within the next 12 months relating to long-term borrowings (2012 $6.2 billion). Commercial paper markets in the US and Europe are a further source of short-term liquidity for the group to provide timing flexibility. At 31 December 2013, outstanding commercial paper amounted to $1.0 billion (2012 $3.0 billion). We have a European Debt Issuance Programme (DIP) in place under which the group may raise up to $30 billion of debt for maturities of one month or longer. At 31 December 2013, the amount drawn down against the DIP was $13.9 billion (2012 $14.0 billion). Since 5 February 2013 the group has had a US shelf registration statement with a limit of $30 billion. This was converted from an unlimited shelf registration following the approval in December 2012 of the SEC settlement in respect of Deepwater Horizon-related claims. At 31 December 2013 $6.9 billion had been drawn down since conversion. In addition, the group has an Australian Note Issuance Programme of $5 billion Australian dollars, and as at 31 December 2013 the amount drawn down was $0.8 billion Australian dollars (2012 A$0.5 billion).

None of the capital market bond issuances since the Gulf of Mexico oil spill contain any additional financial covenants compared with the group s capital markets issuances prior to the incident.

BP accessed international capital markets throughout the year using its US, European and Australian issuance programmes, with bond issuances amounting to $8.6 billion in 2013.

The maturity profile and fixed/floating rate characteristics of the group s debt are described in Financial statements Note 19.

Net debt was $25.2 billion at the end of 2013, a reduction of $2.3 billion from the 2012 year-end position of $27.5 billion. The ratio of net debt to net debt plus equity was 16.2% at the end of 2013 (2012 18.7%). Net debt and the ratio of net debt to net debt plus equity are non-GAAP measures. We believe that these measures provide useful information to investors. Net debt enables investors to see the economic effect of gross debt, related hedges and cash and cash equivalents in total. The net debt ratio enables investors to see how significant net debt is relative to equity from shareholders. See Financial statements Note 28 for gross debt, which is the nearest equivalent measure on an

IFRS basis, and for further information on net debt.

Cash and cash equivalents of $22.5 billion at 31 December 2013 (2012 $19.6 billion) are included in net debt. We manage our cash position to ensure the group has adequate cover to respond to potential short-term market illiquidity, and expect to maintain a strong cash position. Cash balances are pooled centrally where permissible, and deployed globally as required. Cash surpluses are deposited with creditworthy banks or invested in high grade commercial paper and money market funds with short maturities to ensure availability. The group holds $2 billion of cash outside the UK and it is not expected that any significant tax will arise on repatriation. Further information on the management of liquidity risk and credit risk is provided in Financial statements Note 19, and on the cash position in Financial statements Note 23.

The group also has access to significant sources of liquidity in the form of committed bank facilities. We renegotiated our committed bank facilities during 2013, putting in place borrowing facilities of $7.4 billion (2012 $6.8 billion) with 26 international banking counterparties, of which $7.0 billion is available to draw and repay over a term of five years and $0.4 billion is available to draw and repay over a term of three years. In addition, the group continued to strengthen its access to commercial bank letters of credit (LC) and at the end of 2013 had in place committed LC facilities of $7.5 billion and secured LC arrangements of $2.4 billion, to supplement its uncommitted and unsecured LC lines.

We believe that the group has sufficient working capital for foreseeable requirements, taking into account the amounts of undrawn borrowing facilities and increased levels of cash and cash equivalents, and the ongoing ability to generate cash.

Uncertainty remains regarding the amount and timing of future expenditures relating to the Gulf of Mexico oil spill and the implications for future activities. See Risk factors on page 51 and Financial statements Note 2 for further information.

Off-balance sheet arrangements

At 31 December 2013, the group s share of third-party finance debt of equity-accounted entities was $17,008 million (2012 $6,884 million). These amounts are not reflected in the group s debt on the balance sheet. The group has issued third-party guarantees under which amounts outstanding at 31 December 2013 were $199 million (2012 $237 million) in respect of liabilities of joint ventures and associates and $648 million (2012 $713 million) in respect of liabilities of other third parties. Of these amounts, $115 million (2012 $166 million) of the joint ventures and associates guarantees relate to borrowings and for other third-party guarantees, $487 million (2012 $543 million) relates to guarantees of borrowings. Details of operating lease commitments, which are not recognized on the balance sheet, are shown in the table on page 252 and provided in Financial statements Note 9.

Contractual obligations

The following table summarizes the group s contractual obligations, capital expenditure commitments for property, plant and equipment at 31 December 2013 and the proportion of that expenditure for which contracts have been placed.

			$ million
		Capital expenditure	
Expected payments by period	Contractual obligations[a]	Committed	of which is contracted
2014	134,075	17,973	8,676
2015	40,471	9,010	2,581
2016	29,279	5,703	1,321
2017	23,186	4,021	685
2018	20,360	2,292	189
2019 and thereafter	105,377	3,443	253
Total	352,748	42,442	13,705

[a] Including $100,805 million for which a liability is recognized on the balance sheet.
The group s principal contractual obligations and a description of the nature of the group s unconditional purchase obligations are provided on page 252.

Capital expenditure is considered to be committed when the project has received the appropriate level of internal management approval. For joint operations, the net BP share is included in the amounts above.

In addition, at 31 December 2013, the group had committed to capital expenditure relating to investments in equity-accounted entities amounting to $1,458 million. Contracts were in place for $161 million of this total.

Cash flow

The following table summarizes the group s cash flows.

			$ million
	2013	2012	2011
Net cash provided by operating activities	**21,100**	20,479	22,218
Net cash used in investing activities	**(7,855)**	(13,075)	(26,753)
Net cash provided by (used in) financing activities	**(10,400)**	(2,010)	477
Currency translation differences relating to cash and cash equivalents	**40**	64	(493)
Increase (decrease) in cash and cash equivalents	**2,885**	5,458	(4,551)
Cash and cash equivalents at beginning of year	**19,635**	14,177	18,728
Cash and cash equivalents at end of year	**22,520**	19,635	14,177

Net cash provided by operating activities for the year ended 31 December 2013 was $21,100 million compared with $20,479 million for 2012. The cash outflow in respect of the Gulf of Mexico oil spill reduced from $2,382 million in 2012 to $73 million in 2013. Excluding the impacts of the Gulf of Mexico oil spill, net cash provided by operating activities was $21,173 million for 2013, compared with $22,861 million for 2012, a decrease of $1,688 million. Profit before taxation excluding the impact of the Gulf of Mexico oil spill increased by $7,545 million, of which $9,163 million related to the non-cash impacts of higher depreciation, impairments and gains and losses on disposal offset by lower earnings from joint ventures and associates. An increase in working capital requirements of $3,920 million was largely offset by lower income taxes paid.

Net cash provided by operating activities for the year ended 31 December 2012 was $20,479 million compared with $22,218 million for 2011. The cash outflow in respect of the Gulf of Mexico oil spill reduced from $6,813 million in 2011 to $2,382 million in 2012. Excluding the impacts of the Gulf of Mexico oil spill, net cash provided by operating activities was $22,861 million for 2012, compared with $29,031 million for 2011, a decrease of $6,170 million. Profit before taxation excluding the impacts of the Gulf of Mexico oil spill decreased by $11,341 million, of which $4,730 million related to the non-cash impacts of higher depreciation, impairments and gains and losses on disposal and lower equity-accounted earnings of joint ventures and associates. A reduction in working capital requirements of $3,667 million was largely offset by lower dividends received from joint ventures and associates, principally TNK-BP.

Net cash used in investing activities was $7,855 million in 2013 (2012 $13,075 million and 2011 $26,753 million). The decrease in cash used in 2013 reflected an increase in disposal proceeds of $10,401 million, partly offset by an increase in our investments in equity-accounted entities, mainly relating to the completion of the sale of our interest in TNK-BP and subsequent investment in Rosneft. There was also an increase in our other capital expenditure excluding acquisitions of $1,298 million. The decrease in cash used in 2012 reflected an absence of significant expenditure on business combinations compared with 2011 when we spent $10,909 million, mainly for the Reliance and Devon acquisitions, as well as an increase in disposal proceeds of $8,757 million. This was partially offset by an increase in capital expenditure excluding acquisitions of $5,914 million.

The group has had significant levels of capital investment for many years. Cash flow in respect of capital investment, excluding acquisitions, was $30 billion in 2013 (2012 $24.8 billion and 2011 $18.9 billion). Sources of funding are fungible, but the majority of the group s funding requirements for new investment come from cash generated by existing operations.

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Net cash used in financing activities was $10,400 million in 2013 (2012 $2,010 million and 2011 $477 million net cash provided by financing activities). The increase in net cash used in 2013 primarily reflected the buyback of shares of $5.5 billion as part of our $8-billion share repurchase programme, lower net proceeds of $1,055 million from long-term financing and an increase in the net repayment of short-term debt of $1,353 million. The increase in net cash used in 2012 primarily reflected a net decrease in short-term debt of $2,888 million and an increase in dividends paid of $1,222 million, partly offset by an increase in net proceeds from long-term financing of $1,412 million.

During the period 2011 to 2013, our total sources of cash amounted to $101 billion, and our total uses of cash amounted to $106 billion. The increase in cash and cash equivalents held of $4 billion was financed by an increase in finance debt of $9 billion over the three-year period. During this period, the price of Brent crude oil has averaged $110.53 per barrel. Sources and uses of cash over the three-year period as a whole, are analysed in the table below.

	$ billion
Sources of cash:	
Net cash provided by operating activities	64
Disposals	37
	101
Uses of cash:	
Capital expenditure	74
Acquisitions	11
Net repurchase of shares	5
Dividends paid to BP shareholders	15
Dividends paid to non-controlling interests	1
	106
Net use of cash	(5)
Increase in finance debt	9
Increase in cash and cash equivalents	4

Disposal proceeds received in cash during the three-year period exceeded cash used for acquisitions, as a result in particular of our ongoing disposal programme started in 2010 and the disposal of our interest in TNK-BP in 2013. Net investment (capital expenditure and acquisitions less disposal proceeds) during this period averaged $16 billion per year. Dividends paid to BP shareholders totalled $15 billion during the three-year period. In the past three years, $4 billion has been contributed to funded pension plans. This is reflected in net cash provided by operating activities in the table above.

Acquisitions and disposals

There were no significant acquisitions in 2013 and 2012.

In 2011, we acquired a 30% interest in each of 21 oil and gas production-sharing agreements operated by Reliance Industries Limited in India for $7.0 billion. We also completed the purchase, for $3.6 billion, of 10 exploration and production blocks in Brazil, which was the final part of a $7-billion transaction with Devon Energy that had been announced in March 2010.

During 2013 BP completed sale and purchase agreements for the sale of BP s 50% interest in TNK-BP to Rosneft, and for BP s further investment in Rosneft. For more information on this transaction see Financial statements Note 6.

Total cash disposal proceeds received during 2013 were $22 billion. This included $16.7 billion for the disposal of BP s interest in TNK-BP, $1.4 billion for the disposal of our Texas City refinery and a portion of its retail and logistics network in the south-eastern US to Marathon Petroleum Corporation and $2.2 billion for the sale of the Carson refinery in California, and related assets in the region to Tesoro Corporation. We also completed the sale of our interests in a number of central North Sea oil and gas fields to TAQA.

Total disposal proceeds received during 2012 were $11.6 billion. This included $5.55 billion for the disposal of BP s interests in the Marlin hub, Horn Mountain, Holstein, Ram Powell and Diana Hoover fields in the Gulf of Mexico, $1.5 billion for the sale of the Canadian natural gas liquids (NGL) business to Plains Midstream Canada ULC and $1.025 billion for the sale of BP s interest in the Jonah and Pinedale upstream operations in Wyoming, to LINN Energy, LLC.

Total disposal proceeds received during 2011, after the repayment of the disposal deposit relating to Pan American Energy LLC (PAE), were $2.8 billion.

See Financial statements Note 3 and Note 4 for further details of business combinations and non-current assets held for sale.

The Strategic report was approved by the board and signed on its behalf by David J Jackson, Company Secretary on 6 March 2014.

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Board of directors[a]

As at 6 March 2014

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1 Carl-Henric Svanberg	2 Bob Dudley	3 Paul Anderson	4 Admiral Frank Bowman
5 Antony Burgmans	6 Cynthia Carroll	7 Iain Conn	8 George David
9 Ian Davis	10 Professor Dame Ann Dowling	11 Dr Brian Gilvary	12 Brendan Nelson
13 Phuthuma Nhleko	14 Andrew Shilston		

[a] The ages of the board are correct as at 31 December 2013.

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Carl-Henric Svanberg

Chairman

Tenure

Appointed to the board 1 September 2009 (4 years)

Board and committee activities

Chairman

Chairman of the chairman s committee

Chairman of the nomination committee

Attends the safety, ethics and environment assurance committee (SEEAC)

Attends the Gulf of Mexico committee

Attends the remuneration committee

Outside interests

Chairman of AB Volvo

Age

61

Nationality

Swedish

Career

Carl-Henric Svanberg became chairman of the BP board on 1 January 2010.

He spent his early career at Asea Brown Boveri and the Securitas Group, before moving to the Assa Abloy Group as president and chief executive officer.

From 2003 until 31 December 2009, when he left to join BP, he was president and chief executive officer of Ericsson, also serving as the chairman of Sony Ericsson Mobile Communications AB. He was a non-executive director of Ericsson between 2009 and 2012.

He was appointed chairman and a member of the board of AB Volvo on 4 April 2012.

He is a member of the External Advisory Board of the Earth Institute at Columbia University, a member of the Advisory Board of Harvard Kennedy School and on the Leadership Council of the United Nations Sustainable Development Solutions Network. He is also the recipient of the King of Sweden s medal for his contribution to Swedish industry.

Relevant experience and skills

Carl-Henric Svanberg s career in global business, latterly as chief executive officer of Ericsson, is particularly relevant to BP as has been demonstrated during his tenure as chairman. In leading the board, he has focused on the development of the group s strategy and its communication to shareholders. He has also concentrated on the work of the nomination committee in endeavouring to ensure that the board has a strong list of candidates to secure its stewardship of the company.

Carl-Henric Svanberg s performance during the year has been evaluated by the chairman s committee, led by Antony Burgmans.

Bob Dudley

Group chief executive

Tenure

Appointed to the board 6 April 2009 (4 years)

Outside interests

Non-executive director of Rosneft

Member of Tsinghua Management University Advisory Board, Beijing, China

Member of BritishAmerican Business International Advisory Board

Member of UAE/UK CEO Forum

Member of Turkish/British CEO Forum

Member of Russian Geographical Society

Age

58

Nationality

American

Career

Bob Dudley became group chief executive on 1 October 2010.

Bob joined Amoco Corporation in 1979, working in a variety of engineering and commercial posts. Between 1994 and 1997, he worked on corporate development in Russia.

In 1997, he became general manager for strategy for Amoco and in 1999, following the merger between BP and Amoco, was appointed to a similar role in BP.

Between 1999 and 2000, he was executive assistant to the group chief executive, subsequently becoming group vice president for BP s renewables and alternative energy activities. In 2002, he became group vice president responsible for BP s upstream businesses in Russia, the Caspian region, Angola, Algeria and Egypt.

From 2003 to 2008, he was president and chief executive officer of TNK-BP in Moscow. On his return to BP in 2009 he was appointed to the BP board and oversaw the group s activities in the Americas and Asia. Between 23 June and 30 September 2010, he served as the president and chief executive officer of BP s Gulf Coast Restoration Organization in the US. He was appointed a director of Rosneft in March 2013 following BP s acquisition of a stake in Rosneft.

Relevant experience and skills

Bob Dudley has spent his entire career in the oil and gas industry. His broad range of roles with Amoco and BP has given him substantial global experience.

Since his appointment as group chief executive in 2010, Bob has re-organized the operations of the group and has moved its focus to value not volume; all without any compromise on safety. During the year he has successfully completed the disposal of the group s interest in TNK-BP and the acquisition of a significant stake in Rosneft.

Bob Dudley s performance has been considered and evaluated by the chairman s committee.

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Paul Anderson

Independent non-executive director

Tenure

Appointed 1 February 2010 (4 years)

Board and committee activities

Chairman of the SEEAC

Member of the chairman s committee

Member of the nomination committee

Member of the Gulf of Mexico committee

Outside interests

Non-executive director of BAE Systems PLC.

Age

68

Nationality

American

Career

Paul Anderson was formerly chief executive at BHP Billiton and Duke Energy, where he also served as chairman of the board. Having previously been chief executive officer and managing director of BHP Limited and then BHP Billiton Limited and BHP Billiton Plc, he rejoined these latter two boards in 2006 as a non-executive director, retiring on 31 January 2010. He also served as a non-executive director on a number of boards in the US and Australia and as chief executive officer of Pan Energy Corp.

Relevant experience and skills

Paul Anderson became a board member in early 2010, joining the SEEAC. He was a member of the Gulf of Mexico committee from its formation in August 2010. He took the chair of the SEEAC in December 2012. As chair he has continued the committee s focus on safety matters. His broad experience of the global oil and gas industry and of the US business environment has benefited the board, the SEEAC and the Gulf of Mexico committee. He has actively supported the work of the BP Massachusetts Institute of Technology (MIT) academy.

He has led the SEEAC on several visits to the company s operations and has commenced a dialogue with the company s socially responsible investors.

Admiral Frank Bowman

Independent non-executive director

Tenure

Appointed 8 November 2010 (3 years)

Board and committee activities

Member of the SEEAC

Member of the chairman s committee

Member of the Gulf of Mexico committee

Outside interests

President of Strategic Decisions, LLC.

Director of Morgan Stanley Mutual Funds

Director of the American Shipbuilding Suppliers Association

Director of Naval and Nuclear Technologies, LLP.

Age

69

Nationality

American

Career

Frank Bowman joined the United States Navy in 1966. During his naval service, he commanded the nuclear submarine *USS City* of *Corpus Christi* and the *USS Holland*. He served as a flag officer: as the Navy s chief of personnel; on the joint staff as director of Political-Military Affairs; and as a director of the naval nuclear propulsion programme in the Department of the Navy and the Department of Energy for over eight years. He also completed two masters degrees in engineering at the Massachusetts Institute of Technology in 1973.

After his retirement as an Admiral in 2004, he was president and chief executive officer of the Nuclear Energy Institute until 2008. He served on the BP Independent Safety Review Panel and was a member of the BP America external advisory council. He was appointed Honorary Knight Commander of the British Empire in 2005 by Queen Elizabeth II. He was elected to the US National Academy of Engineering in 2009.

Relevant experience and skills

Frank Bowman has a deep knowledge of engineering coupled with exceptional experience in process safety arising from his time with the US Navy and, later, the Nuclear Energy Institute. His service on the BP Independent Safety Review Panel gave him direct experience of BP s safety aims and requirements, which has been important for his work on the SEEAC. He has made a significant contribution to the work of the Gulf of Mexico committee.

Antony Burgmans

Independent non-executive director

Tenure

Appointed 5 February 2004 (10 years)

Board and committee activities

Chairman of the remuneration committee

Member of the SEEAC

Member of the chairman s committee

Member of nomination committee

Outside interests

Member of the supervisory boards of Akzo Nobel N.V., AEGON N.V. and SHV Holdings N.V.

Chairman of the supervisory board of TNT Express

Age

66

Nationality

Dutch

Career

Antony Burgmans joined Unilever in 1972, holding a succession of marketing and sales posts, including the chairmanship of PT Unilever Indonesia from 1988 until 1991.

In 1991, he was appointed to the board of Unilever, becoming business group president, ice cream and frozen foods, Europe in 1994, and chairman of Unilever s Europe committee, co-ordinating its European activities. In 1998, he became vice chairman of Unilever NV and in 1999, chairman of Unilever NV and vice chairman of Unilever PLC. In 2005, he became non-executive chairman of Unilever NV and Unilever PLC until his retirement in 2007. During his career he has lived and worked in London, Hamburg, Jakarta, Stockholm and Rotterdam.

Antony Burgmans has been nominated chairman of Akzo Nobel s supervisory board from April 2014.

Relevant experience and skills

Antony Burgmans executive career has been in the fields of international production, distribution and marketing. Over the years he has made a significant contribution to the work of the board, adding insight to the areas of reputation, brand and culture. His global perspective has particular value as chairman of the remuneration committee and also to his work on the SEEAC, on whose behalf he has made several visits to operations of the group.

He led the remuneration committee in its task of preparing a formal remuneration policy for adoption by shareholders. In this role he has had extensive dialogue with shareholders. He continues to provide wise counsel to the board and leads the evaluation of the chairman.

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Cynthia Carroll

Independent non-executive director

Tenure

Appointed 6 June 2007 (6 years)

Board and committee activities

Member of the SEEAC

Member of the chairman s committee

Member of nomination committee

Outside interests

Non-executive director of Hitachi Ltd.

Age

57

Nationality

American

Career

Early in her career in 1989, Cynthia Carroll joined Alcan (Aluminum Company of Canada) and ran a packaging company, led a global bauxite, alumina and speciality chemicals business and later was president and chief executive officer of the Primary Metal Group, responsible for operations in more than 20 countries. In 2007 she became the chief executive of Anglo American plc, the global mining group, operating in 45 countries with 150,000 employees, and was chairman of Anglo Platinum Limited and of De Beers s.a. She stepped down from these roles in April 2013.

Relevant experience and skills

Cynthia Carroll s leadership of global businesses, particularly in the extractive industry sector has enabled her to make a strong contribution to the work of the BP board and the SEEAC. She has been a leader in working to enhance safety performance in the mining industry, and her geo-political experience has been valuable during the course of the year, as has her work on the nomination committee.

She recently visited BP s operations in Alaska on behalf of the SEEAC.

Iain Conn

Chief executive, Downstream

Tenure

Appointed to the board 1 July 2004 (9 years)

Group responsibilities

Manufacturing, logistics, marketing operations of BP s fuels, petrochemicals and lubricants businesses

Group regional responsibility for Europe, southern Africa and Asia BP brand and related matters

Outside interests

Non-executive director and senior independent director of Rolls-Royce Holdings plc.

Chairman of the advisory board of Imperial College Business School

Member of the council of Imperial College

Age

51

Nationality

British

Career

Iain Conn was appointed chief executive, Downstream on 1 June 2007.

He joined BP Oil International in 1986, working in a variety of roles in oil trading, commercial refining and exploration before becoming, on the merger between BP and Amoco in 1999, vice president of BP Amoco Exploration s mid-continent business unit.

At the end of 2000, he returned to London as group vice president and a member of the Refining and Marketing segment s executive committee, taking over responsibility in 2001 for BP s marketing operations in Europe. In 2002 he was appointed chief executive of BP Petrochemicals. Following his appointment to the board in 2004, he served for three years as group executive officer, strategic resources, with responsibility for a number of group functions and regions.

Relevant experience and skills

Iain Conn s career has given him extensive knowledge of a broad range of BP s businesses, particularly in the Downstream, which he has led since 2007. In this last period he has successfully remodelled BP s downstream business. He has deep knowledge of safety, manufacturing, energy markets and technology. He has continued to refocus the group s downstream operations whilst growing the contribution of that segment.

Iain Conn s performance has been evaluated by the group chief executive and considered by the chairman s committee.

George David

Independent non-executive director

Tenure

Appointed 11 February 2008 (6 years)

Board and committee activities

Member of the audit committee

Member of the remuneration committee

Member of the Gulf of Mexico committee

Member of the chairman s committee

Outside interests

Vice-Chairman of the Peterson Institute for International Economics

Age

71

Nationality

American

Career

George David began his career in The Boston Consulting Group before joining the Otis Elevator Company in 1975. He held various roles in Otis and later in United Technologies Corporation (UTC), following Otis s merger with UTC in 1976. In 1992, he became UTC s chief operating officer. He served as UTC s chief executive officer from 1994 until 2008 and as chairman from 1997 until his retirement in 2009.

Relevant experience and skills

George David has substantial global business and financial experience through his long career with UTC, a business with significant reliance on safety and technology. He previously chaired BP s technology advisory council and has brought insights from that task to the board.

He is an active member of the audit, remuneration and Gulf of Mexico committees, bringing a strong US and global view to their deliberations.

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Ian Davis

Independent non-executive director

Tenure

Appointed 2 April 2010 (3 years)

Board and committee activities

Chairman of the Gulf of Mexico committee

Member of the remuneration committee

Member of the chairman s committee

Member of the nomination committee

Outside interests

Chairman of Rolls-Royce Holdings plc.

Non-executive member of the UK Cabinet Office

Non-executive director of Johnson & Johnson, Inc.

Senior adviser to Apax Partners LLP.

Age

62

Nationality

British

Career

Ian Davis spent his early career at Bowater, moving to McKinsey & Company in 1979. He was managing partner of McKinsey s practice in the UK and Ireland from 1996 to 2003. In 2003, he was appointed as chairman and worldwide managing director of McKinsey, serving in this capacity until 2009. During his career with McKinsey, he served as a consultant to a range of global organizations across the private, public and not-for-profit sectors. He retired as senior partner on 30 July 2010.

Relevant experience and skills

Ian Davis brings significant financial and strategic experience to the board. He has had a lengthy career working with and advising global organizations and companies in the oil and gas industry. This experience has been recognized by the board in his membership of the remuneration committee and chairmanship of the Gulf of Mexico committee.

As chairman of the Gulf of Mexico committee he has led the board s oversight of the response in the Gulf and guided their consideration of the various legal issues which continue to arise following the Deepwater Horizon accident.

Professor Dame Ann Dowling

Independent non-executive director

Tenure

Appointed 3 February 2012 (2 years)

Board and committee activities

Member of the SEEAC

Member of the remuneration committee

Member of the chairman s committee

Outside interests

Professor of Mechanical Engineering, head of the Department of Engineering and Deputy Vice-Chancellor at the University of Cambridge

Chair of the Physical Sciences, Engineering and Mathematics Panel in the Research Excellence Framework the UK Government s review of research in universities

Non-executive director of the Department for Business, Innovation & Skills (BIS)

Age

61

Nationality

British

Career

Dame Ann Dowling was appointed a Professor of Mechanical Engineering in the Department of Engineering at the University of Cambridge in 1993 (the Department of Engineering is one of the leading centres for engineering research worldwide). Between 1999 and 2000 she was the Jerome C Hunsaker Visiting Professor at MIT,

subsequently becoming a Moore distinguished scholar at Caltech in 2001. When she returned to the University of Cambridge, she became Head of the Division of Energy, Fluid Mechanics and Turbomachinery in the Department of Engineering, becoming UK lead of the Silent Aircraft Initiative in 2003 a collaboration between researchers at Cambridge and MIT. She became head of the Department of Engineering at the University of Cambridge in 2009. She was appointed director of the University Gas Turbine Partnership with Rolls-Royce in 2001 and chairman in 2009.

Between 2003 and 2008 she chaired the Rolls-Royce Propulsion and Power Advisory Board. She chaired the Royal Society/Royal Academy of Engineering study on nanotechnology. She is a Fellow of the Royal Society and the Royal Academy of Engineering and is a foreign associate of the US National Academy of Engineering and of the French Academy of Sciences.

She has been nominated President of the Royal Academy of Engineering from September 2014.

Relevant experience and skills

Dame Ann Dowling has a strong academic and engineering background.

Having initially been a member of the SEEAC, she joined the remuneration committee in 2012. Her contributions on both of these committees are valued, as is her work with the BP technology advisory council, which she also joined during 2012 and which she now chairs.

Dr Brian Gilvary

Group chief financial officer

Tenure

Appointed to the board 1 January 2012 (2 years)

Group responsibilities

Finance, tax, planning, treasury, mergers and acquisitions, investor relations, audit, procurement and information technology activities Chairs the group financial risk committee

Outside interests

Visiting professor at Manchester University

Age

51

Nationality

British

Career

Dr Brian Gilvary was appointed chief financial officer on 1 January 2012.

He joined BP in 1986 after obtaining a PhD in mathematics from the University of Manchester. Following a variety of roles in the upstream, downstream and trading in Europe and the United States, he became the downstream s chief financial officer and commercial director from 2002 to 2005.

He was a director of TNK-BP over two periods, from 2003 to 2005 and from 2010 until the sale of the business and acquisition of Rosneft equity in 2013. From 2005 until 2009 he was chief executive of the integrated supply and trading function, BP s commodity trading arm. In 2010 he was appointed deputy group chief financial officer with responsibility for the finance function.

Relevant experience and skills

Dr Brian Gilvary has 27 years of experience within BP, gaining a strong knowledge of finance and trading, and a deep understanding of BP s assets and businesses, including its interests in Russia through his time on the board of TNK-BP.

Brian has consistently worked to further strengthen the finance function. He has also developed the company s engagement with shareholders and continues to focus on financial efficiency.

Brian Gilvary s performance has been evaluated by the group chief executive and considered by the chairman s committee.

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Brendan Nelson

Independent non-executive director

Tenure

Appointed 8 November 2010 (3 years)

Board and committee activities

Chairman of the audit committee

Member of the nomination committee

Member of the chairman s committee

Outside interests

Non-executive director and chairman of the group audit committee of The Royal Bank of Scotland Group plc.

President of the Institute of Chartered Accountants of Scotland Member of the Financial Reporting Review Panel

Age

64

Nationality

British

Career

Brendan Nelson is a chartered accountant. He was made a partner of KPMG in 1984. He served as a member of the UK board of KPMG from 2000 to 2006, subsequently being appointed vice chairman until his retirement in 2010. At KPMG International he held a number of senior positions including global chairman, banking and global chairman, financial services.

He served six years as a member of the Financial Services Practitioner Panel.

Relevant experience and skills

Brendan Nelson has had a long career in finance and auditing, particularly in the areas of financial services and trading which qualifies him to chair the audit committee and to act as its financial expert.

This is complemented by his broader business experience and his role as the chair of the audit committee of a major bank. During the year he has led the audit committee in meeting the many challenges from increased changes to regulation.

Phuthuma Nhleko

Independent non-executive director

Tenure

Appointed 1 February 2011 (3 years)

Board and committee activities

Member of the audit committee

Member of the chairman s committee

Outside interests

Non-executive director of Anglo American plc

Non-executive director and chairman of MTN Group Ltd.

Age

53

Nationality

South African

Career

Phuthuma Nhleko began his career as a civil engineer in the US and as a project manager for infrastructure developments in southern Africa. Following this he became a senior executive of the Standard Corporate and Merchant Bank in South Africa. He later held a succession of directorships before joining MTN Group, a pan-African and Middle Eastern telephony group represented in 21 countries, as group president and chief executive officer in 2002. During his tenure at the MTN Group he led a number of substantial mergers and acquisitions transactions.

He stepped down as group chief executive of MTN Group at the end of March 2011. He was formerly a director of a number of listed South African companies, including Johnnic Holdings (formerly a subsidiary of the Anglo American group of companies), Nedbank Group, Bidvest Group and Alexander Forbes.

Relevant experience and skills

Phuthuma Nhleko s background in engineering and his broad experience as a chief executive of a multi-national company enables him to contribute to the board, particularly in the areas of emerging market economies and the evolution of the group s strategy. His financial and commercial experience is particularly relevant to his work on the audit committee.

Andrew Shilston

Independent non-executive director

Tenure

Appointed 1 January 2012 (2 years)

Board and committee activities

Senior independent director

Member of the audit committee

Member of the chairman s committee

Attends the nomination committee

Outside interests

Non-executive director of Circle Holdings plc.

Chairman of Morgan Advanced Materials plc.

Age

58

Nationality

British

Career

Andrew Shilston trained as a chartered accountant before joining BP as a management accountant. He subsequently joined Abbott Laboratories before moving to Enterprise Oil plc in 1984 at the time of flotation. In 1989 he became treasurer of Enterprise Oil and was appointed finance director in 1993. After the sale of Enterprise Oil to Shell in 2002, in 2003 he became finance director of Rolls-Royce plc until his retirement on 31 December 2011.

He has served as a non-executive director on the board of Cairn Energy plc where he chaired the audit committee.

Relevant experience and skills

Andrew Shilston has had a long career in finance within the oil and gas industry. His knowledge and experience as a chief financial officer, firstly in Enterprise Oil and then Rolls-Royce, and as audit committee chairman at Cairn Energy makes him well suited as a member of BP s audit committee.

His experience of the oil and gas industry has been important in assisting the board in their evaluation of projects and capital expenditure. As senior independent director he has attended meetings of the nomination committee.

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Executive team[a]

As at 6 March 2014

The executive team represents the principal executive leadership of the BP group. Its membership includes BP s executive directors (Bob Dudley, Iain Conn and Dr Brian Gilvary whose biographies appear on pages 61-64) and the senior management listed below.

Key to portraits

1	Rupert Bondy	2	Bob Fryar	3	Andy Hopwood	4	Katrina Landis
5	Bernard Looney	6	Lamar McKay	7	Dev Sanyal	8	Helmut Schuster

Rupert Bondy

Current position

Group general counsel

Executive team tenure

Appointed 1 May 2008 (5 years)

Outside interests

No external appointments

Age

52

Nationality

British

Career

Rupert Bondy is responsible for legal and compliance matters across the BP group.

Rupert began his career as a lawyer in private practice. In 1989 he joined US law firm Morrison & Foerster, working in San Francisco and London, and from 1994 he worked for UK law firm Lovells in London. In 1995 he joined SmithKline Beecham as senior counsel for mergers and acquisitions and other corporate matters. He subsequently held positions of increasing responsibility and, following the merger of SmithKline Beecham and GlaxoWellcome to form GlaxoSmithKline, he was appointed senior vice president and general counsel of GlaxoSmithKline in 2001.

In April 2008 he joined the BP group, and he became the group general counsel on 1 May 2008.

[a] The ages of the executive team are correct as at 31 December 2013.

Bob Fryar

Current position

Executive vice president, safety and operational risk

Executive team tenure

Appointed 1 October 2010 (3 years)

Outside interests

No external appointments

Age

50

Nationality

American

Career

Bob Fryar is responsible for strengthening safety, operational risk management, and the systematic management of operations across the BP corporate group. He is group head of safety and operational risk, with accountability for group-level disciplines including engineering, health, safety, security, and environment. In this capacity, he looks after the group-wide operating management system implementation and capability programmes.

Bob has 28 years   experience in the oil and gas industry having joined Amoco Production Company in 1985. From October 2010 to February 2013 Bob was executive vice president of the production division and was accountable for safe and compliant exploration and production operations and stewardship of resources across all regions. In addition, he was also responsible for local government and stakeholder management and regional integration of all exploration and production activities.

Prior to February 2013, Bob held several management positions in Trinidad, including chief operating officer for Atlantic LNG, and vice president of operations.

Prior to that, Bob served in a variety of engineering and management positions in onshore US and deepwater Gulf of Mexico including petroleum engineer, field manager, operations manager, resource manager, and asset manager. In addition, he worked on the Vastar integration team.

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Andy Hopwood

Current position

Chief operating officer, strategy and regions, Upstream

Executive team tenure

Appointed 1 November 2010 (3 years)

Outside interests

Chair of the BP Foundation

Age

55

Nationality

British

Career

Andy Hopwood is responsible for BP s upstream strategy, including changes to its portfolio and investment planning. He is also responsible for the upstream regional footprint through leadership of its regional presidents, who are the upstream s senior leaders in the regions where the upstream operates.

After joining BP in 1980 as a petroleum engineer, Andy gained ten years of operating experience in the North Sea, Wytch Farm, and Indonesia, and developing expertise in reservoir engineering in BP s London headquarters.

In 1989 Andy joined the corporate planning team supporting the formulation of BP s exploration strategy, and the subsequent rationalization of BP s portfolio. Following this corporate work, his international endeavours led to positions in South America, first in Mexico and then as commercial manager for BP s Venezuela business, prior to a return to London as the exploration and production planning manager.

In 1999, following the BP-Amoco merger, he was appointed business unit leader in Azerbaijan, before returning to London in 2001 as the Upstream chief of staff. He was then appointed business unit leader for BP s interests in Trinidad & Tobago until 2005, when he moved to Houston to become strategic performance unit leader for the North American gas business.

In 2009, he joined the Upstream executive as head of portfolio and technology and in October 2010 was appointed executive vice president, exploration and production.

Katrina Landis

Current position

Executive vice president, corporate business activities

Executive team tenure

Appointed 1 May 2013

Outside interests

Independent director of Alstom SA

Founding member of Alstom s Ethics, Compliance and Sustainability Committee

Member of Earth Day Network s Global Advisory Committee Ambassador to the U.S. Department of Energy s U.S. Clean Energy Education & Empowerment program

Age

54

Nationality

American

Career

Katrina Landis is responsible for BP s integrated supply and trading activities, Alternative Energy, shipping, technology and remediation management.

Katrina began her career with BP in 1992 in Anchorage, Alaska and held a variety of senior roles. She was chief executive officer of BP s integrated supply and trading Oil Americas from 2003 to 2006, group vice president of BP s integrated supply and trading from 2007 to 2008 and chief operating officer of BP Alternative Energy from 2008 to 2009. She was then appointed chief executive officer of BP Alternative Energy in 2009. On 1 May 2013, she became executive vice president, corporate business activities.

Bernard Looney

Current position

Chief operating officer, production

Executive team tenure

Appointed 1 November 2010 (3 years)

Outside interests

Member of the Stanford University Graduate School of Business Advisory Council

Fellow of the Energy Institute

Age

43

Nationality

Irish

Career

Bernard Looney is responsible for production operations, drilling, engineering, procurement and supply-chain management, as well as health, safety and environment in the upstream.

Bernard joined BP in 1991 as a drilling engineer, working in the North Sea, Vietnam and the Gulf of Mexico. In 2001 Bernard took on responsibility for drilling operations on Thunder Horse in the Deepwater Gulf of Mexico.

In 2005 Bernard became senior vice president within BP Alaska, before moving in 2007 to be head of the group chief executive s office.

In 2009 he became the managing director of BP s North Sea business in the UK and Norway.

Bernard became executive vice president, developments, in October 2010. He took up his current role in February 2013.

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Lamar McKay

Current position

Chief executive, Upstream

Executive team tenure

Appointed 16 June 2008 (5 years)

Outside interests

Member of Mississippi State University Dean s Advisory Council

Age

55

Nationality

American

Career

Lamar McKay is responsible for the combined Upstream business which consists of exploration, development and production.

Lamar started his career in 1980 with Amoco and has held a broad range of positions. In 1993, he became general manager for the Arkoma Basin, and in 1997 moved into the role of business unit leader for the Gulf of Mexico Shelf.

During 1998-2000, he worked on the BP-Amoco merger and served as head of strategy and planning for the worldwide exploration and production business in London. In 2000, he became business unit leader for the Central North Sea in Aberdeen, Scotland. In 2001, Lamar became chief of staff for the worldwide exploration and production business, and subsequently served as chief of staff to BP s deputy group chief executive.

Lamar became group vice president, Russia and Kazakhstan in 2003 where he was responsible for BP s Upstream businesses, including BP s interest in the TNK-BP joint venture. He served as a member of the board of directors of TNK-BP from February 2004 to May 2007.

In May 2007, Lamar moved to Houston to assume the role of senior group vice president, BP p.l.c. and executive vice president, BP America where he led BP s efforts to resolve various issues involving the Texas City refinery, Prudhoe Bay field and US trading function. In June 2008, he became executive vice president, special projects focusing on Russia where he led BP s efforts to restructure the governance framework for TNK-BP.

In February 2009, Lamar was appointed chairman and president of BP America Inc, serving as BP s chief representative in the US. In October 2010, he additionally assumed the role of chief executive officer and president for the Gulf Coast Restoration Organization.

On 1 January 2013, he became chief executive, Upstream.

Dev Sanyal

Current position

Executive vice president, and group chief of staff

Executive team tenure

Appointed 1 January 2012 (2 years)

Outside interests

Non-executive director of Man Group plc

Member of the Accenture Global Energy Board

Member of the International Business Leaders Group of The Duke of Edinburgh s International Award Foundation

Trustee of the Career Academy Foundation

Age

48

Nationality

British and Indian

Career

Dev Sanyal is the accountable executive for all of BP s corporate activities in strategy and long-term planning, risk, economics, competitor intelligence, government and political affairs, policy and group integration and governance.

Dev joined BP in 1989 and has held a variety of international roles in London, Athens, Istanbul, Vienna and Dubai. He was appointed chief executive, BP Eastern Mediterranean Fuels in 1999. In 2002, he moved to London as chief of staff of BP s worldwide downstream businesses. In November 2003, he was appointed chief executive officer of Air BP. In June 2006, he was appointed head of the group chief executive s office. He was appointed group vice president and group treasurer in 2007. During this period, he was also chairman of BP Investment Management Ltd and accountable for the group s aluminium interests. In January 2012, he became executive vice president, and group chief of staff.

Helmut Schuster

Current position

Executive vice president, group human resources director

Executive team tenure

Appointed 1 March 2011 (3 years)

Outside interests

No external appointments

Age

52

Nationality

Austrian

Career

Helmut Schuster became group human resources director on 1 March 2011. In this role he holds accountabilities for the BP human resources function.

Helmut began his career working for Henkel in a marketing capacity. Since joining BP in 1989 Helmut has held a number of major leadership roles. He has worked in BP in the US, UK and continental Europe and within most parts of refining, marketing, trading and gas and power. Before taking on his current role his portfolio of responsibilities as a vice president, human resources included the refining and marketing segment of BP, and corporate and functions. This role saw him leading the people agenda for roughly 60,000 people across the globe and includes businesses such as petrochemicals, fuels value chains, lubricants and functional experts across the corporation.

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Governance overview

Introduction from the chairman

I am pleased to describe the work of the BP board and its committees in 2013. This is the end of the fourth year in which I have had the privilege to chair the board of BP.

In this time I have been fortunate to work with a group of directors who, through the board and its committees, have made a significant contribution to the rebuilding of the company. While we have made good progress, we still have work to do.

In 2013, with some of the areas of uncertainty from 2012 behind us, we began to determine how the board would function in the future. Shareholders will see that the number of meetings of the board and the committees has appropriately decreased since 2012. We are moving to what we hope will be a more established rhythm. During the year, the nomination committee carried out a detailed review of current board skills and the needs of the board in terms of knowledge, expertise and diversity over the coming years. As part of this review directors were asked how the board should operate in future. In January, as part of the 2013 board evaluation, we reviewed this work in the context of the results of the evaluations over the past three years.

In looking at the past year I would like to highlight just some of the areas upon which we have focused. In 2011 the board agreed the 10-point plan, setting a clear strategy for the company and determined the measures by which that strategy should be evaluated. We want to be judged on the value we generate for our shareholders and not the volume of hydrocarbons that we produce. To do this we have to invest our capital wisely and be clear on how we will execute our projects so that value is maximized. All of this needs to be done without compromising on safety. So safety, strategy, project selection and project execution have been at the forefront of our discussions as a board.

I believe that we use our committees effectively to carry out the required oversight and governance of risk. The Gulf of Mexico committee has continued to work to cover the wide range of litigation in which we remain involved as a result of the Deepwater Horizon accident. This allows the board to focus on key areas of strategy. The SEEAC visited several operations to evaluate our safety culture and implementation of operational standards.

As a board we focus on the delivery of long-term value to our shareholders, but given the nature of our business we must do so in a way that is sensitive to the societies in which we work. This means setting values and standards of behaviour both inside and outside the company.

Fair, balanced and understandable

During the year, the board considered the changes to the UK Corporate Governance Code in the context of BP s governance practices. One of these changes has been the requirement for directors to make a statement that they consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable.

As part of our considerations, we received an early draft of the annual report to enable time for review and comment. The audit committee and the SEEAC then met jointly to consider the criteria for a fair, balanced and understandable annual report and to review the processes underpinning the compilation and assurance of the report, in relation to financial and non-financial management information.

Following the joint meeting of the committees, the board then considered the annual report and accounts as a whole and discussed the tone, balance and language of the document, being mindful of new UK reporting requirements and consistency between the narrative sections and the financial statements. In evaluating whether the report is fair, balanced and understandable, the board reviewed the internal processes that form the group s reporting governance framework, including the role of the corporate reporting steering group, the use of content owners, and legal and auditor review.

It has been another challenging year, but one where the board has continued to work well and learn. I look forward to 2014.

Carl-Henric Svanberg

Chairman

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Board and committee attendance in 2013

	Board		Audit committee		SEEAC		Remuneration committee		Gulf of Mexico committee		Nomination committee		Chairman s committee	
	A	B	A*	B	A*	B	A	B	A	B	A	B	A	B
Non-executive directors														
Carl-Henric Svanberg	11	11									4[c]	4	6[c]	6
Paul Anderson[1]	11	11			7[c]	7			13	12	4	4	6	6
Frank Bowman	11	11			7	7			13	13			6	6
Antony Burgmans	11	11			7	7	6[c]	6			4	3	6	6
Cynthia Carroll[2]	11	11			7	7					4	4	6	5
George David[3]	11	11	12	12			6	6	13	12			6	5
Ian Davis[4]	11	11					6	5	13[c]	13	4	3	6	5
Ann Dowling	11	11			7	7	6	6					6	6
Brendan Nelson[5]	11	10	12[c]	12							4	4	6	6
Phuthuma Nhleko[6]	11	10	12	12									6	5
Andrew Shilston[7]	11	9	12	11									6	6
Executive directors														
Bob Dudley	11	11												
Iain Conn	11	11												
Brian Gilvary	11	11												
Byron Grote	5	5												

A = Total number of meetings the director was eligible to attend.

B = Total number of meetings the director did attend.

C Committee chairman.

*Includes a joint Audit Committee-SEEAC meeting to review BP s system of internal control and risk management.

1 Paul Anderson was unable to attend the Gulf of Mexico committee meeting on 25 September 2013 due to a late change in the timing of the meeting.

2 Cynthia Carroll was unable to attend the chairman s committee on 5 December 2013 due to personal commitments.

3 George David was unable to attend the Gulf of Mexico committee meeting on 8 March 2013 due to a clash with travel arrangements; he was unable to attend the chairman s committee meeting on 24 July 2013 due to a late change in the timing of the meeting.

4 Ian Davis was unable to attend the meetings of the nomination and remuneration committees on 24 July 2013 due to a conflicting board meeting.

5 Brendan Nelson attended all scheduled board meetings in 2013, however he was unable to attend the board teleconference on 21 February 2013 that was called at short notice due to a prior commitment with the Royal Bank of Scotland plc.

6 Phuthuma Nhleko was unable to attend the chairman s committee meeting on 24 July 2013 and the board meeting on 25 July 2013 due to unforeseen urgent family commitments.

[7] Andrew Shilston attended all scheduled board meetings in 2013, however he was unable to attend the two board teleconferences called at short notice on 16 January 2013 and 21 February 2013 due to prior commitments; he was unable to attend the audit committee meeting on 28 October 2013 due to major storms in the UK disrupting travel.

Board diversity

BP recognizes the importance of diversity, including gender diversity, at all levels of the company as well as the board. The company is committed to increasing diversity across our operations and has in place a wide range of activities to support the development and promotion of talented individuals, regardless of gender and ethnic background.

The board operates a diversity policy which aims to promote diversity in the composition of the board. Under this policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the board, with directors asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the board.

The implementation of this policy and the diversity mix of the board is monitored through agreed metrics. The board also considered diversity as part of the annual review of its performance and effectiveness.

The board is supportive of the recommendations contained in Lord Davies report *Women on Boards* for female board representation to increase to 15% by end 2013 and 25% by end 2015. Accordingly, the board set a goal to increase the number of female board members by two (to a total of three female directors) by the end of 2013. However, at the end of 2013 there were two female directors on the board (equating to 14%). The nomination committee has identified potential candidates with a diverse background and it is anticipated that an appointment is likely to be made in 2014.

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How the board works

Board governance in BP

The system of governance within which the BP board operates is set out in the BP board governance principles. These define the role of the board, its processes and its relationship with executive management. This system is reflected in the governance of the group s subsidiaries. The board governance principles can be found at *bp.com/governance*.

Role of the board

The board is responsible for the overall conduct of the group s business and the directors have duties under both UK company law and BP s articles of association.

The primary tasks of the board include:

- Active consideration and direction of long-term strategy, and approval of the annual plan.
- Monitoring of BP s performance against the strategy and plan.
- Obtaining assurance that the material risks to BP are identified and that systems of risk management and control are in place to mitigate such risk.
- Board and executive management succession.

Specific tasks are delegated to the board committees (see the reports of the committees on page 74). The board seeks to set the tone from the top for BP by working with management to agree the values of the company and considering specific issues, including health, safety, the environment and reputation.

Board composition

On 31 December 2013 the board had 14 directors the chairman, three executive directors and 10 independent, non-executive directors (NEDs).

The nomination committee keeps the balance and independence of the board under review (see the report of the nomination committee on page 79).

Key roles and responsibilities

The chairman

Carl-Henric Svanberg

- Provides leadership of the board.
- Acts as main point of contact between the board and management.
- Speaks on board matters to shareholders and other parties.
- Ensures that systems are in place to provide directors with accurate, timely and clear information to enable the board to operate effectively.
- Is responsible for the integrity and effectiveness of the BP board s system of governance.

The group chief executive

Bob Dudley

- Is responsible for day-to-day management of the group.
- Chairs the executive team (ET), the membership of which is set out on page 66.

The senior independent director

Andrew Shilston

- Is available to shareholders if they have concerns that cannot be addressed through normal channels.

Antony Burgmans, BP s longest serving non-executive director, acts as an internal sounding board for the chairman and serves as intermediary for the other directors with the chairman when necessary.

Neither the chairman nor the senior independent director is employed as an executive of the group. The nomination committee keeps succession plans for the chairman, senior independent director, group chief executive and senior management under review.

Appointment and time commitment

The chairman and NEDs have letters of appointment; there is no term limit on a director s service as BP proposes all directors for annual re-election by shareholders (a practice followed since 2004). While the chairman s appointment letter sets out the time commitment expected of him, the letters of appointment for NEDs do not set a fixed time commitment as it is anticipated that the time required of directors may fluctuate depending on demands of BP business and other events. It is expected that directors will allocate sufficient time to the company to perform their duties effectively.

Executive directors are permitted to take up one external board appointment, subject to the agreement of the chairman. Fees received for an external appointment may be retained by the executive director and are reported in the annual report on remuneration (see page 106).

Independence and conflicts of interest

NEDs are expected to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of that judgement.

Antony Burgmans joined the board in February 2004 and by the time of the 2014 AGM will have served ten years as a director. In 2012, the board asked him to remain as a director until the 2016 AGM as it considered that his experience as the longest serving board member provides valuable insight, knowledge and continuity. The board has determined that he continues to meet the board s criteria for independence and will keep this under review.

The board is satisfied that there is no compromise to the independence of, and nothing to give rise to conflicts of interest for those directors who serve together as directors on the boards of outside entities or who have other appointments in outside entities. The nomination committee keeps under review the other interests of the NEDs to ensure that the effectiveness of the board is not compromised.

Succession

Dr Byron Grote, an executive director, retired from the board at the AGM in 2013. There were no other changes to the board or committee membership during the year.

Board activity

The board s activities are structured to enable the directors to fulfil their role, in particular with respect to strategy, monitoring, assurance and succession. The diagram below shows the main areas of focus by the board during 2013.

Board activities

Risk and assurance

During the year the board through its committees, regularly reviewed the processes whereby risks are identified, evaluated and managed. The effectiveness of the group s system of internal control and risk management were also assessed (see Internal Control Revised Guidance for Directors (Turnbull) on page 110).

The annual plan and the group strategy are central to BP s risk management programme. They provide a framework in which the board can consider significant risks, manage the group s overall risk exposure and underpin the delegation and assurance model for the board in its oversight of executive management and other activities. The board and its committees (principally audit, SEEAC and Gulf of Mexico committees) monitored the group risks which had been allocated following the board s review of the annual plan at the end of 2012.

Those group risks reviewed during 2013 included risks associated with the global economic climate, the delivery of BP s 10-point plan, the group s exposure to Russia and reputation management. The board considered at the half year whether any changes were required to the allocation of group risks and confirmed the schedule for oversight of these risks.

The group risks allocated for review by the board in 2014 include delivery of BP s 10-point plan and geopolitical risk associated with BP s operations around the world. The board s monitoring committees (audit, safety, ethics and environment assurance and Gulf of Mexico committees) were also allocated a number of group risks for review over the year: these are outlined in the reports of the committees on page 74. Further information on BP s system of risk management is outlined in Our management of risk on page 49.

International advisory board

BP s international advisory board (IAB) advises the chairman, group chief executive and the board on geopolitical and strategic issues relating to the company. This group has an advisory role and meets twice a year although its members are on hand to provide advice and counsel when needed.

The IAB is chaired by BP s previous chairman, Peter Sutherland. Its membership in 2013 included Kofi Annan, Lord Patten of Barnes, Josh Bolten, President Romano Prodi, Dr Ernesto Zedillo and Dr Javier Solana. The chairman and chief executive attend meetings of the IAB. Issues discussed during the year included events in the Middle East, the US budget deficit and BP s activities in Azerbaijan and North Africa.

Board effectiveness

Induction and board learning

On joining BP, non-executive directors are given a tailored induction programme. This includes one-to-one meetings with management, the external auditors and site visits to operations. The induction also covers governance, duties of directors and the board committees that a director will join.

To help develop an understanding of BP s business, the board continues its learning through briefings and site visits. In 2013, the board received briefings on BP s code of conduct, the group s values and key business developments including legal updates, the economic outlook and the *BP Energy Outlook*. At its board meetings in Houston and India, the board met local management.

Non-executive directors are expected to attend at least one site visit per year. During 2013, the board made a number of visits, including to Canadian oil sands operations, India and the Gelsenkirchen refinery in Germany. Members of the SEEAC made site visits to BP s operations in Alaska and Tangguh. The chairman and Iain Conn, chief executive of BP s Downstream segment, visited the Whiting Refinery in the US. After each site visit, the board or appropriate committee is briefed on the impressions gained by the directors attending the visit.

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Board evaluation

Each year BP undertakes a review of the board, its committees and individual directors. The chairman s own performance is evaluated by the chairman s committee (led by Antony Burgmans).

In 2013 the nomination committee undertook a review of board skills, activities and time commitment with a view to informing the succession profile of future board appointments. This was undertaken to ensure that the board was well positioned to challenge and develop BP s strategy. This review included a discussion on how the board should approach its work in future.

Given this review of board skills and the use of external facilitation in prior years, an internally designed board evaluation has been carried out for 2013 using an external facilitator (Lintstock), which tested key areas of the board s work, including strategy, assurance, risk and governance processes. The output of the review were discussed at the board and individually at each committee in January 2014.

Key conclusions from the evaluation

The evaluation concluded that progress had been made in improving the rhythm of board meetings and the timeliness of board paper distribution through the introduction of an online portal.

Good progress had been made during the year on the development of strategy and the governance around capital projects. Further work in both these areas was agreed for 2014. In addition, greater focus on technology and capability would be included as part of the board s considerations on strategy. The board also expressed a desire to look outwards when considering the rapidly evolving global energy market.

Follow up from our previous evaluation

After the 2012 evaluation, the board revised its agenda to increase the focus on strategic issues and introduced the regular use of forward agenda planning to enable this to be realized. The board also asked for greater interaction with the international advisory board, and a joint meeting has been scheduled for 2014. The number of board meetings reduced from 19 in 2012 to 11 in 2013, enabling the board to move back to a more steady state of operation.

Shareholder engagement

The company operates an active investor relations programme and the board receives feedback on shareholder views through results of an anonymous investor audit and reports from management and directors who interacted with shareholders over the year.

Institutional investors

Executive directors and senior management regularly meet with institutional investors through roadshows, group and one-to-one meetings and events for socially responsible investors.

During the year the chairman, senior independent director and chairs of the SEEAC and remuneration committee held investor meetings to discuss strategy, the board s view on the company s performance, governance and remuneration. An annual investor event was held in March 2013 with the chairman and chairs of the board committees. This meeting enables BP s largest shareholders to hear about the work of the board and its committees, and for non-executive directors to engage with investors.

Materials from investor presentations, including our financial results and information on the work of the board and its committees can be downloaded at *bp.com/investors*.

Private investors

Following a successful meeting in 2012, BP repeated an event for private investors in conjunction with the UK Shareholders Association (UKSA). A group of 50 private shareholders listened to presentations from the chairman and head of investor relations on BP s annual results, strategy and the work of the board. The event gave shareholders the opportunity to ask questions on BP s activities and for the company to receive direct private shareholder feedback.

As part of the further development of BP s retail shareholder strategy, we commenced a lost shareholder programme in 2013 to trace and confirm shareholders contact details in order to successfully reunite them with their unclaimed dividends. Funds returned to shareholders as at 31 January 2014 amounted to £1,512,882.

AGM

The voting levels for the 2013 AGM saw an increase over the previous year to 64.2% (versus 63.2% in 2012). A webcast, speeches and presentations from the AGM are available on the BP website after the meeting, together with the outcome of voting on each resolution. Each year the board receives a report after the AGM giving a breakdown of the vote and investor feedback on their voting decisions for the meeting, informing the board on any issues arising.

UK Corporate Governance Code compliance

BP complied throughout 2013 with the provisions of the UK Corporate Governance Code, except in the following aspects:

B.3.2 Letters of appointment do not set out fixed-time commitments since the schedule of board and committee meetings is subject to change according to the demands of business and other events. All directors are expected to demonstrate their commitment to the work of the board on an ongoing basis. This is reviewed by the nomination committee in recommending candidates for annual re-election.

D.2.2 The remuneration of the chairman is not set by the remuneration committee. Instead the chairman s remuneration is reviewed by the remuneration committee which makes a recommendation to the board as a whole for final approval, within the limits set by shareholders. This wider process enables all board members to discuss and approve the chairman s remuneration (rather than solely the members of the remuneration committee).

E.2.4 Printed copies of the *BP Annual Report and Form 20-F 2012* completed mailing outside of the Governance Code period of 20 working days before the AGM (but within the UK Companies Act notice period). This was due to printing being delayed following developments in the company s legal proceedings in the US.

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Committee reports

Audit committee

Chairman s introduction

The work of the audit committee in 2013 has been focused on three key themes. Firstly, financial reporting and accounting judgements, particularly with respect to assessing BP s financial responsibilities arising from the Deepwater Horizon accident. Secondly, reviews of key group-level risks and BP s system of controls and risk management. Thirdly, regular reports which assist the committee in maintaining assurance over the management of financial risk and in overseeing the performance of the external auditor. These have been supplemented by private meetings of the committee with key constituents, including our group audit function, the group ethics and compliance officer and lead external audit partners.

The monitoring committees of the audit, SEEA and Gulf of Mexico have continued to operate according to agreed areas of oversight that enable them to inform the wider board s view. As chair of the audit committee, I reported after each meeting to the board on the main matters discussed in our meeting to ensure all directors were informed of the committee s work. I believe the mix of skills and experience amongst the committee s members, together with the ability to discuss issues directly with management has led to an effective performance from the committee over the year.

Brendan Nelson

Committee chair

Role of the committee

The committee monitors the effectiveness of the group s financial reporting and systems of internal control and risk management.

Key responsibilities

Monitoring and obtaining assurance that the management or mitigation of financial risks are appropriately addressed by the group chief executive and that the internal control system is designed and implemented effectively in support of the limits imposed by the board (Executive Limitations) as set out in the BP board governance principles;

Reviewing financial statements and other financial disclosures and monitoring compliance with relevant legal and listing requirements;

Reviewing the effectiveness of the group audit function and BP s internal financial controls and systems of internal control and risk management;

Overseeing the appointment, remuneration, independence and performance of the external auditor and the integrity of the audit process as a whole, including the engagement of the external auditor to supply non-audit services to BP;

Reviewing the systems in place to enable those who work for BP to raise concerns about possible improprieties in financial reporting or other issues and for those matters to be investigated.

Members

Name	Membership status
Brendan Nelson (chairman)	Member since November 2010; chairman since April 2011
George David	Member since February 2008
Phuthuma Nhleko	Member since February 2011
Andrew Shilston	Member since February 2012

Brendan Nelson is chair of the audit committee. He was formerly vice chairman of KPMG, is chairman of the group audit committee of The Royal Bank of Scotland Group plc, a member of the Financial Reporting Review Panel and president of the Institute of Chartered Accountants of Scotland. The board is satisfied that Mr Nelson is the audit committee member with recent and relevant financial experience as outlined in the UK Corporate Governance Code. It considers that the committee as a whole has an appropriate and experienced blend of commercial, financial and audit expertise to assess the issues it is required to address. The board also determined that the audit committee meets the independence criteria provisions of Rule 10A-3 of the US Securities Exchange Act of 1934 and that Mr Nelson may be regarded as an audit committee financial expert as defined in Item 16A of Form 20-F.

Meetings are also attended by the chief financial officer, group controller, chief accounting officer, group auditor (head of group audit) and external auditor.

Activities during the year

Training

The committee received technical updates from the chief accounting officer on developments in financial reporting and accounting policy. Externally facilitated learning sessions were held on the UK government programme on cyber-security, global trends in fraud and corruption and developments in oil and gas accounting.

Financial disclosure

The committee reviewed the quarterly, half-year and annual financial statements with management, focusing on the integrity and clarity of disclosure, compliance with relevant legal and financial reporting standards and the application of critical accounting policies and judgements.

In conjunction with the SEEAC, the committee examined whether the *BP Annual Report 2013* was fair, balanced and understandable and provided the information necessary for shareholders to assess the group s performance, business model and strategy. The process the two committees and then the full board undertook as part of this examination is outlined in the introduction from the chairman in the Governance overview (see page 69).

Accounting judgements and estimates

Areas of significant judgement considered by the committee during the year and how these were addressed included:

Oil and natural gas accounting

BP uses judgement and estimations when accounting for oil and gas exploration, appraisal and development expenditure and determining the group s estimated oil and gas reserves. The committee reviewed judgemental aspects of oil and gas accounting as part of the company s quarterly due diligence process. It also examined the governance framework for the oil and gas reserves process, training for staff and developments in regulations and controls.

Recoverability of asset carrying values

Determination as to whether and how much an asset is impaired involves management judgement and estimates on highly uncertain matters such as future pricing or discount rates. Judgements are also required in assessing the recoverability of overdue receivables and deciding whether a provision is required.

The committee reviewed the discount rates for impairment testing as part of its annual process and examined the assumptions for long-term oil and gas prices and refining margins. Following political and economic developments in Egypt, the committee reviewed at each quarter with management whether the group s financial assets were impaired.

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Audit committee focus in 2013

*Undertaken jointly with the SEEAC.

Acquisitions of interests in other entities

BP exercises judgement when assessing the level of control obtained in a transaction to acquire an interest in another entity and when determining the fair value of assets acquired and liabilities assumed. The committee examined the accounting for BP s transaction with Rosneft and the judgement on whether the group has significant influence over Rosneft, as where such influence exists, equity accounting is applied resulting in the recognition of BP s share of Rosneft s results each quarter and the reporting of BP s share of production and hydrocarbon reserves. During the year the committee received reports from management and the external auditor which assessed the extent of significant influence, including BP s participation in decision making through director election to the Rosneft board and other factors.

Taxation

Computation of the group s tax expense and liability, the provisioning for potential tax liabilities and the level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by management judgement. The committee reviewed the judgements exercised on tax provisioning as part of its annual review of key provisions.

Derivative financial instruments

BP uses judgement when estimating the fair value of some derivative instruments in cases where there is an absence of liquid market pricing information for example, long-term gas contracts which have a lengthy duration. This approach is taken for the group s longer-term, structured derivative products, natural gas embedded derivatives and the forward contracts entered into in 2012 to purchase shares in Rosneft. The committee received reports from the external auditor on the valuation models developed for these contracts and reviewed disclosures relating to these instruments in the notes to the financial statements.

Provisions and contingencies

The group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. Most of these decommissioning events are in the long term and the requirements that will have to be met when a removal event occurs are uncertain. Judgement is applied by the company when estimating issues such as settlement dates, technology and legal requirements. The committee received briefings on the group s decommissioning, environmental remediation and litigation provisioning, including key assumptions used, the governance framework applied (covering accountabilities and controls), discount rates and the movement in provisions over time.

Gulf of Mexico oil spill

Judgement was applied during the year to the significant uncertainties over the provisions and contingencies relating to the incident.

The committee regularly discussed the provisioning for and the disclosure of contingent liabilities relating to the Gulf of Mexico oil spill with management and the external auditors, including as part of the review of BP s stock exchange announcement at each quarter end.

The committee examined developments relating to the interpretation of the business economic loss claims element of the company s settlement with the Plaintiffs Steering Committee, including US court rulings and monitored legal developments whilst considering the impacts on the financial statements and other disclosures.

Pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including discount rates, inflation and life expectancy. The committee examined the assumptions used by management as part of its annual reporting process.

Risk reviews

The group risks allocated to the audit committee for monitoring in 2013 included risks associated with trading activities, compliance with applicable laws and regulations and security threats against BP s digital infrastructure. For 2014, the board has agreed that the committee will maintain monitoring of the same group risks. The committee held in-depth reviews of these group risks over the year, examined succession planning and capability development in the finance function and reviewed the effectiveness and efficiency of the capital investment of a number of BP s major projects.

Internal control and risk management

The committee reviewed the group s system of internal control and risk management over the year, holding a joint meeting with the SEEAC to discuss key audit findings and management s actions to remedy significant issues. The committee reviews the scope, activity and effectiveness of the group audit function and met privately with the general auditor and his segment and functional heads during the year.

The committee received quarterly reports on the findings of group audit, on identified fraud and misconduct and on key ethics and compliance issues. A further joint meeting with the SEEAC was held to discuss the annual certification report of compliance with the BP code of conduct. The two committees also met to discuss the group audit and ethics and compliance programmes for 2013. The committee held a private meeting with the group ethics and compliance officer during the year.

External audit

The external auditors started the audit cycle with their plan which identified key audit risks to be monitored during the year including exposures relating to the Gulf of Mexico oil spill, estimation of oil and gas reserves, estimation of pension liabilities, recoverability of the group s financial assets in Egypt and future commodity prices and their impact on the carrying value of the group s assets. The committee received updates during the year on the audit process, including how the auditors had challenged the group s assumptions on these issues.

The audit committee annually reviews the fee structure, resourcing and terms of engagement for the external auditor. Fees paid to the external auditor for the year were $53 million, of which 9% was for non-assurance work (see Financial statements Note 37). Non-audit or non-audit related assurance fees were $5 million (2012 $7 million). The $2-million reduction in non-audit fees relates primarily to reduced corporate finance transactions and lower tax advisory services. Non-audit or non-audit related assurance services consisted of tax compliance services, tax advisory services and services relating to corporate finance transactions. The audit committee is satisfied that this level of fee is appropriate in respect of the audit services provided and that an effective audit can be conducted for this fee.

The effectiveness of the audit process was evaluated through a committee review and a survey of employees in the group s finance function. The 2013 evaluations concluded that there was a good quality audit process and that the external auditors were regarded as knowledgeable and capable, with an ability to challenge the BP team constructively and to ensure balanced reporting. There was also support for the independence of the external auditors and feedback that they should continue sharing good industry practice.

The committee held private meetings with the external auditors during the year and the committee chair met privately with the external auditor before each meeting.

Auditor appointment and independence

The committee considers the reappointment of the external auditor each year before making a recommendation to the board and shareholders. The committee assesses the independence of the external auditor on an ongoing basis and the external auditor is required to rotate the lead audit partner every five years and other senior audit staff every seven years. No

partners or senior staff associated with the BP audit may transfer to the group. The current lead partner has been in place since the start of 2013.

Audit tendering

During the year the committee considered the group s position on its audit services contract following changes to the UK Corporate Governance Code and proposed European Union regulations concerning the audit market. The committee examined a number of options regarding the timing of tendering for BP s external audit, including the mandatory rotation of the group s audit firm envisaged by proposed European regulations.

In view of the uncertainty regarding the form and impact of these regulations, the committee concluded that the best interests of the group and its shareholders would be served by utilizing the transition arrangements outlined by the FRC and retaining BP s existing audit firm until the conclusion of the term of its current lead partner. Accordingly the committee intends that the audit contract will be put out to tender in 2016, in order that a decision can be taken and communicated to shareholders at BP s AGM in 2017; the new audit services contract would then be effective from 2018.

Non-audit services

Audit objectivity and independence is safeguarded through the limitation of non-audit services to tax and audit-related work which falls within defined categories. BP s policy on non-audit services states that the auditors may not perform non-audit services that are prohibited by the SEC, Public Company Accounting Oversight Board (PCAOB) and UK Auditing Practices Board (APB). The categories of approved and prohibited services are outlined below.

The audit committee approves the terms of all audit services as well as permitted audit-related and non-audit services in advance. The external

Permitted and non-permitted audit services

Permitted services

Audit related	
	g Advice on accounting, auditing and financial reporting.
	g Internal accounting and risk management control reviews.
	g Non-statutory audit.
	g Project assurance/advice on business and accounting process improvement.
	g Due diligence (acquisition, disposals, joint arrangements).
Tax services	
	g Tax compliance.
	g Direct and indirect tax advisory services.
	g Transaction tax advisory services.
	g Assistance with tax audits and appeals.
	g Tax compliance/advisory relating to human capital and performance/reward.
	g Transfer pricing advisory services.
	g Tax legislative monitoring.
	g Tax performance advisory.
Other services	
	g Workshops, seminars and training on an arm s length basis.
	g Assistance on non-financial regulatory requirements.
	g Provision of independent third-party audit on BP s Conflict Minerals Report.

Prohibited services

SEC principles of auditor independence	
	g Book keeping/other services related to financial records.
	g Financial information systems design and implementation.
	g Appraisal, valuation, fairness opinions, contribution in-kind.
	g Actuarial services.
	g Internal audit outsourcing.
	g Management functions.
	g HR functions.
	g Broker-dealer, investment advisor, banking services.
	g Legal services.
	g Expert services unrelated to audit.
PCAOB ethics and independence rules	
	g Contingent fees.
	g Confidential or aggressive tax position transactions.
	g Tax services for persons in financial reporting oversight roles.

auditor is only considered for permitted non-audit services when its expertise and experience of the company is important. A two-tier system for approval of audit-related and non-audit work operates. For services relating to accounting, auditing and financial reporting matters, internal accounting and risk management control reviews or non-statutory audit, the committee has agreed to pre-approve these services up to an annual, aggregate level. For all other services which fall under the permitted services categories, approval above a certain financial amount must be sought on an individual engagement basis. Any proposed service not included in the permitted services categories must be approved in advance either by the audit committee chairman or the audit committee before engagement commences. The audit committee, chief financial officer and group controller monitor overall compliance with BP s policy on audit-related and non-audit services, including whether the necessary pre-approvals have been obtained.

Committee review

The audit committee undertakes an annual evaluation of its performance and effectiveness. In 2013 the committee used an online survey which examined governance processes such as the mix of experience and skills amongst members, meeting content, information, training and resources. Areas of focus for 2014 arising from the evaluation included monitoring the length of committee papers, the inclusion of broader business topics on the agenda and suggestions for further committee training.

Safety, ethics and environment assurance committee (SEEAC)

Chairman s introduction

The SEEAC has continued to monitor closely and provide constructive challenge to management in the drive for safe and reliable operations at all times. This has included the committee receiving specific reports on the company s management of high priority risks in shipping, wells, pipelines, facilities and non-operated joint arrangements. The committee has also undertaken a number of field visits as described in more detail below as well as maintained its schedule of regular meetings with executive management.

The SEEAC has continued to receive regular reports from the independent experts that it has engaged in both the Upstream (Carl Sandlin) and in the Downstream (Duane Wilson). They have provided valuable insights and advice on many aspects of process safety and we are grateful to them for their work.

Paul Anderson

Committee chair

Role of the committee

The role of the SEEAC is to look at the processes adopted by BP s executive management to identify and mitigate significant non-financial risk. This includes the committee monitoring the management of personal and process safety and receiving assurance that processes to identify and mitigate such non-financial risk are appropriate in design and effective in implementation.

Key responsibilities

The committee receives specific reports from the business segments but also receives cross-business information from the functions. These include, but are not limited to, the safety and operational risk function, group audit, group ethics and compliance and group security. The SEEAC can access any other independent advice and counsel if it requires, on an unrestricted basis.

The committee met seven times in 2013, including joint meetings with the audit committee. At one of the joint meetings the committee reviewed the general auditor s report on the system of internal control and risk management for the year in preparation for the board s report to shareholders in the annual report (see Internal Control Revised Guidance for Directors (Turnbull) on page 110). In that joint meeting the committees also reviewed the general auditor s audit programme for the year ahead to ensure both committees endorsed the coverage. The SEEAC and audit committee worked together, through their chairs and secretaries, to ensure that the agendas did not overlap or omit coverage of any key risks during the year.

In addition to the committee membership, all of the SEEAC meetings were attended by the group chief executive, the executive vice president for safety and operational risk (S&OR) and the general auditor or his delegate. The external auditor also attended some of the meetings (and was briefed on the other meetings by the chair and secretary to the committee). The group general counsel and the group ethics and compliance officer also attended certain meetings. The committee scheduled private sessions for the committee members only (without the presence of executive management) at the conclusion of each meeting to discuss any issues arising and the quality of the meeting.

Members

Name	Membership status
Paul Anderson (chairman)	Member since February 2010; chairman since December 2012
Frank Bowman	Member since November 2010
Antony Burgmans	Member since February 2004
Cynthia Carroll	Member since June 2007
Ann Dowling	Member since February 2012

Activities during the year

Safety, operations and environment

The committee received regular reports from the S&OR function, including quarterly reports prepared for executive management on the group s health, safety and environmental performance and operational integrity. These included quarter-by-quarter measures of personal and process safety, environmental and regulatory compliance and audit findings. Operational risk and performance forms a large part of the committee s agenda.

During the year the committee received specific reports on the company s management of risks in shipping, wells, pipelines, facilities and non-operated joint arrangements. The committee reviewed these risks, and risk management and mitigation, in depth with the relevant executive management.

Independent expert Upstream

Mr Carl Sandlin continued in his role as an independent expert to provide further oversight and assurance regarding the implementation of the Bly Report recommendations. He has twice reported directly to the SEEAC in 2013, and presented detailed reports on his work, including reporting on a number of visits he has made to company operations around the world. He will again report to SEEAC in early 2014.

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SEEAC focus in 2013

*Undertaken jointly with the audit committee.

Process safety expert   Downstream

Mr Duane Wilson continued to report to the committee in his role as process safety expert for the Downstream segment. In this role he continues to work with segment management on a worldwide basis (having previously focused on US refineries) to monitor and advise on the process safety culture and learnings across the segment. He twice reported directly to the SEEAC in 2013 and presented detailed reports on his work (including reporting on a number of visits he has made to refineries and other downstream facilities).

Reports from group audit and group ethics & compliance

The committee received quarterly reports from both of these functions. These included summaries of investigations into significant alleged fraud or misconduct. In addition, both the general auditor and the group ethics and compliance officer met in private with the chairman and other members of the committee.

Field trips

In April the chairman and all other members of the committee visited Alberta, Canada to examine the oil sands being developed there by the group and third parties. In October a committee member visited operations at the Tangguh LNG facility in West Papua in Indonesia while another committee member travelled to Alaska and visited operations on the North Slope. In addition, three members of the committee visited the Gelsenkirchen refinery in Germany. In all cases, the visiting committee members received briefings on operations and the status of local operating management system (OMS) implementation and risk management and mitigation. For each visit, committee members then reported back in detail to the committee and subsequently to the full board.

Committee review

For its 2013 evaluation, the SEEAC used a questionnaire administered by external consultants to examine the committee s performance and effectiveness. The committee responded to the same questions used in 2012 so that any change trends could be discerned. The topics covered included the balance of skills and experience among its membership, the quality and timeliness of the information the committee receives, the level of challenge between committee members and management and how well the committee communicates its activities and findings to the board.

The evaluation results were generally positive. Committee members considered that the committee possessed the right mix of skills and background, had an appropriate level of support and had received open and transparent briefings from management. The committee considered that the field trips made by its members had become an important element in the work of the committee, in particular through such trips giving committee members the ability to examine how risk management is being embedded in businesses and facilities.

Gulf of Mexico committee

Introduction from committee chairman

The Gulf of Mexico committee continues to oversee the group s response to the Deepwater Horizon accident, ensuring that the company fulfils all of its legitimate obligations whilst protecting and defending the interests of the group. In the past year, the focus has been on the review of ongoing proceedings in multi-district litigation 2179 and 2185; of the assessment of natural resource damages; and of a number of other legal proceedings in relation to the Deepwater Horizon accident.

I believe the committee has been thorough in the execution of its duties. The high frequency of meetings and long tenure of committee membership has enabled members to review an evolving and complex spectrum of issues.

Ian Davis

Committee chair

Role of the committee

The Gulf of Mexico committee was formed in July 2010 to oversee the management and mitigation of legal and licence-to-operate risks arising out of the Deepwater Horizon accident and oil spill. The committee s work is integrated with that of the board, which retains ultimate accountability for oversight of the group s response to the accident.

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GoM committee focus in 2013

Key responsibilities

- Oversee the legal strategy for litigation, investigations and suspension/ debarment actions arising from the accident and its aftermath, including the strategy connected with settlements and claims.
- Review the environmental work to remediate or mitigate the effects of the oil spill in the waters of the Gulf of Mexico and on the affected shorelines.
- Oversee management strategy and actions to restore the group s reputation in the United States.
- Review compliance with government settlement agreements arising out of the Deepwater Horizon accident and oil spill, including the SEC Consent Order and the Department of Justice Plea Agreement, in coordination with other committee and board oversight.

Members

Name	Membership status
Ian Davis (chair)	Member since July 2010; committee chair since July 2010
Paul Anderson	Member since July 2010
Frank Bowman	Member since February 2012
George David	Member since July 2010

Activities during the year

The committee reviewed plans and progress in moving Gulf Coast shoreline response activities through to completion and sign-off by the US Coast Guard. Activities are now complete in all states with the exception of Louisiana.

The committee continued to oversee numerous legal matters relating to the Deepwater Horizon accident, including the company s appeals to the US Court of Appeals for the Fifth Circuit relating to the Court-Supervised Settlement Program and the first two phases of trial in MDL-2179.

The committee met thirteen times in 2013.

Committee review

Each year the Gulf of Mexico committee evaluates its performance and effectiveness. In 2013, the committee again used a questionnaire administered by external consultants covering the same questions used in 2012 in order to identify trends. Key areas covered included the balance of skills and experience among its membership, quality and timeliness of information and support received by the committee, the appropriateness of committee tasks and how well the committee communicates its activities and findings to the board. The results of the evaluation were positive.

Specific areas identified for focus in 2014 included maintaining constructive and challenging engagement with management and of continuing timely and effective communication of its activities and findings to the board.

Nomination and chairman s committees

Chairman s introduction

I am pleased to report on the two board committees which I chair. Both have been active during the year in seeking to develop the membership of the board and its governance.

Nomination committee

Role of the committee

The committee ensures an orderly succession of candidates for directors and company secretary.

Key tasks

- Identify, evaluate and recommend candidates for appointment or reappointment as directors.
- Identify, evaluate and recommend candidates for appointment as company secretary.
- Keep under review the mix of knowledge, skills and experience of the board to ensure the orderly succession of directors.
- Review the outside directorship/commitments of the non-executive directors.

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Members

Name	Membership status
Carl-Henric Svanberg (chair)	Member since September 2009; committee chair since January 2010
Paul Anderson	Member since April 2012
Antony Burgmans	Member since May 2011
Cynthia Carroll	Member since May 2011
Ian Davis	Member since August 2010
Brendan Nelson	Member since April 2012

Andrew Shilston, as the senior independent director, attends all meetings of the committee.

Activities during the year

The committee met four times during the year. At the start of the year, the committee reflected on the output of the annual evaluation and determined a rhythm for their meetings during the year. This would include one longer meeting which would review board composition and skills in the light of the company strategy.

The committee considered the time commitment required from non-executive directors and in particular chairs of committees in discharging their responsibilities. The committee determined that the time commitment of directors had increased and this should be made clear to those who may join the board.

The membership of the board had been substantially refreshed over the previous three years which has resulted in no director now being scheduled to retire earlier than the 2016 AGM. Therefore the committee during the year reviewed the current skills of the board and those required by the board over the coming years as the company s strategy is implemented.

In conducting this review the committee initiated interviews with all directors. The conclusion of the review was that whilst the current board s skills matched those presently required, in seeking future candidates there should be a greater focus on the business of BP, US government relations and, possibly, Russia. All of this was against the background of the board s clear aspirations on diversity and the work of the international advisory board in supporting the chairman and the chief executive on geo-political issues.

As part of the review, directors were asked to comment on how the board should work in future given that the company had substantially emerged from the crisis in the Gulf of Mexico. The main conclusions were:

- The board was moving towards a more normal rhythm. Its operation had improved over the past three years. The goal should be simplification and clarity in materials and discussion. Substantial progress had been made.
- The board should continue its focus on strategy and performance, with the committees taking the lead on monitoring. Tasks of the board and committees and their agendas should be reviewed to ensure that the board was addressing the relevant strategic challenges and the committees were complete in their monitoring task.

There should be further focus on major projects and capital investment to ensure that value was being created. Against this background, the committee continued to work with an executive search firm to identify potential candidates and to engage with them as appropriate. The committee was aware of the board s aspirations on gender diversity. It is important, in the committee s view, that any candidates have the requisite skills to join the board. Potential candidates with a diverse background have been identified, and it is anticipated that an appointment will now likely be made in 2014.

Finally, the committee reviewed the current composition of the board and independence of non-executive directors, and recommended to shareholders all directors for re-election at the 2013 AGM.

Committee review

The committee undertook an annual evaluation of its effectiveness and performance, using a questionnaire. The review concluded that there had been an improvement in the timeliness of distribution of pre-read and that the longer session focusing on board composition, skills and the fit with the group s strategy had been valuable and should be repeated annually.

Chairman s committee

Role

To provide a forum for matters to be discussed amongst the non-executive directors.

Tasks

- Evaluate the performance and the effectiveness of the group chief executive (GCE).
- Review the structure and effectiveness of the business organization of BP.
- Review the systems for senior executive development and determine the succession plan for the GCE, the executive directors and other senior members of executive management.
- Determine any other matter which is appropriate to be considered by all of the non-executive directors.
- Opine on any matter referred to it by the chairman of any committees comprised solely of non-executive directors.

Members

The committee comprises all the non-executive directors who join the committee at the date of their appointment to the board. The chief executive attends the committee when requested.

Activities

The committee met six times during the year.

The committee reviewed:

- The performance of the chairman and the chief executive early in the year. Parameters were set for evaluations in 2014.
- The developing position in the US Courts in respect of the implementation of the settlement with the Plaintiffs Steering Committee, including the business economic loss claims and the activities of the Claims Administrator, the federal judge and the appeals court. The work of Judge Freeh was also considered.

A number of issues relating to the company s strategy in the light of the views of shareholders and the market more generally.

The chief executive s succession plans for the executive team and senior leaders. The committee also considered the organization and operation of the executive team.

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Chairman s annual statement

Dear shareholder

BP continued the disciplined and systematic execution of its strategy during 2013, focusing on safety and operational risk management, and on restoring value. As in 2012, there were many positive steps in the recovery journey during 2013 including improved safety, a strengthened portfolio and a new future in Russia. I encourage you to read about these in more detail elsewhere in this annual report.

Remuneration for executive directors continues to be tied closely to this overall recovery of the group. The vast majority of potential remuneration is based on outcomes relative to measures related directly to the company s strategy and key performance indicators. In addition to a direct link to strategy, our remuneration system has a strong bias towards sustained long-term performance, and our decisions regarding remuneration are guided by key principles of informed judgement, fair treatment and alignment with shareholders. My meetings with shareholders this year have again been helpful in understanding perspectives and have led to a few modifications to our policy.

Our report this year reflects the new UK regulations on directors remuneration and so is divided into an annual report on remuneration and a separate policy report. The annual report on remuneration sets out and explains the outcomes of the various elements that make up 2013 total remuneration. The policy report explains our proposed remuneration policy for the next three years which, subject to approval by shareholders, will come into effect from the AGM. For both sections the information relating to executive directors (whose remuneration is determined by the remuneration committee) is presented separately from that relating to non-executive directors (whose remuneration is determined by the full board).

2013 outcomes

I am pleased to report that remuneration for 2013, as summarized on page 85, increased after several years where pay was significantly depressed by the aftermath of the Deepwater Horizon incident. It is particularly encouraging that a moderate portion of shares in the long-term performance share plan has vested this year. These outcomes reflect strong and sustained performance with safety steadily improving, operations performing well and a portfolio of assets growing through capital discipline and strong project management. The significant divestments of the last few years have made the company smaller but stronger, with improved potential to grow value.

Annual bonus

It was a good year for BP with improved safety, new discoveries and operations, a strengthened portfolio and benefits already accruing from the company s new relationship in Russia. Overall group performance exceeded annual plan levels and resulted in a score of 1.32 times target. Performance was assessed relative to metrics set at the start of the year and reflecting the company s strategy and key performance indicators.

Safety and operational risk management accounted for 30% of annual bonus. Led strongly from the top, this continued to show encouraging progress with particularly significant reductions in tier 1 process safety events and loss of primary containment both important measures of process safety. Results this year confirm that it remains a constant priority throughout the business.

The company also made good gains in restoring value, which accounted for 70% of annual bonus. Underlying replacement cost profit and total cash costs were both better than plan targets, while operating cash flow achieved target levels. Key operating performance was also positive with important major projects commissioned and a significant improvement in unplanned Upstream deferrals. Downstream operations demonstrated high availability and good safety results but profitability was impacted by a difficult business environment affecting refinery margins.

Deferred bonus

The first of the deferred bonus share awards, implemented in 2010, became eligible for vesting at the end of 2013. Vesting was dependent on safety and environmental sustainability performance over the period from 2011 through 2013. Our review confirmed very positive results during this period with consistent improvements in key metrics and no major incidents. Based on this positive result, the deferred and matched shares for this period vested fully.

Performance shares

The 2011-2013 performance share plan, the first plan commencing after the Deepwater Horizon incident, focused on value creation, reinforcing safety and risk management and rebuilding trust. 50% of the award was dependent on total shareholder return which failed to make the threshold required for vesting. Reserves replacement, accounting for 20% of the award, is expected to be very positive and progress relative to the strategic imperatives, accounting for the remaining 30%, was very encouraging. Overall, we expect nearly 40% of shares will vest, the highest in over 10 years.

Other elements

Salaries were increased by just under 3% for Bob Dudley, Iain Conn and Dr Brian Gilvary mid-year. Pension increases reflect normal plan rules and valuation according to UK regulations. The increased value reported for Bob Dudley reflects his promotion to group chief executive in 2010 which, because his defined benefit pension is based on three-year average remuneration, takes a number of years to reach a steady state. In addition, the reported value is calculated according to UK regulations and the committee has been informed by the company s consulting actuaries that these significantly overstate the value of his US pension increase.

Remuneration policy

Attracting and retaining top talent is a key objective of our approach to remuneration. Our proposed policy, as summarized on page 98, remains largely unchanged from that which has applied for a number of years and its continuity has been a stabilizing force during a period of company turbulence. The core elements of salary, annual bonus, deferred bonus, performance shares and pension continue to provide an effective, relatively simple, performance-based system that fits well with the long-term nature of BP s business and strategy.

Three modifications have been included in our proposed policy as a result of our dialogue with investors. First, we have added a three-year retention period in the deferred bonus element for those matched shares that vest in the plan. Second, we have made the vesting of performance shares more stringent for those metrics based on performance relative to other oil majors. Finally, we have added a specific review of performance share vesting to ensure that high levels of vesting are consistent with shareholder benefits.

All of the above are explained in more detail in the policy report.

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EDIP renewal

The executive directors   incentive plan (EDIP) has provided the umbrella framework for share-based remuneration for BP executive directors since it was first approved by shareholders in April 2000. It was renewed both in 2005 and 2010 and will expire in April 2015 according to its current mandate. The UK Listing Rules require a separate approval for this plan despite it largely being a duplication of what is included in the new policy report governed by a different regulatory regime. Given that the EDIP is an important vehicle to implement the remuneration policy, we concluded that it was appropriate to bring its renewal forward to coincide with the first

policy vote. Details appear under resolution 19 in the Notice of Meeting, and are consistent with those included in the policy report.

It is reassuring to see momentum building in the business, led by a talented top team with resolve and commitment. Our remuneration system has worked appropriately during difficult times, and I am confident it will continue to do so as and when performance returns to healthy sustained levels.

Antony Burgmans

Chairman of the remuneration committee

6 March 2014

Remuneration   the big picture

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2013 annual report on remuneration

This section reports on the remuneration outcomes for 2013 and is divided into separate sections for executive and non-executive directors.

The remuneration of the executive directors is set by the remuneration committee (the committee) under delegated powers from the board. The committee makes a recommendation to the board for the remuneration of the chairman. The remuneration of the non-executive directors is set by the board based on a recommendation from the chairman, the group chief executive and the company secretary.

(a) Executive directors

Total remuneration summary

Strategy > Key performance indicators > Performance > Pay

The clear link from strategy through to pay continues. For several years the company s strategy has centred on enhancing safety and risk management, rebuilding trust and restoring value. This strategy has provided focus for key performance indicators (KPIs) and in turn the measures for annual bonus, deferred bonus and performance share plans.

2013 summary of outcomes

These are shown in the table opposite and represent the following:

Salary reviewed mid-year and **increased just under 3%** for all except Dr Byron Grote who retired mid-year.

Annual bonus overall group bonus was based 30% on safety and operational risk (S&OR) management and 70% on restoring value. S&OR results were good both in terms of improvement and overall standard. Similarly, performance relative to value measures was overall better than the annual plan. **Overall group outcome was 1.32 times target level.**

The resulting cash bonuses are shown in the table opposite with total deferred bonuses reflected in the Conditional equity table as required by UK regulations. Dr Byron Grote, given his retirement, was not eligible for any deferral, and his bonus (prorated to reflect his service) was paid in cash.

Deferred bonus the 2010 deferred bonus was contingent on safety and environmental sustainability performance over the period 2011 through 2013. Overall assessment was very positive based on continually improving safety and risk management performance and strong evidence of ingrained safety culture and systems throughout the organization. Based on this, **2010 deferred and matched shares vested**.

Performance shares the 2011-2013 plan was based 50% on total shareholder return (TSR) and 20% on reserves replacement, both relative to the other oil majors, and reflecting the key strategic focus on restoring value. The final 30% was based on strategic imperatives made up equally of safety and risk management, external reputation and staff alignment and morale all key strategic priorities in the period after the Deepwater Horizon incident in 2010. **39.5% of shares in the plan are expected to vest** based on strong reserves replacement performance and good progress against all three strategic imperatives. TSR performance did not achieve the minimum level required for any vesting.

Pension pension figures reflect the UK requirements to show 20 times the increase in pension value for defined benefit schemes, as well as any cash paid in lieu. In the case of Bob Dudley s reported figures, this UK requirement overstates the increase in the actuarial value of his US pension by several million dollars.

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Single figure table of remuneration of executive directors in 2013 (audited)

Remuneration is reported in the currency received by the individual

	Bob Dudley thousand		Iain Conn thousand		Dr Brian Gilvary thousand		Dr Byron Grote thousand	
Annual remuneration 2013	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Salary	**$1,776**	$1,726	**£763**	£741	**£700**	£690	**$743**	$1,464
Annual cash bonus[a]	**$2,344**	$837	**£961**	£374	**£924**	£366	**$1,470**	$710
Benefits	**$90**	$86	**£59**	£39	**£45**	£13	**$10**	$15
Total	**$4,210**	$2,649	**£1,783**	£1,154	**£1,669**	£1,069	**$2,223**	$2,189
Vested equity								
Deferred bonus and match[b]	**$0**	$0	**£242**	£0	**£0**	£0	**$893**	$0
Performance shares	**$4,522**[c]	$0	**£1,332**[c]	£666	**£505**[c]	£299	**$2,225**[c]	$0
Total	**$4,522**	$0	**£1,574**	£666	**£505**	£299	**$3,118**	$0
Total remuneration	**$8,732**	$2,649	**£3,357**	£1,820	**£2,174**	£1,368	**$5,341**	$2,189
Pension								
Pension value increase[d]	**$4,447**	$6,535[e]	**£46**	£0	**£44**	£1,024	**$141**	$747
Cash in lieu of future accrual[f]	**N/A**	N/A	**£267**	£259	**£245**	£242	**N/A**	N/A
Total including pension	**$13,179**	$9,184	**£3,670**	£2,079	**£2,463**	£2,634	**$5,482**	$2,936

[a] This reflects the amount of total overall bonus paid in cash with the deferred portion set out in the conditional equity table below. The relevant portions are two-thirds cash and one-third deferred.

[b] This relates to the deferred bonus from prior years that vests.

[c] Represents the assumed vesting of shares in 2014 following the end of the relevant performance period, based on anticipated performance achieved under the rules of the plan and includes re-invested dividends on shares vested. In accordance with UK regulations, the vesting price of the assumed vesting is the average market price for the fourth quarter of 2013 which was £4.69 for ordinary shares and $45.52 for ADSs.

[d] Represents the annual increase in accrued pension multiplied by 20 as prescribed by UK regulations. For Bob Dudley the increase in actuarial value of $1,319,000 is considered to be a more accurate reflection of the increase.

[e] The figure for 2012 has been restated on the same basis as 2013 to be consistent with the finalized UK regulations.

[f] As for all employees affected by UK pension tax limits and who wished to remain within these limits, with effect from April 2011, Iain Conn and Dr Brian Gilvary received a cash supplement of 35% of basic salary in lieu of future service pension accrual.

Conditional equity to vest in future years, subject to performance

		Bob Dudley		Iain Conn		Dr Brian Gilvary		Dr Byron Grote	
rred bonus in respect onus year		**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2
red s	Value (thousand)	**$1,172**	$1,674	**£481**	£748	**£462**	£732	**$0**	$1,
red erted ares	Shares	**149,628**	229,380	**100,563**	161,296	**96,653**	157,630	**0**	194,
hed s	Shares	**149,628**	229,380	**100,563**	161,296	**96,653**	157,630	**0**	32,
ng		**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2
ormance share element		**2013-2015**	2012-2014	**2013-2015**	2012-2014	**2013-2015**	2012-2014	**2013-2015**	2012-2
ntial mum s		**1,384,026**	1,343,712	**694,688**	660,633	**637,413**	624,434	**142,278**	414,
ng		**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2

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Total remuneration in more depth

Salary and benefits

2013 outcomes

Salaries were reviewed in May 2013 using a number of internal and external comparisons. Externally, the competitiveness of salaries and of overall packages relative to other oil majors, other large UK and Europe-based international companies and related US companies were considered. Internally the committee reviewed three distinct groups the overall level of increases for all employees in both the UK and the US, the distribution and average level of increases for group leaders comprising around 500 top executives in the company, and finally the individual and average increases for the top executive team.

Based on this review, salaries were increased by 2.8% for Bob Dudley (to $1,800,000), 2.9% for Iain Conn (to £774,000) and 2.9% for Dr Brian Gilvary (to £710,000) effective 1 July 2013.

Total benefits received by executive directors included car-related benefits, security assistance, insurance and medical benefits. The total value of taxable benefits is included in the summary table on page 85.

2014 implementation

The remuneration committee intends to review salaries in May 2014 and will again consider both internal and external comparisons. Benefits will continue unchanged.

Annual bonus

Framework

All executive directors were eligible for an overall annual bonus, including deferral, of 150% of salary at target and 225% of salary at maximum unchanged since 2010.

Bob Dudley s annual bonus was based entirely on group results, as was Dr Brian Gilvary s and Dr Byron Grote s. Iain Conn s was based 70% on group results and 30% on his Downstream segment results.

Measures and targets for the annual bonus were set at the start of the year and were derived from the company s annual plan which, in turn, reflected the company s strategy and KPIs. Measures were grouped under the dominant themes of S&OR management, and restoring value. Targets were set so that meeting the plan equates to on-target bonus.

At group level, S&OR was set to account for 30% of total bonus and included targets for loss of primary containment, process safety tier 1 events and recordable injury frequency. Value measures were set to account for 70% of total bonus and included targets for operating cash flow, underlying replacement cost profit, total cash costs, Upstream unplanned deferrals, major project delivery and Downstream net income per barrel.

Additional measures and targets were set for Iain Conn s Downstream segment. These focused on safety, operating efficiency and profitability.

As well as the specific measures set out, the committee considers any other results or factors it deems relevant and applies its overall judgement in determining final bonus outcomes.

2013 annual bonus outcomes

2013 outcomes

Overall group performance outcomes for the year are summarized in the table above.

S&OR management performance, weighted at 30%, was positive. Process safety events declined significantly to amongst the lowest of the oil majors. Loss of primary containment did not meet its target but still showed an improvement of more than 10% over 2012. Recordable injury frequency continued to show marked improvement.

Performance related to value measures were similarly positive. Underlying replacement cost profit and total cash costs both came in better than plan targets while operating cash flow met its plan level. Major projects met plan with one exception and Upstream unplanned deferrals exceeded target with a 30% improvement compared to 2012. Finally, Downstream net income per barrel was below target reflecting difficult trading conditions.

Based on these results, the group performance factor is calculated at 1.32 times target. The committee, as is its normal practice, considered this result in the context of the underlying performance of the group, competitors results, shareholder feedback and input from the board and other committees. After review, it concluded that this represented fairly the overall performance of the business during the year and confirmed the

score for group purposes.

In the Downstream segment, safety results were good with improvement in most areas of process and personal safety. Performance related to value measures was negatively impacted by compression of fuel margins and so operating cash flow was below plan level, but other operating measures were at or better than plan. A performance score of 1.13 times target was achieved.

Overall bonus is determined by multiplying the group score of 1.32 times target by the on-target bonus level of 150% of salary. Bob Dudley s total overall bonus therefore was 198% of salary (1.32x150%). The same score was applied to each of the other executive directors for group outcomes resulting in both Dr Brian Gilvary and Dr Byron Grote also receiving an overall bonus of 198% of salary. Combined with the results for his segment (accounting for 30% of his bonus), Iain Conn s total overall score was 1.26 times target, resulting in a bonus of 189% of salary.

Of the total bonuses referred to above, one-third is paid in cash, one-third is deferred on a mandatory basis, and one-third is paid either in cash or voluntarily deferred at the individual s election. Dr Byron Grote, who retired mid-year, was not eligible for deferral and so his entire bonus (reflecting his six months of service) was paid in cash.

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2013 overall bonus outcome

	Paid in cash	Total deferred
Bob Dudley	$2,343,660	$1,171,830
Iain Conn	£961,380	£480,690
Dr Brian Gilvary	£924,000	£462,000
Dr Byron Grote	$1,470,150	$0

2014 implementation

For 2014, 100% of Bob Dudley s and Dr Brian Gilvary s bonus will be based on group results. Iain Conn will again have 70% of his bonus determined on group results and 30% on his Downstream segment results.

The committee determines specific measures and targets each year that reflect the priorities in the group s annual plan and KPIs, both of which are derived from the company s strategy. For 2014 there will be no change from the measures and weightings used in 2013 other than a minor change to the treatment of cost management. The table below shows the group measures that will be used, the weight attached to each and the alignment with KPIs and group strategy.

Targets have been agreed for each of the measures based on the annual plan. In addition the committee uses its judgement to set the range of bonus payouts from minimum acceptable at threshold to very stretching but achievable at maximum.

2014 annual bonus measures

Deferred bonus

Framework

One-third of the total bonus awarded to the executive directors is required to be paid in shares under the terms of the deferred bonus element. Deferred shares are matched on a one-for-one basis and, after three years, vesting for both deferred and matched shares is contingent on an assessment of safety and environmental sustainability over the three-year deferral period.

Individuals may elect to defer up to an additional one-third of total bonus into shares on the same basis and subject to the same contingency as the mandatory deferral.

2013 outcomes

No bonuses were paid for group results in 2010, however both Iain Conn and Dr Byron Grote received a limited bonus related to their segment results that year. Deferrals from these were converted to shares, matched one-for-one, and deferred for three years from the start of 2011. The three-year performance period concluded at the end of 2013 and vesting was subject to a review of safety and environmental sustainability performance over the three-year deferral period. The committee reviewed safety and environmental sustainability performance over this period and, as part of this review, sought the input of the safety, ethics and environment assurance committee (SEEAC). Over the three-year period 2011-2013 safety measures showed a steady improvement, there were no major incidents, and the group-wide operating management system showed good signs of driving improvement in environmental as well as safety areas.

Based on their review, the committee approved full vesting of the deferred and matched shares for the 2010 deferred bonus as shown in the following table (as well as in the total remuneration summary chart on page 85).

2010 deferred bonus vesting

Name	Shares deferred	Vesting agreed	Total shares including dividends	Total value at vesting
Iain Conn	42,768	100%	49,340	£241,766
Dr Byron Grote	97,548	100%	110,640	$892,680

Dr Byron Grote s vesting reflected a prorating of the matched shares component to reflect his service. Dr Brian Gilvary participated in a separate deferred bonus plan prior to his appointment as an executive director and details of this are provided in the table on page 93.

Information on the deferred bonus awards made in early 2013, and pertaining to 2012 bonuses, was set out in last year s report and a summary is included in the table on page 85.

2014 implementation

The remuneration committee has determined that the safety and environmental sustainability performance hurdle will continue to apply to shares deferred from the 2013 bonus and that there will be no change to these measures. It has also proposed that in future all matched shares that vest will, after sufficient shares have been sold to pay tax, be subject to an additional three-year retention period before being released to the individual, further reinforcing our long-term orientation. These features are described in more detail in the policy section of the report and have been implemented for shares deferred from the 2013 bonus.

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Performance shares

Framework

Performance shares were awarded to each executive director in early 2011 with vesting after three years dependent on performance relative to measures reflecting the company s strategic priorities in the period after the Deepwater Horizon accident. For the 2011-2013 plan, vesting was based 50% on TSR compared to the peer group, 20% on reserves replacement ratio, also relative to the peer group, and 30% on a set of strategic imperatives for rebuilding trust. These centred on S&OR

management, rebuilding BP s external reputation, and reinforcing staff alignment and morale.

The peer group includes ExxonMobil, Shell, Chevron and Total. ConocoPhillips was originally included as part of the peer group but was removed following its demerger (with no impact on outcome in any case). Vesting was set at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively and none for fourth or fifth place of the peer group.

2011-2013 performance shares outcome

2013 outcomes

Overall, 39.5% of the shares awarded in the 2011-2013 plan are expected to vest, based on results as shown in the table above.

Relative TSR was weighted heaviest, reflecting the high strategic priority on restoring value. Outcomes failed to meet the threshold required and so no shares vested for this measure.

Reserves replacement has been very positive and we expect that BP will be in second place amongst the oil majors. Since the actual results of the other majors are not publicly available until their respective annual reports are published, the committee will review the outcomes when all information is confirmed and decide then on the final vesting. For the purposes of this report, and in accordance with UK regulations, second place has been assumed. Any adjustment to this will be reported in next year s annual report on remuneration.

The committee s review also concluded that progress against the three strategic imperatives has been positive. S&OR management culture has shown steady improvement and its high importance increasingly embedded in the minds of employees, as demonstrated by our internal surveys. Moreover the S&OR performance metrics have consistently improved including against those of our peers. BP s external reputation has similarly shown steady improvement as measured by external surveys assessing reputation amongst different groups in key countries. Finally, staff alignment and morale has been reassuringly positive in the aftermath of the Deepwater Horizon accident, with internal surveys demonstrating improvements and a high scoring of measures related to group priorities including safety and trust.

As in past years, the committee also considers the overall performance of the company during the period and whether any other relevant factors should be taken into account. Following this review, the committee concluded that a 39.5% vesting was a fair reflection of overall performance pending confirmation of the reserves replacement result. This will result in the vesting as shown in the table below.

2011-2013 performance shares outcome

	Shares awarded	Shares vested inc dividends	Value of vested shares
Bob Dudley	1,330,332	596,028	$4,521,866
Iain Conn	623,025	283,920	£1,331,585
Dr Brian Gilvary	90,000	102,550	£504,509
Dr Byron Grote	654,498	293,232	$2,224,653

Dr Brian Gilvary s vesting reflects awards granted prior to him joining the board under equivalent plans below board level which have vested in early 2014. Dr Byron Grote s award has been prorated to reflect his service prior to retirement.

Information on performance shares awarded in early 2013, relating to the 2013-2015 period, was set out in last year s report and a summary is included in the table on page 85.

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2014 implementation

Shares were awarded in early 2014 to a value of five and a half times salary to Bob Dudley and four times salary to Iain Conn and Dr Brian Gilvary (details of which are shown in the table on page 85). These have been awarded under the performance share element of the executive directors incentive plan (EDIP) and are subject to a three-year performance period, and for those shares that vest are subject, after tax, to an additional three-year retention period.

The 2014-2016 performance share plan will be based on the same measures as used last year and remain aligned directly with the company s strategic priorities and KPIs.

2014-2016 performance shares

TSR and reserves replacement ratio will be assessed on a relative basis compared with the other oil majors Chevron, ExxonMobil, Shell and Total. As set out in the policy report, commencing with the 2014-2016 plan, vesting will be 100%, 80% and 25% for first, second and third place respectively amongst the oil majors and no vesting for fourth or fifth place. The committee has agreed targets and ranges for the other measures that

will be used to assess performance at the end of the three-year performance period. As part of its overall assessment it also considers whether, in the event of high levels of vesting, the result is consistent with benefits achieved by shareholders. Full details are included in the policy report.

Pension

Framework

Executive directors are eligible to participate in company pension schemes that apply in their home countries which follow national norms in terms of structure and levels. Bob Dudley participates in the US plans (as did Dr Byron Grote), and Iain Conn and Dr Brian Gilvary in the UK plan. Full details on these plans are set out in the policy section of this report (page 103).

	Service at 31 Dec 2013	Total accrued pension at	Additional pension earned	Actuarial value of increase	20 times increase

		31 Dec 2013	during 2013 (net of inflation)	earned during 2013	earned during 2013
			(thousand)		
Bob Dudley (US)	34	$2,050	$222	$1,319	$4,447
Iain Conn (UK)	28	£326	£2	£0	£46
Brian Gilvary (UK)	27	£326	£2	£0	£44
Byron Grote (US)	n/a	$1,416	$7	-$93	$141

2013 outcomes

The table above sets out the change in pension for each of the executive directors for 2013.

Bob Dudley s pension increase is largely due to his promotion to group chief executive in late 2010. Since his pension is based on three-year average salary and bonus, the impact of a promotion takes a number of years to be fully reflected in his pension. He is entitled, as all former Amoco heritage employees, to receive the greater of the BP or Amoco plans that apply. As part of the transition agreed at the time of merger, the Amoco plan stopped accruing at the end of 2012, and therefore the BP plan applicable to senior US executives will now determine his overall accrued benefit. His total benefit under this plan is calculated as 1.3% of final average earnings (including, for this purpose, base salary plus cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element) for each year of service (without regard for tax limits) which may be paid from various qualified and non-qualified plans as described in the policy section of this report. The calculations in the above table reflect this transition. The calculations also incorporate the latest bonus reported on when determining the average of the best three successive years bonus in the final average earnings calculation. Last year s numbers have been updated to be on a consistent basis.

Iain Conn and Dr Brian Gilvary participate in UK pension arrangements. The disclosure of total pension includes any cash in lieu of additional accrual that is paid to individuals in the UK scheme who have exceeded the annual allowance or lifetime allowance under UK regulations. Both Iain Conn and Dr Brian Gilvary fall into this category and in 2013 received cash supplements of 35% of salary in lieu of future service accrual.

In terms of calculating the increase in pension value both a column on 20 times additional pension earned during the year as required by the new UK regulations, as well as the actuarial value increase as previously stipulated have been included in the table above. The summary table on page 85 uses the 20 times additional pension earned figure and the cash supplements are separately identified.

In Bob Dudley s case, the committee has been informed by the company s consulting actuaries, Mercer, that the factor of 20 substantially overstates the increase in value of his pension benefits primarily because his US pension benefits are not subject to cost of living adjustments after retirement, as they are in the UK. They have indicated that a typical annuity factor for such US benefits is around 12, as compared to a UK plan where a factor of 20 is often taken to reflect the increase in value of pension benefits (as well as being required by UK regulations). Therefore the committee considers that the actuarial value of increase identified in the table above more accurately reflects the value of his pension increase.

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Remuneration committee

The committee was made up of the following independent non-executive directors:

Members
Antony Burgmans (chairman)
George David
Ian Davis
Professor Dame Ann Dowling
Carl-Henric Svanberg normally attends the meetings

Committee role

The committee s tasks are formally set out in the board governance principles as follows:

- To determine, on behalf of the board, the terms of engagement and remuneration of the group chief executive and the executive directors and to report on these to shareholders.
- To determine, on behalf of the board, matters of policy over which the company has authority regarding the establishment or operation of the company s pension schemes of which the executive directors are members.
- To nominate, on behalf of the board, any trustees (or directors of corporate trustees) of such schemes.
- To review and approve the policies and actions being applied by the group chief executive in remunerating senior executives other than executive directors to ensure alignment and proportionality.
- To recommend to the board the quantum and structure of remuneration for the chairman of the board.

Committee activities

During the year, the committee met six times. Key discussions and decision items are shown in the table below.

Remuneration committee 2013 meetings

The board s overall evaluation process included a separate questionnaire on the work of the remuneration committee. The results were analyzed by an external consultant and discussed at the committee s meeting in January 2014. Processes continued to be rated as good to excellent and a number of topics for more in-depth discussion were identified.

Independence and advice

Independence

The committee operates with a high level of independence. The board considers all committee members to be independent with no personal financial interest, other than as shareholders, in the committee s decisions.

Consultation

The group chief executive is consulted on the remuneration of the other executive directors and senior executives and on matters relating to the performance of the company; neither he nor the chairman of the board participate in decisions on their own remuneration. Both the group human resources director and head of group reward may attend relevant sections of meetings to ensure appropriate input on matters related to executives below board level.

The committee consults other relevant committees of the board, for example the SEEAC, on issues relating to the exercise of its judgement or discretion.

Advice

Gerrit Aronson, an independent consultant, is the committee s independent adviser. He is engaged directly by the committee. Mr Aronson acts as the secretary to the remuneration committee and advises the chairman, the board and the nomination committee on a variety of governance issues.

During 2013, advice to the committee was received from David Jackson, the company secretary, who is employed by the company and who reports to the chairman of the board. The company secretary periodically reviews the independence of the advisers. Advice and services on particular remuneration matters was received from other external advisers appointed by the committee.

Towers Watson provided information on the global remuneration market, principally for benchmarking purposes. Freshfields Bruckhaus Deringer LLP provided legal advice on specific compliance matters to the committee. Both firms provide other advice in their respective areas to the group.

Total fees or other charges (based on an hourly rate) paid in 2013 to the above advisers for the provision of remuneration advice to the committee as set out above (save in respect of legal advice) is as follows:

Gerrit Aronson £150,000

Towers Watson £85,000

Shareholder engagement

The committee values its dialogue with major shareholders on remuneration matters. During the year the committee s chairman and the committee s independent adviser held individual meetings with shareholders holding in aggregate more than 20% of the company s shares to ascertain their views and discuss important aspects of the committee s policy. They also met key proxy advisers. These meetings supplemented a group meeting of shareholders with all committee chairs and the chairman, as well as an investor relations programme including a regular ongoing dialogue between the chairman and shareholders. This engagement provides the committee with an important and direct perspective of shareholder interests and, together with the voting results on the Directors remuneration report at the AGM, is considered when making decisions.

The committee reviewed remuneration policy during 2013 and, following dialogue with shareholders, made three adjustments to further reinforce our bias towards the long term and sustained performance.

First, a three-year retention period has been introduced to the matched shares that vest in the deferred bonus element.

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Second, a more stringent vesting schedule has been introduced for those metrics in the performance share plan that are based on performance relative to the other oil majors.

Third, a specific review of performance share plan outcomes will take place to ensure high levels of vesting are consistent with shareholder benefits. These are explained in more detail in the policy report.

The shareholder vote from the 2013 AGM is shown below. Total votes withheld represent less than 1% of total shares outstanding.

2013 AGM directors remuneration report vote results

Year	% vote for	% vote against	Votes withheld
2013	94.1%	5.9%	108,843,360

Directors shareholdings

Executive directors are required to develop a personal shareholding of five times salary within a reasonable period of time from appointment. It is the stated intention of the policy that executive directors build this level of personal shareholding primarily by retaining those shares that vest in the deferred bonus and performance share plans which are part of the EDIP. In assessing whether the requirement has been met, the committee takes account of the factors it considers appropriate, including promotions and vesting levels of these share plans, as well as any abnormal share price fluctuations. The table below shows the status of each of the executive directors in developing this level. These figures include the value as at 24 February 2014 from the directors interests shown below plus the assumed vesting of the 2011-2013 performance shares and is consistent with the figures reported in the single figure table on page 85.

	Appointment date	Value of current shareholding	% of policy achieved
Bob Dudley	October 2010	$5,477,092	61%
Iain Conn	July 2004	£3,888,423	101%
Dr Brian Gilvary	January 2012	£2,502,388	71%

The committee is satisfied that all executive directors comply with the policy by building the required personal shareholding in a reasonable period of time following their appointment. Importantly, none of the existing executive directors has sold shares that vested from the EDIP.

Directors interests

The figures below indicate and include all the beneficial and non-beneficial interests of each executive director of the company in shares of BP (or calculated equivalents) that have been disclosed to the company under the Disclosure and Transparency Rules (DTRs) as at the applicable dates.

	Ordinary	Ordinary	Change from	Ordinary shares or

	shares or equivalents at 1 Jan 2013	shares or equivalents at 31 Dec 2013	31 Dec 2013 to 24 Feb 2014	equivalents total at 24 Feb 2014
Bob Dudley	346,008[a]	355,707[a]		355,707[a]
Iain Conn	509,729[b]	600,272[b]	26,231	626,503[b]
Dr Brian Gilvary	331,977	412,973	81,570	494,543
Former executive director	At 1 Jan 2013	At retirement		
Dr Byron Grote	1,512,616[c]	1,512,616[d]		

[a] Held as ADSs.
[b] Includes 48,024 shares held as ADSs.
[c] Held as ADSs, except for 94 shares held as ordinary shares.
[d] On retirement at 11 April 2013.

The following table shows both the performance shares and the deferred bonus element awarded under the EDIP. These figures represent the maximum possible vesting levels. The actual number of shares/ADSs that vest will depend on the extent to which performance conditions have been satisfied over a three-year period. Additional details regarding the deferred bonus and performance shares elements of the EDIP awarded can be found on pages 93 and 94.

	Performance shares at 1 Jan 2013	Performance shares at 31 Dec 2013	Change from 31 Dec 2013 to 24 Feb 2014	Performance shares total at 24 Feb 2014
Bob Dudley[a]	3,691,950	4,953,654	1,604,178	6,557,832
Iain Conn	2,305,847	2,666,314	818,486	3,484,800
Dr Brian Gilvary[b]	669,434	1,599,607	776,350	2,375,957
Former executive director	Performance shares at 1 Jan 2013	Performance shares at 31 Dec 2013	Change from 31 Dec 2013 to 24 Feb 2014	Performance shares total at 24 Feb 2014
Dr Byron Grote[a]	2,889,192	1,810,686[c]		

[a] Held as ADSs.
[b] This includes conditionally awarded shares made under the competitive performance plan prior to his appointment as a director. The vesting of these shares is subject to performance conditions.
[c] On retirement at 11 April 2013.

At 24 February 2014, the following directors held the numbers of options under the BP group share option schemes over ordinary shares or their calculated equivalent, and the number of restricted shares as set out below. None of these are subject to performance conditions. Additional details regarding these options can be found on page 94.

		Options

		Restricted shares
Bob Dudley		
Iain Conn	3,814	
Dr Brian Gilvary	504,191	80,335
Former executive director	**Options**	**Restricted shares**
Dr Byron Grote		

No director has any interest in the preference shares or debentures of the company or in the shares or loan stock of any subsidiary company.

There are no directors or members of senior management who own more than 1% of the ordinary shares in issue. At 24 February 2014, all directors and senior management as a group held interests of 9,632,638 ordinary shares or their calculated equivalent, 12,418,589 performance shares or their calculated equivalent and 6,058,172 options over ordinary shares or their calculated equivalent under the BP group share option schemes.

Executive director leaving the board

Dr Byron Grote retired from the board at the 2013 AGM and after a transition period, retired from the company at the end of June 2013. The terms of his departure were reported last year but are reiterated here for completeness. Under the rules of the EDIP, his outstanding performance share awards pertaining to 2011-2013, 2012-2014, and 2013-2015 performance periods, as well as the matching share awards in respect of the 2010, 2011 and 2012 deferred bonus have been prorated to reflect actual service during the applicable three-year performance periods. These share awards will vest at the normal time to the extent the performance targets or hurdles have been met. His 2013 bonus eligibility was likewise prorated to reflect his service and based on group results for the year. He has not received any termination payments on leaving service.

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Remuneration statistics and comparisons

The information below is provided according to the requirements and definitions included in UK regulations.

Historical TSR performance

This graph shows the growth in value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years, relative to the FTSE 100 Index of which the company is a constituent. The values of the hypothetical £100 holdings at the end of the five-year period were £117.33 and £188.41 respectively.

History of CEO remuneration

Year	CEO	Total remuneration (thousand)[a]	Annual bonus % of maximum	Performance share vesting % of maximum
2009	Hayward	£6,753	89%[b]	17.5%
2010[c]	Hayward	£3,890	0%	0%
	Dudley	$7,722	0%	0%
2011	Dudley	$8,312	67%	16.7%
2012	Dudley	$9,184	65%	0%
2013	Dudley	$13,179	88%	39.5%

[a] Total remuneration figures include pension and are shown as reported each year in the respective directors remuneration report with the exception of 2012 which is restated in line with the figure reported in the single figure table in this report.

[b] 2009 annual bonus did not have an absolute maximum and so is shown as a percentage of the maximum established in 2010.

[c] 2010 figures show full year total remuneration for both Hayward and Dudley, although Dudley did not become CEO until October 2010.

Relative importance of spend on pay

Key expenditure areas	2013 (million)	2012 (million)	% change
Remuneration paid to all employees[a]	$13,654	$13,448	1.5%
Distributions to shareholders (total)	$12,404	$6,276	97.6%

Dividends[b]	$6,911	$6,276	
Buybacks[c]	$5,463	$0	
Capital investment[d]	$24,600	$23,950	2.7%

[a] Total remuneration reflects overall employee costs. See Financial statements Note 33 for further information.

[b] Dividends includes both scrip dividends as well as those paid in cash. See Financial statements Note 12 for further information.

[c] See Financial statements Note 31 for further information.

[d] Capital investment reflects organic capital expenditure. See footnote d on page 236 for further information.

Percentage change in CEO remuneration

Comparing 2013 to 2012	Salary	Benefits	Bonus
% Change in CEO remuneration	2.8%	4.7%	40%
% Change in comparator group remuneration[a]	3.3%	0%[b]	30%

[a] The comparator group comprises some 40% of BP s global employee population being professional/managerial grades of employees based in the UK and US and employed on more readily comparable terms.

[b] There was no change in employee benefits level overall. Those benefits that are linked to salary have changed in line with base salary increases.

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Further details

Deferred shares (audited)[a]

				Deferred share element interests				Interests vested in 2	
				Potential maximum deferred shares				Number of ordinary shares	
year	Type	Performance period	Date of award of deferred shares	At 1 Jan 2013	Awarded 2013	At 31 Dec 2013	Awarded 2014	vested	Vesting d
2011[c]	Comp	2012-2014	08 Mar 2012	109,206		109,206			
	Vol	2012-2014	08 Mar 2012	109,206		109,206			
	Mat	2012-2014	08 Mar 2012	218,412		218,412			
2012[d]	Comp	2013-2015	11 Feb 2013		114,690	114,690			
	Vol	2013-2015	11 Feb 2013		114,690	114,690			
	Mat	2013-2015	11 Feb 2013		229,380	229,380			
2013[d]	Comp	2014-2016	12 Feb 2014				149,628		
	Mat	2014-2016	12 Feb 2014				149,628		
2010	Comp	2011-2013	09 Mar 2011	21,384		21,384		24,670[f]	12 Feb 20
	Mat	2011-2013	09 Mar 2011	21,384		21,384		24,670[f]	12 Feb 20
2011[c]	Comp	2012-2014	08 Mar 2012	80,652		80,652			
	Vol	2012-2014	08 Mar 2012	80,652		80,652			
	Mat	2012-2014	08 Mar 2012	161,304		161,304			
2012[d]	Comp	2013-2015	11 Feb 2013		80,648	80,648			
	Vol	2013-2015	11 Feb 2013		80,648	80,648			
	Mat	2013-2015	11 Feb 2013		161,296	161,296			
2013[d]	Comp	2014-2016	12 Feb 2014				100,563		
	Mat	2014-2016	12 Feb 2014				100,563		
2009	DAB[e]	2010-2012	15 Mar 2010	87,394				95,279[f]	15 Jan 20
2010	DAB[e]	2011-2013	14 Mar 2011	44,971		44,971		51,118[f]	09 Jan 20
2011[h]	DAB[e]	2012-2014	15 Mar 2012	73,624		73,624			
2012[d]	Comp	2013-2015	11 Feb 2013		78,815	78,815			
	Vol	2013-2015	11 Feb 2013		78,815	78,815			
	Mat	2013-2015	11 Feb 2013		157,630	157,630			
2013[d]	Comp	2014-2016	12 Feb 2014				96,653		
	Mat	2014-2016	12 Feb 2014				96,653		
ector									
2010	Comp	2011-2013	09 Mar 2011	26,604		26,604		30,174[f]	12 Feb 20
	Vol	2011-2013	09 Mar 2011	26,604		26,604		30,174[f]	12 Feb 20

	Mat	2011-2013	09 Mar 2011	53,208		44,340[i]	50,292[f]	12 Feb 20
2011[c]	Comp	2012-2014	08 Mar 2012	91,638		91,638		
	Vol	2012-2014	08 Mar 2012	91,638		91,638		
	Mat	2012-2014	08 Mar 2012	183,276		91,638[i]		
2012[d]	Comp	2013-2015	11 Feb 2013		97,278	97,278		
	Vol	2013-2015	11 Feb 2013		97,278	97,278		
	Mat	2013-2015	11 Feb 2013		194,556	32,424[i]		

Comp = Compulsory.

Vol = Voluntary.

Mat = Matching.

DAB = Deferred annual bonus plan.

[a] Since 2010, vesting of the deferred shares has been subject to a safety and environmental sustainability hurdle, and this will continue. If the committee assesses that there has been a material deterioration in safety and environmental performance, or there have been major incidents, either of which reveal underlying weaknesses in safety and environmental management, then it may conclude that shares should vest only in part, or not at all. In reaching its conclusion, the committee will obtain advice from the SEEAC. There is no identified minimum vesting threshold level.

[b] Bob Dudley and Dr Byron Grote received awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.

[c] The face value has been calculated using the market price of ordinary shares on 8 March 2012 of £4.94.

[d] The market price at closing of ordinary shares on 11 February 2013 was £4.55 and for ADSs was $43.01 and on 12 February 2014 was £4.87 and for ADSs was $48.38. The sterling value has been used to calculate the face value.

[e] Dr Brian Gilvary was granted the shares under the DAB prior to his appointment as a director. The vesting of these shares is not subject to further performance conditions and he receives deferred shares at each scrip payment date as part of his election choice.

[f] The market price of each share used to determine the total value at vesting on the vesting dates of 15 January 2013, 9 January 2014 and 12 February 2014 were £4.58, £4.97 and £4.90 respectively and for ADSs on 12 February 2014 was $48.41.

[h] The face value has been calculated using the market price of ordinary shares on 15 March 2012 of £4.93.

[i] All deferred and matched shares have been prorated to reflect actual service during the performance period and these figures have been used to calculate the face value.

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Performance shares (audited)

		Share element interests				Interests vested in 2013 and		
		Potential maximum performance shares[a]				Number of ordinary shares		F
Performance period	Date of award of performance shares	At 1 Jan 2013	Awarded 2013	At 31 Dec 2013	Awarded 2014	vested	Vesting date	
2010-2012	09 Feb 2010	581,082				0		
2011-2013	09 Mar 2011	1,330,332		1,330,332		596,028[c]	March 2014	
2012-2014[d]	08 Mar 2012	1,343,712		1,343,712				
2013-2015[d]	11 Feb 2013		1,384,026	1,384,026				
2014-2016[d]	12 Feb 2014				1,304,922			
2008-2013[e]	13 Feb 2008	133,452				145,489	07 Feb 2013	
2010-2012	09 Feb 2010	656,813				0		
2011-2013	09 Mar 2011	623,025		623,025		283,920	March 2014	
2012-2014[d]	08 Mar 2012	660,633		660,633				
2013-2015[d]	11 Feb 2013		694,688	694,688				
2014-2016[d]	12 Feb 2014				660,128			
2010-2012[f]	15 Mar 2010	60,000				65,414[c]	15 Jan 2013	
2011-2013[f]	14 Mar 2011	67,500		67,500		76,726[c]	09 Jan 2014	
2010-2012[g]	15 Mar 2010	22,500				0		
2011-2013[g]	14 Mar 2011	22,500		22,500		25,824[c]	06 Feb 2014	
2012-2014[d]	08 Mar 2012	624,434		624,434				
2013-2015[d]	11 Feb 2013		637,413	637,413				
2014-2016[d]	12 Feb 2014				605,544			
cutive directors								
2010-2012	09 Feb 2010	303,948[h]				0		
2010-2012	09 Feb 2010	218,938[h]				0		
2010-2012	09 Feb 2010	801,894				0		
2011-2013	09 Mar 2011	785,394		654,498[h]		293,232[c]	March 2014	
2012-2014[d]	08 Mar 2012	828,936		414,468[h]				
2013-2015[d]	11 Feb 2013		853,650	142,278[h]				

[a] For awards under the 2010-2012 plan, performance conditions were measured one-third on TSR against ExxonMobil, Shell, Total, ConocoPhillips and Chevron and two-thirds on a balanced scorecard of underlying performance. For awards under the 2011-2013 plan, performance conditions are measured 50% on TSR against ExxonMobil, Shell, Total and Chevron; 20% on reserves replacement against the same peer group; and 30% against

a balanced scorecard of strategic imperatives. For awards under the 2012-2014, 2013-2015 and 2014-2016 plans, performance conditions are measured one-third on TSR against ExxonMobil, Shell, Total and Chevron; one-third on operating cash flow; and one-third on a balanced scorecard of strategic imperatives. Each performance period ends on 31 December of the third year. There is no identified overall minimum vesting threshold level but to comply with UK regulations a value of 30%, which is conditional on the TSR, reserves replacement ratio and one of the strategic imperatives reaching the minimum threshold, has been calculated.

[b] Bob Dudley and Dr Byron Grote received awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.

[c] Represents vestings of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes reinvested dividends on the shares vested. The market price of each share at the vesting date of 15 January 2013 was £4.58, at 9 January 2014 was £4.97 and at 6 February 2014 was £4.77. For the assumed vestings dated March 2014 a price of £4.69 per ordinary share and $45.52 per ADS has been used. These are the average prices from the fourth quarter of 2013.

[d] The market price at closing of ordinary shares on 8 March 2012 was £4.94, on 11 February 2013 was £4.55 and for ADSs was $43.01 and on 12 February 2014 was £4.87 and for ADSs was $48.38. The sterling value has been used to calculate the face value.

[e] Restricted award under share element of EDIP. As reported in the 2007 directors remuneration report in February 2008, the committee awarded Iain Conn restricted shares, in two tranches of 133,452 shares each and on vesting include re-invested dividends on the shares vested. The total vesting of the first tranche was 155,695 shares at £4.91 on 22 February 2011. The remaining award, noted above, vested on 7 February 2013, the fifth anniversary of the award at £4.58.

[f] Dr Brian Gilvary was conditionally awarded shares under the Executive Performance Plan prior to his appointment as a director. The vesting of these shares is not subject to further performance conditions.

[g] Dr Brian Gilvary was conditionally awarded shares under the Competitive Performance Plan prior to his appointment as a director. The vesting of these shares is subject to performance conditions.

[h] Potential maximum of performance shares element have been pro-rated to reflect actual service during the performance period and these figures have been used to calculate the face value as appropriate.

Share interests in share option plans (audited)

on type	At 1 Jan 2013	Granted	Exercised	At 31 Dec 2013	Option price	Market price at date of exercise	Date from which first exercisable
P SOP	17,835		17,835[b]		$38.10	$43.99	17 Feb 200
SAYE	605		605[c]		£4.20	£4.54	01 Sep 201
SAYE	3,017			3,017	£3.68		01 Sep 201
SAYE	797			797	£3.16		01 Sep 201
P 2011	500,000			500,000	£3.72		07 Sep 201
SAYE	4,191			4,191	£3.68		01 Sep 201

The closing market prices of an ordinary share and of an ADS on 31 December 2013 were £4.88 and $48.61 respectively.

During 2013 the highest market prices were £4.93 and $48.61 respectively and the lowest market prices were £4.31 and $40.19 respectively.

BP SOP = BP Share Option Plan. These options were granted to Bob Dudley prior to his appointment as a director and are not subject to performance conditions.

BP 2011 = BP 2011 Plan. These options were granted to Dr Brian Gilvary prior to his appointment as a director and are not subject to performance conditions.

SAYE = Save As You Earn all employee share scheme.

[a] Numbers shown are ADSs under option. One ADS is equivalent to six ordinary shares.
[b] Options exercised on 6 February 2013. Market price at closing for information. Shares were sold in tranches after the exercise of options at an average price of $43.62 per ADS.
[c] Options exercised on 13 February 2013. Market price at closing for information. Shares were retained after the exercise of options.

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(b) Non-executive directors

This section of the directors remuneration report completes the directors annual report on remuneration with details for non-executive directors.

There were no changes following the review of non-executive remuneration undertaken in 2012 which benchmarked the structure and fees of BP non-executive directors against the 10 largest companies by market capitalization in the FTSE100. In March 2013 it was agreed that the chairman s fee would be increased from 1 May 2013. There are no changes proposed to the implementation of the policy for non-executive directors and the chairman for 2014.

Fee structure

The table below shows the fee structure for non-executive directors from 1 May 2013:

	Fee level £ thousand
Chairman[a]	785
Senior independent director[b]	120
Board member	90
Audit, Gulf of Mexico, remuneration and SEEA chairmanship fees[c]	30
Committee membership fee[d]	20
Intercontinental travel allowance	5

[a] The chairman is ineligible for committee chairmanship and membership fees or intercontinental travel allowance. He has the use of a fully maintained office for company business, a chauffeured car and security advice in London. He receives secretarial support as appropriate to his needs in Sweden.

[b] The senior independent director is eligible for committee chairmanship fees and intercontinental travel allowance plus any committee membership fees.

[c] Committee chairmen do not receive an additional membership fee for the committee they chair.

[d] For members of the audit, Gulf of Mexico, SEEA and remuneration committees.

The table below shows the fees paid for non-executive directors for the years ended 31 December 2012 and 31 December 2013:

2013 remuneration (audited)

	Total fees	
All fees in £ thousand	2013	2012
Carl-Henric Svanberg	773[a]	750
Paul Anderson	175	149

Admiral Frank Bowman	165	126
Antony Burgmans	145	120
Cynthia Carroll	120	98
George David[b]	185	135
Ian Davis	150	128
Professor Dame Ann Dowling[c]	140	97
Brendan Nelson	130	119
Phuthuma Nhleko	150	123
Andrew Shilston	150	125

[a] The chairman received a further £49,000 by way of taxable benefits.
[b] In addition, George David received £12,500 for chairing the BP technology advisory council until 1 July 2013.
[c] In addition, Professor Dowling received £25,000 for chairing and being a member of the BP technology advisory council and £3,000 for an ad hoc technology advisory council meeting fee.

Non-executive director interests

The figures below indicate and include all the beneficial and non-beneficial interests of each non-executive director of the company in shares of BP (or calculated equivalents) that have been disclosed to the company under the DTRs as at the applicable dates.

Current non-executive directors	Ordinary shares or equivalents at 1 Jan 2013	Ordinary shares or equivalents at 31 Dec 2013	Change from 31 Dec 2013 to 24 Feb 2014	Ordinary shares or equivalents total at 24 Feb 2014	Value of current shareholding	% of policy achieved
Carl-Henric Svanberg	988,077	1,039,276		1,039,276	£5,258,737	670
Paul Anderson	6,000[a]	30,000[a]		30,000[a]	$251,350	168
Admiral Frank Bowman	16,320[a]	16,320[a]		16,320[a]	$136,734	91
Antony Burgmans	10,156	10,156		10,156	£51,389	57
Cynthia Carroll	10,500[a]	10,500[a]		10,500[a]	$87,973	59
George David	579,000[a]	579,000[a]		579,000[a]	$4,851,055	3,241
Ian Davis	10,866	11,449		11,449	£57,932	64
Professor Dame Ann Dowling	11,630	22,320		22,320	£112,939	125
Brendan Nelson	11,040	11,040		11,040	£55,862	62
Phuthuma Nhleko						0
Andrew Shilston	15,000	15,000		15,000	£75,900	63

[a] Held as ADSs.

Past directors

Sir Ian Prosser (who retired as a non-executive director of BP in April 2010) was appointed as a director and non-executive chairman of BP Pension Trustees Limited on 1 October 2010. During 2013, he received £100,000 for this role.

Peter Sutherland (who was chairman of BP until 31 December 2009) continued his membership of the BP international advisory board after his retirement from the board of BP p.l.c. During 2013, he received 100,000 for this role.

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Directors remuneration policy

The following pages set out the remuneration policy for directors of BP p.l.c., which, if approved by shareholders at the AGM on 10 April 2014, will take effect from the date of that meeting.

The policy is divided into separate sections for executive and non-executive directors. The remuneration of the executive directors is set by the remuneration committee (the committee) under delegated powers from the board. The committee makes a recommendation to the board for the remuneration of the chairman. The remuneration of the non-executive directors is set by the board based on a recommendation from the chairman, the group chief executive and the company secretary.

(a) Executive directors

Introduction

The remuneration policy for the executive directors and the decisions of the remuneration committee have been consistently guided by six key principles. These principles were introduced more than 10 years ago and have been described in all remuneration reports to shareholders since then.

Key principles

The principles represent the overarching approach of the board and the committee to the remuneration of the executive directors.

Linked to strategy: A substantial proportion of executive director remuneration is linked to success in implementing the company s strategy.

Performance related: The major part of total remuneration varies with performance, with the largest elements being share based, further aligning with shareholders interests.

Long term: The structure of pay is designed to reflect the long-term nature of BP s business and the significance of safety and environmental risks.

Informed judgement: There are quantitative and qualitative assessments of performance with the remuneration committee making informed judgement within a framework approved by shareholders.

Fair treatment: Total overall pay takes account of both the external market and company conditions to achieve a balanced, fair outcome.

Shareholder engagement: The remuneration committee actively seeks to understand shareholder preferences and be transparent in explaining its policy and decisions.

The aim of this policy is to ensure that executive directors are remunerated in a way that reflects the company s long-term strategy. Consistent with this, a high proportion of directors total potential remuneration has been, and will be, strongly linked to the company s long-term performance.

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Flexibility, judgement and discretion

The committee is empowered to undertake quantitative and qualitative assessments of performance in reaching its decisions. This involves the use of judgement and discretion within a framework that is approved by, and transparent to, shareholders.

The committee considers that the powers of flexibility, judgement and discretion are critical to successful design and implementation of the remuneration policy. This approach is supported in the UK by the ABI s principles of remuneration and the GC100 and Investor Group s guidance on directors remuneration reporting.

In framing this policy, the committee has therefore taken care to ensure that these existing and important powers are continued in the future.

The committee considers that an effective remuneration policy needs to be sufficiently flexible to take account of future changes in the industry environment facing BP and in remuneration practice generally. The policy is therefore sufficiently flexible so that the committee can react to changed circumstances (for example in applying particular performance measures within schemes which may need to evolve with the strategy of the company), without the need for a specific shareholder approval.

The policy preserves the committee s long-standing power to exercise judgement in making a qualitative assessment in certain circumstances. For annual or long-term bonus awards a number of metrics are used. Many are numerical in nature and require a quantitative assessment. Some will be qualitative, for example the maintenance or improvement in the company s reputation. Here an impartial assessment will be required.

This policy sets out various areas where the committee has discretion, mainly where it is desirable to vary a formulaic outcome that would otherwise arise from the policy s implementation. The committee considers that the ability to exercise discretion, upwards or downwards, is important to ensure that a particular outcome is fair in light of the director s own performance and the company s overall performance and positioning under particular performance metrics. In accordance with UK regulations, areas where the remuneration policy provides for the exercise of discretion are identified in the report.

This policy sets out the areas where the committee wishes to have flexibility or use discretion in its implementation. Each year, the committee will report to shareholders on the use of these powers.

Key considerations

The committee considers a wide range of factors when developing the remuneration policy for executive directors. The competitive market for top executives both within the oil sector and broader industrial corporations provides an important context. The committee believes that it has a duty to shareholders to ensure that the company is competitive so as to attract and retain the high calibre executives required to lead the company.

The committee also considers employment conditions within the company when establishing and implementing policy for executive directors to ensure alignment of principles and approach. In particular the committee reviews the policy for the group leaders of around 500 top executives to ensure that policy for both groups is aligned and reflects consistent standards and approach.

Decisions regarding remuneration for employees outside the group leaders are the responsibility of the group chief executive. Employees are not consulted directly by the committee when making policy decisions although feedback from employee surveys provide views on a wide range of points including pay which are regularly reported to the board.

The committee has a long-standing and active programme of engaging with key shareholders that includes one-on-one meetings with them each year. This engagement programme complements the overall investor relations and board engagement efforts of the company, and focuses mainly on our largest shareholders and main proxy advisers. Feedback from shareholders on executive director remuneration forms an important component of the committee s considerations when establishing policy.

Implementation matters

This policy is a forward-looking document, but it is a requirement of the regulations that, if obligations under the company s previous remuneration policy are to remain in force, these must be stated and certain information must be provided. In view of the long-term nature of BP s remuneration structures including obligations under service contracts, pension arrangements, the executive directors incentive plan (EDIP) and other incentive awards a substantial number of pre-existing obligations will remain outstanding at the time that this policy is approved, including obligations that are grandfathered by virtue of being in force at 27 June 2012. It is the company s policy to honour in full any pre-existing obligations that have been entered into prior to the effective date of this policy.

Finally the new regulations require detailed information on performance measures and targets to be included in the report unless the directors consider that information to be commercially sensitive. The directors are committed to full and transparent disclosure to shareholders and will seek to provide the information wherever possible. However, the directors have determined that the current targets for short- and long-term incentives are commercially sensitive and should not be disclosed at the commencement of any relevant performance period as they believe this is not in the interests of the company. The directors will review such targets at the end of each relevant performance period and determine whether any target may be disclosed.

Executive directors incentive plan

The EDIP was first approved by shareholders in April 2000 and has since provided the umbrella framework for share based remuneration for executive directors. With the introduction of the new UK regulations on pay reporting, the prime shareholder approval for all elements of remuneration policy, including share based elements, will now be via the policy report. The EDIP will continue to provide the vehicle to implement the share based elements of policy that have been approved by shareholders, the EDIP will continue to require a separate shareholder approval under UK Listing Rules, and its renewal has been brought forward to the 2014 AGM to coincide with the approval of this remuneration policy. Given the duplication of the two regulatory regimes, the remuneration committee will ensure that any actions taken in future under the EDIP will be consistent with the policy approved by shareholders.

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Remuneration policy table

Note: Further information is set out in the accompanying notes which follow this table.

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Remuneration policy in more depth

Salary and benefits

At 1 January 2014, the annual salaries for executive directors were as follows: Bob Dudley $1,800,000, Iain Conn £774,000 and Dr Brian Gilvary £710,000.

Most components of total remuneration are determined as multiples of salary and so the committee reviews salaries, normally annually. These reviews consider both external competitiveness and internal consistency when determining if any increases should be applied.

Salaries are compared against other oil majors, but the committee also monitors market practice among European and US companies of a similar size, geographic spread and business dynamic to BP.

Salaries are normally set in the home currency of the executive director. The levels of increase for all our employees in relevant countries, as well as the profile of increases for group leaders, are reviewed and considered when assessing executive director salary increases.

The committee would expect annual increases to be in line with all employee increases in the UK and US, unless there are promotions or significant changes in responsibilities, in which case they would retain the flexibility to recognize these with appropriate salary increases but will be limited to within 2% of average increase for the group leaders.

The committee will make a balanced judgement of what, if any, increase should be applied to each executive director s salary. These decisions, and the reasons for them, form part of the annual report of remuneration.

Benefits and other emoluments

Executive directors are entitled to receive those benefits which are made available to employees generally in accordance with their applicable terms, for example sharesave plans, sickness policy, relocation assistance and maternity pay. Benefits are not pensionable.

In addition, executive directors may receive other benefits that are judged to be cost effective and prudent in terms of the individual s time and/or security. These include car-related benefits, security assistance, tax preparation assistance, insurance and medical benefits. The costs of these are treated as taxable benefits to the individuals and are included in the single figure table of the annual report on remuneration. The company would meet any tax charges arising in respect of benefits provided to directors that it considers relate to its business (for example security assistance).

The committee expects to maintain benefits at their current level for the duration of this policy but notes that the taxable value may fluctuate depending on, amongst other things, insurance premiums, and a director s personal circumstances.

Annual bonus

Operation

Highlights

150% of salary on target, 225% maximum.
Metrics focused on safety and operational risk,

and on value creation.
Details on performance measures will be explained each

year in annual report on remuneration.

Executive directors are eligible for an annual bonus (before any deferral) of 150% of salary at target and 225% at maximum. Bonuses for the group chief executive and the chief financial officer will be based entirely on group measures. Executive directors with large operating responsibilities may have up to 50% of their bonus based on their respective business segment, with the balance based on group measures.

The strategy provides the overall context for the company s key performance indicators and the focus for the annual plan. From this, measures and targets to reflect the key priorities of the business are selected at the start of the year for senior managers, including executive directors. Measures typically include a range of financial and operating ones as well as those relating to safety and the environment.

Where possible, the committee uses quantifiable, hard targets that can be factually measured and objectively assessed. Where it is appropriate to use qualitative measures, the information used to make assessments will be established at the start of or early in the year. Targets are set so that achieving plan levels of performance results in on-target bonus. For maximum levels, targets reflect performance levels that the committee judges are very stretching but nonetheless achievable.

At the end of each year, performance is assessed relative to the measures and targets established at the start of the year, adjusted for any material changes in the market environment (predominantly oil prices).

In addition to the specific bonus metrics, the committee also reviews the underlying performance of the group in light of the annual plan, competitors results and analysts reports, and seeks input from other committees on relevant aspects. When appropriate, the committee may make adjustments, up or down, to a straight formulaic result based on this fuller information. The committee considers that this informed judgement is important to establishing a fair overall assessment.

The rigorous process followed by the committee has resulted in bonus levels varying considerably over a number of years, reflecting the changing circumstances of the company during the period. The following chart shows the average annual bonus result (before any deferral) relative to an on-target level for executive directors.

History of annual bonus results

Performance measures

The measures used to determine bonus results will derive from the annual plan and support the strategic priorities of safety and operational risk (S&OR) management and reinforcing value creation.

The committee determines specific measures, weightings and targets each year to reflect the group s strategy, key performance indicators (KPIs) and the priorities in the annual plan. These measures will be reported each year in the annual report on remuneration.

For safety and operational risk management the measures may include established ones such as loss of primary containment, tier 1 process safety events, recordable injury frequency, and/or days away from work frequency. The measures selected will typically track both process and personal safety and give an overall perspective on performance. The committee will also seek the input of the safety, ethics and environmental assurance committee (SEEAC) to determine if there are any other factors or metrics that should be considered in arriving at a final assessment at year end.

Value creation will form the principal measures and include both financial and operating metrics that track performance relative to value creation. Financial measures for value creation may include operating cash flow, underlying replacement cost profit, and cost management or other similar measures tracking the financial outcome of the company s pursuit of strategic goals. Additional operating metrics may include major project delivery, Upstream unplanned deferrals, and Downstream net income per barrel or other similar measures that track key operating aspects of the strategy.

Where segment metrics are applied, they will typically include specific safety metrics for the segment as well as value metrics such as availability, efficiency, profitability and major project delivery.

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Deferred bonus

The structure of deferred bonus, awarded in shares, focuses on long-term alignment with shareholder interests and reinforces the critical importance of maintaining high safety and environmental standards. It translates the outcome of a portion of the annual bonus into a long-term plan with

additional performance hurdles. As shown below, the deferred bonus is converted to shares, matched and deferred for three years. Half the total that vests will then normally have an additional three-year retention period before release.

Operation

Highlights
A third mandatory and up to a third voluntary deferral.
Converted to shares, matched one-for-one and deferred for three years.
Vesting of all conditional on safety and environmental sustainability hurdle.
Matched shares subject to additional three-year retention period post vesting.

A third of the annual bonus is required to be deferred for three years. Under the rules of the plan, the average share price over the three days following the announcement of full-year results is used to determine the number of shares awarded. Deferred shares are matched on a one-for-one basis.

Executive directors may elect, with the committee s agreement, to take up to a further third of their annual bonus in shares, which will vest and will qualify for matching on the same basis as above.

Both deferred and matched shares vest after three years depending on the committee s assessment of safety and environmental sustainability over the three-year deferral period. Where shares vest, the executive director will also receive additional shares representing the value of the reinvested dividends on those shares.

Beginning with the 2013 bonus deferral, matched shares that vest (half of the total that vests) will normally be subject to a compulsory retention period of a further three years. Sufficient shares may be sold to discharge tax liabilities at the vesting date.

Performance measures

The safety and environmental sustainability hurdle, in place since 2010, will continue to be applied to all deferred shares. If the committee assesses that there has been a material deterioration in safety and environmental metrics, or there have been major incidents either of which reveal underlying weaknesses in safety and environmental management, then it may conclude that shares vest in part, or not at all. In reaching its conclusion, the committee will obtain advice from the SEEAC.

The committee believes that this safety and environmental hurdle is appropriate for several reasons:

High standards in this area are an important priority of BP s strategy.

Maintaining safety and environmental standards over the long term is a good qualitative reflection of the sustainability of the business.

This non-financial hurdle complements the financial and operational performance conditions applicable to performance share awards.

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Performance shares

The performance share element reflects the committee s policy that a large proportion of remuneration is tied to long-term performance. This three-year performance period, combined with a further three-year

retention period for those shares that vest, creates a six-year incentive plan designed to ensure executive interests are aligned with those of shareholders.

Operation

Highlights

Shares awarded to five and a half times salary for the group chief executive and four times for other executive directors.

Three-year performance period.

Performance measures reflect strategy and KPIs.

Three-year retention period for those shares that vest.

Performance shares may be awarded conditionally at the start of each year to a value of up to five and a half times salary for the group chief executive and up to four times salary for the other executive directors (the maximum allowed under the EDIP). Under the rules of the EDIP, the average share price over the final quarter before the start of the performance period is used to determine the number of shares awarded. Performance shares will only vest to the extent that performance conditions are met.

Where shares vest, the executive director will receive additional shares representing the value of the reinvested dividends on those shares. Sufficient shares may be sold at vesting to discharge tax liabilities. The remaining vested shares will normally be subject to a compulsory retention period of a further three years.

A history of vesting of the share element is shown below, reflecting both demanding performance conditions and poor company performance during this period.

History of performance share vesting

Performance measures

Performance measures will be aligned to BP s strategy that focuses on value creation and reinforcing safety and operational risk management. Vesting of a portion of shares will be based on our total shareholder return (TSR) compared to other oil majors, reflecting the central importance of restoring and maintaining the value of the company. A further portion will be based on the operating cash flow of the company, reflecting a central element of value creation. The final portion will be based on a set of strategic imperatives such as reserves replacement ratio, S&OR management, and major project delivery.

For the TSR and the reserves replacement ratio measures, the comparator group will continue to consist of ExxonMobil, Shell, Total and Chevron. This group can be altered by the committee if circumstances change, for example, if there is significant consolidation in the industry. While a narrow group, it continues to represent the comparators that both shareholders and management use in assessing relative performance.

TSR will be calculated by taking the share price performance over the three-year performance period, assuming dividends are reinvested. All share prices will be averaged over the three-month period before the beginning and end of the performance period. They will be measured in US dollars.

The methodology used for the relative measures will rank each of the five oil majors on each measure. Performance shares for each component will vest at levels of 100%, 80% and 25% respectively, for performance equivalent to first, second and third place. No shares will vest for fourth or fifth place.

Operating cash flow has been identified as a core measure of strategic performance of the company. Targets will reflect agreed plans and normal operating assumptions.

The committee will determine the weightings, specific measures and targets for each year to reflect the strategic priorities for that year and the committee s judgement of where the focus should be for the upcoming period. These will be explained in the annual report on remuneration.

The committee considers that a combination of quantitative and qualitative measures reflects the long-term value creation priorities and the factors underpinning business sustainability.

The committee may exercise its judgement, in a reasonable and informed manner, to adjust vesting levels upwards or downwards if it concludes that this approach does not reflect the reality of the health and performance of the business relative to its peers. In addition the committee will review whether the level of vesting is consistent with shareholder interests. Any adjustments are explained in the annual report on remuneration following vesting, in line with its commitment to transparency.

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Pension

Executive directors are eligible to participate in the pension schemes that apply in their home country and which follow the national norms for structure and levels.

US executive directors

Highlights
Defined benefit core schemes.
Annual accrual of 1.3% of average annual earnings generally provides overall benefit.
Average earnings include salary and bonus.

Pension benefits in the US are provided through a combination of tax-qualified and non-qualified benefit plans, consistent with applicable US tax regulations.

The BP retirement accumulation plan (US pension plan) is a US tax-qualified plan that features a cash balance formula and includes grandfathering provisions under final average pay formulae for certain employees of companies acquired by BP (including Amoco and Arco) who participated in these predecessor company pension plans.

The TNK-BP supplemental retirement plan is a lump sum benefit based on the same calculation as the benefit under the US pension plan but reflecting service and earnings at TNK-BP.

The BP excess compensation (retirement) plan (excess compensation plan) provides a supplemental benefit which is the difference between (a) the benefit accrual under the US pension plan and the TNK-BP supplemental retirement plan without regard to the IRS compensation limit (including for this purpose base salary, cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP), and (b) the actual benefit payable under the US pension plan and the TNK-BP supplemental retirement plan, applying the IRS compensation limit. The benefit calculation under the Amoco formula includes a reduction of 5% per year if taken before age 60.

The BP supplemental executive retirement benefit plan (SERB) is a supplemental plan based on a target of 1.3% of final average earnings (including, for this purpose, base salary plus cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP) for each year of service (without regard for tax limits) less benefits paid under all other BP (US) qualified and non-qualified pension arrangements. The benefit payable under SERB is unreduced at age 60 but reduced by 5% per year if separation occurs before age 60. Benefits payable under this plan are unfunded and therefore paid from corporate assets.

UK executive directors

Highlights
Defined benefit core schemes.
One sixtieth annual accrual to a maximum

of two-thirds final salary.
35% cash supplement in lieu of future service

accrual for those in excess of UK government limits.

UK executive directors are members of the BP pension scheme in respect of service prior to 1 April 2011. The core benefits under this scheme are non-contributory. The benefits include a pension accrual of one sixtieth of basic salary for each year of service, up to a maximum of two-thirds of final basic salary and a dependant s benefit of two-thirds of the member s pension. The scheme pension is not integrated with state pension benefits. Higher accrual rules are offered to employees on the payment of personal contributions.

Since 1 April 2011, participants may receive a cash supplement in lieu of future service pension accrual in the BP pension scheme. This follows the reduction in the annual allowance applicable to plans such as the BP pension scheme in 2011. Some participants ceased pension accrual for future service to remain within the new annual allowance. For these employees the cash supplement is equal to 35% of basic salary.

Until the end of March 2011, pension benefits in excess of the individual lifetime allowance set by legislation were paid via an unapproved, unfunded pension arrangement provided directly by the company. From April 2011 only increases in accrued benefits due to increases in salary in excess of the individual lifetime allowance are covered by the arrangements.

The rules of the BP pension scheme were amended in 2006 to reflect the normal retirement age of 65. Prior to 1 December 2006, scheme members could retire on or after age 60 without reduction.

Special early retirement terms apply to executives in service on 1 December 2006. If they retire between 60 and 65, they are entitled to an immediate unreduced pension. If they retire between 55 and 60, they are entitled to an immediate unreduced pension in respect of the proportion of their benefit for service up to 30 November 2006, and are subject to such reduction as the scheme actuary certifies in respect of the period of service after 1 December 2006. For retirees leaving in circumstances approved by the committee, the scheme actuary has to date applied a reduction of 3% per annum in respect of the period of service from 1 December 2006 up to the leaving date; however a greater reduction can be applied in other circumstances. Those leaving before 55 are entitled to a deferred pension that becomes payable from 55 or later, on the basis set out above. Irrespective of this, an individual leaving in circumstances of total incapacity is entitled to an immediate unreduced pension as from their leaving date.

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Scenario charts

The total remuneration opportunity for executive directors is strongly performance based and weighted to the long term. The charts below provide scenarios for the total remuneration of executive directors at different levels of performance and are calculated as prescribed in UK regulations. The fixed component in each chart includes current salary, taxable benefits and pension. The annual component reflects cash bonus, and in the case of Bob Dudley the pension accruing on his bonus. The long term includes both the deferred bonus and the performance shares. Detailed calculation assumptions are noted to the right of the charts.

Calculation assumptions

Minimum

Fixed components only

Current salary and taxable benefits.

Pension value of one year s service using current salary for US and cash in lieu for UK.
UK 35% x salary.
US 1.3% x salary x 20.

Target

Fixed

Current salary and taxable benefits.

Pension value of one year s service using current salary for US and cash in lieu for UK.
UK 35% x salary.
US 1.3% x salary x 20.

Annual

Cash bonus reflecting on-target level of 150% of salary of which two thirds are paid in cash.

For Bob Dudley, pension value of one year s service based on target bonus times 20 (1.3% x 150% x salary x 20).

Long term

Deferred bonus reflecting one third of target bonus of 150% of salary and one-for-one match.

Performance shares that vest to half maximum amounting to 2.75 times salary for Bob Dudley and two times salary for Iain Conn and Dr Brian Gilvary.

Maximum

Fixed

Current salary and taxable benefits.

Pension value of one year s service using current salary for US and cash in lieu for UK.
UK 35% x salary.
US 1.3% x salary x 20.

Annual

Cash bonus reflecting maximum of 225% of salary of which one third is paid in cash.

For Bob Dudley, pension value of one year s service based on maximum bonus times 20 (1.3% x 225% x salary x 20).

Long term

Deferred bonus reflecting two thirds of maximum bonus of 225% of salary and one-for-one match.

Performance shares that fully vest amounting to five and a half times salary for Bob Dudley and four times salary for Iain Conn and Dr Brian Gilvary.

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Recruitment

The committee expects any new executive directors to be engaged on terms that are consistent with the policy as described on the preceding pages. The committee recognizes that it cannot always predict accurately the circumstances in which any new directors may be recruited. The committee may determine that it is in the interests of the company and shareholders to secure the services of a particular individual which may require the committee to take account of the terms of that individual s existing employment and/or their personal circumstances. Accordingly, the committee will ensure that:

- Salary level of any new director is competitive relative to the peer group.
- Variable remuneration will be awarded within the parameters outlined on pages 98-99, save that the committee may provide that an initial award under the EDIP (within the salary multiple limits on page 98) is subject to a requirement of continued service over a specified period, rather than a corporate performance condition.
- Where an existing employee of BP is promoted to the board, the company will honour all existing contractual commitments including any outstanding share awards or pension entitlements.
- Where an individual is relocating in order to take up the role, the company may provide certain one-off benefits such as reasonable relocation expenses, accommodation for a period following appointment and assistance with visa applications or other immigration issues and ongoing arrangements such as tax equalization, annual flights home, and housing allowance.
- Where an individual would be forfeiting valuable remuneration in order to join the company, the committee may award appropriate compensation. The committee would require reasonable evidence of the nature and value of any forfeited award and would, to the extent practicable, ensure any compensation was no more valuable than the forfeited award and that it was paid in the form of shares in the company.

The committee would expect any new recruit to participate in the company pension and benefit schemes that are open to senior employees in his home country but would have due regard to the recruit s existing arrangements and market norms.

In making any decision on any aspect of the remuneration package for a new recruit, the committee would balance shareholder expectations, current best practice and the requirements of any new recruit and would strive not to pay more than is necessary to achieve the recruitment. The committee would give full details of the terms of the package of any new recruit in the next remuneration report.

Service contracts

Summary details of each executive director s service agreement are as follows:

	Service agreement date	Salary as at 1 Jan 2014
Bob Dudley	6 Apr 2009	$1,800,000
Iain Conn	22 Jul 2004	£774,000
Dr Brian Gilvary	22 Feb 2012	£710,000

Bob Dudley s contract is with BP Corporation North America Inc. He is seconded to BP p.l.c. under a secondment agreement dated 15 April 2009, which has been further extended to 15 April 2019. His secondment can be terminated with one month s notice by either party and terminates automatically on the termination of his service agreement. Iain Conn s and Dr Brian Gilvary s service agreements are with BP p.l.c.

Each executive director is entitled to pension provision, details of which are summarized on page 103.

Each executive director is entitled to the following contractual benefits:

A company car and chauffeur for business and private use, on terms that the company bear all normal servicing, insurance and running costs. Alternatively, the executive director is entitled to a car allowance in lieu.
Medical and dental benefits, sick pay during periods of absence and tax preparation assistance.

Indemnification in accordance with applicable law.

Each executive director participates in bonus or incentive arrangements at the committee s sole discretion. Currently, each participates in the discretionary bonus scheme and the deferred bonus and performance share plans as described on pages 100, 101 and 102 respectively.

Each executive director may terminate his employment by giving his employer 12 months written notice. In this event, for business reasons, the employer would not necessarily hold the executive director to his full notice period.

Other than in the case of Dr Brian Gilvary (who became a director on 1 January 2012), the service agreements are expressed to expire at a normal retirement age of 60; however, such executive directors could not, under UK law, be required to retire at this (or any other) age following abolition of the default retirement age.

The employer may lawfully terminate the executive director s employment in the following ways:

By giving the director 12 months written notice.

Without compensation, in circumstances where the employer is entitled to terminate for cause, as defined for the purposes of his service agreement.

Additionally, in the case of Iain Conn and Dr Brian Gilvary, the company may lawfully terminate employment by making a lump sum payment in lieu of notice equal to 12 months base salary. The company may elect to pay this sum in monthly instalments rather than as a lump sum.

The lawful termination mechanisms described above are without prejudice to the employer s ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby to be liable for damages to the executive director.

In the event of termination by the company, each executive director may have an entitlement to compensation in respect of his statutory rights under employment protection legislation in the UK and potentially elsewhere.

Where appropriate the company may also meet a director s reasonable legal expenses in connection with either his appointment or termination of his appointment.

The committee considers that its policy on termination payments arising from the contractual provisions summarized above provides an appropriate degree of protection to the director in the event of termination and is consistent with UK market practice.

Exit payments

Should it become necessary to terminate an executive director s employment, and therefore to determine a termination payment, the committee s policy would be as follows:

The director s primary entitlement would be to a termination payment in respect of his service agreement, as set out above. The committee will consider mitigation to reduce the termination payment to a leaving director when appropriate to do so, taking into account the circumstances and the law governing the agreement. Mitigation would not be applicable where a contractual payment in lieu of notice is made. In addition, the director may be entitled to a payment in respect of his statutory rights. Other potential elements are as follows:

First, the committee would consider whether the director should be entitled to an annual bonus in respect of the financial year in which the termination occurs. Normally, any such bonus would be restricted to the director s actual period of service in that financial year.

Second, the committee would consider whether conditional share awards held by the director under the EDIP should lapse on leaving or should, at the committee s discretion, be preserved (in which event the award would normally continue until the normal vesting date and be treated in the manner described on pages 101-102 of this report). Any such determination will be made in accordance with the rules of the EDIP, as approved by shareholders.

Third, if the departing director is eligible for an early retirement pension, the committee would consider, if relevant under the terms of the plan in which the director participates, the extent of any actuarial reduction that should be applied.

In determining the overall termination arrangements, the committee would have regard to all relevant circumstances, and would therefore distinguish between types of leaver and the circumstances under which the director left the company. This mainly relates to consideration of how discretion would be exercised in relation to conditional share awards under the EDIP. It is also relevant where a departing director has a right to an early retirement pension. UK directors who leave in circumstances approved by the committee may have a favourable actuarial reduction applied to their pensions (which has to date been 3%). Departing directors who leave in other circumstances are subject to a greater reduction.

The performance of the leaving director would be taken into account in various respects. In particular, in deciding whether to exercise discretion to preserve EDIP awards, the committee would have regard to the director s performance during the performance cycle of the relevant awards, as well as a range of other relevant factors, including the proximity of the award to its maturity date.

The committee would also have regard to all other relevant factors, including consideration of whether a contractual provision in the director s arrangements complied with best practice at the time the director s employment was terminated, as well as at the time the provision was agreed to.

A shorter vesting period for any share awards may apply on change of control.

External appointments

The board supports executive directors taking up appointments outside the company to broaden their knowledge and experience. Each executive director is permitted to accept one non-executive appointment, from which they may retain any fee. External appointments are subject to agreement by the chairman and reported to the board. Any external appointment must not conflict with a director s duties and commitments to BP. Details of appointments during 2013 are shown below.

Director	Appointee company	Additional position held at appointee company	Total fees
Bob Dudley[a]	Rosneft	Director	0
Iain Conn	Rolls-Royce plc	Senior independent director and chairman of	£82,000

		the ethics committee	
Dr Byron Grote[b]	Unilever	Audit committee member	Unilever PLC £19,375 Unilever NV 22,990

[a] Bob Dudley holds this appointment as a result of the company s shareholding in Rosneft.
[b] On retirement at 11 April 2013.

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(b) Non-executive directors

This section of the directors remuneration report describes the separate policies of the BP board for the remuneration of the chairman and the non-executive directors (NEDs).

Key principles

The principles which underpin the board s policies for the remuneration of the chairman and the NEDs are as follows:

- Remuneration should be sufficient to attract, motivate and retain world-class non-executive talent.
- Remuneration practice should be consistent with recognized best practice standards for chairman and NED remuneration.
- The aggregate annual remuneration payable to the chairman and NEDs is determined by shareholder resolution in accordance with the company s Articles of Association. The aggregate limit will be increased to £5 million if resolution 20 at the 2014 AGM is duly passed.
- NEDs should not receive share options, bonuses or retirement benefits from the company.
- NEDs are encouraged to establish a holding in BP shares of the equivalent value of one year s base fee.

NEDs are supported through the company secretary s office. This support includes assistance with travel and transport, security advice (when needed) and administrative services.

NEDs have letters of appointment that recognize that, subject to the Articles of Association, their service is at the discretion of shareholders. All directors stand for re-election at each AGM.

Board remuneration policy for the chairman

The chairman is non-executive and, in accordance with the Governance Code, independent on appointment. The quantum and structure of the chairman s remuneration is set by the board based upon a recommendation from the remuneration committee. The chairman is not involved in setting his own remuneration.

This policy reflects the approach adopted by the board over the years and which has previously been described to shareholders.

The maximum remuneration for non-executive directors is set in accordance with the Articles of Association.

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Board remuneration policy for non-executive directors

The maximum remuneration for non-executive directors is set in accordance with the Articles of Association.

This directors remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary on 6 March 2014.

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Internal Control Revised Guidance for Directors (Turnbull)

In discharging its responsibility for the company s risk management and internal control systems under the UK Corporate Governance Code, the board, through its governance principles, requires the group chief executive to operate with a comprehensive system of controls and internal audit to identify and manage the risks that are material to BP. The governance principles are reviewed periodically by the board and are consistent with the requirements of the UK Corporate Governance Code including principle C.2 (risk management and internal control).

The board has an established process by which the effectiveness of the system of internal control (which includes the risk management system) is reviewed as required by provision C.2.1 of the UK Corporate Governance Code. This process enables the board and its committees to consider the system of internal control being operated for managing significant risks, including strategic, safety and operational and compliance and control risks, throughout the year. Material joint ventures and associates have not been dealt with as part of the group in this process, although the board has reviewed the exposure the group has to risk within joint arrangements.

As part of this process, the board and the audit, Gulf of Mexico and safety, ethics and environment assurance committees requested, received and reviewed reports from executive management, including management of the business segments, corporate activities and functions, at their regular meetings.

In considering the systems, the board noted that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

During the year, the board through its committees regularly reviewed with executive management processes whereby risks are identified, evaluated and managed. These processes were in place for the year under review, remain current at the date of this report and accord with the guidance on the UK Corporate Governance Code provided by the Financial Reporting Council. In December 2013, the board considered the group s significant risks within the context of the annual plan presented by the group chief executive.

A joint meeting of the audit and safety, ethics and environment assurance committees in January 2014 reviewed a report from the general auditor as part of the board s annual review of the risk management and internal control systems. The report described the annual summary of internal audit s consideration of the design and operation of elements of BP s system of internal control over significant risks arising in the categories of strategic and commercial, safety and operational and compliance and control and considered the control environment for the group. The report also highlighted the results of audit work conducted during the year and the remedial actions taken by management in response to significant failings and weaknesses identified.

During the year, these committees engaged with management, the general auditor and other monitoring and assurance providers (such as the group ethics and compliance officer, head of safety and operational risk and the external auditor) on a regular basis to monitor the management of risks. Significant incidents that occurred and management s response to them were considered by the appropriate committee and reported to the board.

In the board s view, the information it received was sufficient to enable it to review the effectiveness of the company s system of internal control in accordance with the Internal Control Revised Guidance for Directors (Turnbull).

Subject to determining any additional appropriate actions arising from items still in process, the board is satisfied that, where significant failings or weaknesses in internal controls were identified during the year, appropriate remedial actions were taken or are being taken.

Corporate governance practices

In the US, BP ADSs are listed on the New York Stock Exchange (NYSE). The significant differences between BP s corporate governance practices as a UK company and those required by NYSE listing standards for US companies are listed as follows:

Independence

BP has adopted a robust set of board governance principles, which reflect the UK Corporate Governance Code and its principles-based approach to corporate governance. As such, the way in which BP makes determinations of directors independence differs from the NYSE rules.

BP s board governance principles require that all non-executive directors be determined by the board to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement . The BP board has determined that, in its judgement, all of the non-executive directors are independent. In doing so, however, the board did not explicitly take into consideration the independence requirements outlined in the NYSE s listing standards.

Committees

BP has a number of board committees that are broadly comparable in purpose and composition to those required by NYSE rules for domestic US companies. For instance, BP has a chairman s (rather than executive) committee, nomination (rather than nominating/corporate governance) committee and remuneration (rather than compensation) committee. BP also has an audit committee, which NYSE rules require for both US companies and foreign private issuers. These committees are composed solely of non-executive directors whom the board has determined to be independent, in the manner described above.

The BP board governance principles prescribe the composition, main tasks and requirements of each of the committees (see the board committee reports on page 74). BP has not, therefore, adopted separate charters for each committee.

Under US securities law and the listing standards of the NYSE, BP is required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and Section 303A.06 of the NYSE Listed Company Manual. BP s audit committee complies with these requirements. The BP audit committee does not have direct responsibility for the appointment, re-appointment or removal of the independent auditors instead, it follows the UK Companies Act 2006 by making recommendations to the board on these matters for it to put forward for shareholder approval at the AGM.

One of the NYSE s additional requirements for the audit committee states that at least one member of the audit committee is to have accounting or related financial management expertise . The board determined that Brendan Nelson possessed such expertise and also possesses the financial and audit committee experiences set forth in both the UK Corporate Governance Code and SEC rules (see Audit committee report on page 74). Mr Nelson is the audit committee financial expert as defined in Item 16A of Form 20-F.

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Shareholder approval of equity compensation plans

The NYSE rules for US companies require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions to those plans. BP complies with UK requirements that are similar to the NYSE rules. The board, however, does not explicitly take into consideration the NYSE s detailed definition of what are considered material revisions .

Code of ethics

The NYSE rules require that US companies adopt and disclose a code of business conduct and ethics for directors, officers and employees. BP has adopted a code of conduct, which applies to all employees, and has board governance principles that address the conduct of directors. In addition BP has adopted a code of ethics for senior financial officers as required by the SEC. BP considers that these codes and policies address the matters specified in the NYSE rules for US companies.

Code of ethics

The company has adopted a code of ethics for its group chief executive, chief financial officer, group controller, general auditor and chief accounting officer as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. There have been no waivers from the code of ethics relating to any officers.

BP also has a code of conduct, which is applicable to all employees. This was updated (and published) on 1 January 2012.

Controls and procedures

Evaluation of disclosure controls and procedures

The company maintains disclosure controls and procedures , as such term is defined in Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in reports the company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including the company s group chief executive and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, our management, including the group chief executive and chief financial officer, recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. Further, in the design and evaluation of our disclosure controls and procedures our management necessarily was required to apply its judgement in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The company s disclosure controls and procedures have been designed to meet, and management believes that they meet, reasonable assurance standards.

The company s management, with the participation of the company s group chief executive and chief financial officer, has evaluated the effectiveness of the company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this annual report. Based on that evaluation, the group chief executive and chief financial officer have concluded that the company s disclosure controls and procedures were effective at a reasonable assurance level.

Management s report on internal control over financial reporting

Management of BP is responsible for establishing and maintaining adequate internal control over financial reporting. BP s internal control over financial reporting is a process designed under the supervision of the principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of BP s financial statements for external reporting purposes in accordance with IFRS.

As of the end of the 2013 fiscal year, management conducted an assessment of the effectiveness of internal control over financial reporting in accordance with the Internal Control Revised Guidance for Directors (Turnbull). Based on this assessment, management has determined that BP s internal control over financial reporting as of 31 December 2013 was effective.

The company s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of BP; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of BP s assets that could have a material effect on our financial statements. BP s internal control over financial reporting as of 31 December 2013 has been audited by Ernst & Young, an independent registered public accounting firm, as stated in their report appearing on page 121 of *BP Annual Report and Form 20-F 2013.*

Changes in internal control over financial reporting

There were no changes in the group s internal controls over financial reporting that occurred during the period covered by the Form 20-F that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Principal accountants fees and services

The audit committee has established policies and procedures for the engagement of the independent registered public accounting firm, Ernst & Young LLP, to render audit and certain assurance and tax services. The policies provide for pre-approval by the audit committee of specifically defined audit, audit-related, tax and other services that are not prohibited by regulatory or other professional requirements. Ernst & Young are engaged for these services when its expertise and experience of BP are important. Most of this work is of an audit nature. Tax services were awarded either through a full competitive tender process or following an assessment of the expertise of Ernst & Young relative to that of other potential service providers. These services are for a fixed term.

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Under the policy, pre-approval is given for specific services within the following categories: advice on accounting, auditing and financial reporting matters; internal accounting and risk management control reviews (excluding any services relating to information systems design and implementation); non-statutory audit; project assurance and advice on business and accounting process improvement (excluding any services relating to information systems design and implementation relating to BP s financial statements or accounting records); due diligence in connection with acquisitions, disposals and joint arrangements (excluding valuation or involvement in prospective financial information); income tax and indirect tax compliance and advisory services; employee tax services (excluding tax services that could impair independence); provision of, or access to, Ernst & Young publications, workshops, seminars and other training materials; provision of reports from data gathered on non-financial policies and information; and assistance with understanding non-financial regulatory requirements. BP operates a two-tier system for audit and non-audit services. For audit related services, the audit committee has a pre-approved aggregate level, within which specific work may be approved by management. Non-audit services, including tax services, are pre-approved for management to authorize per individual engagement, but above a defined level must be approved by the chairman of the audit committee or the full committee. The audit committee has delegated to the chairman of the audit committee authority to approve permitted services provided that the chairman reports any decisions to the committee at its next scheduled meeting. Any proposed service not included in the approved service list must be approved in advance by the audit committee chairman and reported to the committee, or approved by the full audit committee in advance of commencement of the engagement.

The audit committee evaluates the performance of the auditors each year. The audit fees payable to Ernst & Young are reviewed by the committee in the context of other global companies for cost effectiveness. The committee keeps under review the scope and results of audit work and the independence and objectivity of the auditors. External regulation and BP policy requires the auditors to rotate their lead audit partner every five years. (See Financial statements Note 37 and Audit committee report on page 76 for details of audit fees.)

Memorandum and Articles of Association

The following summarizes certain provisions of the company s Memorandum and Articles of Association and applicable English law. This summary is qualified in its entirety by reference to the UK Companies Act 2006 (Act) and the company s Memorandum and Articles of Association. For information on where investors can obtain copies of the Memorandum and Articles of Association see Documents on display on page 279.

At the AGM held on 17 April 2008 shareholders voted to adopt new Articles of Association, largely to take account of changes in UK company law brought about by the Act. Further amendments to the Articles of Association were approved by shareholders at the AGM held on 15 April 2010. There have been no further amendments to the Articles of Association.

The Articles of Association may be amended by a special resolution.

Objects and purposes

BP is incorporated under the name BP p.l.c. and is registered in England and Wales with the registered number 102498. The provisions regulating the operations of the company, known as its objects , were historically stated in a company s memorandum. The Act abolished the need to have object provisions and so at the AGM held on 15 April 2010 shareholders approved the removal of its objects clause together with all other provisions of its Memorandum that, by virtue of the Act, are treated as forming part of the company s Articles of Association.

Directors

The business and affairs of BP shall be managed by the directors. The company s Articles of Association provide that directors may be appointed by the existing directors or by the shareholders in a general meeting. Any person appointed by the directors will hold office only until the next general meeting and will then be eligible for re-election by the shareholders. A director may be removed by BP as provided for by applicable law and shall vacate office in certain circumstances as set out in the Articles of Association. There is no requirement for a director to retire on reaching any age.

The Articles of Association place a general prohibition on a director voting in respect of any contract or arrangement in which the director has a material interest other than by virtue of such director s interest in shares in the company. However, in the absence of some other material interest not indicated below, a director is entitled to vote and to be counted in a quorum for the purpose of any vote relating to a resolution concerning the following matters:

- The giving of security or indemnity with respect to any money lent or obligation taken by the director at the request or benefit of the company or any of its subsidiaries.

- Any proposal in which the director is interested, concerning the underwriting of company securities or debentures or the giving of any security to a third party for a debt or obligation of the company or any of its subsidiaries.

- Any proposal concerning any other company in which the director is interested, directly or indirectly (whether as an officer or shareholder or otherwise) provided that the director and persons connected with such director are not the holder or holders of 1% or more of the voting interest in the shares of such company.

- Any proposal concerning the purchase or maintenance of any insurance policy under which the director may benefit.

The Act requires a director of a company who is in any way interested in a contract or proposed contract with the company to declare the nature of the director s interest at a meeting of the directors of the company. The definition of interest includes the interests of spouses, children, companies and trusts. The Act also requires that a director must avoid a situation where a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the company s interests. The Act allows directors of public companies to authorize such conflicts where appropriate, if a company s Articles of Association so permit. BP s Articles of Association permit the authorization of such conflicts. The directors may exercise all the powers of the company to borrow money, except that the amount remaining undischarged of all moneys borrowed by the company shall not, without approval of the shareholders, exceed the amount paid up on the share capital plus the aggregate of the amount of the capital and revenue reserves of the company. Variation of the borrowing power of the board may only be affected by amending the Articles of Association.

Remuneration of non-executive directors shall be determined in the aggregate by resolution of the shareholders. Remuneration of executive directors is determined by the remuneration committee. This committee is made up of non-executive directors only. There is no requirement of share ownership for a director s qualification.

Dividend rights; other rights to share in company profits; capital calls

If recommended by the directors of BP, BP shareholders may, by resolution, declare dividends but no such dividend may be declared in excess of the amount recommended by the directors. The directors may also pay interim dividends without obtaining shareholder approval. No dividend may be paid other than out of profits available for distribution, as determined under IFRS and the Act. Dividends on ordinary shares are payable only after payment of dividends on BP preference shares. Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and reverts to BP.

The directors have the power to declare and pay dividends in any currency provided that a sterling equivalent is announced. It is not the company s intention to change its current policy of paying dividends in US dollars. At the company s AGM held on 15 April 2010, shareholders approved the introduction of a Scrip Dividend Programme (Programme) and to include provisions in the Articles of Association to enable the company to operate the Programme. The Programme enables ordinary shareholders and BP ADS holders to elect to receive new fully paid ordinary shares (or BP ADSs in the case of BP ADS holders) instead of cash. The operation of the Programme is always subject to the directors decision to make the scrip offer available in respect of any particular dividend. Should the directors decide not to offer the scrip in respect of any particular dividend, cash will automatically be paid instead.

Apart from shareholders rights to share in BP s profits by dividend (if any is declared or announced), the Articles of Association provide that the directors may set aside:

A special reserve fund out of the balance of profits each year to make up any deficit of cumulative dividend on the BP preference shares.

A general reserve out of the balance of profits each year, which shall be applicable for any purpose to which the profits of the company may properly be applied. This may include capitalization of such sum, pursuant to an ordinary shareholders resolution, and distribution to shareholders as if it were distributed by way of a dividend on the ordinary shares or in paying up in full unissued ordinary shares for allotment and distribution as bonus shares.

Any such sums so deposited may be distributed in accordance with the manner of distribution of dividends as described above.

Holders of shares are not subject to calls on capital by the company, provided that the amounts required to be paid on issue have been paid off. All shares are fully paid.

Voting rights

The Articles of Association of the company provide that voting on resolutions at a shareholders meeting will be decided on a poll other than resolutions of a procedural nature, which may be decided on a show of hands. If voting is on a poll, every shareholder who is present in person or by proxy has one vote for every ordinary share held and two votes for every £5 in nominal amount of BP preference shares held. If voting is on a show of hands, each shareholder who is present at the meeting in person or whose duly appointed proxy is present in person will have one vote, regardless of the number of shares held, unless a poll is requested.

Shareholders do not have cumulative voting rights.

Holders of record of ordinary shares may appoint a proxy, including a beneficial owner of those shares, to attend, speak and vote on their behalf at any shareholders meeting.

Record holders of BP ADSs are also entitled to attend, speak and vote at any shareholders meeting of BP by the appointment by the approved depositary, JPMorgan Chase Bank N.A., of them as proxies in respect of the ordinary shares represented by their ADSs. Each such proxy may also appoint a proxy. Alternatively, holders of BP ADSs are entitled to vote by supplying their voting instructions to the depositary, who will vote the ordinary shares represented by their ADSs in accordance with their instructions.

Proxies may be delivered electronically.

Matters are transacted at shareholders meetings by the proposing and passing of resolutions, of which there are two types: ordinary or special. An annual general meeting must be held once in every year.

An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at a meeting at which there is a quorum. A special resolution requires the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum. Any AGM requires 21 days notice. The notice period for a general meeting is 14 days subject to the company obtaining annual shareholder approval, failing which, a 21-day notice period will apply.

Liquidation rights; redemption provisions

In the event of a liquidation of BP, after payment of all liabilities and applicable deductions under UK laws and subject to the payment of secured creditors, the holders of BP preference shares would be entitled to the sum of (i) the capital paid up on such shares plus, (ii) accrued and unpaid dividends and (iii) a premium equal to the higher of (a) 10% of the capital paid up on the BP preference shares and (b) the excess of the average market price over par value of such shares on the LSE during the previous six months. The remaining assets (if any) would be divided pro rata among the holders of ordinary shares.

Without prejudice to any special rights previously conferred on the holders of any class of shares, BP may issue any share with such preferred, deferred or other special rights, or subject to such restrictions as the shareholders by resolution determine (or, in the absence of any such resolutions, by determination of the directors), and may issue shares that are to be or may be redeemed.

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Variation of rights

The rights attached to any class of shares may be varied with the consent in writing of holders of 75% of the shares of that class or on the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all of the provisions of the Articles of Association relating to proceedings at a general meeting apply, except that the quorum with respect to a meeting to change the rights attached to the preference shares is 10% or more of the shares of that class, and the quorum to change the rights attached to the ordinary shares is one-third or more of the shares of that class.

Shareholders   meetings and notices

Shareholders must provide BP with a postal or electronic address in the UK to be entitled to receive notice of shareholders   meetings. Holders of BP ADSs are entitled to receive notices under the terms of the deposit agreement relating to BP ADSs. The substance and timing of notices are described on page 113 under the heading Voting rights.

Under the Act, the AGM of shareholders must be held within the six-month period once every year. All general meetings shall be held at a time and place determined by the directors within the UK. If any shareholders   meeting is adjourned for lack of quorum, notice of the time and place of the meeting may be given in any lawful manner, including electronically. Powers exist for action to be taken either before or at the meeting by authorized officers to ensure its orderly conduct and safety of those attending.

Limitations on voting and shareholding

There are no limitations imposed by English law or the company s Memorandum or Articles of Association on the right of non-residents or foreign persons to hold or vote the company s ordinary shares or BP ADSs, other than limitations that would generally apply to all of the shareholders and limitations applicable to certain countries and persons subject to EU economic sanctions.

Disclosure of interests in shares

The Act permits a public company to give notice to any person whom the company believes to be or, at any time during the three years prior to the issue of the notice, to have been interested in its voting shares requiring them to disclose certain information with respect to those interests. Failure to supply the information required may lead to disenfranchisement of the relevant shares and a prohibition on their transfer and receipt of dividends and other payments in respect of those shares. In this context the term   interest   is widely defined and will generally include an interest of any kind whatsoever in voting shares, including any interest of a holder of BP ADSs.

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Consolidated financial statements of the BP group

Report of Independent Registered Public Accounting Firm on the Annual Report on Form 20-F

The Board of Directors and Shareholders of BP p.l.c.

We have audited the accompanying group balance sheets of BP p.l.c. as of 31 December 2013, 31 December 2012 and 1 January 2012, and the related group income statement, group statement of comprehensive income, group statement of changes in equity and group cash flow statement for each of the three years in the period ended 31 December 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the group financial position of BP p.l.c. at 31 December 2013, 31 December 2012 and 1 January 2012 and the group results of its operations and its cash flows for each of the three years in the period ended 31 December 2013, in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board.

In forming our opinion we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the provisions, future expenditures for which reliable estimates cannot be made and other contingencies related to the Gulf of Mexico oil spill significant event. 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. Our opinion is not qualified in respect of these matters.

As discussed in Note 1 to the consolidated financial statements, the group has changed its accounting policies for employee benefits and interests in joint arrangements, including related disclosures, as a result of adopting new and revised International Financial Reporting Standards.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BP p.l.c. s internal control over financial reporting as of 31 December 2013, based on criteria established in Internal Control: Revised Guidance for Directors on the Combined Code as issued by the Institute of Chartered Accountants in England and Wales (the Turnbull guidance) and our report dated 6 March 2014 expressed an unqualified opinion.

/s/ Ernst & Young LLP

London, England

6 March 2014

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Consolidated financial statements of the BP group

Report of Independent Registered Public Accounting Firm on the Annual Report on Form 20-F

The Board of Directors and Shareholders of BP p.l.c.

We have audited BP p.l.c. s internal control over financial reporting as of 31 December 2013, based on criteria established in Internal Control: Revised Guidance for Directors on the Combined Code as issued by the Institute of Chartered Accountants in England and Wales (the Turnbull guidance). BP p.l.c. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s report on internal control on page 111. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BP p.l.c. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2013, based on the Turnbull guidance**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the group balance sheets of BP p.l.c. as of 31 December 2013 and 2012, and the related group income statement, group statement of comprehensive income, group statement of changes in equity and group cash flow statement for each of the three years in the period ended 31 December 2013, and our report dated 6 March 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

London, England

6 March 2014

Consent of independent registered public accounting firm

We consent to the incorporation by reference of our reports dated 6 March 2014, with respect to the group financial statements of BP p.l.c., and the effectiveness of internal control over financial reporting of BP p.l.c., included in this Annual Report and Form 20-F for the year ended 31 December 2013 in the following Registration Statements:

Registration Statement on Form F-3 (File No. 333-179953) of BP Capital Markets p.l.c. and BP p.l.c.; and

Registration Statements on Form S-8 (File Nos. 333-149778, 333-79399, 333-67206, 333-103924, 333-123482, 333-123483, 333-131583, 333-146868, 333-146870, 333-146873, 333-131584, 333-132619, 333-173136, 333-177423, 333-179406, 333-186463 and 333-186462) of BP p.l.c.

/s/ Ernst & Young LLP

London, England

6 March 2014

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Group income statement

For the year ended 31 December $ million

	Note	2013	2012[a]	2011[a]
Sales and other operating revenues	7	**379,136**	375,765	375,713
Earnings from joint ventures after interest and tax	17	**447**	260	767
Earnings from associates after interest and tax	18	**2,742**	3,675	4,916
Interest and other income	8	**777**	1,677	688
Gains on sale of businesses and fixed assets	5	**13,115**	6,697	4,132
Total revenues and other income		**396,217**	388,074	386,216
Purchases	21	**298,351**	292,774	285,133
Production and manufacturing expenses[b]		**27,527**	33,926	24,163
Production and similar taxes	7	**7,047**	8,158	8,280
Depreciation, depletion and amortization	7	**13,510**	12,687	11,357
Impairment and losses on sale of businesses and fixed assets	5	**1,961**	6,275	2,058
Exploration expense	10	**3,441**	1,475	1,520
Distribution and administration expenses		**13,070**	13,357	13,958
Fair value gain on embedded derivatives	26	**(459)**	(347)	(68)
Profit before interest and taxation		**31,769**	19,769	39,815
Finance costs[b]	8	**1,068**	1,072	1,187
Net finance expense relating to pensions and other post-retirement benefits	30	**480**	566	400
Profit before taxation		**30,221**	18,131	38,228
Taxation[b]	11	**6,463**	6,880	12,619
Profit for the year		**23,758**	11,251	25,609
Attributable to				
BP shareholders	32	**23,451**	11,017	25,212
Non-controlling interests	32	**307**	234	397
		23,758	11,251	25,609
Earnings per share cents				
Profit for the year attributable to BP shareholders				
Basic	13	**123.87**	57.89	133.35
Diluted	13	**123.12**	57.50	131.74

[a] See Note 1 for information on the restatement of comparative amounts as a result of the adoption of IFRS 11 Joint Arrangements and the amended IAS 19 Employee Benefits .

[b] See Note 2 for information on the impact of the Gulf of Mexico oil spill on these income statement line items.

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Group statement of comprehensive income

For the year ended 31 December	Note	2013	2012[a]	$ million 2011[a]
Profit for the year		**23,758**	11,251	25,609
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Currency translation differences		**(1,608)**	485	(543)
Exchange gains (losses) on translation of foreign operations reclassified to gain or loss on sale of businesses and fixed assets		**22**	(15)	19
Available-for-sale investments marked to market		**(172)**	306	(71)
Available-for-sale investments reclassified to the income statement		**(523)**	(1)	(3)
Cash flow hedges marked to market	26	**(2,000)**	1,466	44
Cash flow hedges reclassified to the income statement	26	**4**	62	(195)
Cash flow hedges reclassified to the balance sheet	26	**17**	19	(13)
Share of items relating to equity-accounted entities, net of tax		**(24)**	(39)	(39)
Income tax relating to items that may be reclassified	11,32	**147**	(170)	23
		(4,137)	2,113	(778)
Items that will not be reclassified to profit or loss				
Remeasurements of the net pension and other post-retirement benefit liability or asset	30	**4,764**	(1,572)	(5,301)
Share of items relating to equity-accounted entities, net of tax		**2**	(6)	
Income tax relating to items that will not be reclassified	11,32	**(1,521)**	440	1,467
		3,245	(1,138)	(3,834)
Other comprehensive income		**(892)**	975	(4,612)
Total comprehensive income		**22,866**	12,226	20,997
Attributable to				
BP shareholders	32	**22,574**	11,988	20,613
Non-controlling interests	32	**292**	238	384
		22,866	12,226	20,997

[a] See Note 1 for information on the restatement of comparative amounts as a result of the adoption of IFRS 11 Joint Arrangements , the amended IAS 19 Employee Benefits and the amended IAS 1 Presentation of Financial Statements .

Group statement of changes in equity[a b]

$ million

	Share capital and capital reserves	Own shares and treasury shares	Foreign currency translation reserve	Fair value reserve	Share-based payment reserve	Profit and loss account	BP shareholders equity	Non-controlling interests	Total equity

At 1 January 2013	43,513	(21,054)	5,128	1,775	1,608	87,576	118,546	1,206	119,752
Profit for the year						23,451	23,451	307	23,758
Other comprehensive income			(1,603)	(2,470)		3,196	(877)	(15)	(892)
Total comprehensive income			(1,603)	(2,470)		26,647	22,574	292	22,866
Dividends						(5,441)	(5,441)	(469)	(5,910)
Repurchases of ordinary share capital						(6,923)	(6,923)		(6,923)
Share-based payments, net of tax	143	83			97	150	473		473
Share of equity-accounted entities changes in equity, net of tax						73	73		73
Transactions involving non-controlling interests								76	76
At 31 December 2013	43,656	(20,971)	3,525	(695)	1,705	102,082	129,302	1,105	130,407
At 1 January 2012	43,454	(21,323)	4,509	267	1,582	83,079	111,568	1,017	112,585
Profit for the year						11,017	11,017	234	11,251
Other comprehensive income			619	1,508		(1,156)	971	4	975
Total comprehensive income			619	1,508		9,861	11,988	238	12,226
Dividends						(5,294)	(5,294)	(82)	(5,376)
Share-based payments, net of tax	59	269			26	(70)	284		284
Transactions involving non-controlling interests								33	33
At 31 December 2012	43,513	(21,054)	5,128	1,775	1,608	87,576	118,546	1,206	119,752
At 1 January 2011	43,448	(21,211)	5,036	469	1,586	65,754	95,082	904	95,986
Profit for the year						25,212	25,212	397	25,609
Other comprehensive income			(527)	(202)		(3,870)	(4,599)	(13)	(4,612)
			(527)	(202)		21,342	20,613	384	20,997

Total comprehensive income									
Dividends						(4,072)	(4,072)	(245)	(4,317)
Share-based payments, net of tax	6	(112)			(4)	102	(8)		(8)
Transactions involving non-controlling interests						(47)	(47)	(26)	(73)
At 31 December 2011	43,454	(21,323)	4,509	267	1,582	83,079	111,568	1,017	112,585

[a] See Note 32 for further information.

[b] See Note 1 for information on the restatement of comparative amounts as a result of the adoption of IFRS 11 Joint Arrangements and the amended IAS 19 Employee Benefits .

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Group balance sheet

				$ million
	Note	**31 December 2013**	31 December 2012[a]	1 January 2012[a]
Non-current assets				
Property, plant and equipment	14	**133,690**	125,331	123,431
Goodwill	15	**12,181**	12,190	12,429
Intangible assets	16	**22,039**	24,632	21,653
Investments in joint ventures	17	**9,199**	8,614	8,303
Investments in associates	18	**16,636**	2,998	13,291
Other investments	20	**1,565**	2,704	2,635
Fixed assets		**195,310**	176,469	181,742
Loans		**763**	642	824
Trade and other receivables	22	**5,985**	5,961	5,738
Derivative financial instruments	26	**3,509**	4,294	5,038
Prepayments		**922**	830	739
Deferred tax assets	11	**985**	874	611
Defined benefit pension plan surpluses	30	**1,376**	12	17