Strategic Report 2013

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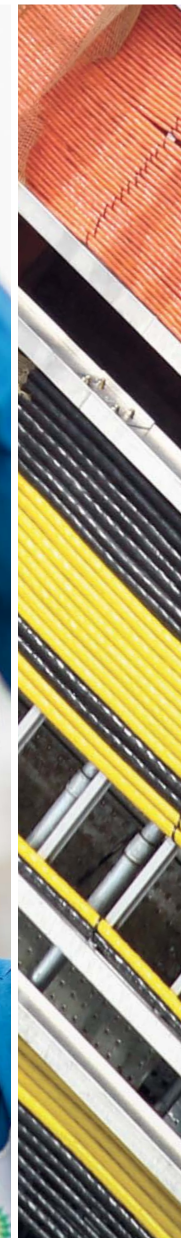


Building a stronger, safer BP

Who we are

BP is one of the world's leading integrated oil and gas companies.[a] We aim to create long-term value for shareholders by helping to meet growing demand for energy in a safe and responsible way. We strive to be a world-class operator, a responsible corporate citizen and a good employer.

Through our work we provide customers with fuel for transportation, energy for heat and light, lubricants to keep engines moving and the petrochemicals products used to make everyday items as diverse as paints, clothes and packaging. Our projects and operations help to generate employment, investment and tax revenues in countries and communities around the world. We employ more than 80,000 people, mostly in Europe and the US.

As a global group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates established in – and subject to the laws and regulations of – many different jurisdictions. The UK is a centre for trading, legal, finance, research and technology and other business functions. We have well-established operations in Europe, the US, Canada, Russia, South America, Australasia, Asia and parts of Africa.

[a] On the basis of market capitalization, proved reserves and production.

Front cover imagery

Left image: we completed commissioning and start-up of a new 250,000 barrel-per-day crude distillation unit at our Whiting refinery in Indiana, US.

Centre image: a safety review of the 12 pipe still crude distillation unit. The new unit reconfigures the original that began operating in 1959.

Right image: we laid more than 1,700 miles of cable and wire as part of the refinery's modernization project.

Your feedback

We welcome your comments and feedback on our reporting. Your views are important to us and help us shape our reporting for future years.

You can provide this at *bp.com/annualreportfeedback* or by emailing or writing to the corporate reporting team. Details are on the back cover. For every survey completed, we will make a £2 donation to the British Paralympic Association.

Strategic report

An overview of the key activities, events and results in 2013, together with commentary on BP's performance in the year and our priorities as we move forward.

About this report

BP Strategic Report 2013 comprises the Strategic report as included in the *BP Annual Report and Form 20-F 2013* and supplementary information. *BP Strategic Report 2013* does not contain sufficient information as to allow as full an understanding of the results and the state of affairs of BP as *BP Annual Report and Form 20-F 2013*. Please refer to Information about this report on page 67.

For further information consult the *BP Annual Report and Form 20-F 2013* which is available online at *bp.com/annualreport* or by ordering a copy free of charge (see back cover).

★ Page references relating to content outside of this report but which appear in the full *BP Annual Report and Form 20-F 2013*.

To meet the changes in UK legislation, BP has prepared this more detailed Strategic Report which replaces the Summary Review you have received in the past.

Cautionary statement
This document should be read in conjunction with the cautionary statement on page 68.

Supplementary information

BP at a glance

BP delivers energy products and services to people around the world.

Through our two main operating segments, Upstream and Downstream, we find, develop and produce essential sources of energy, turning them into products that people need. We also buy and sell at each stage of the hydrocarbon value chain.

In renewable energy, our activities are focused on biofuels and wind.

We also have a 19.75% shareholding in Rosneft.

Business model
For more information on our business model see page 12.

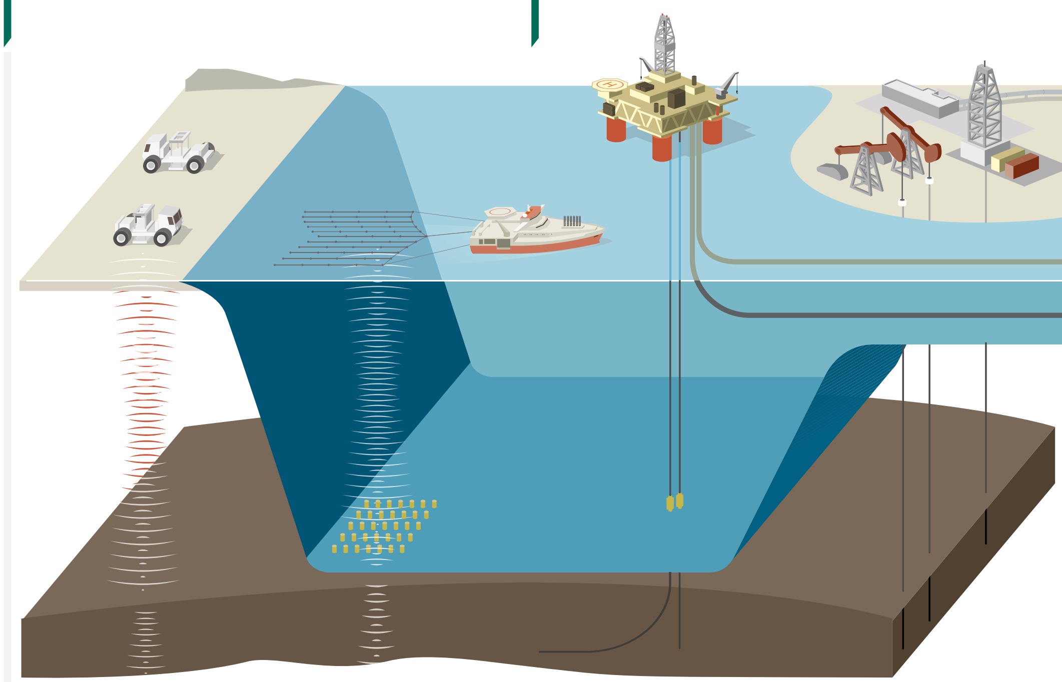
Our group key performance indicators (KPIs) are shown on page 18. Some of the financial KPIs are not recognized GAAP measures, but are provided for investors because they are closely tracked by management to evaluate BP's operating performance and to make financial, strategic and operating decisions.

Finding
oil and gas

First, we acquire exploration rights, then we search for hydrocarbons beneath the earth's surface.

Developing and extracting
oil and gas

Once we have found hydrocarbons, we work to bring them to the surface.



Group

BP p.l.c. is the parent company of the BP group of companies. Our worldwide headquarters is in London.

See KPIs page 18.

$23.5bn
profit attributable to BP shareholders

$21.1bn
operating cash flow[a]

16.2%
gearing (net debt ratio)[b]

3.2
million barrels of oil equivalent per day[c]

31
fewer reported losses of primary containment[d]

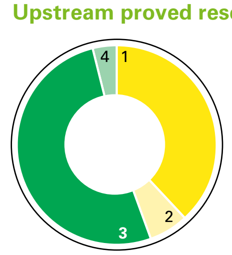
[a] See footnote a on page 56.
[b] Net debt is not a recognized GAAP measure, see Financial statements – Note 28.
[c] See footnote g on page 24.
[d] Compared with 2012.

Upstream

Our Upstream segment manages exploration, development and production activities through global functions with specialist areas of expertise.

See Upstream page 25.

Upstream proved reserves[e]



Liquids[f]	
1. Subsidiaries	4,349
2. Equity-accounted entities	745
Total	**5,094**
Natural gas	
3. Subsidiaries	5,894
4. Equity-accounted entities	434
Total	**6,328**

$16.7bn
replacement cost profit before interest and tax

43,000km²
new exploration access

2.3
million barrels of oil equivalent per day

3
Upstream major project start-ups

[e] Million barrels of oil equivalent. Natural gas is converted to oil equivalent at 5.8 billion cubic feet (bcf) = 1 million barrels. Excludes BP's share of Rosneft reserves. See Rosneft on page 36.
[f] Liquids comprise crude oil, condensate, natural gas liquids and bitumen.

All data provided on pages 2-5 is at or for the year ended 31 December 2013.

Transporting and trading
oil and gas

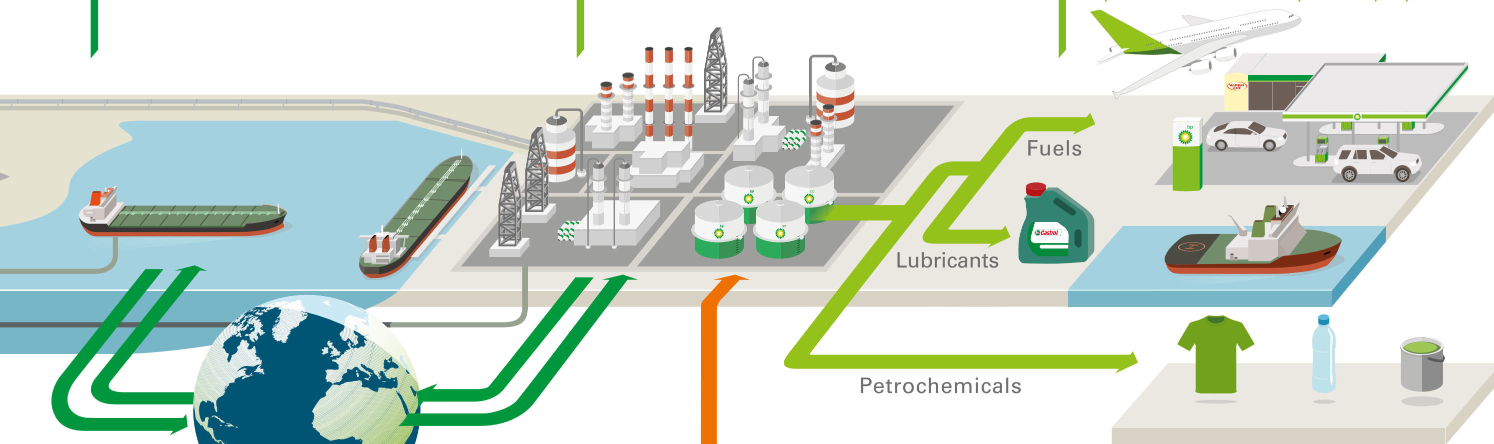
We move hydrocarbons using pipelines, ships, trucks and trains and we capture value across the supply chain.

Manufacturing
fuels and products

We refine, process and blend hydrocarbons to make fuels, lubricants and petrochemicals.

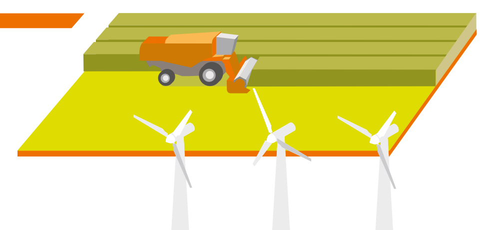
Marketing
fuels and products

We supply our customers with fuel for transportation, energy for heat and light, lubricants to keep engines moving and the petrochemicals required to make a variety of everyday items.



Investing
in renewable energy

We develop and invest in biofuels and operate a wind business. BP's lower-carbon businesses are managed through our Alternative Energy business.



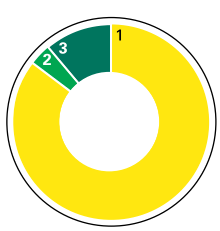
Downstream

Our Downstream segment operates hydrocarbon value chains covering three main businesses – fuels, lubricants and petrochemicals.

See Downstream page 31.

See Alternative Energy page 37.

Operating capital employed[g]



1. Fuels	$42.3bn
2. Lubricants	$1.8bn
3. Petrochemicals	$5.4bn

$2.9bn
replacement cost profit before interest and tax

1.8
million barrels of oil refined per day

7.4
million tonnes of biofuels – total sugar cane capacity per annum

13.9
million tonnes of petrochemicals produced in the year

40%
of our lubricants sales were premium grades

1,590MW
net wind generation capacity[h]

[g] Operating capital employed is total assets (excluding goodwill) less total liabilities, excluding finance debt and current and deferred taxation.

[h] Includes 32MW of capacity in the Netherlands, which is managed by our Downstream segment.

BP around the world

BP has operations in around 80 countries.

The shaded areas indicate countries where we have operations or interests.

Upstream[a]

- Primarily (>75%) liquids.
- Primarily (>75%) natural gas.
- Liquids and natural gas.
- Exploration site.

[a] Locations are categorized as liquids or natural gas based on 2013 production. Where production is yet to commence, categorization is based on proved reserves. Exploration sites have no significant proved reserves or production as at 31 December 2013.

Upstream see page 25.

Downstream

- Refinery.
- Petrochemicals site(s).

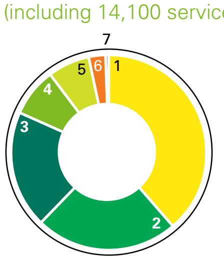
Downstream see page 31.

Alternative Energy

- Operational assets.
- Technology assets.

Alternative Energy see page 37.

BP group headcount by region
(including 14,100 service station staff)



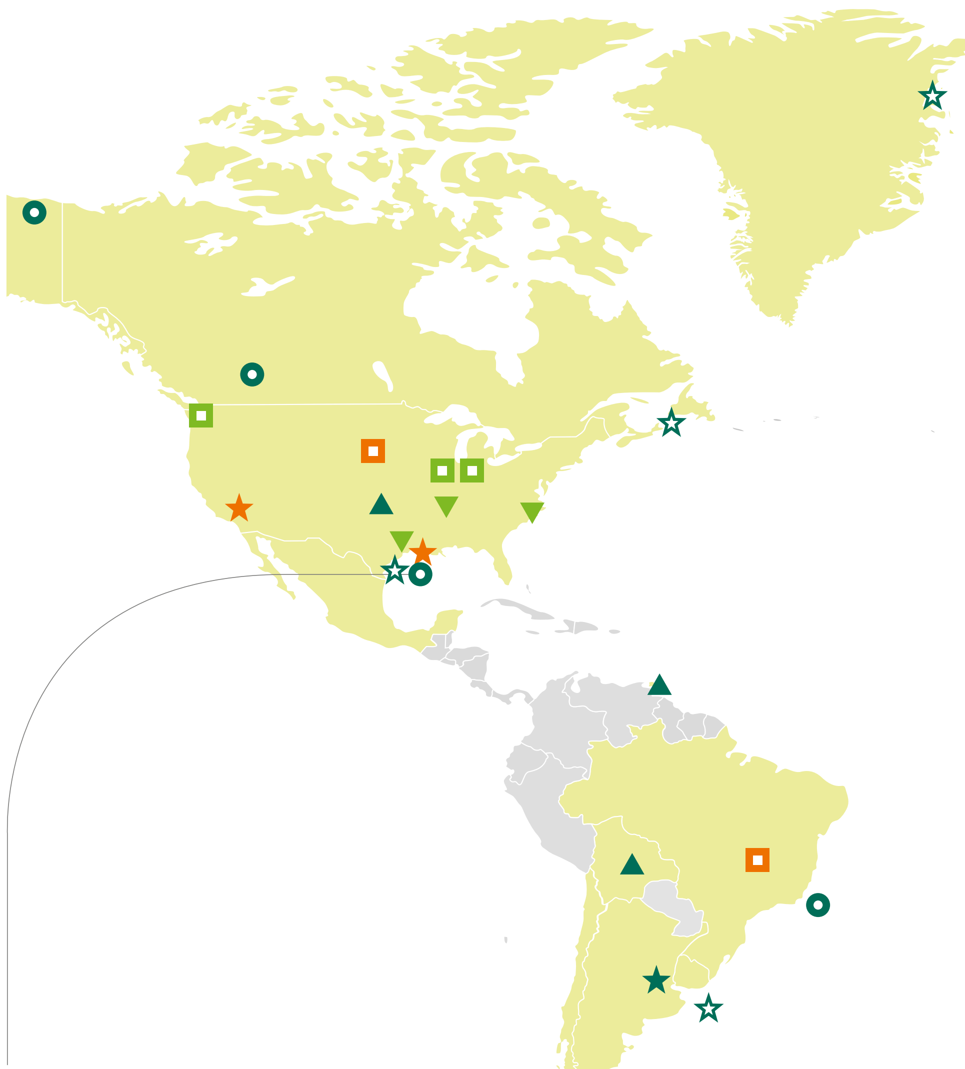
1. Europe	32,600
2. US and Canada	19,800
3. Asia	16,200
4. South and Central America	6,900
5. Middle East, North Africa	5,700
6. Sub-Saharan Africa	2,400
7. Russia	300
Total	**83,900**

Lubricants

We manufacture and market lubricants and related products and services directly in about 45 countries and use approved local distributors for other geographies. We leverage brand, technology and relationships, focusing our resources on core and growing markets such as Brazil, Russia, India and China.

Fuels

Our fuels business is made up of regionally based integrated fuels value chains, which include refineries and fuels marketing businesses together with global oil supply and trading activities. We supply fuel and related convenience services to consumers at approximately 17,800 BP-branded retail sites and have operations in almost 50 countries.



Gulf of Mexico

We have been exploring in the deepwater Gulf of Mexico for more than 25 years and have around 620 lease blocks, more than any other company. We produce from more than 10 fields including Thunder Horse and Atlantis – two of the Gulf's largest and deepest fields.

Alternative Energy

We operate three ethanol production facilities in Brazil, have a joint venture ethanol production facility in the UK and operate a biofuels technology centre in the US. We also have interests in 16 wind farms in the US.

North Sea

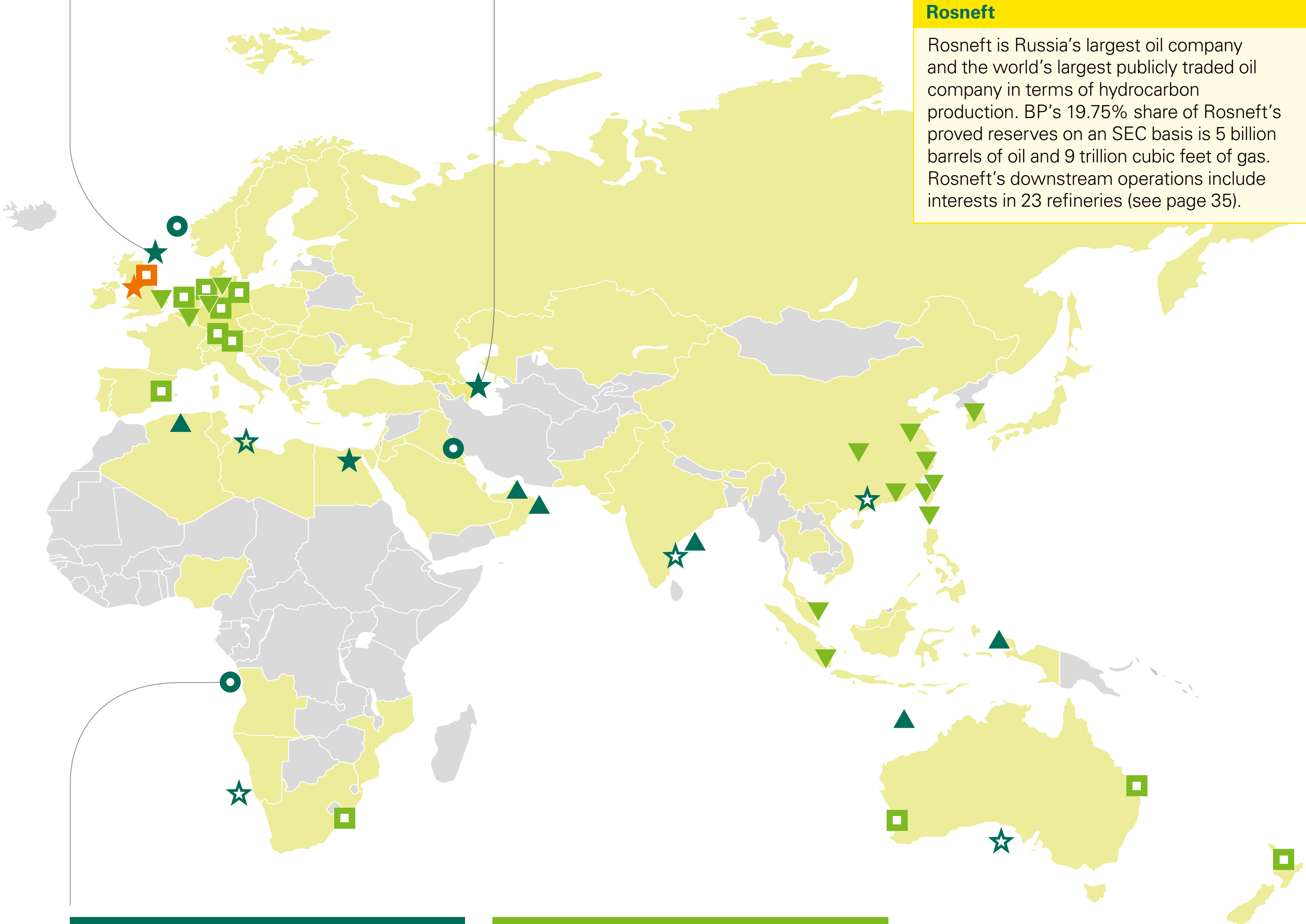
Our activity in the North Sea region encompasses the entire industry life cycle, from access and exploration to production and decommissioning. We operate more than 20 oil and gas fields, two major terminals and an extensive network of pipelines.

Azerbaijan

We invest more in Azerbaijan than any other foreign company, operating two production-sharing agreements as well as holding other exploration leases. The Caspian Sea is one of the world's major hydrocarbon provinces, and the development of the region's offshore oil and gas fields and onshore pipelines has made Azerbaijan a focal point of the global energy market.

Rosneft

Rosneft is Russia's largest oil company and the world's largest publicly traded oil company in terms of hydrocarbon production. BP's 19.75% share of Rosneft's proved reserves on an SEC basis is 5 billion barrels of oil and 9 trillion cubic feet of gas. Rosneft's downstream operations include interests in 23 refineries (see page 35).



Angola

We have interests in nine offshore deep and ultra deepwater blocks in Angola with a total acreage of more than 32,600km^2. Our Plutão, Saturno, Vénus and Marte (PSVM) offshore development began producing oil in December 2012 and is one of the largest subsea developments in the world.

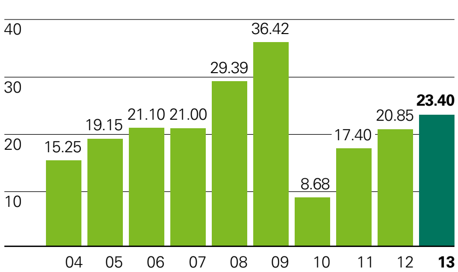
Petrochemicals

We produce petrochemicals products across our 15 manufacturing sites, and sell our products to customers in more than 40 countries. Approximately 45% of our capacity is in Asia, 30% in the US and 25% in Europe.

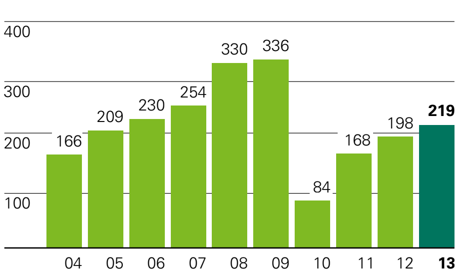
Chairman's letter

> The measures taken to secure and reshape the group are taking hold. BP is stronger and safer as a result.
>
> **Carl-Henric Svanberg**

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

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

Group chief executive's letter

> We made new discoveries, started up new operations, strengthened our portfolio and secured a new future in Russia.
>
> **Bob Dudley**

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.

95.3%

2013 refining availability.

129%

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

See footnote b on page 14.

Our strategy
For more on our strategic priorities and longer-term objectives see page 13.

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.

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.

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.

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

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.

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

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 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[c] 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.[d]

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
6 March 2014

[a] See footnote a on page 25.
[b] Excludes acquisitions and Rosneft transaction.
[c] See footnote c on page 56.
[d] See footnote b on page 56.

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.

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 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.

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.

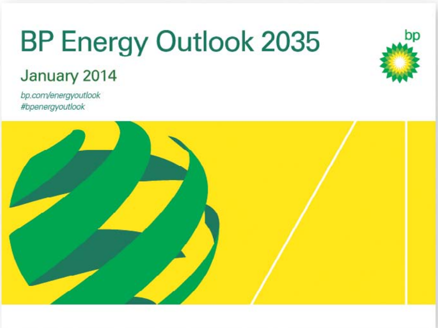
We believe these energy sources will represent about 54% of total energy consumption in 2035. Even under the International Energy Agency's most ambitious climate policy scenario (the 450 scenario), oil and gas would still make up 47% of the energy mix in 2035.[a] The 450 scenario assumes governments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

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.

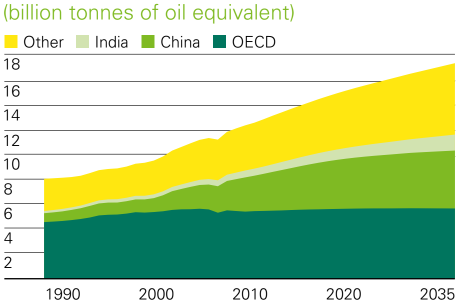
2013 pricing
See Upstream on page 26 and Downstream on page 32.



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.

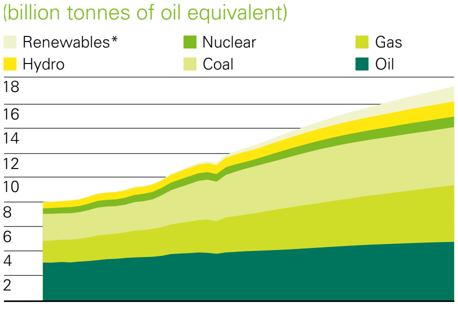
See *bp.com/energyoutlook.*

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.

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 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 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.

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.

◥ 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 →

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.

Developing and extracting →

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.

Transporting and trading →

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.

Manufacturing and marketing

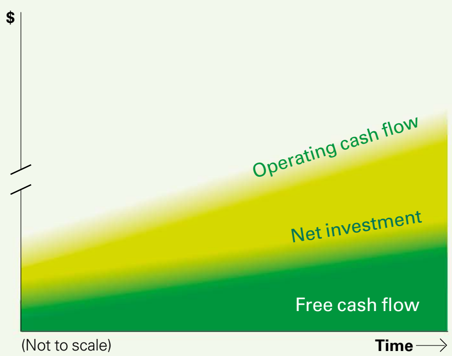
Using our technology and expertise, we manufacture fuels and products, creating value by seeking to operate a high-quality portfolio of well-located assets safely, reliably and efficiently. We market our products to consumers and other end-users and add value through the strength of our brands.

Our illustrated business model see page 2.

Our strategy

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

Financial discipline



This chart illustrates the expected relationship between operating cash flow[a], net investment[b] (includes capital expenditure offset by any divestments) and free cash flow[c]. It is not a projection of future performance.

- **Operating cash flow –** we aim to continue growing our operating cash flow, with an expected delivery of $30 billion to $31 billion in 2014.[d]
- **Capital expenditure –** we expect our annual capital expenditure[e] to remain between $24 billion and $25 billion in 2014 and to be in the range of $24 billion to $26 billion in the years 2015 to 2018.
- **Divestments –** we intend to divest $10 billion of assets before the end of 2015.
- **Free cash flow –** delivering sustainable free cash flow underpins our ability to deliver increasing shareholder returns.

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

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.

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

[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.

Our strategy in action

Delivering energy to the world

Safe, reliable and compliant operations

Disciplined financial choices

Competitive project execution

Grow our exploration position

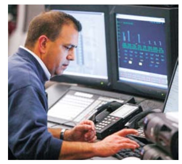
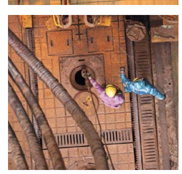
Focus on high-value upstream assets

Build high-quality downstream businesses

Our ability to deliver against our priorities and build the right portfolio depends on our distinctive capabilities.

See page 16.

[a] See footnote d on page 56.
[b] On a combined basis of subsidiaries and equity-accounted entities, excluding the impact of acquisitions and disposals. Includes BP's share of TNK-BP's production and reserves additions from 1 January 2013 to 20 March 2013, and BP's share of Rosneft production and reserves additions from 21 March 2013 to 31 December 2013.
[c] Combined production of subsidiaries and equity-accounted entities.

How we deliver	Our KPIs	Strategy in action in 2013		
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. See page 30.	**129%** reserves replacement ratio.
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. See page 27.	**3.2** million barrels of oil equivalent per day.
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. See page 33.	**95.3%** refining availability.

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, recovery, efficiency and products.

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

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 all areas of our business.

Our distinctive capabilities

Advanced technology

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*.

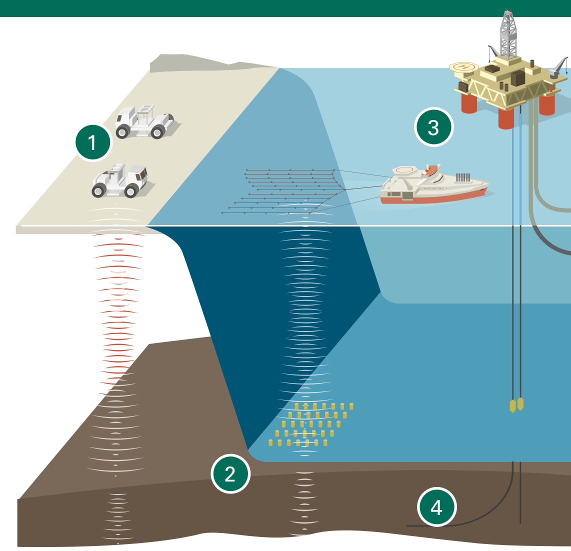
The Pangbourne technology centre is home to chemists and liquid engineers dedicated to providing products and services for *Castrol's* customers.

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.



1 2 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 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.

3 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.

4 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 oil from the sandstone rock where they are held.

5 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.

Proven expertise

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

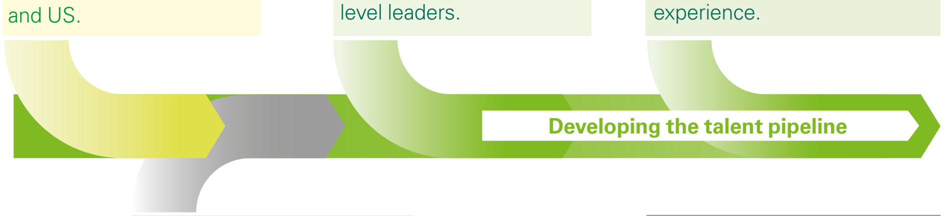
Our people are talented in a wide range of disciplines, from geoscience, mechanical engineering and research technology to government affairs, trading, marketing, legal and others. And our approach to professional development programmes and training helps build individual capabilities, reducing a potential 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.

Graduate intake
We hired 814 graduates, including 44% recruited from outside the UK and US.

Internal promotion
We promoted 4,979 employees including 645 group and senior level leaders.

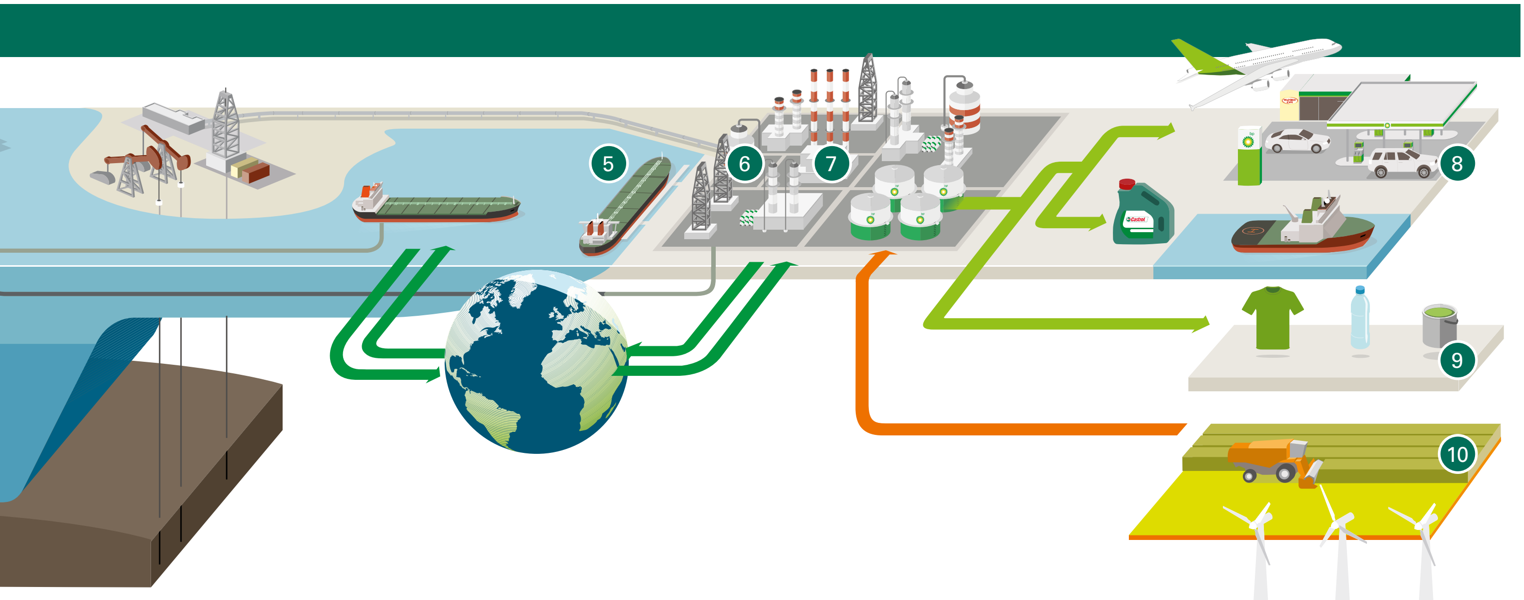
Group leaders
We have more than 500 group leaders with an average of 20 years' experience.



External hires
We hired 8,854 people including 211 group and senior level leaders.

LinkedIn ranked BP thirteenth most sought after company to work for in the world (see *linkedin.com/indemand*).

Employees
See page 47.



6 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.

7 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.

8 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.

9 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.

10 Biofuels

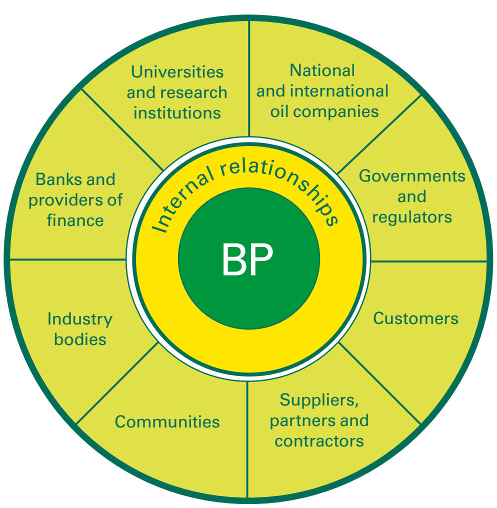
Conversion technology allows us to produce cellulosic ethanol using alternative raw materials such as agricultural waste and fast-growing energy grasses. At our biofuels technology centre in San Diego around 120 scientists are researching and advancing new biofuels technologies.

Strong relationships

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



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.

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.

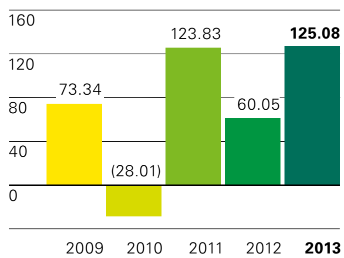
S KPIs used to measure progress against our strategy.

R KPIs used to determine 2013 and 2014 remuneration.

Not all financial KPIs are recognized GAAP measures, but are provided for investors because they are closely tracked by management to evaluate BP's operating performance and to make financial, strategic and operating decisions.

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

S R



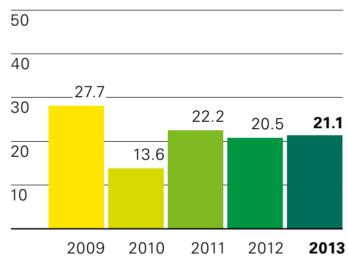
Replacement cost profit (loss) is a useful measure for investors because it is a profitability measure BP management use to assess performance and allocate resources.

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)

S R

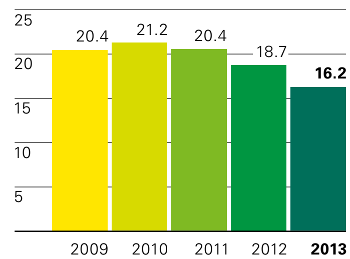


Operating cash flow is net cash flow provided by operating activities, from the group cash flow statement. Operating activities are the principal revenue-generating activities of the group and other activities that are not investing or financing activities.

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) (%)

S



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

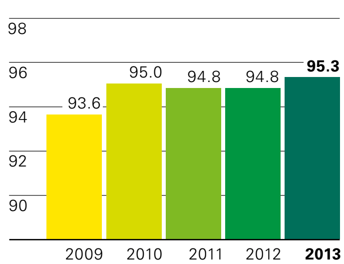
We aim to keep our gearing within the 10-20% range to give us the flexibility to deal with an uncertain environment.

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%.

Refining availability (%)

S



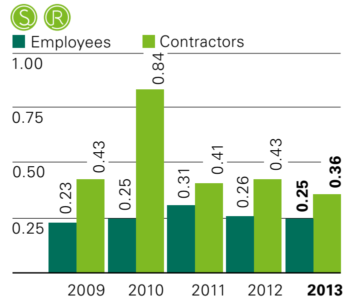
Refining availability represents Solomon Associates' operational availability. The measure shows the percentage of the year that a unit is available for processing after deducting the time spent on turnaround activity and all mechanical, process and regulatory maintenance downtime.

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]

S R



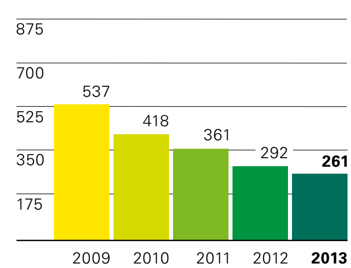
Reported recordable injury frequency (RIF) measures the number of reported work-related employee and contractor incidents that result in a fatality or injury (apart from minor first aid cases) per 200,000 hours worked.

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]

S R

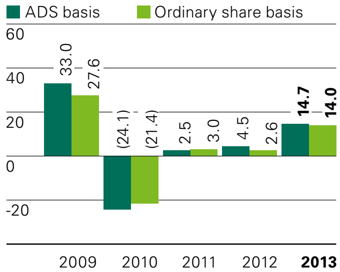


Loss of primary containment (LOPC) is the number of unplanned or uncontrolled releases of oil, gas or other hazardous materials from a tank, vessel, pipe, railcar or other equipment used for containment or transfer.

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.

Total shareholder return (%)

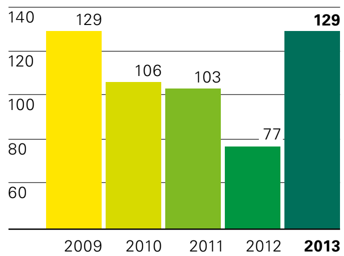


Total shareholder return (TSR) represents the change in value of a BP shareholding over a calendar year. It assumes that dividends are re-invested to purchase additional shares at the closing price on the ex-dividend date.

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 (%)



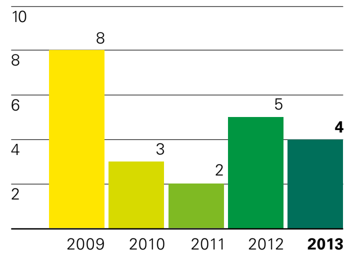
Proved reserves replacement ratio is the extent to which the year's production has been replaced by proved reserves added to our reserve base.

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 Azerbaijan.

Major project delivery

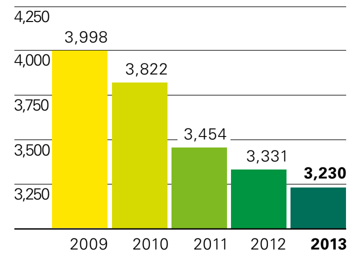


Major projects are defined as large-scale projects with a high degree of complexity and a BP net investment of at least $250 million.

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.

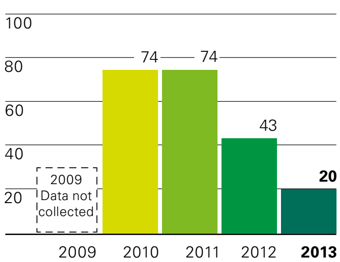
Production (mboe/d)



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.

Tier 1 process safety events[a]

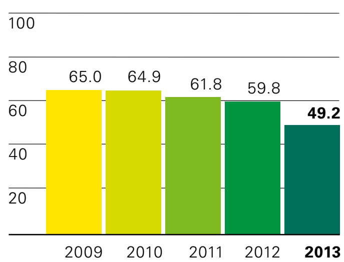


We report tier 1 process safety events (PSE), which are the losses of primary containment of greatest consequence – causing harm to a member of the workforce, costly damage to equipment or exceeding defined quantities.

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)

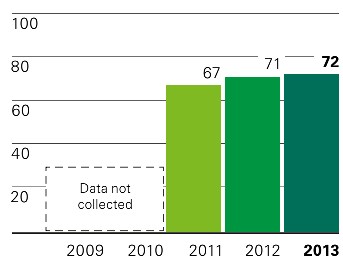


We report greenhouse gas (GHG) emissions material to our business on a carbon dioxide-equivalent basis. This includes CO_2 and methane for direct emissions.[b] Our GHG reporting encompasses all BP's consolidated entities as well as our share of equity-accounted entities other than BP's share of TNK-BP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

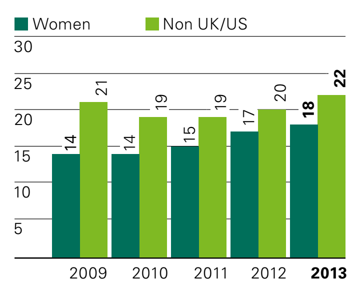


We track how engaged our employees are with our strategic priorities for building long-term value. The measure is derived from answers to 12 questions about BP as a company and how it is managed in terms of leadership and standards.

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.

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.

Directors' remuneration report
For the full report see *bp.com/remuneration* and ★ page 81.

Salary	Annual bonus	Deferred bonus	Performance shares	Pension and benefits
Reflects scale and dynamics of the business.	Variable level dependent on short-term performance.	Reinforces the long-term nature of the business and the importance of sustainability, and links more total remuneration to equity.	Links the largest portion of remuneration to long-term performance, with the level awarded varying according to performance based on measures directly linked to strategic priorities.	Recognizes competitive practice in home country.

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.

Strategy
See page 13.

KPIs
See page 18.

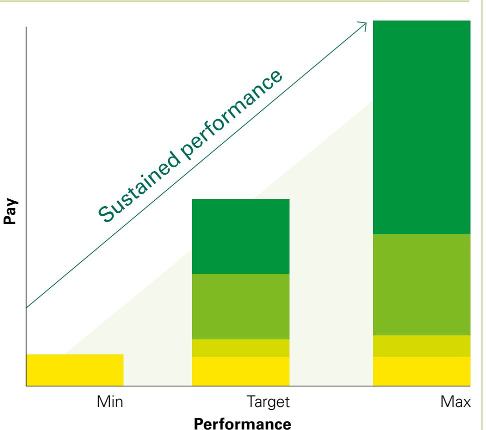
Group KPIs used as performance measures

- Operating cash flow
- Total shareholder return
- Reserves replacement ratio
- Major project delivery
- Recordable injury frequency
- Loss of primary containment
- Tier 1 process safety events
- Underlying replacement cost profit

2 Performance related

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

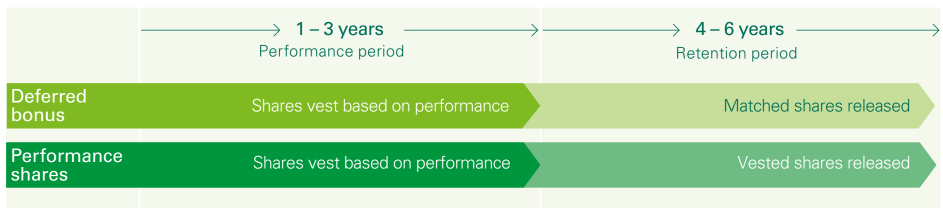
High pay requires high performance. Achieving the maximum pay requires sustained high performance over several years.



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.

> "There are no perfect measures. Conditions change. Events happen. Judgement is vital."
>
> **Antony Burgmans**

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 60).

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.

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.

→ 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.

→ 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]

→ 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.

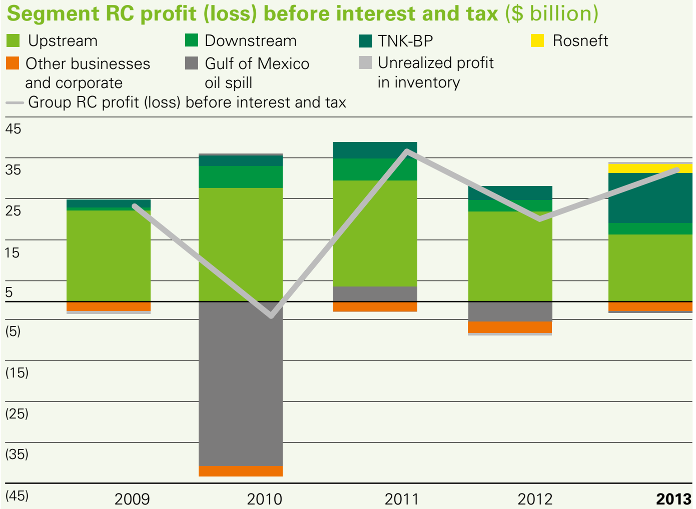
[a] Organic capital expenditure excludes acquisitions, asset exchanges, and other inorganic capital expenditure.
[b] See footnote a on page 25.
[c] See footnote f on page 13.
[d] See footnote g on page 13.
[e] See footnote a on page 56.
[f] See footnote b on page 56.

Group performance and outlook

Financial performance

	2013	2012	$ million 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

Segment RC profit (loss) before interest and tax ($ billion)



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.

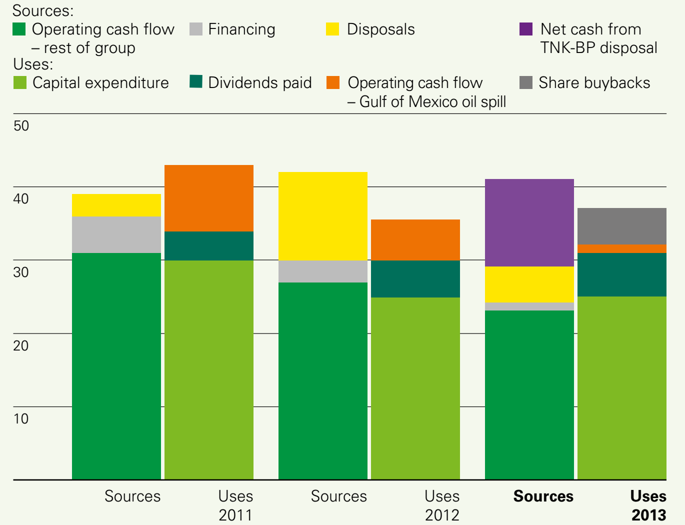
[a] Profit attributable to BP shareholders.

[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.

Sources and uses of cash ($ billion)



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.

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.

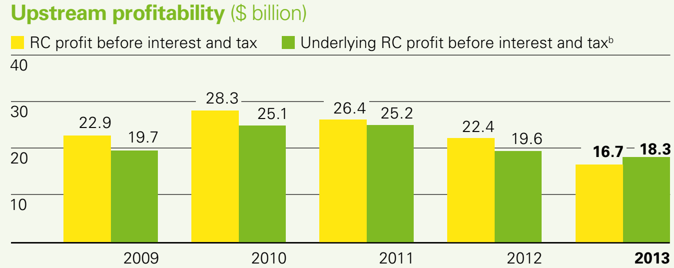
Our strategy is to invest to grow long-term value by continuing to build a portfolio of material, enduring positions in the world's key hydrocarbon basins. Our strategy is enabled by:

- 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.

Our performance – 2013 summary

- We continue our focus on improving safety performance. For more details on personal and process safety (see Safety on page 41).
- Our exploration function gained access to new potential resources covering more than 43,000km² in seven countries.
- In 2013 there were three major upstream project start-ups.
- We achieved an upstream BP-operated plant efficiency[a] of 88%.
- Disposal transactions generated $1.3 billion in proceeds in 2013.

Upstream profitability ($ billion)



See Financial performance on page 27 for an explanation of the main factors influencing Upstream profit in 2013 compared with 2012.

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 total achievable installed production capacity of the asset including the reservoir, well, plant and export system.
[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.

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

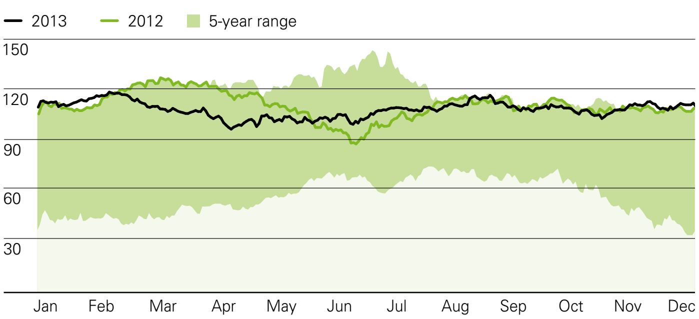
[a] All traded days average.
[b] Henry Hub First of Month Index.

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.

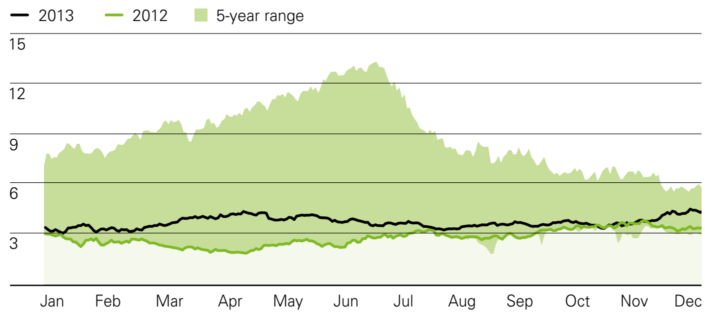
We expect oil price movements in 2014 to continue to be driven by the pace of global economic growth and its resulting implications for oil consumption, by supply growth in North America, and OPEC production decisions. Risks to supply remain a key uncertainty.

[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.

Preparing for Shah Deniz Stage 2

In 1999 we made one of our largest ever gas discoveries – Shah Deniz – on the deepwater shelf of the Caspian Sea. The reservoir is similar in size to Manhattan island and is being developed in stages. Production from Stage 1 started in 2006.

Stage 2 will open up the Southern Gas Corridor so that gas can be moved directly from Azerbaijan to Europe for the first time, helping to increase the energy security of European markets. With a total investment of more than $28 billion, this project will involve the construction and integration of activity related to 26 wells, two new platforms and onshore processing and compression facilities.

In 2013 we concluded 25-year sales agreements for more than 10 billion cubic metres per annum (bcma) to be produced from the Shah Deniz field as a result of Stage 2 – the largest sales contracts in Azerbaijan's history. This adds to existing 2011 agreements to sell 6bcma of gas, meaning that in total, 16bcma of Shah Deniz Stage 2 gas is to be sold in Italy, Greece, Bulgaria and Turkey through some 3,500km of pipelines to Europe. The agreements came into force following the final investment decision on the project on 17 December 2013.

S We are strengthening our portfolio of high-value and longer life assets.

Financial performance

	2013	2012	2011
			$ million
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.

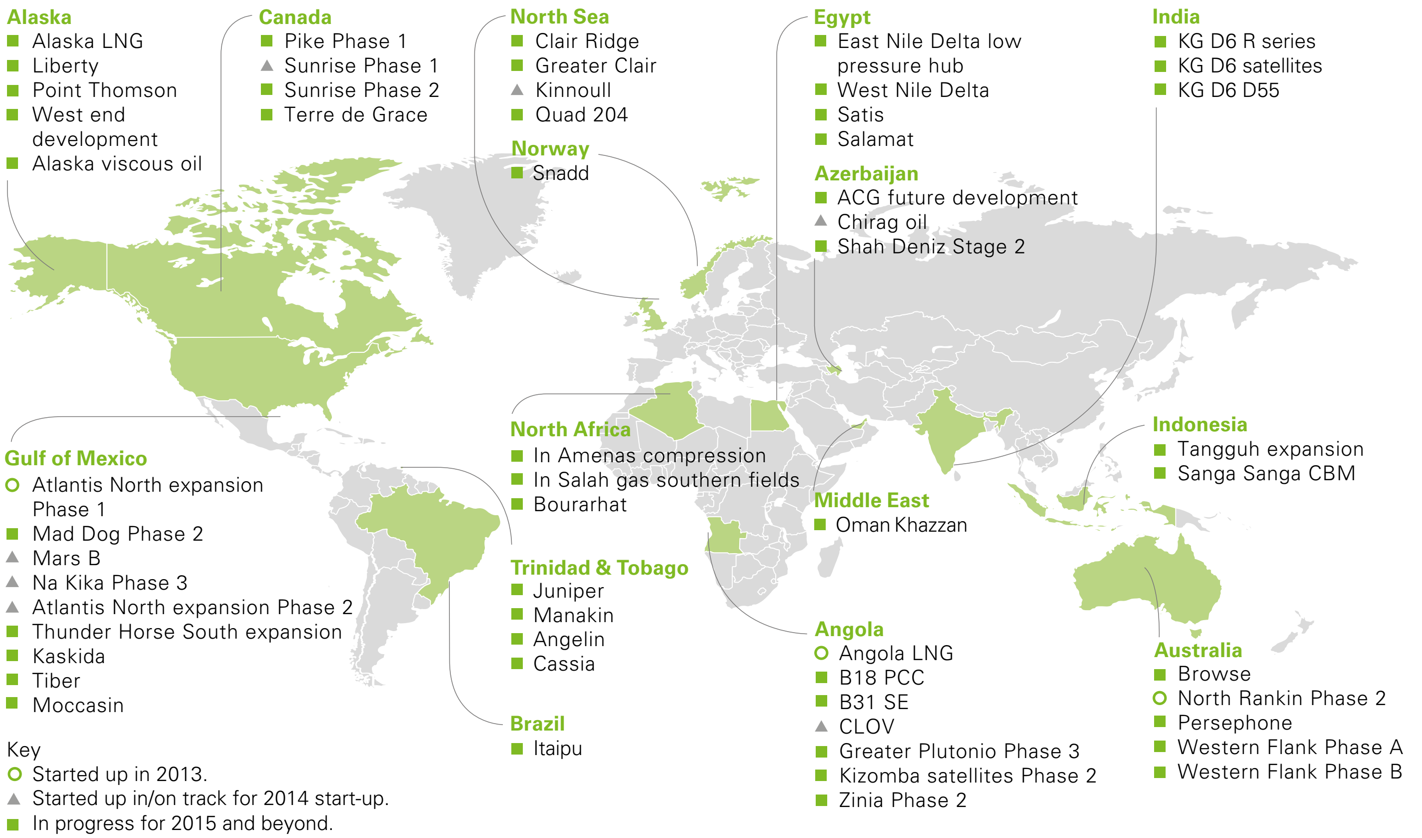
Acquisitions and disposals

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 43,000km² 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 25,000km² 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.

Maximizing value at Mad Dog

We continually review the development concepts of our projects to make sure they maximize value for shareholders. One example of this is Mad Dog Phase 2 in the Gulf of Mexico. The project builds on the existing Mad Dog development, which is designed to process 80,000 barrels of oil and 60 million cubic feet of gas per day.

For Phase 2, we originally planned to develop the remaining resource potential of the Mad Dog field through a large second platform. However, as we progressed the design and reviewed cost estimates, it became clear that market conditions and industry cost inflation made that selected concept less attractive than initially modelled.

As part of our commitment to efficient investments, we reviewed alternative lower-cost development concepts to ensure that we optimize project value and make the best financial choices. The current concept being considered consists of a subsea development with a single new production host that has been designed for future flexibility, allowing capture of additional resource potential.

We continue to review options to further enhance value including simplifying the topsides and subsea design, optimizing the location and number of wells and evaluating the required time to achieve first oil production. We expect the revised project to show improved economics compared with the previous concept.

We select only the best options that maximize value.

Discovering gas in India

In India, one of the fastest growing economies in the world, we operate across the full gas value chain as part of our strategic alliance with Reliance Industries. The relationship gives us a 30% share of key deepwater basin blocks off the country's east coast.

In 2013 we made two significant gas and condensate discoveries in the Krishna-Godavari basin and the Cauvery basin, a key milestone for our partnership with Reliance. Along with our exploration efforts to find new oil and gas, we aim to add value to our existing production in India by developing the gas we have already discovered.

These resources have the potential to help meet India's growing demand for energy, increasing gas supplied to market from 2018 onwards and improving energy security in the country.

We continue to grow our exploration position using our leading subsurface capabilities.

	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.

Downstream

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

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.

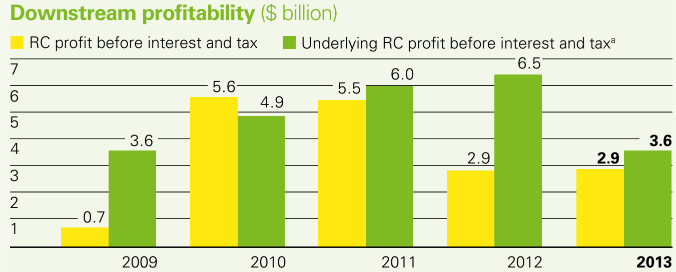
This strategy is about winning sustainably in the markets where we choose to participate. We seek to outperform the best competitor in a region and do it safely; investing to strengthen our established positions while maintaining overall capital employed, and still seeking to shift the mix of participation 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.

Our performance – 2013 summary

- Our personal and process safety performance improved compared with 2012 and 2011 (see Safety on page 41).
- We completed the commissioning of all major units for the Whiting refinery modernization project, transforming it into one of our key advantaged downstream assets and supporting our ability to deliver increased cash flow in 2014 and beyond.
- We also completed the sales of our Texas City and Carson refineries.
- Lubricants achieved steady replacement cost (RC) profit before interest and tax through our exposure to growth markets, technology investments and targeted marketing programmes.
- In petrochemicals, we announced two new proprietary technologies which we expect to lower manufacturing costs and increase efficiency for the production of key products.

Downstream profitability ($ billion)



See Financial performance on page 32 for an explanation of the main factors influencing Downstream profit in 2013 compared with 2012.

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.

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.

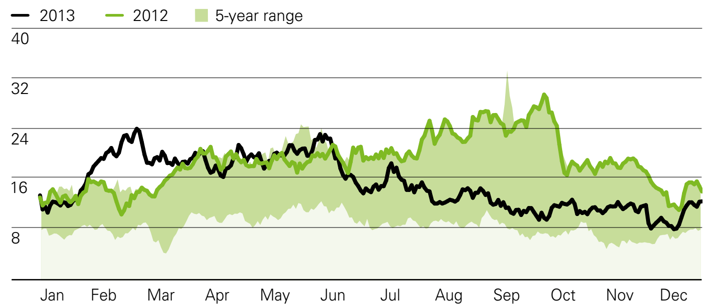
Refining marker margin

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.

	Crude marker	2013	2012	$ per barrel 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

	2013	2012	$ million 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.

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.

Creating our North American advantaged refinery

We are creating a portfolio of advantaged refineries in North America. At our Whiting refinery we've commissioned all the major units for our largest project in recent history, helping us move towards that goal.

We built or reconfigured almost every process unit as part of the modernization project. This included new crude distillation and coking units and improved hydro-treating sulphur recovery and increasing coking capacity. Across the 1,400 acre site we installed around 380 miles of pipe – more than enough to run from London, England to Glasgow in Scotland. This work has improved productivity and safety at the refinery, creating the potential to increase our heavy sour crude processing.

This, combined with Whiting's advantaged Midwest location, gives us the additional flexibility to process crude from three major geographic sources (Canada, US mid-continent and Gulf Coast), supporting our ability to deliver increased cash flow.

Our Downstream business provides significant cash generation for the group.

Refinery throughputs[a]	2013	2012	2011
			thousand barrels per day
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.

Retail sites[f]	2013	2012	2011
			Number of retail sites operated under a BP brand
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.

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.

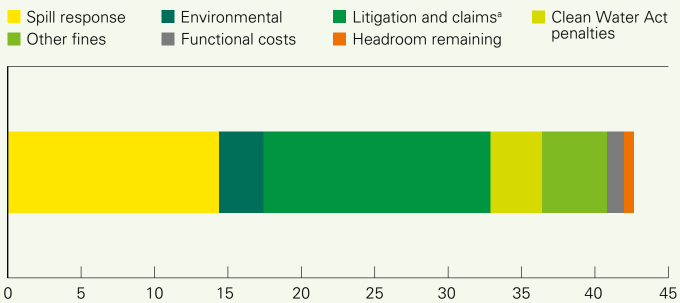
Outlook

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.

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.

Analysis of cumulative charges to the income statement
($ billion)



[a] The litigation and claims cost is net of recoveries of $5.7 billion.

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*.

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.

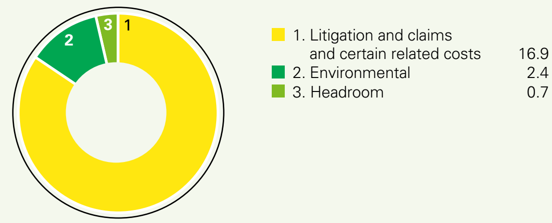
Deepwater Horizon Oil Spill Trust update

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.

Amounts payable from the Trust fund ($ billion)



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.

Corporate responsibility

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

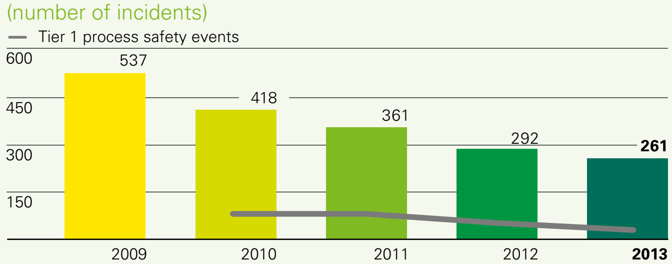
Fire safety training in Angola.

Safety

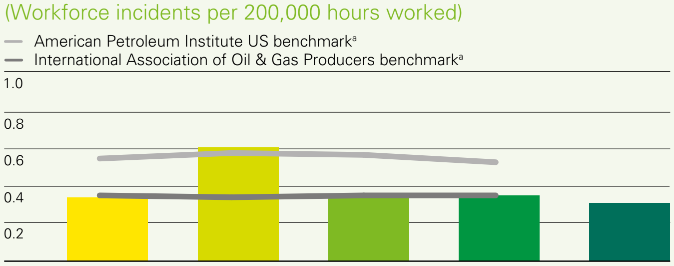
We continue to promote deep capability and a safe operating culture across BP.

- Our operating management system (OMS) is a group-wide framework designed to provide a basis for managing our operations in a systematic way.
- We continue to make progress on all of the remaining recommendations from BP's internal investigation regarding the Deepwater Horizon accident (the Bly Report).
- We are focusing on developing deeper, longer-term relationships with selected contractors in our Upstream business.

Loss of primary containment and tier 1 process safety events
(number of incidents)



Recordable injury frequency
(Workforce incidents per 200,000 hours worked)



	2009	2010	2011	2012	**2013**
Employees	0.23	0.25	0.31	0.26	**0.25**
Contractors	0.43	0.84	0.41	0.43	**0.36**

[a] API and OGP 2013 data reports are not available until May 2014.

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.

A commitment to safe operations

Every day at Toledo refinery, a joint arrangement with Canada's Husky Energy, we make enough gasoline for around 3,200 cars to drive once around the world. The site processes up to 160,000 barrels per day of crude oil to make gasoline, diesel and other products, and has the capability to refine a range of North American sourced crudes.

We strive to achieve an incident and injury-free environment at the refinery, with everyone promoting safer working practices and making sure incidents and near misses are reported. Workers demonstrated this with their safe approach to the design, construction and commissioning of the refinery's naphtha reformer which increases energy efficiency and reduces air emissions.

In November 2013, this commitment to safe, compliant and reliable operations was recognized when the refinery passed 12 million work hours without a day away from work injury – almost three years of work – a new record in the site's 93-year history.

Toledo has also continued to improve process safety with an 80% reduction in reportable losses of primary containment in 2013 versus 2011.

We prioritize the safety and reliability of our operations.

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.

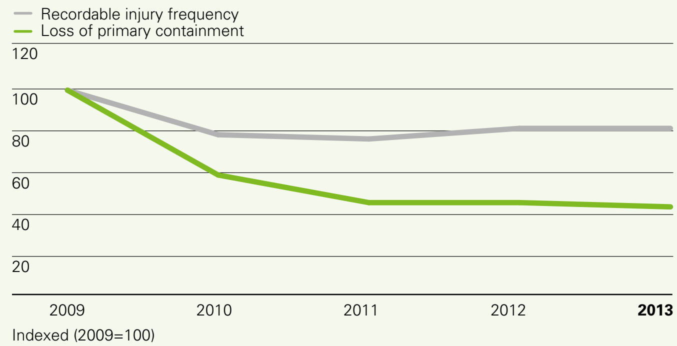
Security and crisis management
The scale and spread of BP's operations means we must prepare for a range of potential business disruptions and emergency events. BP monitors for and aims to guard against hostile actions that could cause harm to our people or disrupt our operations, including physical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

Key safety metrics 2009-2013



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.

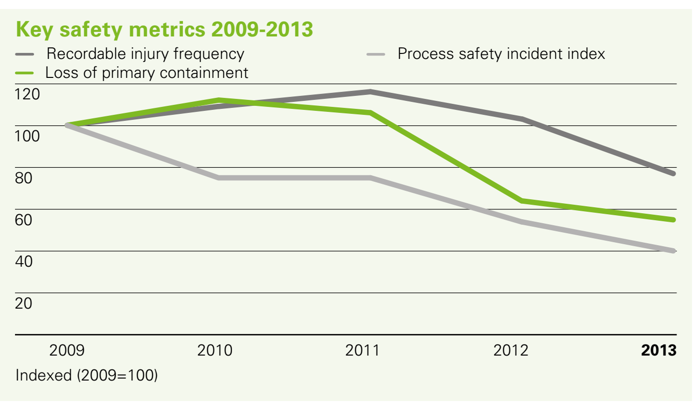
Process safety monitor

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

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.

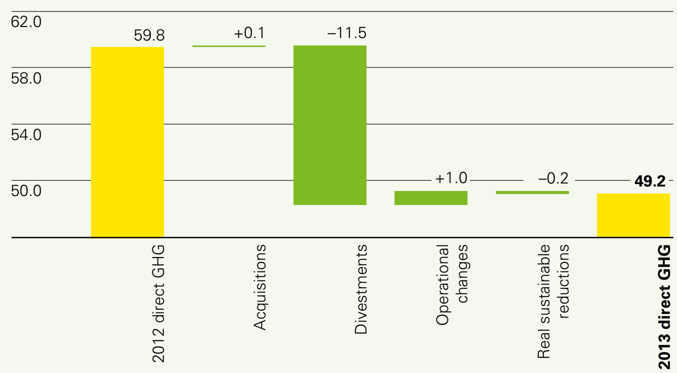
We introduced a group policy in 2013 to provide a consistent framework for identifying and managing BP's exposure related to safety and operational risk, as well as bribery and corruption risk, from our participation in new and existing non-operated joint arrangements.

Environment and society

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

- All of our major operating sites, with the exception of recently acquired operations, were certified to the environmental management system standard ISO 14001 in 2013.
- All of our businesses that have the potential to spill oil are updating oil spill planning scenarios and response strategies.
- We are working towards aligning with the United Nations Guiding Principles on Business and Human Rights.
- We actively monitor and report greenhouse gas emissions to improve our understanding and management of potential carbon risks.

Greenhouse gas emissions
(Mte CO_2 equivalent)



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.

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*.

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.

- Our values and code of conduct define the expected qualities and actions of all our people.
- We aim for a workforce that is engaged and that is representative of the societies where we operate.
- We aim to develop the skills we need from within our existing workforce and complement this with targeted external recruitment.

Our values

Safety

Respect

Excellence

Courage

One Team

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 59 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.

Increasing oil production in Azerbaijan

Installing our ninth offshore platform in Azerbaijan, and eighth in the Azeri-Chirag-Gunashli (ACG) field, involved local construction and transportation of the heaviest structure ever installed in the Caspian Sea.

Thousands of people, mostly from Azerbaijan, contributed to the start-up of the West Chirag platform in January 2014. For the first time in the country's history, the platform fabrication work was fully constructed in Azerbaijan, making use of local infrastructure, resources and skilled labour. Meeting the scale of the challenge meant that many facilities, including the construction yard and installation vessels, had to be upgraded to make the enormous construction works possible.

The $6-billion Chirag oil project is designed to increase our production and recovery from the ACG field, and West Chirag has the capacity to produce an additional 183,000 barrels of oil per day. The project was executed without any day away from work cases recorded, demonstrating dedication from everyone involved to maintain high safety standards.

S We seek efficient ways to deliver projects on time and on budget.

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.

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.

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.

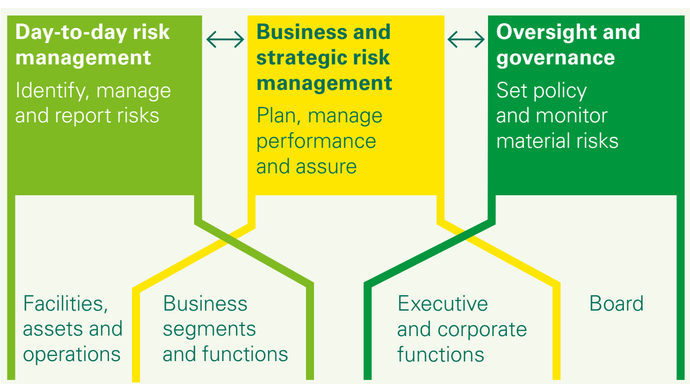
Our management systems, organizational structures, processes, standards, code of conduct and behaviours together form a system of internal control that governs how we conduct the business of BP and manage associated risks.

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

- Executive team meeting – for strategic and commercial risks.
- Group operations risk committee – for health, safety, security, environment and operations integrity risks.
- Group financial risk committee – for finance, treasury, trading and cyber risks.
- Group disclosure committee – for financial reporting risks.
- Group people committee – for employee risks.
- Resource commitment meeting – for risks related to investment decisions.
- Group ethics and compliance committee – for risks associated with legal and regulatory compliance and ethics.

Board and its committees

- 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.

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.

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 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.

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.

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.

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.

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.

Board of directors

As at 6 March 2014

Carl-Henric Svanberg
Chairman
Chair of nomination and chairman's committees; attends Gulf of Mexico, SEEAC and remuneration committees

Bob Dudley
Group chief executive

Paul Anderson
Non-executive director
Chair of the SEEAC; member of the chairman's, Gulf of Mexico and nomination committees

Admiral Frank Bowman
Non-executive director
Member of the chairman's, SEEAC and Gulf of Mexico committees

Antony Burgmans KBE
Non-executive director
Chair of the remuneration committee; member of the chairman's, SEEAC and nomination committees

Cynthia Carroll
Non-executive director
Member of the chairman's, SEEAC and nomination committees

Iain Conn
Chief executive, Downstream

George David
Non-executive director
Member of the chairman's, audit, Gulf of Mexico and remuneration committees

Ian Davis
Non-executive director
Chair of the Gulf of Mexico committee; member of the chairman's, nomination and remuneration committees

Professor Dame Ann Dowling
Non-executive director
Member of the chairman's, SEEAC and remuneration committees

Dr Brian Gilvary
Chief financial officer

Brendan Nelson
Non-executive director
Chair of the audit committee; member of the chairman's and nomination committees

Phuthuma Nhleko
Non-executive director
Member of the chairman's and audit committees

Andrew Shilston
Senior independent director
Member of the chairman's and audit committees; attends nomination committee

Board biographies
Board biographies can be found in *BP Notice of Meeting 2014* and *BP Annual Report and Form 20-F 2013*. Board and executive team biographies can be found at *bp.com/governance*.

David Jackson
Company Secretary

Summary directors' remuneration report

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 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 61, 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 62, 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.

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

Directors' remuneration report
For the full report see *bp.com/remuneration* and ★ page 81.

Total remuneration summary

Executive directors

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	
Deferred bonus in respect of bonus year		**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Total deferred bonus	Value (thousand)	**$1,172**	$1,674	**£481**	£748	**£462**	£732	**$0**	$1,420
Total deferred converted to shares	Shares	**149,628**	229,380	**100,563**	161,296	**96,653**	157,630	**0**	194,556
Total matched shares	Shares	**149,628**	229,380	**100,563**	161,296	**96,653**	157,630	**0**	32,424
Vesting date		**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2016	**Feb 2017**	Feb 2016
Performance share element		**2013-2015**	2012-2014	**2013-2015**	2012-2014	**2013-2015**	2012-2014	**2013-2015**	2012-2014
Potential maximum shares		**1,384,026**	1,343,712	**694,688**	660,633	**637,413**	624,434	**142,278**	414,468
Vesting date		**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015	**Feb 2016**	Feb 2015

Non-executive directors

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)

All fees in £ thousand	2013	Total fees 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.

Remuneration policy table

Element and purpose	Operation and opportunity	
Salary and benefits Provides base-level fixed remuneration to reflect the scale and dynamics of the business, and to be competitive with the external market. See page 100.	• Salaries are normally set in the home currency of the executive director and reviewed annually. • Salary levels and total remuneration of oil and other top European multinationals, and related US corporations, are considered by the committee. Internally, increases for the group leaders as well as all employees in relevant countries are considered.	• Salary increases will be in line with all employee increases in the UK and US and limited to within 2% of average increases for the group leaders. • Benefits reflect home country norms. The current package of benefits will be maintained, although the taxable value may fluctuate.
Annual bonus Provides a variable level of remuneration dependent on short-term performance against the annual plan. See page 100.	• Total overall bonus (before any deferral) is based on performance relative to measures and targets reflected in the annual plan, which in turn reflects BP's strategy. • On-target bonus is 150% of salary with 225% as maximum.	• Achieving annual plan objectives equates to on-target bonus. The level of threshold payout for minimum performance varies according to the nature of the measure in question.
Deferred bonus Reinforces the long-term nature of the business and the importance of sustainability, linking a further part of remuneration to equity. See page 101.	• A third of the annual bonus is required to be deferred and up to a further third can be deferred voluntarily. This deferred bonus is awarded in shares. • Deferred shares are matched on a one-for-one basis, and both deferred and matched shares vest after three years depending on an assessment by the committee of safety and environmental sustainability over the three-year period.	• Where shares vest, additional shares representing the value of reinvested dividends are added. • Before being released, all matched shares that vest after the three-year performance period are subject (after tax) to an additional three-year retention period.
Performance shares Ties the largest part of remuneration to long-term performance. The level varies according to performance relative to measures linked directly to strategic priorities. See page 102.	• Shares up to a maximum value of five and a half times salary for the group chief executive and four times salary for the other executive directors can be awarded annually. • Vesting of shares after three years is dependent on performance relative to measures and targets reflecting BP's strategy.	• Where shares vest, additional shares representing the value of reinvested dividends are added. • Before being released, those shares that vest after the three-year performance period are subject (after tax) to an additional three-year retention period.
Pension Recognizes competitive practice in home country. See page 103.	• Executive directors participate in the company pension schemes that apply in their home country. • Current UK executive directors remain on a defined benefit pension plan and receive a cash supplement of 35% of salary in lieu of future service accrual when they exceed the annual allowance set by legislation.	• Current US executive directors participate in transition arrangements related to heritage plans of Amoco and Arco and normal defined benefit plans that apply to executives with an accrual rate of 1.3% of final earnings (salary plus bonus) for each year of service.

Note: The full remuneration policy is set out at *bp.com/remuneration*.

Performance framework		Changes to policy
• Salary increases are not directly linked to performance. However a base-line level of personal contribution is needed in order to be considered for a salary increase and exceptional sustained contribution may be grounds for accelerated salary increases.		No change to policy.
• Specific measures and targets are determined each year by the remuneration committee. • A proportion will be based on safety and operational risk management and is likely to include measures such as loss of primary containment, recordable injury frequency and tier 1 process safety events.	• The principal measures of annual bonus will be based on value creation and may include financial measures such as operating cash flow, replacement cost operating profit and cost management, as well as operating measures such as major project delivery, Downstream net income per barrel and Upstream unplanned deferrals. The specific metrics chosen each year will be set out and explained in the annual report on remuneration.	No change to policy.
• Both deferred and matched shares must pass an additional hurdle related to safety and environmental sustainability performance in order to vest. • If there has been a material deterioration in safety and environmental metrics, or there have been major incidents revealing underlying weaknesses in safety and environmental management then the committee, with advice	from the safety, ethics and environmental assurance committee, may conclude that shares vest in part, or not at all. • All deferred shares are subject to clawback provisions if they are found to have been granted on the basis of materially misstated financial or other data.	Introduction of an additional three-year retention period on matched shares that vest. This results in a six-year plan, the same as for performance shares.
• Performance shares will vest on the following three performance measures: – Total shareholder return relative to other oil majors. – Operating cash flow. – Strategic imperatives. • Measures based on relative performance to oil majors will vest 100%, 80%, 25% for first, second and third place finish respectively and 0% for fourth or fifth position.	• The committee identifies the specific strategic imperatives to be included every year and may also alter the other measures if others are deemed to be more aligned to strategic priorities. These are explained in the annual report on remuneration. • The committee may exercise judgement to adjust vesting outcomes if it concludes that the formulaic approach does not reflect the true underlying performance of the company's business or is inconsistent with shareholder benefits. • All performance shares are subject to clawback provisions if they are found to have been granted on the basis of materially misstated financial or other data.	Override provision extended requiring high levels of vesting to be consistent with shareholder benefit. More stringent vesting schedule for those metrics that are measured on performance relative to the other four oil majors. Third place finish reduced from 35% to 25% and second place increased from 70% to 80%.
• Pension in the UK is not directly linked to performance. • Pension in the US includes bonus in determining benefit level.		No change to policy.

Summary consolidated financial statements

These summary consolidated financial statements represent an abridged version of the financial statements in *BP Annual Report and Form 20-F 2013*, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted for use by the European Union (EU). IFRS as adopted for use by the EU differs in certain respects from IFRS as issued by the IASB, however, the differences have no impact on the group's consolidated financial statements for the years presented.

These summary consolidated financial statements do not contain sufficient information as to allow for a full understanding of the results and state of affairs of BP, in particular, they do not include important disclosures relating to the Gulf of Mexico oil spill and other matters. These statements are not BP's statutory accounts for the year ended 31 December 2013. The statutory accounts are to be filed with the Registrar of Companies. The independent auditor's report on the consolidated financial statements: (i) was unqualified; (ii) included a statement that the information given in the Strategic report and the Directors' report in *BP Annual Report and Form 20-F 2013* was consistent with the financial statements and that statement was also unqualified; and (iii) included an emphasis of matter paragraph relating to significant uncertainty over provisions and contingencies related to the Gulf of Mexico oil spill.

Comparative financial information for 2011 and 2012 in the summary consolidated financial statements shown below has been restated to reflect the adoption of amendments to IAS 19 'Employee Benefits' and IFRS 11 'Joint Arrangements'. For further information see Financial statements – Note 1.

Summary group income statement

For the year ended 31 December			$ million
	2013	2012	2011
Total revenues and other income	**396,217**	388,074	386,216
Purchases	**298,351**	292,774	285,133
Manufacturing, exploration and production expenses	**37,556**	43,212	33,895
Depreciation, depletion, amortization, impairments and losses on sale of businesses and fixed assets	**15,471**	18,962	13,415
Distribution and administration expenses	**13,070**	13,357	13,958
Profit before interest and taxation	**31,769**	19,769	39,815
Finance costs	**1,068**	1,072	1,187
Net finance expense relating to pensions and other post-retirement benefits	**480**	566	400
Profit before taxation	**30,221**	18,131	38,228
Taxation	**6,463**	6,880	12,619
Profit for the year	**23,758**	11,251	25,609
Attributable to			
BP shareholders	**23,451**	11,017	25,212
Non-controlling interests	**307**	234	397
	23,758	11,251	25,609
Earnings per share – cents			
Profit for the year attributable to BP shareholders			
Basic	**123.87**	57.89	133.35
Diluted	**123.12**	57.50	131.74

Income statement
For information on the group income statement, see Group performance on page 23.

Group statement of comprehensive income

For the year ended 31 December			$ million
	2013	2012	2011
Profit for the year	**23,758**	11,251	25,609
Other comprehensive income	**(892)**	975	(4,612)
Total comprehensive income	**22,866**	12,226	20,997
Attributable to			
BP shareholders	**22,574**	11,988	20,613
Non-controlling interests	**292**	238	384
	22,866	12,226	20,997

Group statement of changes in equity

	BP shareholders' equity	Non-controlling interests	Total equity
			$ million
At 1 January 2013	**118,546**	**1,206**	**119,752**
Total comprehensive income	**22,574**	**292**	**22,866**
Dividends	**(5,441)**	**(469)**	**(5,910)**
Repurchase of ordinary share capital	**(6,923)**	**–**	**(6,923)**
Share-based payments (net of tax)	**473**	**–**	**473**
Share of equity-accounted entities' changes in equity, net of tax	**73**	**–**	**73**
Transactions involving non-controlling interests	**–**	**76**	**76**
At 31 December 2013	**129,302**	**1,105**	**130,407**
At 1 January 2012	111,568	1,017	112,585
Total comprehensive income	11,988	238	12,226
Dividends	(5,294)	(82)	(5,376)
Share-based payments (net of tax)	284	–	284
Transactions involving non-controlling interests	–	33	33
At 31 December 2012	118,546	1,206	119,752

Statement of changes in equity
For information on the group statement of changes in equity, see Liquidity and capital resources on page 56.

Summary group cash flow statement

For the year ended 31 December			$ 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

Cash flow statement
For information on the group cash flow statement, see Group performance on page 24 and Liquidity and capital resources on page 57.

Summary group balance sheet

At 31 December		$ million
	2013	2012
Fixed assets	**195,310**	176,469
Other non-current assets	**13,540**	12,613
Non-current assets	**208,850**	189,082
Current assets	**96,840**	111,384
Total assets	**305,690**	300,466
Current liabilities	**72,812**	77,175
Non-current liabilities	**102,471**	103,539
Total liabilities	**175,283**	180,714
Net assets	**130,407**	119,752
Equity		
BP shareholders' equity	**129,302**	118,546
Non-controlling interests	**1,105**	1,206
Total equity	**130,407**	119,752

Balance sheet
For information on the group balance sheet, see Liquidity and capital resources on page 56.

Shareholder information

Company Secretary: David Jackson
Registered Office: 1 St. James's Square, London SW1Y 4PD

2014 shareholder calendar[a]

28 March	Fourth quarter interim dividend payment for 2013
10 April	Annual General Meeting
29 April	First quarter results announced
9 May	Record date (to be eligible for the first quarter interim dividend)
20 June	First quarter interim dividend payment
29 July	Second quarter results announced
31 July	8% and 9% preference shares dividend payment
8 August	Record date (to be eligible for the second quarter interim dividend)
19 September	Second quarter interim dividend payment
28 October	Third quarter results announced
7 November	Record date (to be eligible for the third quarter interim dividend)
19 December	Third quarter interim dividend payment

[a] All future dates are provisional and may be subject to change.

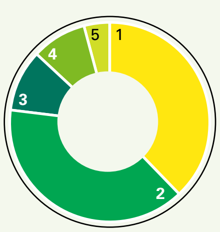
Share dealing service

In December 2013, BP launched a new share dealing service to its European Economic Area based retail shareholders. This service enables eligible shareholders to buy, sell or donate ordinary shares easily. Please visit the BP Share Centre at *www.mybpshares.com* to access the frequently asked questions to find out more.

Share capital

	31 Dec 2013
Ordinary shares of 25 US cents each (excluding shares held in treasury)	18,638,693,405
8% Cumulative first preference shares of £1 each	7,232,838
9% Cumulative second preference shares of £1 each	5,473,414

Geographical share ownership[b]



1. UK	38%
2. US	39%
3. Rest of Europe	10%
4. Rest of world	9%
5. Miscellaneous[c]	4%

[b] Represents BP's best efforts to determine ownership of the group's shares, based on analysis of the year-end share register.
[c] Miscellaneous represents unidentified shares that are awaiting confirmation of the identity of the holder and the nature of their interest in the shares following enquiries made under section 793 of the Companies Act 2006.

Major shareholders

	% as at 18 Feb 2014
Guaranty Nominees Limited[d]	28.51
BlackRock, Inc.	5.73
Legal & General Group plc	3.51
The Capital Group Companies, Inc.	3.35

[d] Nominee for JPMorgan Chase Bank, N.A., depositary for American depositary shares (ADSs).

Annual General Meeting (AGM)

The 2014 AGM will be held on Thursday, 10 April 2014 at 11.30 am at ExCeL London, One Western Gateway, Royal Victoria Dock, London E16 1XL. A separate notice convening the meeting is distributed to shareholders, which includes an explanation of the items of business to be considered at the meeting.

Dividends

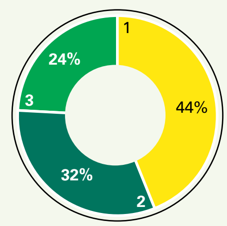
Full information regarding dividends announced and paid by the company on ordinary shares, ADSs and preference shares is provided in the full *BP Annual Report and Form 20-F 2013* or at *www.bp.com/dividends*.
The following table shows dividends announced and paid by the company in the past year on ordinary shares.

Dividends paid ordinary shares	UK pence[e]	US cents[e]	US cents[f]
Fourth quarter 2012	6.0013	9.00	54.00
First quarter 2013	5.8342	9.00	54.00
Second quarter 2013	5.7630	9.00	54.00
Third quarter 2013	5.8008	9.50	57.00

[e] Per ordinary share.
[f] Per ADS (1 ADS represents 6 ordinary shares).

A Scrip Dividend Programme was approved by shareholders in 2010 which enables BP ordinary shareholders and ADS holders to elect to receive new fully paid BP ordinary shares (or ADSs in the case of ADS holders) instead of cash dividends.

Dividend payment choices
(as at 18 February 2014)



1. Direct to bank: receive dividends securely and quickly by contacting the BP Registrar.
2. SCRIP: receive additional shares instead of cash dividends; see terms and conditions at *www.bp.com/scrip*.
3. Cheque: check with the BP Registrar to see if you have any unclaimed dividends.

Electronic communications

- Enables you to receive your shareholder information efficiently.
- Shareholders who have chosen to receive documents in paper form are encouraged to register for 'e-communications'. It only takes a few minutes to register at *www.mybpshares.com*.

Shareholder security

All shareholders should remain vigilant about unsolicited or unexpected phone calls or correspondence about investments or discounted shares that imply a connection with the company. The callers can be very persistent and extremely persuasive, often suggesting that there is an imminent offer by the company, and offer to buy shares at significantly above market price if an administration fee is paid. These offers are scams, so do not provide any personal information. Contact the BP Registrar or the BP Depositary if in doubt.

You can report suspicious calls from unauthorized firms to the FCA by calling 0800 111 6768 or if you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040.

The BP Registrar, Capita Asset Services

Ordinary and preference shareholders
The Registry, 34 Beckenham Road
Beckenham, Kent BR3 4TU, UK
From within the UK 0800 701107
From outside the UK +44 203 170 3678
Lines are open Monday to Friday, 8.30 am to 5.30 pm (UK time)
Email: *mybpshares@capita.co.uk*
Internet: *www.mybpshares.com*

The BP Depositary, JPMorgan Chase Bank N.A.

ADS holders
PO Box 64504
St Paul, MN 55164-0504, US
Toll-free in US and Canada +1 877 638 5672
From outside the US and Canada +1 651 306 4383

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.
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.
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.

Certain definitions
For definitions of certain financial and contractual terms see page 269.

Key performance indicators (KPIs)
Read about our group KPIs on page 18.

This *BP Strategic Report 2013* for the year ended 31 December 2013 constitutes the Strategic report, as included in the *BP Annual Report and Form 20-F 2013*, and supplementary information including the information that BP is required to include by law. The Strategic report is only part of the *BP Annual Report and Form 20-F 2013* and this document does not contain sufficient information to allow as full an understanding of the results and the state of affairs of BP and of its policies and arrangements concerning directors' remuneration as *BP Annual Report and Form 20-F 2013*. Shareholders may obtain a copy of *BP Annual Report and Form 20-F 2013* or *BP Strategic Report 2013* online at *bp.com/annualreport* or a printed copy on request, free of charge (see outer back cover).

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 disclosures to be included in the strategic report including a description of a company's strategy and business model – we have included a more focused and graphical presentation of BP's strategy and business model in the 2013 report, compared with the 2012 report.

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*, 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 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.

The term 'shareholder' in this *BP Strategic Report 2013* 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 New York Stock Exchange, an Annual Report on Form 20-F is filed with the US Securities and Exchange Commission in accordance with the US Securities Exchange Act of 1934. BP discloses in *BP Annual Report and Form 20-F 2013* and on its website at *bp.com/NYSEcorporategovernancerules* significant ways (if any) in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.

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

Our agent in the US:

BP America Inc.
501 Westlake Park Boulevard
Houston, Texas 77079
US
Tel +1 281 366 2000

Registered in England and Wales No. 102498.
Stock exchange symbol 'BP.'

Cautionary statement

This document contains certain forecasts, projections and forward-looking statements – that is, statements related to future, not past events – with respect to the financial condition, results of operations and businesses of BP and certain of the plans and objectives of BP with respect to these items. These statements may generally, but not always, be identified by the use of words such as 'will', 'expects', 'is expected to', 'aims', 'should', 'may', 'objective', 'is likely to', 'intends', 'believes', 'anticipates', 'plans', 'we see' or similar expressions. In particular, among other statements, certain statements with regard to plans to optimize BP's portfolio of assets, expectations regarding future distributions to shareholders, the estimated levels of capital expenditure in 2014, the expected levels of capital expenditure from 2015 to 2018, plans regarding the future divestment of $10 billion in assets by 2015 and the prospects for and timing of planned and future divestments, prospects for future value creation arising from certain of BP's new investments in 2013, BP's outlook on global energy trends to 2035 and beyond, including the role of oil, gas and renewables in coming decades, plans to make disciplined financial choices, including the disciplined allocation of capital, expectations regarding the '10-point plan', plans to explore future opportunities with Rosneft, the anticipated delivery of an increase in operating cash flow by more than 50% by 2014 versus 2011 and expectations regarding growth in sustainable free cash flow beyond 2014, the expected implementation in the future of lessons learned from the In Amenas terrorist attacks, the expected design-life of the field at Valhall, plans to grow BP's exploration position and focus on high-value upstream assets in deep water, giant fields and selected gas value chains, expectations regarding financial momentum from the asset portfolio in the future, plans to grow free cash flow by leveraging newly upgraded assets, customer relationships and technology in the downstream business, plans to create shareholder value and increase sustainable free cash flows, plans and expectations regarding *Project 20K*, *LoSal* technology, the 'virtual arrival system', *Veba Combi-Cracking* technology and *SaaBre* and *Hummingbird* technologies, plans relating to future hiring and workforce, expectations that the 2014 start-ups will have double the 2011 average unit operating cash margins, the expected target net debt ratio in 2014 and beyond, the expected level of depreciation, depletion and amortization in the future, the expected level of the underlying effective tax rate in 2014, plans to generate $30 billion to $31 billion of operating cash flow in 2014, plans to use around half of the extra cash in 2014 for increased investments and around half for other purposes including distributions, the expected levels of full-year underlying and reported production in 2014, expectations regarding BP's plans to separate its US Lower 48 onshore oil and gas business, including the timing thereof and the expected impact on BP's resource position and portfolio in the future, the prospects for movement in and the levels of oil and gas prices in 2014, the timing and composition of planned and future projects including expected final investment decisions, start up, construction, commissioning, completion, timing of production, level of production and margins, plans for gas discovery and production in India, plans to enhance safety, compliance and risk management, increase efficiency and reliability, improve margins and create new market opportunities, expectations regarding and plans to deliver a strong performance in safety, portfolio management, competitive returns and material and growing cash flows in the Downstream segment, expectations regarding refining margins in 2014, the expected impact of refinery turnarounds in 2014, expectations regarding the market environments for lubricants and petrochemicals in 2014, plans to increase lubricant revenues in the future, the expected level of heavy crude processing at the Whiting refinery during the second quarter 2014 and Whiting's prospects for supporting BP's ability to deliver increased cash flow in 2014 and beyond, plans to continue to develop biofuel blend capabilities, BP's plans for LPG in the future, Air BP's future strategic aims, the timing of first production at the third PTA plant at Zhuhai and the expected capacity thereof in the future, expectations regarding the material impacts of investments in Asia and the deployment of new PTA technology in existing plants and new asset platforms, plans to access Asian demand and feedstock sources, expectations for the environment for PTA, acetic acid and olefins and derivative value chains in 2014, Rosneft's plans for its refinery modernization programme, plans to expand ethanol production capacity in Brazilian sugar cane mills, the expected level of production at the Vivergo joint venture plant, the expected range for the annual charge for Other businesses and corporate in 2014, plans regarding the reporting and recording of losses of primary containment, the timing of the expected delivery of new tankers, the impact of the additional regulation of GHG emissions on BP's business, plans to minimize air pollutants and emissions at hydraulic fracturing sites, prospects for Shah Deniz Stage 2, the expected amount of future payments from the disposal of interests in certain North Sea fields, prospects for future developments at Mad Dog Phase 2, expectations regarding the impact of various regulations upon BP's business and expectations regarding greater regulation and increased operating costs in the Gulf of Mexico in the future, expectations regarding the issuance of a final policy for the materiality of revenue and expenses under the Economic and Property Damages Settlement Agreement by the claims administrator under such settlement, expectations regarding legal and trial proceedings, court decisions, potential investigations and civil actions by regulators, government entities and/or other entities or parties, and the risks associated with such proceedings and BP's intentions in respect thereof, statements regarding future dividend and optional scrip dividend payments, including the board's plans for reviewing the dividend level in future quarters, future capital expenditures and capital expenditure commitments, including estimated levels of capital expenditure in 2014 and from 2015 to 2018, taxation, intentions to maintain a significant liquidity buffer, future working capital and cash flows, gearing and the net debt ratio, BP's intention to maintain a strong cash position, expectations regarding taxes due upon repatriation of cash into the UK, expectations regarding total capital expenditure, expected payments under contractual and commercial commitments and purchase obligations, expectations regarding reserves replacement, the expected percentage of performance shares that will vest based on 2013 outcomes, and plans and expectations with regard to the remuneration, pensions and other benefits of executive directors; are all forward looking in nature.

By their nature, forward-looking statements 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. Actual results may differ materially from those expressed in such statements, depending on a variety of factors, including the specific factors identified in the discussions accompanying such forward-looking statements; the receipt of relevant third party and/or regulatory approvals; the timing and level of maintenance and/or turnaround activity; the timing and volume of refinery additions and outages; the timing of bringing new fields onstream; the timing, quantum and nature of certain divestments; future levels of industry product supply, demand and pricing, including supply growth in North America; OPEC quota restrictions; PSA effects; operational problems; economic and financial market conditions generally or in various countries and regions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; regulatory or legal actions including the types of enforcement action pursued and the nature of remedies sought or imposed; the actions of prosecutors, regulatory authorities and courts; the impact on our reputation following the Gulf of Mexico oil spill; the actions of the Claims Administrator appointed under the Economic and Property Damages Settlement; the actions of all parties to the Gulf of Mexico oil spill-related litigation at various phases of the litigation; exchange rate fluctuations; development and use of new technology; the success or otherwise of partnering; the actions of competitors, trading partners, creditors, rating agencies and others; decisions by Rosneft's management and board of directors; the actions of contractors; natural disasters and adverse weather conditions; changes in public expectations and other changes to business conditions; wars and acts of terrorism, cyber-attacks or sabotage; and other factors discussed elsewhere in this document including under Risk factors (page 51) and in *BP Annual Report and Form 20-F 2013*. In addition to factors set forth elsewhere in this document and in *BP Annual Report and Form 20-F 2013*, those set out above are important factors, although not exhaustive, that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

Statements regarding competitive position: Statements referring to BP's competitive position are based on the company's belief and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and BP's internal assessments of market share based on publicly available information about the financial results and performance of market participants.

Reconciliations to GAAP: This document contains financial information that is not presented in accordance with generally accepted accounting principles (GAAP). A quantitative reconciliation of this information to the most directly comparable financial measure calculated and presented in accordance with GAAP can be found in the *BP Annual Report and Form 20-F 2013*.

Summary definitions

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. The nearest equivalent GAAP measure is profit or loss for the year attributable to BP shareholders.

Underlying replacement cost profit 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. BP believes that underlying RC profit or loss before interest and taxation is a useful measure for investors because it is a measure closely tracked by management to evaluate BP's operating performance and to make financial, strategic and operating decisions and because it may help investors to understand and evaluate, in the same manner as management, the underlying trends in BP's operational performance on a comparable basis, year on year, by adjusting for the effects of these non-operating items and fair value accounting effects. The nearest equivalent measure on an IFRS basis for the group is profit or loss for the year attributable to BP shareholders. The nearest equivalent measure on an IFRS basis for segments is RC profit or loss before interest and taxation.

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 method, including any changes in provisions where the net realizable value of the inventory is lower than its cost.

Non-operating items are charges and credits arising in consolidated entities 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 or losses on sale of fixed assets and the sale of businesses; environmental remediation costs; restructuring, integration and rationalization costs; and changes in the fair value of embedded derivatives. They are items that management considers not to be part of underlying business operations and are disclosed in order to enable investors better to understand and evaluate the group's reported financial performance.

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.

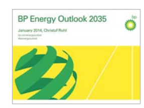
Proved reserves replacement ratio is the extent to which production is replaced by proved reserves additions. This ratio is expressed in oil equivalent terms and includes changes resulting from revisions to previous estimates, improved recovery and extensions and discoveries, and may be expressed as a replacement ratio excluding acquisitions and divestments or as a total replacement ratio including acquisitions and divestments.

★ For more information see Certain definitions in *BP Annual Report and Form 20-F 2013*.

BP's corporate reporting suite includes information about our financial and operating performance, sustainability performance and also on global energy trends and projections.

Annual Report and Form 20-F 2013
Details of our financial and operating performance in print or online.
Published in March.
bp.com/annualreport

Strategic Report 2013
A summary of our financial and operating performance in print or online.
Published in March.
bp.com/annualreport



Energy Outlook 2035
Projections for world energy markets, considering the potential evolution of global economy, population, policy and technology.
Published in January.
bp.com/energyoutlook

Sustainability Review 2013
A summary of our sustainability reporting with additional information online.
Published in March.
bp.com/sustainability

Financial and Operating Information 2009-2013
Five-year financial and operating data in PDF or Excel format.
Published in April.
bp.com/financialandoperating

Statistical Review of World Energy 2014
An objective review of key global energy trends.
Published in June.
bp.com/statisticalreview

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