

# Strategic Report 2014

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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.<sup>a</sup> 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 across the world. We employ around 85,000 people.

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, North and South America, Australasia, Asia and Africa.

<sup>a</sup> On the basis of market capitalization, proved reserves and production.

## BP proposition

We prioritize value over volume by actively managing a high-value upstream and downstream portfolio and investing only where we can apply the distinctive strengths, capabilities and technologies that we have built up over decades.

Our objective is to create shareholder value by growing sustainable free cash flow over the long term. Our disciplined approach enables us to grow distributions to our shareholders over time.



See [bp.com/bpproposition](http://bp.com/bpproposition)



## Front cover imagery

Staff at our recently updated BP Connect filling station in Twyford offer customers a premium convenience experience to suit their needs and lifestyles, whatever their schedule. BP and Marks & Spencer have worked in partnership since 2005 and we now have around 200 BP forecourts with an M&S Simply Food® stores in the UK. With 24/7 access to a combination of M&S Simply Food and *Wild Bean Cafe*, customers have the choice of a full range of 'food for now' and 'food for later', setting BP apart from other forecourt providers.

## 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](http://bp.com/annualreportfeedback) or by emailing the corporate reporting team. Details are on the back cover.

# Strategic report

An overview of the key activities, events and results in 2014, together with commentary on BP's performance and our priorities as we move forward.

## About this report

BP Strategic Report 2014 comprises the Strategic report as included in the BP Annual Report and Form 20-F 2014 and supplementary information. BP Strategic Report 2014 does not contain sufficient information as to allow a full understanding of the results and the state of affairs of BP as BP Annual Report and Form 20-F 2014. Please refer to Information about this report on page 63.

For further information consult the BP Annual Report and Form 20-F 2014 which is available online at [bp.com/annualreport](http://bp.com/annualreport) or by ordering a copy free of charge (see back cover).

**AR** Page references relating to content outside of this report but which appear in the full BP Annual Report and Form 20-F 2014.



## Glossary

Words with this symbol★ are defined in the glossary on page 61.



## Cautionary statement

This document should be read in conjunction with the cautionary statement on page 64.

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# 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 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.

## Group

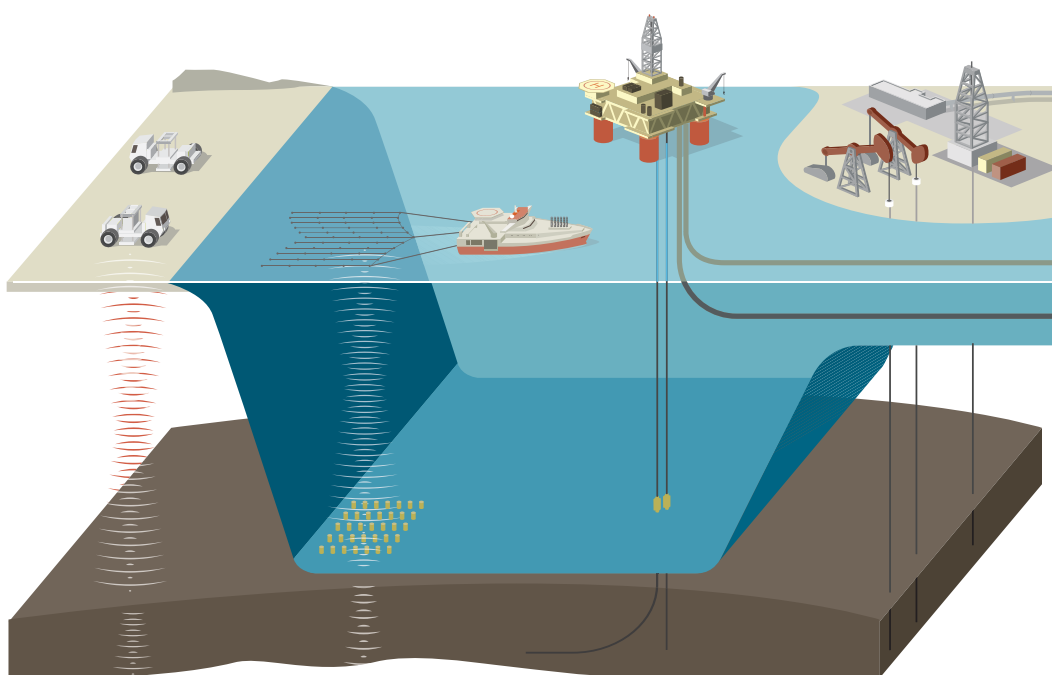
BP p.l.c. is the parent company of the BP group of companies. Our worldwide headquarters is in London.

## 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.



## Upstream

Our Upstream segment manages exploration, development and production activities.



See KPIs page 18.



See Upstream page 24.

**\$3.8bn**

profit attributable to BP shareholders  
2013: \$23.5bn

**\$32.8bn**

operating cash flow★  
2013: \$21.1bn

**16.7%**

gearing (net debt ratio)★  
2013: 16.2%

**3.2**

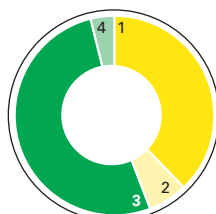
million barrels of oil equivalent per day<sup>a</sup>  
2013: 3.2mmboe/d

**28**

tier 1 process safety events★  
2013: 20

<sup>a</sup> See footnote e on page 23.

## Upstream proved reserves<sup>b</sup> (mmboe)



Liquids★

Entity Type	Reserves (mmboe)
1. Subsidiaries★	4,092
2. Equity-accounted entities	717
<b>Total</b>	<b>4,809</b>

Natural gas

Entity Type	Reserves (mmboe)
3. Subsidiaries	5,603
4. Equity-accounted entities	409
<b>Total</b>	<b>6,012</b>

**\$8.9bn**

replacement cost profit before interest and tax  
2013: \$16.7bn

**2.1**

million barrels of oil equivalent per day<sup>b</sup>  
2013: 2.3mmboe/d

**47,000km<sup>2</sup>**

new exploration access  
2013: 43,000km<sup>2</sup>

**7**

upstream major project★ start-ups  
2013: 3 major projects

<sup>b</sup> Excludes BP's share of Rosneft. See Rosneft on page 33.

All data provided on pages 2-5 is at or for the year ended 31 December 2014.

## Transporting and trading

### oil and gas

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

## Manufacturing

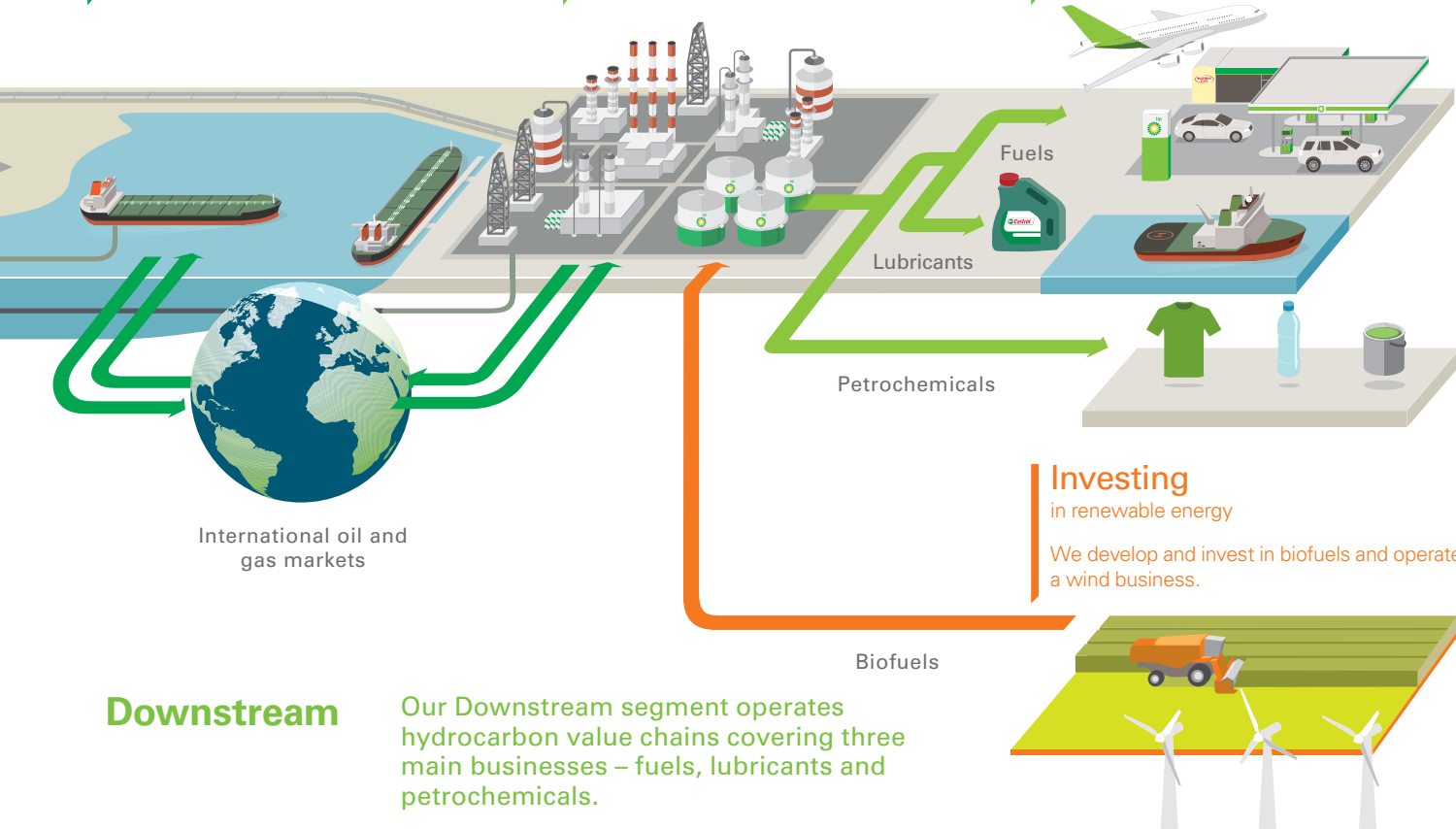
### fuels and products

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.



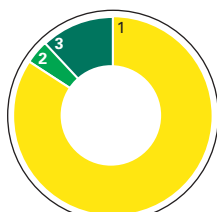
## Downstream

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

See Downstream page 29.

## Shareholder value

### Operating capital employed★<sup>c</sup>



1. Fuels \$32.8bn  
2. Lubricants \$1.5bn  
3. Petrochemicals \$4.6bn

**\$3.7bn**

replacement cost profit before interest and tax  
2013: \$2.9bn

**14.0**

million tonnes of petrochemicals produced in the year  
2013: 13.9mmte

**1.7**

million barrels of oil refined per day  
2013: 1.8mmb/d

**41%**

of our lubricants sales were premium grades  
2013: 40%

<sup>c</sup> This is a non-GAAP measure, but is provided for investors as it is used by BP management to make financial and strategic decisions. See AR page 210.

**\$5.9bn**

dividends paid

**6.0%**

ordinary shareholders annual dividend yield★

**6.2%**

ADS shareholders annual dividend yield★



# BP around the world

BP has operations in almost 80 countries.

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

## Upstream\*

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

\* Locations are categorized as liquids or natural gas based on 2014 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 2014.

 **Upstream** see page 24.

## Downstream

- Refinery.
- ▼ Petrochemicals site(s).

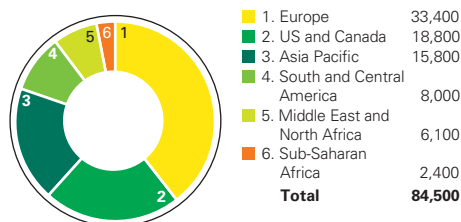
 **Downstream** see page 29.

## Alternative energies

- Operational assets.
- ★ Technology assets.

 **Alternative energies** see page 35.

## BP group headcount by region (including 14,400 service station staff)



## Gulf of Mexico

We have been exploring in the deepwater Gulf of Mexico for more than 25 years and are one of the region's largest investors. With 10 rigs in operation, we are engaged in a range of activities including exploration, appraisal and development and production.

## Fuels

Our fuels business is made up of regionally based integrated fuels value chains. These include refineries and fuels marketing businesses together with global oil supply and trading activities. We supply fuel and related convenience services to consumers at around 17,200 BP-branded retail sites and market our products in over 50 countries.



## Lower 48

We launched the US Lower 48 as a separate BP upstream business in January 2015 with its own governance, processes and systems to manage our onshore oil and gas assets in the US (excluding Alaska). See page 24 for further information.

## Alternative energies

Our participation in alternative energies is focused on biofuels and wind. Our interests include three sugar cane mills in Brazil, a joint venture★ bioethanol facility in the UK and 16 wind farms in the US.

### North Sea

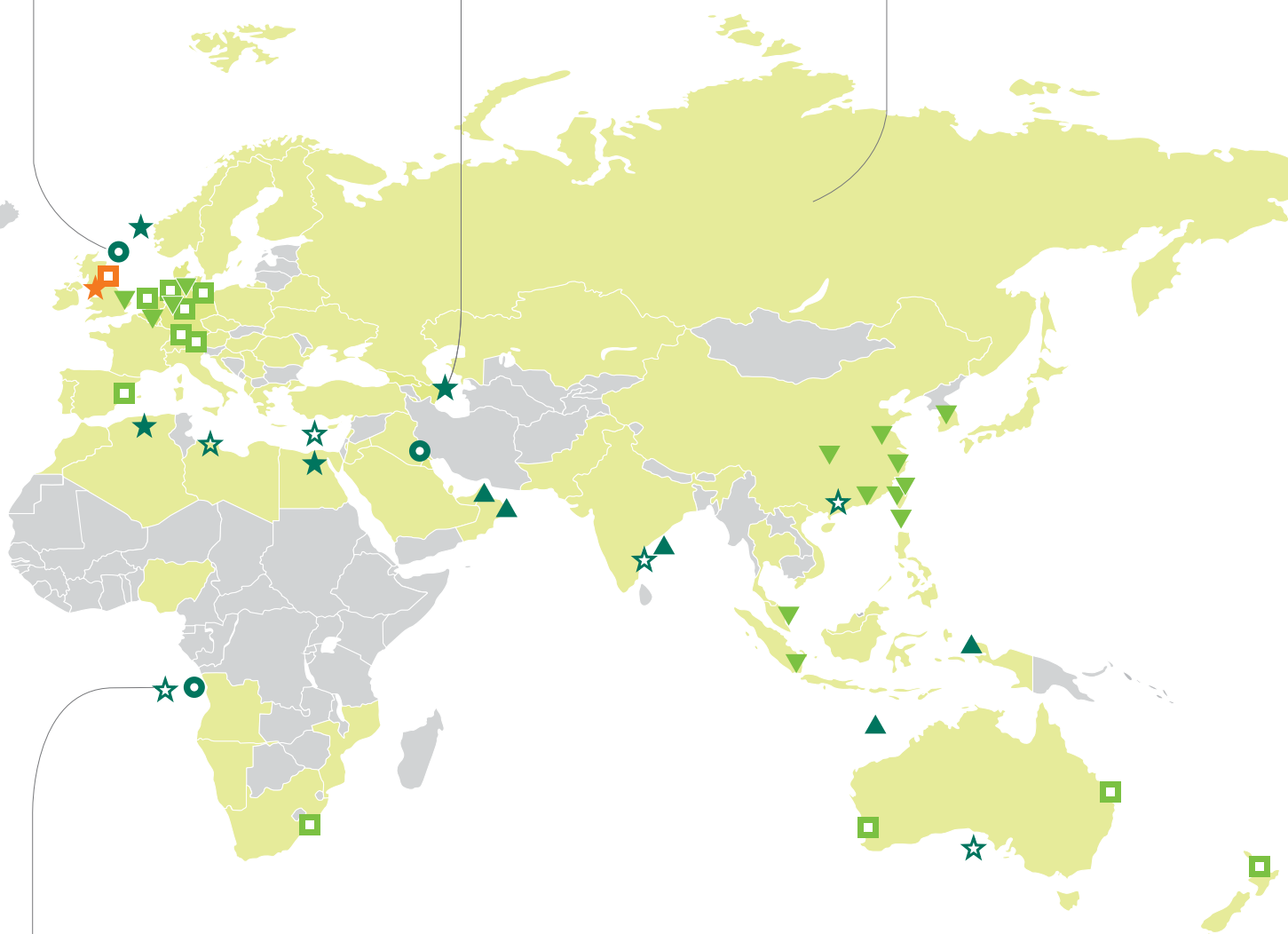
We received our first UK North Sea exploration licence 50 years ago. Since then, we've developed activities that cover the entire industry life cycle, from access and exploration to production and decommissioning. We operate more than 20 oil and gas fields, two major terminals and an extensive network 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 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 10 trillion cubic feet of gas. Rosneft's downstream operations include interests in 14 refineries. See page 33 for further information.



### Angola

Angola is Africa's second largest oil producer. We have interests in nine major deepwater blocks with a total acreage of more than 32,600km<sup>2</sup>. Our Cravo, Lirio, Orquidea and Violet (CLOV) project is planned to develop significant resources across its development areas.

### Lubricants

We market lubricants and related products and services in approximately 75 countries through direct sales or locally approved distributors. We leverage brand, technology and relationships, focusing our resources on core and growing markets.

### Petrochemicals

Petrochemicals produces products across 16 manufacturing sites and sells them to customers in more than 40 countries. Approximately 48% of petrochemicals capacity is in Asia, 27% in the US and 25% in Europe.

# Chairman's letter



In the present environment, returns to shareholders remain a key priority.



Carl-Henric Svanberg



## Dear fellow shareholder,

We started 2014 with confidence in the overall development of the world and a feeling of progress in most of the world's economies after several challenging years. However, the year ended with significant uncertainties. BP operates in a geopolitical environment that has become more turbulent and the price of oil has significantly declined, returning to a pattern of volatility not seen for several years. The industry must adapt rapidly. Even before the recent volatility, we have taken measures to streamline and reshape BP. We believe we are well positioned to meet the challenges of the coming years.

In 2011, we set out our 10-point plan with clear goals that we have delivered over the last three years. This is a significant achievement for Bob Dudley and his team. It marks a major step in refocusing the company after the tragic events of 2010 when 11 people lost their lives in the Deepwater Horizon accident – something we must never forget. Our strategic progress has to be tempered by the finding of gross negligence in the Clean Water Act litigation in the US, which we strongly disagree with and are appealing.

## Strategy

Completing the 10-point plan does not mean that our work is done. Far from it. The board continues to be deeply involved in discussing and shaping our strategy – with its clear priorities, quality portfolio and distinctive capabilities.

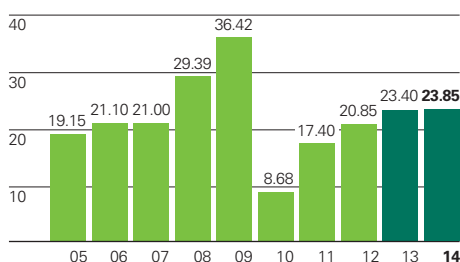
We successfully sold assets at a time of higher oil prices and are now going through a rapid cost adjustment to address this new landscape and improve our underlying business performance. We are refocusing our approach to producing hydrocarbons in the US Lower 48 and we are resetting our operations across the entire business. This is all taking place without compromising on safety. Our recent strategic partnership with Chevron in the Gulf of Mexico demonstrates what we mean by value over volume through a new ownership and operating model. Our goals are to make investment choices that play to our strengths, increase sustainable free cash flow and grow our distributions to shareholders.

We began a number of these initiatives earlier in 2014, putting us ahead of the current oil price pressures. These strategic actions will continue and more will be necessary as we respond to short-term imperatives. We aim to ensure that BP builds on its distinctive strengths in 2015 and beyond.

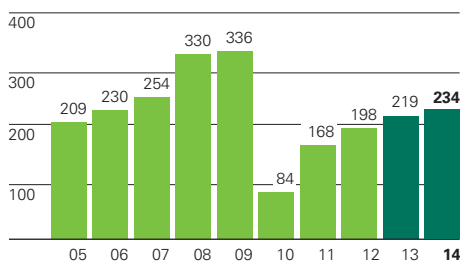
## Shareholder distributions

The improved performance over the year and progress in strategic delivery has led to the board's decision to increase the dividend. During 2014, the board reviewed the dividend twice and each time raised it by 2.6%. These increases are part of our strategy to grow distributions. During 2014 BP completed its \$8-billion share buyback programme using proceeds from the sale of our interest in TNK-BP. Shares worth a further \$2.3 billion were also bought back in the year. In the present environment, returns to shareholders remain a key priority.

**10-year dividend history**  
UK (pence per ordinary share)



**US (cents per ADS)**



One ADS represents six 25 cent ordinary shares.





### Board performance

For information about the board and its committees see **AR** page 51.



### Remuneration

For information about our directors' remuneration see **AR** page 72.

▼  
Top: Members of BP's safety, ethics and environmental assurance committee (SEEAC) in Azerbaijan.

▼  
Bottom: Cynthia Carroll attends a briefing during a visit to Brazil with SEEAC.



### Oversight

The board has continued to maintain oversight of performance, risk and financial efficiency and kept a constant scrutiny on safety. Each year we review and monitor the group level risks through our own work and our committees, who carry out the majority of the work, leaving the board free to address strategic issues.

There are, however, longer-term issues on which we also have to focus, such as carbon and its role in climate change. It is clear that it is for governments and regulators to set the boundary conditions to address these issues and we will develop our business within their framework. For example, we already factor a price for carbon into our project evaluation. We recognize that we need to play our part in informing this debate and we do this through our projections for future world energy markets in the *BP Energy Outlook 2035*. Throughout, we must remain alert to developments that may alter the world in which we operate. The board is recommending that shareholders support the resolution at the annual general meeting seeking greater transparency of reporting in this important area.

### Governance and succession

The board regularly considers how it operates and the appropriate composition and mix around the board table – both to respond to today's challenges and BP's future strategic direction. Antony Burgmans, the current chair of the remuneration committee, will stand down as a director in 2016. In anticipation of his departure, Dame Ann Dowling will take over the chair of that committee during 2015. We have also considered the chairs and membership of all other committees. In 2012, upon Andrew Shilston joining the board and being appointed the senior independent director, we announced that Antony Burgmans would retain a role as an internal sounding board. This role will cease after the annual general meeting. Andrew will join the remuneration and nomination committees.

I would like to welcome Alan Boeckmann who joined the board as a non-executive director in July. Alan brings deep experience of contractor management, procurement and project delivery in our industry following his career in Fluor Corporation. Alan will be joining the remuneration committee after the annual general meeting. Our longest serving director, Iain Conn, left the company in December to become chief executive of Centrica after an almost 30-year career with BP, spanning different businesses and regions. George David will retire from the board at our AGM in April. My fellow directors and I thank both Iain and George for their huge contributions and work on behalf of the board.

I would also like to thank Bob Dudley, his team, my board colleagues and all our employees for all that they have done. Finally, my thanks go to you, our shareholders, for the support you have shown us during the year.

**Carl-Henric Svanberg**

Chairman

3 March 2015

# Group chief executive's letter



Our efforts over the past three years have helped prepare us to face the new oil price challenge with resilience.



Bob Dudley



## Dear fellow shareholder,

The year 2014 was pivotal for BP. Despite the increasingly challenging business environment, we completed the 10-point plan we had set out in 2011 to make BP a safer, stronger, better performing business. Compared with three years ago, we have reduced safety-related incidents, delivered strong operating efficiencies and met our target to increase operating cash flow by more than 50%.

Our performance is important, not only because we achieved our targets, but because we did what we said we would do. I know how important it is to shareholders that we continue delivering on our commitments.

2014 was a turbulent year – for BP and the industry. Oil prices fell dramatically and returned to their familiar pattern of volatility, after several exceptional years in which they remained above \$100 per barrel. I expect these lower and more volatile prices to continue through 2015 and likely longer. We are now resetting the business to deliver value in this new context, scaling back capital spending and reducing costs, while always maintaining our primary focus on safety.

Our efforts over the past three years have helped prepare us to face the new oil price challenge with resilience. We have reshaped and strengthened our portfolio through a divestment programme, reduced our costs to reflect a smaller footprint and articulated a strategy based on clear priorities, a quality portfolio and distinctive capabilities.

## Clear priorities

Safe and reliable operations will always be our first priority. While we have made real progress in the past three years, sadly there were three workforce fatalities in 2014, in accidents at a German refinery, a UK North Sea platform and an Indonesian petrochemicals plant. Our thoughts are with the families and friends of those who died and we will implement the lessons from these tragic events.

Since 2011 we have reduced the number of tier 1 and tier 2 process safety events – the most serious incidents, leaks, spills and other releases. After making very good progress in 2013, we saw a higher number of such incidents in 2014. We are renewing our efforts to ensure conformance with our operating management system, allied to the right personal behaviours, taking great care in everything we do.

We clearly demonstrated capital discipline through 2014, restricting spending to around \$23 billion, relative to guidance of \$24-25 billion. We also saw good project execution as we met our plans to bring onstream seven start-up projects.

## Quality portfolio

We continue to actively manage our portfolio, focusing on assets which play to our strengths and divesting assets that no longer fit our strategy. In both our Upstream and Downstream businesses, we are taking a rigorous approach to capital allocation and concentrating on efficiency and competitiveness in our activities. Making the right investment choices is of the highest priority.

# 94.9%

2014 refining availability.

# 90%

Upstream BP-operated plant efficiency★.



### Delivery of our 10-point plan

For details of our performance against the plan see page 21.



### Our strategy

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

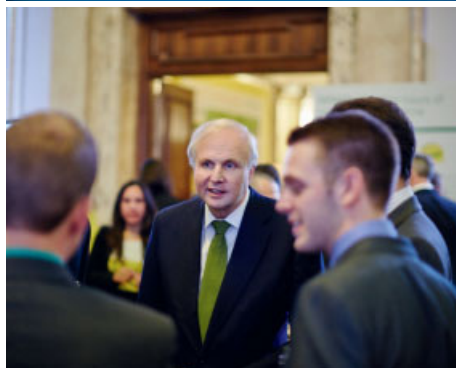


### Our key performance indicators

Find out how we measure our performance on page 18.

▼  
Top: Bob Dudley at the World Petroleum Congress in Moscow.

▼  
Bottom: Bob Dudley congratulates winners at the Helios awards – where teams from across the world are recognized for their contributions to building a safer, stronger BP in line with our values.



We grew our exploration position during the year, with new access in five areas and hydrocarbon discoveries in the Gulf of Mexico, Brazil, the North Sea, Egypt and Angola. We began operating our onshore oil and gas operations in the 'Lower 48' states of the US as a separate business in January 2015. In the Downstream, we improved performance from fuels marketing, increased our capacity to refine heavy crude and shale oil in the US, maintained the focus on premium brands and growth markets in lubricants and reviewed the petrochemicals business to increase its earnings potential.

Having completed our \$38-billion divestment programme ahead of schedule, we committed to make a further \$10 billion of divestments by the end of 2015. By the end of 2014 we had agreed transactions amounting to \$4.7 billion.

### Distinctive capabilities

BP's distinctive capabilities of advanced technology, proven expertise and strong relationships underpin our progress. We have invested over the years to be a specialist in several key areas of technology. For example, in 2014 we started using robots to test enhanced oil recovery options, helping us reduce time to production.

The expertise of our people is central to our progress so developing our employees in critical areas is an ongoing activity. For example, we run specialist academies dedicated to global wells expertise and safety and operational risk, as well as other areas.

Strong relationships remain vital – with communities, governments, partners, suppliers, staff and shareholders. The rapid progress made on the Southern Corridor project, which will pipe natural gas from the Caspian Sea to markets as far away as Italy, is just one example. With our partners, we have already awarded more than \$9 billion of contracts to make, transport and install facilities.

### A challenging environment

In 2015 we entered a very different landscape from that in which we began last year. The lower oil price presents formidable challenges for the industry. In these volatile times, BP continues to drive capital discipline by constraining the total level of capital spend in any one year, taking account of the opportunities available and the flexibility of our balance sheet.

Meanwhile, we continue to manage issues specific to BP. The legal proceedings in the US associated with the Deepwater Horizon accident and oil spill continue. In the first trial phase the judge issued a finding of gross negligence and wilful misconduct. We strongly disagree with these findings and have appealed. In the second phase the court found no gross negligence in our source control efforts and ruled that 3.19 million barrels of oil were discharged into the Gulf of Mexico. We have also appealed this ruling. The penalty phase trial finished in February, with the ruling to come at a later date. In all of the proceedings, we are seeking fair and just outcomes while protecting the best interests of our shareholders.

Our investment in Rosneft, funded from the proceeds of our sale of TNK-BP in 2013, continues to attract attention. Our approach is to comply with all relevant sanctions and otherwise to maintain our distinctive, long-term investment and relationship with Rosneft in a country that holds some of the world's largest oil and gas resources. There is strong interdependence between Russia and its trading partners, and I believe that over time such commercial links tend to ease tensions rather than exacerbate them.

The BP of 2015 is a robust and resilient business, a global team that has been through some of the most difficult times an organization can face and emerged stronger, safer and better than before.

**Bob Dudley**  
Group chief executive  
3 March 2015



# 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 markets in 2014

See page 20 for information on oil and gas prices in 2014.

## How BP is preparing for the near-term outlook

- We exercise capital discipline by constraining the total level of capital spend and the number of projects sanctioned each year.
- We sanction upstream projects at \$80<sup>a</sup> per barrel, while testing projects for resilience at \$60<sup>a</sup> per barrel.
- Our balance sheet gives us resilience to withstand a period of low prices.
- With a third of our production from production-sharing agreements and an increasing portfolio of high-quality gas projects, we are reducing our vulnerability to global oil price movements.
- We continue to right-size the group's cost base to align with BP's smaller footprint.

<sup>a</sup> In real terms based to 2012.

For further detail on the projections of future energy trends contained in this section, please refer to *BP Energy Outlook 2035*.



## Near-term outlook

Oil prices, after around four years of averaging around \$100 per barrel, have fallen by more than 50%. This reflects strong production growth in the US, increases in global supply elsewhere and weaker global demand. Prices weakened further following OPEC's decision in November to maintain production.

Prices are expected to remain low through the near term, at least. And while we anticipate supply chain deflation by 2016 and beyond, as industry costs follow oil prices with a lag, this will be a tough period of intense change for the industry as it adapts to this new reality.

## Long-term outlook

Population and economic growth are the main drivers of global energy demand. The world's population is projected to increase by 1.6 billion from 2013 to 2035, and the world economy is likely to more than double in size over the same period. Improvements to energy efficiency, further stimulated by new climate policies and a shift towards less energy-intensive activities in fast-growing economies will restrain the growth of energy consumption. But we still expect world demand for energy to increase by as much as 37% between 2013 and 2035, with 96% of the growth in non-OECD countries.

Energy resources are available to meet this growing demand, but developing these resources presents a number of challenges:

**Sustainability** – action is needed to limit carbon dioxide (CO<sub>2</sub>) and other greenhouse gases emitted through fossil fuel use.

**Supply security** – more than 60% of the world's known reserves of natural gas are in just five countries, and more than 80% of global oil reserves are located in nine countries, often distant from the hubs of energy consumption.

**Affordability** – fossil fuels can become more difficult to access as the easiest and highest quality resources are depleted first, and many non-fossil fuel resources remain costly to produce at scale.

Continued advances in technology and energy-industry productivity are required to deliver affordable, sustainable and secure energy. The shale gas revolution demonstrates the potential impact of such developments.

## Effective policy

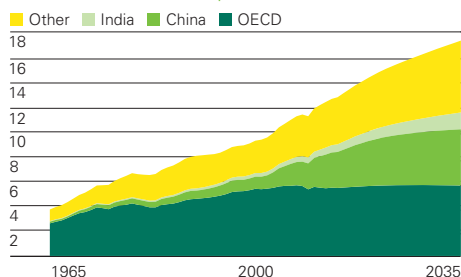
We believe governments must set a stable framework to encourage private sector investment and to help consumers choose wisely. This includes secure access for the exploration and development of energy resources; mutual benefits for resource owners and development partners; and an appropriate legal and regulatory environment with an economy-wide price on carbon.

## Energy efficiency

Greater efficiency helps with affordability – because less energy is needed; with security – because it reduces dependence on imports; and with sustainability – because it reduces emissions. Innovation can play a key role in improving technology, bringing down cost and increasing efficiency. In transport, for example, we believe energy-efficient technologies and biofuels could offer the most cost-effective pathway to a secure, lower-carbon future.

## Energy consumption by region

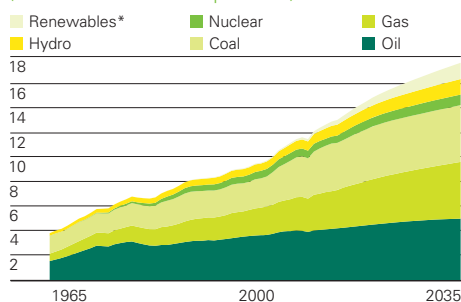
(billion tonnes of oil equivalent)



Source: BP Energy Outlook 2035.

## Energy consumption by fuel

(billion tonnes of oil equivalent)



\*Includes biofuels.  
Source: BP Energy Outlook 2035.

## 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 49% of the energy mix in 2030 and 43% in 2040.

We expect oil to remain the dominant source for transport fuels, accounting for almost 90% of demand in 2035.

Natural gas, in particular, is likely to play an increasing role in meeting global energy demand. By 2035 gas is expected to provide 26% of global energy, matching the share of coal. Natural gas produces about half as much CO<sub>2</sub> as coal per unit of power generated, so increasing the share of gas versus coal helps to restrain greenhouse gas emissions. Shale gas has already had a significant impact on US gas prices and demand, and is expected to contribute 47% of the growth in global natural gas supplies between 2013 and 2035.

New sources of hydrocarbons may be 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.

## Renewables

Renewables will play an increasingly important role in addressing the long-term challenges of energy security and climate change. They are already the fastest-growing energy source, but are starting from a low base. By 2035, we estimate renewable energy, excluding large-scale hydroelectricity, is likely to meet around 8% of total global energy demand.

Temporary policy support is needed to help commercialize lower-carbon options and technologies, but they will ultimately need to become commercially self-sustaining, supported only by a carbon price.

## Beyond 2035

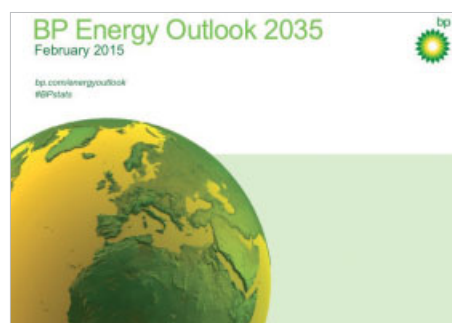
We expect that growing population and per capita incomes will continue to drive growing demand for energy. These dynamics will be shaped by future technology developments, changes in tastes, and future policy choices – all of which are inherently uncertain. Concerns about energy security, affordability 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.

\* From World Energy Outlook 2014. © OECD/International Energy Agency 2014, page 607. The IEA's 450 policy scenario assumes governments adopt commitments to limit the long-term concentration of greenhouse gases in the atmosphere to 450 parts-per-million of CO<sub>2</sub> equivalent.



### Our strategy

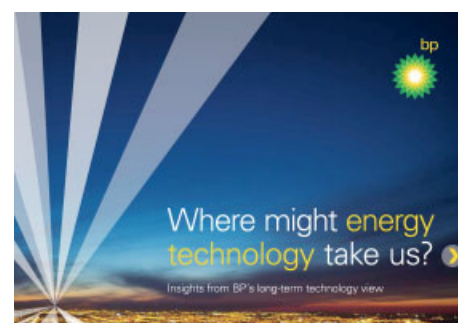
Find out how BP can help meet energy demand for years to come on page 13.



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. Also available in Excel and video format.



See [bp.com/energyoutlook](http://bp.com/energyoutlook)



We provide a long-term technology view on future trends and their potential impact on the energy system. This helps assess lessons learned from technology's evolution and how it may shape our future energy choices.



See [bp.com/energy-technology-future](http://bp.com/energy-technology-future)



# Our business model

We aim to create value for our investors and benefits for the communities and societies where we operate.



▲ A process engineer monitors instrument readings at our Castellón refinery in Spain. The refinery has the flexibility to run sour, heavy and highly acidic crudes.

▼ In Trinidad & Tobago we are the largest hydrocarbon producer, accounting for about 50% of the nation's oil and gas.



We believe 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. By supplying energy, we support economic development and help to improve quality of life for millions of people. Our activities also generate jobs, investment, infrastructure and revenues for governments and local communities.

Our business model spans everything from exploration to marketing. We have a diverse integrated portfolio that is focused and adaptable to prevailing conditions. 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.

Every stage of the hydrocarbon value chain offers opportunities for us to create value, through both the successful execution of activities that are core to our industry, and the

application of our own distinctive strengths and capabilities in performing those activities.

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 where 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.



## Illustrated business model

For an at a glance overview of our business model see page 2.



## Our businesses

For more information on our upstream and downstream business models, see pages 24 and 29 respectively.

## Our business model

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

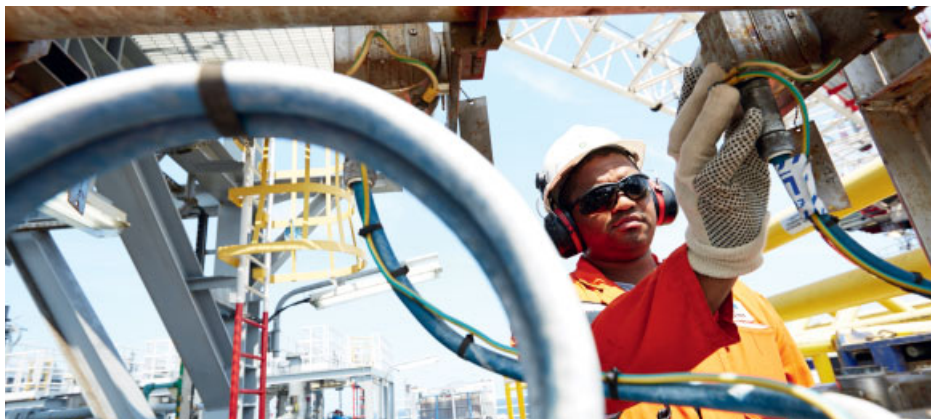
# Our strategy

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



▲ An operator commissions a steam system at the Whiting refinery in the US.

▼ Technical operations onboard our floating production, storage and offloading vessel in Angola.



We prioritize **value over volume** by actively managing a high-value upstream and downstream portfolio and investing only where we can apply the distinctive strengths, capabilities and technologies we have built up over decades.

Our objective is to create shareholder value by growing **sustainable free cash flow★** over the long term. Our disciplined approach enables us to **grow distributions** to our shareholders over time.

We are pursuing our strategy by setting clear priorities, actively managing a quality portfolio and employing our distinctive capabilities.

## 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 in support of growth in operating cash★ from our businesses, disciplined allocation of capital and financial resilience.

## 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 deep water, giant fields and selected gas value chains. And, in our downstream businesses, we plan to leverage our newly upgraded assets, customer relationships and technology to grow operating cash flow.

Our portfolio of projects and operations is focused where we believe 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 work to develop and maintain strong relationships – with governments, partners, civil society and others – to enhance our operations in almost 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 how we are delivering our strategy on page 14.



### Our key performance indicators

See how we measure our progress on page 18.



### Risks

Find out how we manage the risks to our strategy on page 46.

# Our strategy in action

**Delivering energy  
to the world**



## How we measure

For definitions of how we measure our performance, see Our key performance indicators on page 18.

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.

## How we deliver

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.

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.

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.

## How we measure

Recordable injury frequency, loss of primary containment, greenhouse gas emissions, tier 1 process safety events.

Operating cash flow, gearing, total shareholder return, underlying replacement cost profit per ordinary share.

Major project delivery.

## Strategy in action in 2014

**Running reliably**

Running operations safely is Air BP's first priority.

See page 40.

**28**

tier 1 process safety events.

**Increasing value**

An alternative solution to increase long-term value.

See page 21.

**\$32.8bn**

operating cash flow.

**Unlocking hidden resources**

Using our advanced technology and exploration experience to access gas in Oman.

See page 27.

**7**

major project start-ups in Upstream.

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.

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 years to come.

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.

Reserves replacement ratio.

Production.

Refining availability.

**Extending the life of the North Sea**

Our latest discovery demonstrates the basin's ongoing potential.

See page 28.

**63%**

reserves replacement ratio.<sup>a</sup>

**Committing to the future**

Increasing production in the Gulf of Mexico.

See page 25.

**3.2**

million barrels of oil equivalent per day.<sup>a</sup>

**Driving success**

Our retail partnership with Marks & Spencer is driving sales growth.

See page 31.

**94.9%**

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 aim to form enduring partnerships in the countries in which we operate, building strong relationships with governments, customers, partners, 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**

Our talented people help to drive our business forward. They apply their diverse skills and expertise to deliver complex projects across all areas of our business.

<sup>a</sup> On a combined basis of subsidiaries★ and equity-accounted entities.



# Our distinctive capabilities



## Advanced technology

We use technology to find and produce more oil and gas, improve our processes for conversion into valuable products and develop lower-carbon energy solutions.

We aim to build strategic relationships with universities for research, recruitment, policy insights and education. Our long-term research programmes around the world are exploring areas from reservoir fluid flow to novel lubricant additives. For example through the BP International Centre for Advanced Materials almost 70 researchers are working on around 20 projects to advance the understanding and use of materials across a variety of energy and industrial applications.

The first priority for all our technology teams is improving the safety and integrity of our operations.

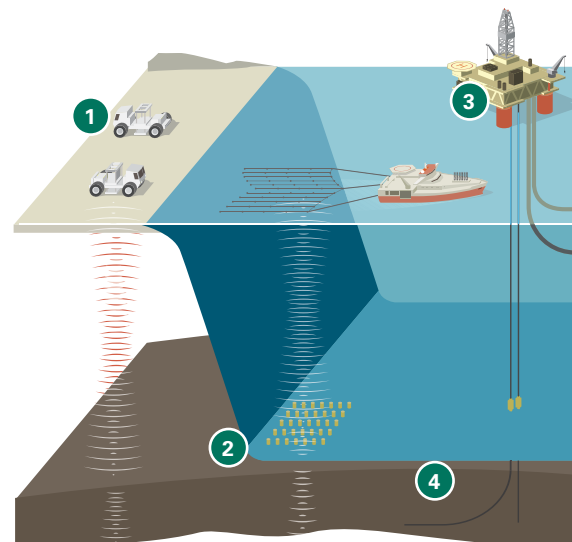
Our upstream technology programmes include advanced seismic imaging to help us find more oil and gas and enhanced oil recovery to get more from existing fields. New techniques are improving the efficiency of unconventional oil and gas production.

We focus our downstream technology programmes on improving the performance of our refineries and petrochemicals plants and on creating high quality, energy efficient, cleaner products.

We employ scientists and technologists at seven major technology centres in the US, UK and Germany. In 2014 we invested \$663 million in research and development (2013 \$707 million, 2012 \$674 million).



See [bp.com/technology](http://bp.com/technology)



### 1 2 Seismic imaging

We use our imaging expertise to increase the productivity and quality of the data we capture on land and offshore. We conducted one of our largest-ever onshore seismic surveys in 2014 covering 2,800km<sup>2</sup> at the Khazzan field in Oman.

### 4 Enhanced oil recovery (EOR)

BP delivers more light oil EOR production than any other international oil company. In 2014 we introduced the world's first automated robot for testing EOR technologies, shortening the time we need to spend on development and trials before bringing them to field.

### 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. In 2014 we established a digital centre of expertise for technologies to analyse data, improve decision making and enhance efficiency.

### 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.



▲ At our Wayne technology center in New Jersey chemists research new formulations to improve lubricant performance.



## Proven expertise

We aim to maintain a skilled workforce to deliver our strategy and meet our commitments to investors, partners and the wider world. We compete for the best people within the energy sector and other industries.

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.

We have a bias towards building capability within the organization, complemented by selective external recruitment where necessary, and invest in all our employees' development to build a sustainable talent pipeline.

Our approach to professional development and training helps build individual capabilities, reducing a potential skills gap. We believe our shared values help everyone at BP to contribute to their full potential.

**Graduate intake**  
Our global graduate and postgraduate programmes recruited 670 people in 2014.

**Internal promotion**  
We promoted 4,880 employees including 524 group and senior level leaders.

**Group leaders**  
Our group leaders have an average of 20 years' experience in BP.

**External hires**  
We hired 8,640 people including 97 group and senior level leaders.

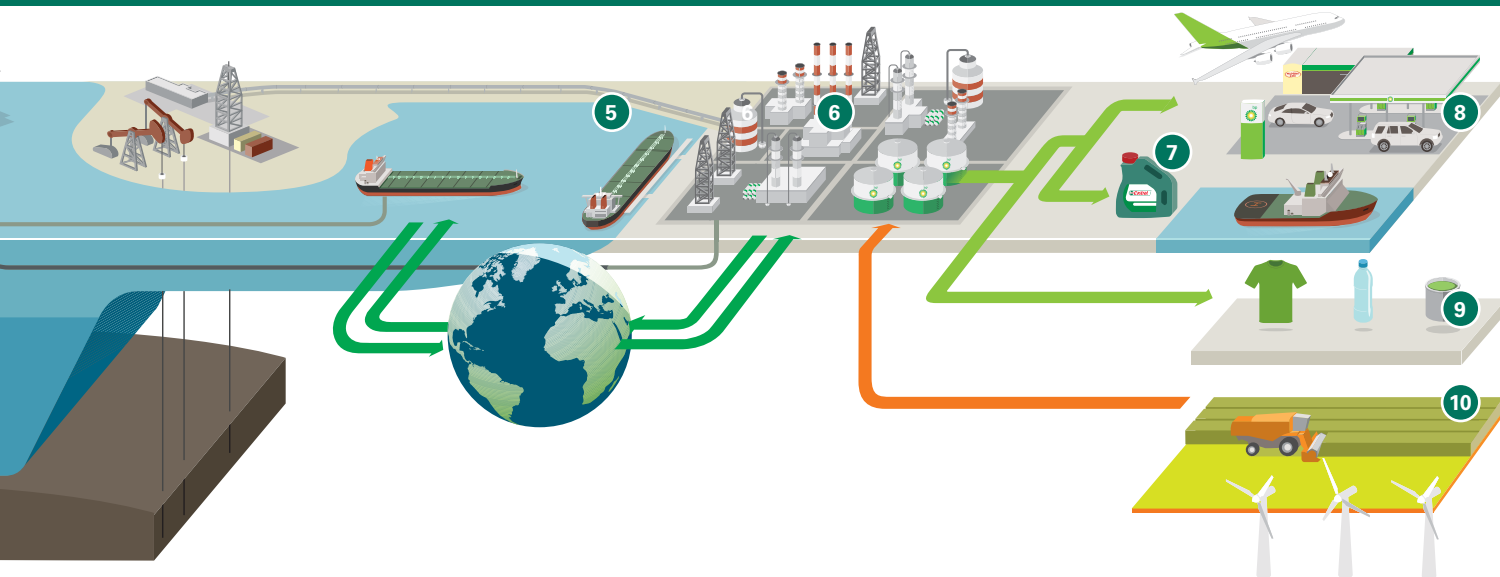
Developing the talent pipeline



### Employees

For more information about our people and values see page 44.





## 6 Corrosion prevention

Wireless Permasense® systems provide frequent and on-demand corrosion monitoring by detecting unexpected changes in the wall thickness of pipes. Developed in collaboration with Imperial College, London, they are used across all our refineries to monitor the integrity of critical assets.

## 8 Fuels

Our gasoline and diesel additive Ultimate in a Bottle, launched in China in 2014, helps clean and protect engines, enhance performance for diesel in cold weather and reduce emissions to improve air quality.

## 10 Biofuels

We are developing biobutanol in conjunction with DuPont. This second-generation biofuel can be blended into gasoline in greater proportions and is more compatible than ethanol with the infrastructure used for existing fuel supplies.

## 7 Lubricants

We focus on providing energy-efficient and high-performance products to customers. In 2014 we launched *Castrol EDGE with Titanium Fluid Strength Technology*, which changes the way engine oil behaves under extreme pressure, reducing friction by up to 15%.

## 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.

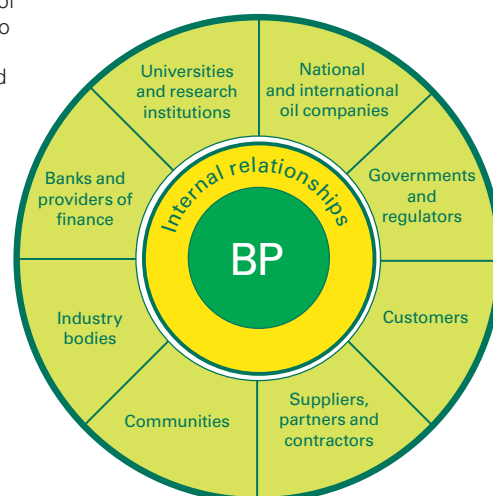


## Strong relationships

We work closely with governments, national oil companies and other resource holders to build long-lasting relationships that are crucial to the success of our business.

We place enormous importance on acting responsibly and meeting our obligations as we know from experience that trust can be lost. We work on big and complex projects with partners ranging from other oil companies 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, engage with our stakeholders 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 periodically review our metrics and test their relevance to our strategy. 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

We have replaced the RC profit per ordinary share KPI to underlying RC profit per ordinary share. This is one of the measures used by management to evaluate BP's operational performance and is also used as a performance measure for executive directors' remuneration. All other KPIs remain the same.

## 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.



## Directors' remuneration

See how our performance impacted 2014 pay on [AR](#) page 72.

## Key



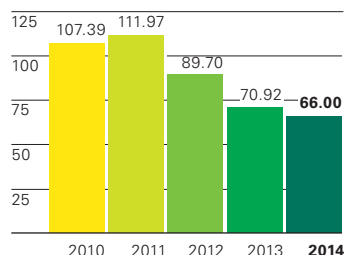
KPIs used to measure progress against our strategy.



KPIs used to determine 2014 and 2015 remuneration.

Underlying RC profit and gearing are non-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.

## Underlying RC profit★ per ordinary share (cents)

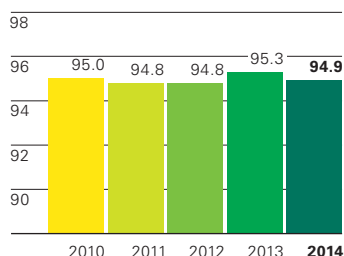


Underlying RC profit is a useful measure for investors because it is one of the profitability measures BP management uses to assess performance. It assists management in understanding the underlying trends in operational performance on a comparable year-on-year basis.

It reflects the replacement cost of inventories sold in the period and is arrived at by excluding inventory holding gains and losses★ from profit or loss. Adjustments are also made for non-operating items★ and fair value accounting effects★. The IFRS equivalent can be found on [AR](#) page 208.

**2014 performance** The decrease in underlying RC profit per ordinary share for the year compared with 2013 was mainly due to a lower profit in Upstream and lower earnings from Rosneft.

## Refining availability (%)

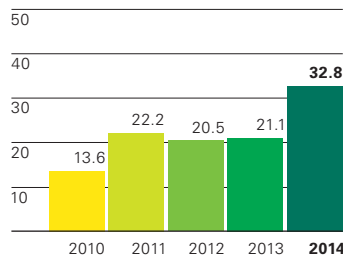


Refining availability represents Solomon Associates' operational availability. The measure shows the percentage of the year that a unit is available for processing after deducting the time spent on turnaround activity and all mechanical, process and regulatory downtime.

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

**2014 performance** Refining availability decreased by 0.4% from 2013 to 94.9% reflecting the completion of the Whiting refinery modernization project and ramp-up of operations.

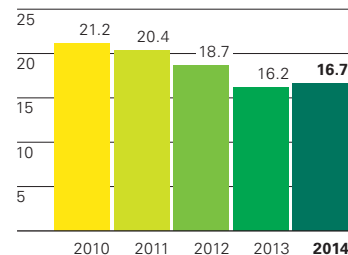
## Operating cash flow★ (\$ billion)



Operating cash flow is net cash flow provided by operating activities, as reported in 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.

**2014 performance** Operating cash flow was higher in 2014 in line with delivery of the 10-point plan.

## Gearing (net debt ratio)★ (%)



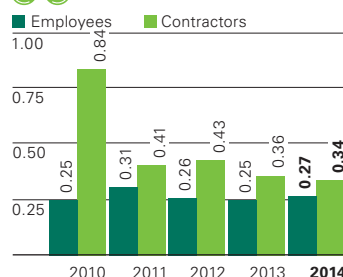
Our gearing (net debt ratio) shows investors how significant net debt is relative to equity from shareholders in funding BP's operations.

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

Gearing is calculated by dividing net debt by total equity plus net debt. Net debt is equal to gross finance debt, plus associated derivative financial instruments, less cash and cash equivalents. For the nearest equivalent measure on an IFRS basis and for further information see [AR](#) Financial statements – Note 25.

**2014 performance** Gearing at the end of 2014 was 16.7%, up 0.5% on 2013 and within our target band of 10-20%.

## Reported recordable injury frequency★

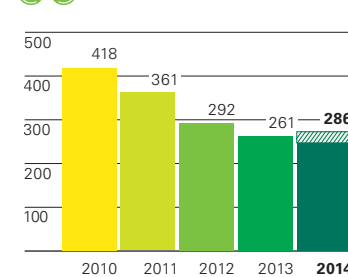


Reported recordable injury frequency (RIF) measures the number of reported work-related employee and contractor incidents that result in a fatality or injury (apart from minor first aid cases) per 200,000 hours worked.

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

**2014 performance** Our workforce RIF, which includes employees and contractors combined, is 0.31, level with 2013. While this is encouraging, we have seen an increase in our day away from work case frequency (see page 39). We are reviewing our personal safety programmes and continue to focus our efforts on safety.

## Loss of primary containment★

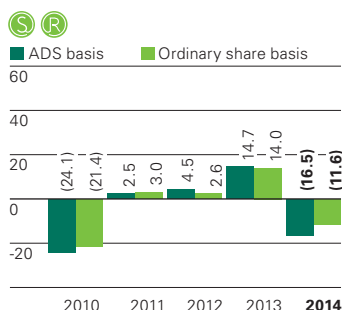


Loss of primary containment (LOPC) is the number of unplanned or uncontrolled releases of oil, gas or other hazardous materials from a tank, vessel, pipe, railcar or other equipment used for containment or transfer.

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

**2014 performance** The increase in 2014 reporting reflects the introduction of enhanced automated monitoring for many remote sites in our Lower 48 business. Using a like-for-like approach with previous years' reporting, our 2014 loss of primary containment figure is 246.

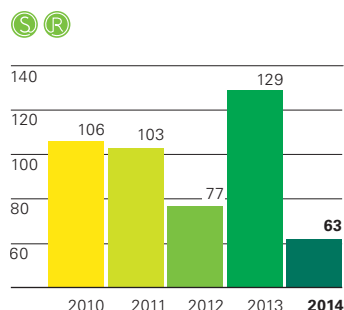
## Total shareholder return (%)



Total shareholder return (TSR) represents the change in value of a BP shareholding over a calendar year. It assumes that dividends are reinvested to purchase additional shares at the closing price on the ex-dividend date. We are committed to maintaining a progressive and sustainable dividend policy.

**2014 performance** TSR decreased during the year, primarily as a result of a fall in the BP share price, partly offset by two dividend per share increases in 2014.

## Reserves replacement ratio (%)



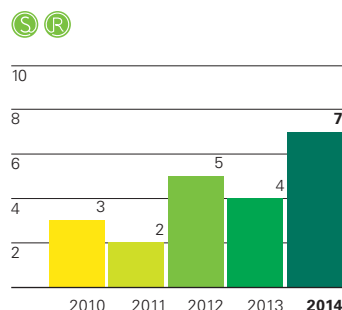
Proved reserves replacement ratio is the extent to which the year's production has been replaced by proved reserves added to our reserve base.

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.

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

**2014 performance** The reserves replacement ratio reflects lower reserves bookings as a result of fewer final investment decisions in 2014 and revisions of previous estimates.

## Major project delivery



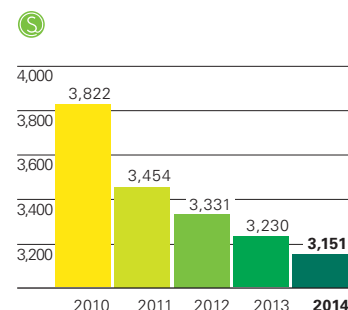
Major projects are defined as those with a BP net investment of at least \$250 million, or considered to be of strategic importance to BP, or of a high degree of complexity.

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.

**2014 performance** In total we delivered seven major project start-ups in Upstream.

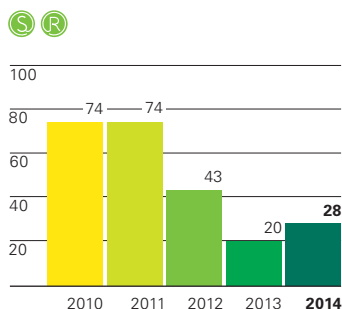
## Production (mboe/d)



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.

**2014 performance** BP's total reported production including our Upstream segment and Rosneft was 2.4% lower than in 2013. This reduction reflected the Abu Dhabi onshore concession expiry and divestments, partially offset by increased production from higher-margin areas and higher production in Rosneft in 2014 compared to the aggregate production in Rosneft and TNK-BP in 2013.

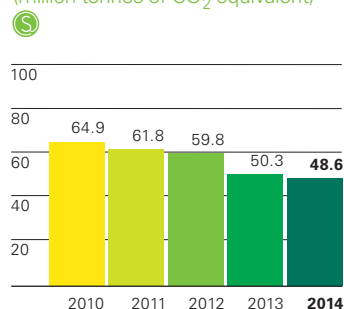
## Tier 1 process safety events★



We report tier 1 process safety events, 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.

**2014 performance** The number of tier 1 process safety events has decreased substantially since 2010. We take a long-term view on process safety indicators because the full benefit of the decisions and actions in this area is not always immediate.

★ 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<sup>b</sup>  
(million tonnes of CO<sub>2</sub> equivalent)

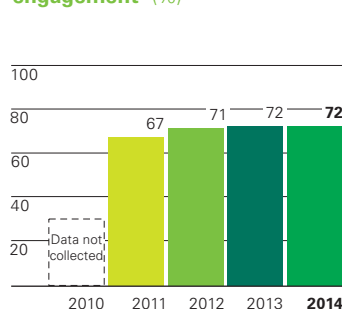
We provide data on greenhouse gas (GHG) emissions material to our business on a carbon dioxide-equivalent basis. This includes CO<sub>2</sub> and methane for direct emissions.<sup>c</sup> Our GHG KPI encompasses all BP's consolidated entities as well as our share of equity-accounted entities other than BP's share of TNK-BP and Rosneft.<sup>d</sup> Emissions data for Rosneft can be found on its website.

**2014 performance** The decrease in our GHG emissions is primarily due to the sale of our Carson and Texas City refineries in the US as part of our divestment programme.

<sup>b</sup> The reported 2013 figure of 49.2MteCO<sub>2</sub>e has been amended to 50.3MteCO<sub>2</sub>e.

<sup>c</sup> For indirect emissions data see page 42.

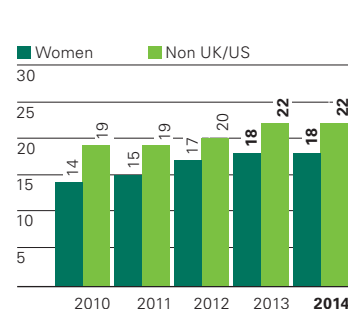
<sup>d</sup> For our emissions on an operational control basis see page 42.

Group priorities engagement<sup>a</sup> (%)

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

**2014 performance** The 2014 survey found that employees remain clear about safety procedures, standards and requirements that apply to them and that pride in working at BP has increased steadily since 2011. Understanding and support of BP's strategy is strong at senior levels, but needs further communication and engagement across the organization.

<sup>a</sup> Relates to BP employees.

Diversity and inclusion<sup>a</sup> (%)

Each year we report the percentage of women and individuals from countries other than the UK and the US among BP's group leaders. This helps us track progress in building a diverse and well-balanced leadership team.

**2014 performance** The percentage of our group leaders who are women or non-UK/US has remained steady this year. We remain committed to our aim that women will represent at least 25% of our group leaders by 2020.

# Our markets in 2014

A snapshot of the global energy market in 2014, as oil prices return to a pattern of volatility.



▲ A mechanical technician works on the floating, production, storage and offloading vessel in Angola's ultra-deep water.

▼ 'Pipe alley' at Cooper River petrochemicals plant. The site is one of the world's largest producers of PTA, a raw material primarily used to manufacture polyester and plastic bottles.



Economic growth has remained relatively weak globally, and was weaker in the emerging non-OECD economies than recent years. Within the OECD, the US and UK performed best – growing at around their medium-term potential – while Japan and the Eurozone have underperformed against their potential.

## Oil

Crude oil prices, as demonstrated by the industry benchmark of dated Brent, averaged \$98.95 per barrel in 2014. For the period from 2010 to mid-2014, oil prices followed a pattern of relative stability at around \$110 a barrel. Prices averaged \$109 during the first half of 2014, but fell sharply by more than 50% since June in the face of continued strong growth of light, sweet oil production in the US, and weak global consumption growth. Brent prices ended the year near \$55.

Amid continued high oil prices for much of the year and weak economic growth in emerging economies, global oil consumption increased by a below-average 0.6 million barrels per day (mmb/d) for the year (0.7%).<sup>a</sup> The growth in consumption was greatly exceeded by record growth in non-OPEC production (2.0 mmb/d), mainly by continued strong growth in US output. OPEC crude oil production fell slightly due to renewed outages in Libya. On balance, production significantly exceeded consumption, resulting in a large increase in OECD commercial oil inventories.

In 2013 global oil consumption grew by roughly 1.4 million barrels per day (1.4%), significantly more than the increase in global production (0.6%).<sup>b</sup> Non-OPEC production accounted for all of the net global increase, driven by robust US growth.

## Natural gas

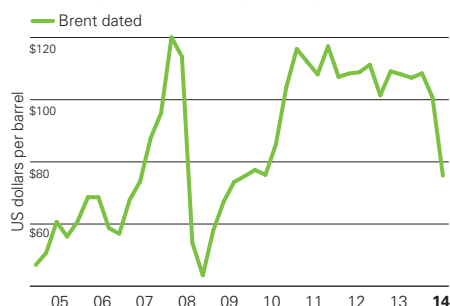
Global price differentials in 2014 continued to narrow. US gas prices moved up, while European and Asian spot LNG prices weakened. The Henry Hub index increased from \$3.7 per million British thermal units (mmBtu) in 2013 to \$4.4 in 2014.

Spot LNG prices in Europe and Asia fell with rising global LNG supplies and weak demand growth. New LNG projects in Papua New Guinea and Australia, and recovering supplies in Africa have added to the market in 2014.

Moderating demand and milder weather reduced the UK National Balancing Point hub price to an average of 50 pence per therm in 2014 (2013 68). The Japanese spot price fell to an average of \$13.9/mmBtu in 2014 (2013 \$16.6).

In 2013 growth in natural gas consumption slowed to a below-average rate and broad differentials between regional gas prices continued, although they did not widen further as US gas prices recovered from their 2012 lows. Global LNG supply expanded in 2013, following a contraction in supply in 2012. But the LNG market remained tight, as strong demand continued in Asia from economic growth and nuclear power outages, and in Latin America due to the effect of a drought on hydroelectric production.

Crude oil prices (quarterly average)



## Oil and gas pricing

For more on upstream markets in 2014 see page 25.

## Refining margins

For more on downstream markets in 2014 see page 30.

<sup>a</sup> From Oil Market Report 10 February 2015©, OECD/IEA 2015, page 4.

<sup>b</sup> BP Statistical Review of World Energy June 2014.



# Group performance

A summary of our group financial and operating performance.

## 10-point plan performance

In 2014 we completed our three-year 10-point plan, established in 2011, to help stabilize BP and restore trust and value in response to the tragic Deepwater Horizon accident in 2010. Here we report on our performance in delivering the plan over the period.

### 1 Relentless focus on safety

We reduced tier 1 process safety events★ and loss of primary containment (LOPC) by 62% and 21% respectively over the plan period. However, in 2014 there were eight more tier 1 events and 25 more LOPC incidents than 2013. Safety remains our primary focus and we continue to focus our efforts on it.

### 2 Play to our strengths

We accessed almost 158,000 km<sup>2</sup> exploration acres, made 13 new discoveries and drilled a total of 44 exploration wells (2014 18).

### 3 Stronger and more focused

We have reshaped our portfolio to have a set of high-value deepwater assets, gas value chains, giant fields, and a high-quality downstream business. We sold around half of our upstream installations and pipelines, and one third of our wells – while retaining roughly 90% of our proved reserves and production.

### 4 Simpler and more standardized

We implemented standardized global systems and processes and established global functional organizations to conduct all BP-operated drilling and wells activity and manage the development of our major projects★.

### 5 More visibility and transparency to value

We provide downstream results by fuels, petrochemicals and lubricants, and report earnings from Rosneft as a separate operating segment.

### 6 Active portfolio management

We completed our \$38-billion divestment programme ahead of schedule and plan for a further \$10 billion of divestments before the end of 2015, with \$4.7 billion of sales already agreed.

### 7 New upstream projects onstream with unit cash margins★ double the 2011 average

We started up 15 major upstream projects, of which 13 are in the four higher-margin areas (Angola, Azerbaijan, Gulf of Mexico and North Sea). Average forecast unit cash margins (2014-23) for the 15 projects at \$100/bbl oil price were more than double the 2011 upstream segment average.

### 8 Generate around 50% more in operating cash flow★ by 2014 versus 2011<sup>a</sup>

We reported \$32.8 billion of operating cash flow in 2014 (averaged oil price of \$98.95/bbl, averaged Henry Hub gas price of \$4.43/mmBtu) – exceeding our target of around 50% increase on 2011.

### 9 Half of incremental operating cash for reinvestment – half for other purposes including distributions

The dividend paid in 2014 increased by 39% since 2011, and we carried out \$10.3 billion of share buybacks since March 2013, when a share repurchase programme was announced.

### 10 Strong balance sheet

Our gearing★ stayed within our target range of 10-20%, decreasing from 20.4% in 2011 to 16.7% at the end of 2014.

## Increasing value

Delivering our goal of value over volume means tough decisions can be necessary to make the best financial choices for BP.

An important part of our portfolio in the Gulf of Mexico is the deepwater Atlantis field which is early in its life cycle. To increase recovery from the field, we had planned to install new subsea infrastructure, requiring a long and expensive construction period. When reassessing our field development plan we concluded that our approach would not generate the most value from the field, so we decided to look for an alternative solution.

By using our existing subsea facilities to safely drill future wells, rather than building new infrastructure, we aim to deliver just as much value to BP as originally planned, while requiring millions less in capital expenditure and reducing corresponding risk and demand for resources. The change in plan could significantly increase the Atlantis field's capital efficiency and cash flow over the next five years.

This focus on capital allocation discipline is being rigorously applied on all of our fields around the world.

Ⓢ We only select the best options that maximize value.



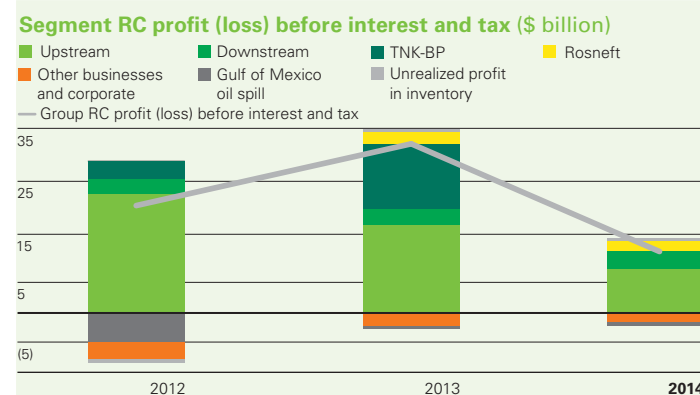
<sup>a</sup> Assumed an oil price of \$100/bbl and a Henry Hub gas price of \$5/mmBtu in 2014. 2011 excluded BP's share of TNK-BP dividends; 2014 included BP's share of Rosneft dividends. The projection included the impact of payments in respect of federal criminal and securities claims with the US government 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.



## Financial and operating performance

	2014	2013	2012
			\$ million
Profit before interest and taxation	<b>6,412</b>	31,769	19,769
Finance costs and net finance expense relating to pensions and other post-retirement benefits	<b>(1,462)</b>	(1,548)	(1,638)
Taxation	<b>(947)</b>	(6,463)	(6,880)
Non-controlling interests	<b>(223)</b>	(307)	(234)
Profit for the year <sup>a</sup>	<b>3,780</b>	23,451	11,017
Inventory holding (gains) losses <sup>★</sup> , net of tax	<b>4,293</b>	230	411
Replacement cost profit <sup>★</sup>	<b>8,073</b>	23,681	11,428
Net charge (credit) for non-operating items <sup>★</sup> , net of tax	<b>4,620</b>	(10,533)	5,298
Net (favourable) unfavourable impact of fair value accounting effects <sup>★</sup> , net of tax	<b>(557)</b>	280	345
Underlying replacement cost profit <sup>★</sup>	<b>12,136</b>	13,428	17,071
Capital expenditure and acquisitions, on accrual basis	<b>23,781</b>	36,612	25,204

<sup>a</sup> Profit attributable to BP shareholders.



Profit for the year ended 31 December 2014 decreased by \$19.7 billion compared with 2013. Excluding inventory holding losses, replacement cost (RC) profit also decreased by \$15.6 billion compared with 2013. Both results in 2013 included a \$12.5-billion non-operating gain relating to the disposal of our interest in TNK-BP.

After adjusting for a net charge for non-operating items, which mainly related to impairments and further charges associated with the Gulf of Mexico oil spill; and net favourable fair value accounting effects, underlying RC profit for the year ended 31 December 2014 was down by \$1.3 billion compared with 2013. The reduction was mainly due to a lower profit in Upstream, partially offset by improved earnings from Downstream.

Profit for the year ended 31 December 2013 increased by \$12.4 billion compared with 2012. Excluding inventory holding losses, RC profit also increased by \$12.2 billion compared with 2012. The increase in both results was due to a \$12.5-billion gain of disposal of our interest in TNK-BP.

After adjusting for a net credit for non-operating items, which mainly related to the gain on disposal of our interest in TNK-BP and was partially offset by an \$845-million write-off and impairments in Upstream and further charges associated with the Gulf of Mexico oil spill; and net unfavourable fair value accounting effects, underlying RC profit for the year ended 31 December 2013 was down by \$3.6 billion compared with 2012. This 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 2012 profit was \$11.0 billion, RC profit was \$11.4 billion and underlying RC profit was \$17.1 billion. There was a net post-tax charge of \$5.3 billion for non-operating items, which included a \$5-billion pre-tax charge relating to the Gulf of Mexico.

More information on non-operating items, and fair value accounting effects, can be found on [AR](#) page 209. See Gulf of Mexico oil spill on page 36 and [AR](#) Financial statements – Note 2 for further information on the impact of the Gulf of Mexico oil spill on BP's financial results.



See [Upstream](#) on page 24, [Downstream](#) on page 29, [Rosneft](#) on page 33 and [Other businesses and corporate](#) on page 35 for further information on segment results.

### Taxation

The charge for corporate income taxes in 2014 was lower than 2013. The effective tax rate (ETR) was 19% in 2014 (2013 21%, 2012 38%). The low ETR in 2014 reflects the impairment charges on which tax credits arise in relatively high tax rate jurisdictions. The lower ETR in 2013 compared with 2012 primarily reflects the gain on disposal of TNK-BP in 2013 for which there was no corresponding tax charge. The underlying ETR (which excludes non-operating items and fair value accounting effects) on RC profit was 36% in 2014 (2013 35%, 2012 30%).

In the current environment, with our current portfolio of assets, the underlying ETR on RC profit for 2015 is expected to be lower than 2014.

### Cash flow and net debt information

	2014	2013	2012
			\$ million
Net cash provided by operating activities	<b>32,754</b>	21,100	20,479
Net cash used in investing activities	<b>(19,574)</b>	(7,855)	(13,075)
Net cash used in financing activities	<b>(5,266)</b>	(10,400)	(2,010)
Currency translation differences relating to cash and cash equivalents	<b>(671)</b>	40	64
Increase in cash and cash equivalents	<b>7,243</b>	2,885	5,458
Cash and cash equivalents at beginning of year	<b>22,520</b>	19,635	14,177
Cash and cash equivalents at end of year	<b>29,763</b>	22,520	19,635
Gross debt	<b>52,854</b>	48,192	48,800
Net debt <sup>★</sup>	<b>22,646</b>	25,195	27,465
Gross debt to gross debt-plus-equity	<b>31.9%</b>	27.0%	29.0%
Net debt to net debt-plus-equity <sup>★</sup>	<b>16.7%</b>	16.2%	18.7%

### Net cash provided by operating activities

Net cash provided by operating activities for the year ended 31 December 2014 increased by \$11.7 billion compared with 2013. Excluding the impacts of the Gulf of Mexico oil spill, net cash provided by operating activities was \$32.8 billion for 2014, an increase of \$11.6 billion compared with 2013.

Profit before taxation was lower but this was partially offset by movements in the adjustments for non-cash items, including depreciation, depletion and amortization, impairments and gains and losses on sale of businesses and fixed assets. Furthermore, 2013 was impacted by an adverse movement in working capital and 2014 was favourably impacted.

The increase in 2013 compared with 2012 primarily benefited from the reduction of \$2.3 billion in the cash outflow in respect of the Gulf of Mexico oil spill. Excluding the impacts of the Gulf of Mexico oil spill, net cash provided by operating activities was \$21.2 billion for 2013, compared with \$22.9 billion for 2012, a decrease of \$1.7 billion. The decrease was mainly due to an increase in working capital requirements of \$3.9 billion, which was partially offset by a reduction in income tax paid.

### Net cash used in investing activities

Net cash used in investing activities for the year ended 31 December 2014 increased by \$11.7 billion compared with 2013. The increase reflected a decrease in disposal proceeds of \$18.5 billion, partly offset by a \$4.9-billion decrease 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 in 2013. There was also a decrease in our other capital expenditure excluding acquisitions of \$2.0 billion.

The decrease in 2013 compared with 2012 reflected an increase in disposal proceeds of \$10.4 billion, 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 \$1.3 billion.

There were no significant acquisitions in 2014, 2013 and 2012.

The group has had significant levels of capital investment for many years. Cash flow in respect of capital investment, excluding acquisitions, was \$23.1 billion in 2014 (2013 \$30 billion and 2012 \$24.8 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.

We expect capital expenditure, excluding acquisitions and asset exchanges, to be around \$20 billion in 2015.

Total cash disposal proceeds received during 2014 were \$3.5 billion (2013 \$22 billion, 2012 \$11.6 billion). In 2013 this included \$16.7 billion for the disposal of BP's interest in TNK-BP and in 2012 it included \$5.6 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. See [AR](#) Financial statements – Note 3 for more information on disposals.

#### Net cash used in financing activities

Net cash used in financing activities for the year ended 31 December 2014 decreased by \$5.1 billion compared with 2013. The decrease primarily reflected higher net proceeds of \$3.3 billion from long-term financing and a decrease in the net repayment of short-term debt of \$1.3 billion. The \$8-billion share repurchase programme was completed in July 2014.

The increase in 2013 compared with 2012 primarily reflected the buyback of shares of \$5.5 billion, as part of our \$8-billion share repurchase programme, lower net proceeds of \$1.1 billion from long-term financing and an increase in the net repayment of short-term debt of \$1.4 billion.

Total dividends paid in 2014 were 39 cents per share, up 6.8% compared with 2013 on a dollar basis and 1.9% in sterling terms. This equated to a total cash distribution to shareholders of \$5.9 billion during the year (2013 \$5.4 billion, 2012 \$5.3 billion).

#### Net debt

Net debt at the end of 2014 decreased by \$2.5 billion from the 2013 year-end position. The ratio of net debt to net debt plus equity at the end of 2014 increased by 0.5%.

The total cash and cash equivalents at the end of 2014 were \$7.2 billion higher than 2013.

We will continue to target our net debt ratio in the 10-20% range while uncertainties remain. Net debt and the ratio of net debt to net debt plus equity are non-GAAP measures. See [AR](#) Financial statements – Note 25 for further information on net debt.

For information on financing the group's activities, see [AR](#) Financial statements – Note 27 and Liquidity and capital resources on [AR](#) page 211.

#### Group reserves and production

Total hydrocarbon proved reserves at 31 December 2014, on an oil equivalent basis including equity-accounted entities, decreased by 3% (decrease of 5% for subsidiaries and increase of 1% for equity-accounted entities) compared with 31 December 2013. Natural gas represented about 44% of these reserves (58% for subsidiaries and 27% for equity-accounted entities). The change includes a net decrease from acquisitions and disposals of 39mmboe (all within our subsidiaries). Acquisition activity in our subsidiaries occurred in Azerbaijan, the US and the UK, and divestment activity in our subsidiaries occurred in the US and Brazil.

Our total hydrocarbon production for the group was 2% lower compared with 2013. The decrease comprised a 1% increase (7% increase for liquids and 4% decrease for gas) for subsidiaries and a 7% decrease (13% decrease for liquids and 25% increase for gas) for equity-accounted entities.

For more information on reserves and production, see Oil and gas disclosures for the group on [AR](#) page 219.

	2014	2013	2012
<b>Estimated net proved reserves<sup>a</sup> (net of royalties)</b>			
<b>Liquids<sup>★</sup></b> million barrels			
Crude oil <sup>b</sup>			
Subsidiaries <sup>★</sup>	3,582	3,798	4,082
Equity-accounted entities <sup>c</sup>	5,663	5,589	5,275
	9,244	9,387	9,357
Natural gas liquids			
Subsidiaries	510	551	591
Equity-accounted entities <sup>c</sup>	62	131	103
	572	682	693
Total liquids			
Subsidiaries	4,092	4,349	4,672
Equity-accounted entities <sup>c</sup>	5,725	5,721	5,378
	9,817	10,070	10,050
<b>Natural gas</b> billion cubic feet			
Subsidiaries	32,496	34,187	33,264
Equity-accounted entities <sup>c</sup>	12,200	11,788	7,041
	44,695	45,975	40,305
<b>Total hydrocarbons<sup>★</sup></b> million barrels of oil equivalent			
Subsidiaries	9,694	10,243	10,408
Equity-accounted entities <sup>c</sup>	7,828	7,753	6,592
	17,523	17,996	17,000
<b>Production<sup>a</sup> (net of royalties)</b>			
<b>Liquids</b> thousand barrels per day			
Crude oil <sup>d</sup>			
Subsidiaries	844	789	795
Equity-accounted entities <sup>e</sup>	979	1,120	1,137
	1,823	1,909	1,932
Natural gas liquids			
Subsidiaries	91	86	96
Equity-accounted entities <sup>e</sup>	12	19	27
	103	105	123
Total liquids <sup>f</sup>			
Subsidiaries	936	874	891
Equity-accounted entities <sup>e</sup>	991	1,139	1,164
	1,927	2,013	2,056
<b>Natural gas</b> million cubic feet per day			
Subsidiaries	5,585	5,845	6,193
Equity-accounted entities <sup>e</sup>	1,515	1,216	1,200
	7,100	7,060	7,393
Total hydrocarbons <sup>f</sup>			
Subsidiaries	1,898	1,882	1,959
Equity-accounted entities <sup>e</sup>	1,253	1,348	1,372
	3,151	3,230	3,331

<sup>a</sup> Because of rounding, some totals may not agree exactly with the sum of their component parts.

<sup>b</sup> Includes condensate and bitumen.

<sup>c</sup> Includes BP's share of Rosneft (2014 and 2013) and TNK-BP reserves (2012). See Rosneft on page 33 and Supplementary information on oil and natural gas on [AR](#) page 167 for further information.

<sup>d</sup> Includes condensate.

<sup>e</sup> Includes BP's share of Rosneft (2014 and 2013) and TNK-BP production (2013 and 2012). See Rosneft on page 33 and Oil and gas disclosures for the group on [AR](#) page 219 for further information.

<sup>f</sup> A minor amendment has been made to the split between subsidiaries and equity-accounted entities for the comparative periods.

# Upstream

We continued to actively manage our portfolio to play to our strengths, divesting non-core assets and finding alternative ways to create long-term value.



▲ An operator works the controls at the Rumaila oilfield in Iraq. The field extends 50 miles from end to end.

## Our business model and strategy

The 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 2014 our activities took place in 28 countries.

With the exception of the US Lower 48 onshore business, 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★.
- The **global operations organization** is responsible for safe, reliable and compliant operations, including upstream production assets and midstream transportation and processing activities.

We optimize and integrate the delivery of these activities with support from global functions with specialist areas of expertise: technology, finance, procurement and supply chain, human resources and information technology.

In 2015 our US Lower 48 onshore business began operating as a separate business, with its own governance, processes and systems. This is designed to promote nimble decision making and innovation so that BP can be more competitive in the US onshore market, while maintaining BP's commitment to safe, reliable and compliant operations. The business's approach is to operate in line with industry standards developed within the context of the highly regulated US environment. BP's US Lower 48 business manages a diverse portfolio which includes an extensive unconventional resource base.

Technologies such as seismic imaging, enhanced oil recovery and real-time data support our upstream strategy by helping to gain new access, increase recovery and reserves and improve 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 (including 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.

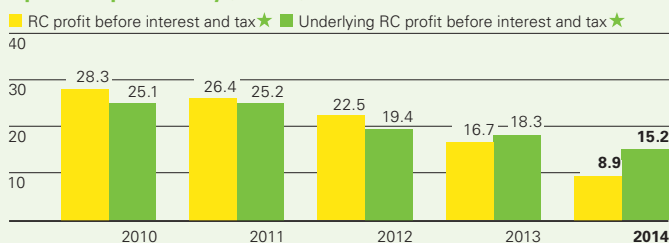
Our strategy is to grow long-term value by continuing to build a portfolio of material, enduring positions in the world's key hydrocarbon basins. Our strategy is enabled by:

- A continued focus on safety and the systematic management of risk.
- Prioritizing value over volume:
  - A more focused portfolio with strengthened incumbent positions and reduced operating complexity.
  - Efficient execution of our base activities, a quality set of major projects and leveraging our access and exploration expertise.
- Disciplined investment in three distinctive engines for growth: deep water, gas value chains and giant fields. We maintain a balanced portfolio of opportunities.
- Delivery of competitive operating cash growth through improvements in efficiency and reliability – for both operations and investment.
- Strong relationships built on mutual advantage, deep knowledge of the basins in which we operate and technology.

## Our performance summary

- For upstream safety performance see page 40.
- Our exploration function gained access to new potential resources covering more than 47,000km<sup>2</sup> in five countries.
- We started up seven major upstream projects.
- We achieved an upstream BP-operated plant efficiency★ of 90%.
- Our disposals generated \$2.5 billion in proceeds in 2014.

### Upstream profitability (\$ billion)



See Financial performance on page 25 for an explanation of the main factors influencing upstream profit.

## Outlook for 2015

- We expect reported production in 2015 to be higher than 2014, mainly reflecting higher entitlements in production-sharing agreement (PSA)★ regions on the basis of assumed lower oil prices. Actual reported outcome will depend on the exact timing of project start-ups, OPEC quotas and entitlement impacts in our PSAs. We expect underlying production★ in 2015 to be broadly flat with 2014, with the base decline being offset by new major project volumes both from 2014 and 2015.
- We expect four major projects to come onstream in 2015 – two in Angola and one each in Australia and Algeria.
- Capital investment in 2015 is expected to decrease, largely reflecting the lower oil price environment and our commitment to continued capital discipline. The reduction is expected to come primarily from prioritizing activity in our operations, paring back exploration and access spend, and shelving a number of marginal projects.





## Committing to the future

The Gulf of Mexico is one of four key areas where we believe further growth in higher-margin barrels is possible. As the region's leading acreage holder and largest investor for the last 10 years, BP has focused its activities on this important location for many years. Our four deepwater production platforms – Thunder Horse, Atlantis, Mad Dog and Na Kika – are all in the early stages of their life cycles. These major hubs offer long-term growth opportunities for BP and we aim to optimize production from them, as well as from our non-operated hubs.

In 2014 we made significant progress on a multi-billion dollar investment programme by starting up three major projects in the region. Na Kika Phase 3 began oil production from our first well in February; our Atlantis North Expansion Phase 2 development started up in April with the first of four planned production wells; and with technical input and support from our experts, Shell-operated Mars B started up in February. We also entered a strategic partnership with Chevron in January 2015 to explore and develop Paleogene assets, combining our subsurface expertise with Chevron's Paleogene development design and build experience.

Our progress highlights the potential of our portfolio to unlock value for investors while also delivering vital energy resources to the US.

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

## Financial performance

	2014	2013	\$ million
		2012	
Sales and other operating revenues <sup>a</sup>	<b>65,424</b>	70,374	72,225
RC profit before interest and tax	<b>8,934</b>	16,657	22,491
Net (favourable) unfavourable impact of non-operating items★ and fair value accounting effects★	<b>6,267</b>	1,608	(3,055)
Underlying RC profit before interest and tax	<b>15,201</b>	18,265	19,436
Capital expenditure and acquisitions	<b>19,772</b>	19,115	18,520
<b>BP average realizations<sup>b</sup></b>			\$ per barrel
Crude oil	<b>93.65</b>	105.38	108.94
Natural gas liquids	<b>36.15</b>	38.38	42.75
Liquids★	<b>87.96</b>	99.24	102.10
			\$ per thousand cubic feet
Natural gas	<b>5.70</b>	5.35	4.75
US natural gas	<b>3.80</b>	3.07	2.32
			\$ per barrel of oil equivalent
Total hydrocarbons★	<b>60.85</b>	63.58	61.86
<b>Average oil marker prices<sup>c</sup></b>			\$ per barrel
Brent	<b>98.95</b>	108.66	111.67
West Texas Intermediate	<b>93.28</b>	97.99	94.13
<b>Average natural gas marker prices</b>			\$ per million British thermal units
Average Henry Hub gas price <sup>d</sup>	<b>4.43</b>	3.65	2.79
			pence per therm
Average UK National Balancing Point gas price <sup>c</sup>	<b>50.01</b>	67.99	59.74

<sup>a</sup> Includes sales to other segments.

<sup>b</sup> Realizations are based on sales by consolidated subsidiaries★ only, which excludes equity-accounted entities.

<sup>c</sup> All traded days average.

<sup>d</sup> Henry Hub First of Month Index.

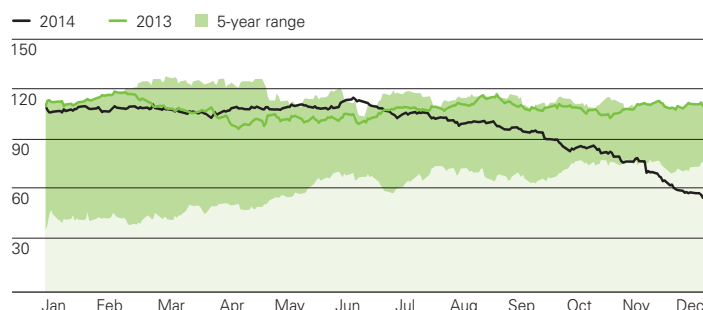
### Market prices

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.

The dated Brent price in 2014 averaged \$98.95 per barrel, after three consecutive years of prices above \$100. Prices averaged about \$109 during the first half of 2014, but fell sharply during the second half in the face of continued strong growth of light, sweet oil production in the US and weak global consumption growth. Brent prices ended the year near \$55.

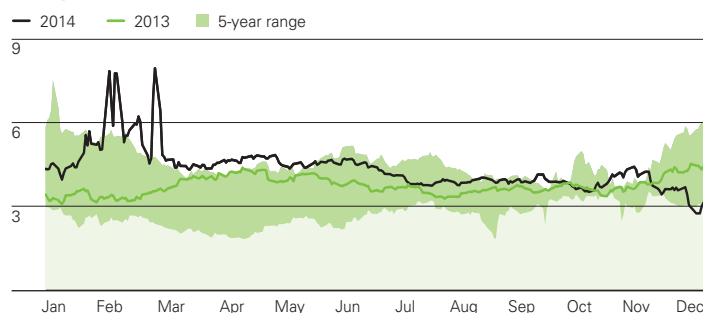
The Henry Hub First of Month Index price was up by 21%, year on year, in 2014 (2013, up by 31%).

### Brent (\$/bbl)



An extremely cold start to 2014 in North America increased heating demand and drained storage levels. US gas supply continued to expand in 2014, reaching yet another record production level, in particular supported by rising liquids-rich gas production.

### Henry Hub (\$/mmBtu)



The UK National Balancing Point gas price in 2014 fell by 26% compared with 2013 (2013 an increase of 14% on 2012). This reflected milder weather and weak demand in Europe. Lower LNG prices in Asia led to a reduction in the price of spot LNG available for Europe, which contributed to the weakness of European spot prices. For more information on the global energy market in 2014, see page 20.

### Financial results

Sales and other operating revenues for 2014 decreased compared with 2013, primarily reflecting lower liquids realizations partially offset by higher production in higher-margin areas, higher gas realizations and higher gas marketing and trading revenues. The decrease in 2013 compared with 2012 primarily reflected lower volumes due to disposals and lower liquids realizations, partially offset by higher gas marketing and trading revenues.

Replacement cost (RC) profit before interest and tax for the segment included a net non-operating charge of \$6,298 million. This is primarily related to impairments associated with several assets, mainly in the North

## Major projects portfolio



Sea and Angola reflecting the impact of the lower near-term price environment, revisions to reserves and increases in expected decommissioning cost estimates. This also included a charge to write down the value ascribed to block KG D6 in India as part of the acquisition of upstream interests from Reliance Industries in 2011. The charge arises as a result of uncertainty in the future long-term gas price outlook, following the introduction of a new formula for Indian gas prices, although we do see the commencement of a transition to market-based pricing as a positive step. We expect further clarity on the new pricing policy and the premiums for future developments to emerge in due course. Fair value accounting effects had a favourable impact of \$31 million relative to management's view of performance.

The 2013 result included a net non-operating charge of \$1,364 million, which included 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 had an unfavourable impact of \$244 million from fair value accounting effects. 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.

After adjusting for non-operating items and fair value accounting effects, the decrease in the underlying RC profit before interest and tax compared with 2013 reflected lower liquids realizations, higher costs, mainly depreciation, depletion and amortization and exploration write-offs and the absence of one-off benefits which occurred in 2013 (see below). This was partly offset by higher production in higher-margin areas, higher gas realizations and a benefit from stronger gas marketing and trading activities.

Compared with 2012 the 2013 result 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, one-off benefits related to production taxes and a cost pooling settlement agreement between the owners of the Trans-Alaska Pipeline System (TAPS), and higher gas realizations.

Total capital expenditure including acquisitions and asset exchanges in 2014 was higher compared with 2013. This included \$469 million in 2014 relating to the purchase of an additional 3.3% equity in Shah Deniz, Azerbaijan and the South Caucasus Pipeline.

In total, disposal transactions generated \$2.5 billion in proceeds during

2014, with a corresponding reduction in net proved reserves of 114mmbbl, all within our subsidiaries.

The major disposal transactions during 2014 were the farm-out of a 40% stake in block 61 in the Khazzan field, Oman, to government owned Makarim Gas Development LLC, for \$545 million; the sale of our interests in four BP-operated oilfields on the North Slope of Alaska to Hilcorp, including all of BP's interests in the Endicott and Northstar oilfields and a 50% interest in each of the Milne Point field and the Liberty prospect, together with BP's interests in the oil and gas pipelines associated with these fields for \$1.25 billion plus an additional carry of up to \$250 million, if the Liberty field is developed; and the sale of our interests in the Panhandle West and Texas Hugoton gas fields to Pantera Acquisition Group, LLC for \$390 million. Sales transactions are typically subject to post-closing adjustments and future payments depending on oil price and production. More information on disposals is provided in Upstream analysis by region on [AR](#) page 213 and [AR](#) Financial statements – Note 3.

Provisions for decommissioning increased from \$17.2 billion at the end of 2013 to \$18.7 billion at the end of 2014. The increase primarily reflects updated estimates of the cost of future decommissioning, additions and a change in discount rate, partially offset by utilization of provisions, exchange revaluation and impacts of divestments. Decommissioning costs are initially capitalized within fixed assets and are subsequently depreciated as part of the asset.

## 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.

### New access in 2014

We gained access to new potential resources covering more than 47,000km<sup>2</sup> in five countries (Australia, Greenland, UK (North Sea), the US (Gulf of Mexico) and Morocco, which received final government approval in April 2014). In December, we signed a new PSA with the State Oil Company of the Republic of Azerbaijan to jointly explore for and develop potential prospects in the shallow water area around the Absheron Peninsula in the Azerbaijan sector of the Caspian Sea. This is pending final ratification by the government. Additionally, Rosneft and BP signed a heads of agreement in May 2014 relating to a long-term project for the exploration and potential development of the Domanik formations in the Volga-Urals region of Russia.



In January 2015, we received formal licences for El Matariya and Karawan concessions in Egypt after ratification and finalization of the agreements.

During the year we participated in five discoveries that are potentially commercial including: one in Egypt with the BG-operated Notus well in the El Burg concession; one in the pre-salt play of Angola with the Orca well in Block 20, operated by Cobalt International Energy; one at Xerelete in Brazil's Campos basin, operated by Total; one at Vorlich in the North Sea, which spans the GDF-SUEZ-operated block 30/1f and the BP-operated block 30/1c; and Guadalupe in the deepwater Gulf of Mexico, operated by Chevron.

### Exploration and appraisal costs

Excluding lease acquisitions, the costs for exploration and appraisal costs were \$2,911 million (2013 \$4,811 million, 2012 \$4,356 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 31% of exploration and appraisal costs were directed towards appraisal activity. We participated in 67 gross (32.75 net) exploration and appraisal wells in 10 countries.

### Exploration expense

Total exploration expense of \$3,632 million (2013 \$3,441 million, 2012 \$1,475 million) included the write-off of expenses related to unsuccessful drilling activities or lease expiration in the Lower 48 (\$665 million), Algeria (\$524 million), India (\$139 million), the Gulf of Mexico (\$500 million), Brazil (\$368 million), China (\$112 million), Angola (\$110 million), Morocco (\$83 million) and others (\$133 million). In addition, \$395 million was written off KG D6 in India as a result of uncertainty in the future long-term gas price outlook (see [AR](#) page 216).

### Upstream reserves

#### Estimated net proved reserves<sup>a</sup> (net of royalties)

	2014	2013	2012
Liquids			
million barrels			
Crude oil <sup>b</sup>			
Subsidiaries★	3,582	3,798	4,082
Equity-accounted entities <sup>c</sup>	702	729	813
	4,283	4,527	4,895
Natural gas liquids			
Subsidiaries	510	551	591
Equity-accounted entities <sup>c</sup>	16	16	25
	526	567	616
Total liquids			
Subsidiaries <sup>d</sup>	4,092	4,349	4,672
Equity-accounted entities <sup>c</sup>	717	745	838
	4,809	5,094	5,510
Natural gas			
billion cubic feet			
Subsidiaries <sup>e</sup>	32,496	34,187	33,264
Equity-accounted entities <sup>c</sup>	2,373	2,517	2,549
	34,869	36,704	35,813
Total hydrocarbons			
million barrels of oil equivalent			
Subsidiaries	9,694	10,243	10,408
Equity-accounted entities <sup>c</sup>	1,126	1,179	1,277
	10,821	11,422	11,685

<sup>a</sup> Because of rounding, some totals may not agree exactly with the sum of their component parts.

<sup>b</sup> Includes condensate and bitumen.

<sup>c</sup> BP's share of reserves of equity-accounted entities in the Upstream segment. During 2014, 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.

<sup>d</sup> Includes 21 million barrels (21 million barrels at 31 December 2013 and 14 million barrels at 31 December 2012) in respect of the 30% non-controlling interest in BP Trinidad & Tobago LLC.

<sup>e</sup> Includes 2,519 billion cubic feet of natural gas (2,685 billion cubic feet at 31 December 2013 and 2,890 billion cubic feet at 31 December 2012) 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 segment's total hydrocarbon reserves on an oil equivalent basis, including equity-accounted entities at 31 December 2014, decreased by

5% (5% for subsidiaries and 4% for equity-accounted entities) compared with reserves at 31 December 2013.

### Proved reserves replacement ratio★

The proved reserves replacement ratio for the Upstream segment in 2014, excluding acquisitions and disposals, was 31% for subsidiaries and equity-accounted entities (2013 93%), 29% for subsidiaries alone (2013 105%) and 43% for equity-accounted entities alone (2013 30%). For more information on proved reserves replacement for the group see [AR](#) page 219.

### Developments

The map on page 26 shows our major development areas. We achieved seven major project start-ups in 2014: the Chirag oil project in Azerbaijan; Na Kika Phase 3, Mars B and Atlantis North expansion Phase 2 in the Gulf of Mexico; CLOV in Angola; Kinnoull in the North Sea and Sunrise in Canada. In addition to starting up major projects, 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 an oil and gas discovery, Orca, in the pre-salt play of Angola in Block 20 (BP 30%), operated by Cobalt International Energy, Inc. and the CLOV project reached plateau production of 160mboe/d.
- **Azerbaijan** – the Shah Deniz and South Caucasus Pipeline consortia awarded further key contracts for the development of the Shah Deniz Stage 2 and South Caucasus Pipeline expansion projects. The BP-operated Azerbaijan International Operating Company celebrated the 20th anniversary of the Azeri-Chirag-Gunashli PSA.
- **North Sea** – we continued to see high levels of activity, including a new discovery, Vorlich, in the central North Sea (see page 28); progress in the major redevelopment of the west of Shetland Schiehallion and Loyal fields; and the restart of operations at the Rhum field. BP has been granted seven awards in the UK government's 28th licensing round. The blocks are located in three of our core areas: to the north of our Magnus field, next to Vorlich, and west of our Kinnoull development. The government is still to award some blocks in this round. These blocks are undergoing environmental assessment.



### Unlocking hidden resources

Accessing gas resources locked in hot sandstone almost three miles below the earth's surface is a task that our advanced technology and exploration experience has made possible.

Faced with the particular challenge of Oman's remote desert, we used our expertise to safely and successfully complete one of our largest ever 3D seismic surveys across the Khazzan field, an area the size of Greater London. To unlock this huge resource, we used the technical knowledge we gained from accessing the tight gas★ that is common in our US Lower 48 onshore business.

We proved our approach by conducting an extended well test – producing gas from four appraisal wells and acquiring a surveillance programme that significantly helped our understanding of the reservoir and enabled us to proceed with a field development plan. By the end of 2014, we had three rigs in operation and large-scale construction under way to build the central processing facility, roads and well pads, as well as workforce accommodation and facilities.

Khazzan represents the first phase in developing one of the largest known tight gas accumulations in the Middle East. It has the potential to be a major new source of gas supply for Oman over many decades.



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

- **Gulf of Mexico** – we made a new discovery – Guadalupe – and were awarded 51 blocks in the March and August Gulf of Mexico lease sales. At the end of the year we had 10 rigs operating. Following our strategic divestment programme, we now have a focused portfolio with growth potential around four operated and three non-operated hubs.

Development expenditure of subsidiaries incurred in 2014, excluding midstream activities, was \$15.1 billion (2013 \$13.6 billion, 2012 \$12.6 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. It includes production from conventional and unconventional (coalbed methane, shale) assets. The principal areas of production are Angola, Argentina, Australia, Azerbaijan, Egypt, Trinidad, the UAE, the UK and the US.

### Production (net of royalties)<sup>a</sup>

	2014	2013	2012
Liquids thousand barrels per day			
Crude oil			
Subsidiaries	844	789	795
Equity-accounted entities	163	294	281
	1,007	1,083	1,076
Natural gas liquids			
Subsidiaries	91	86	96
Equity-accounted entities	7	8	7
	99	94	103
Total liquids <sup>b</sup>			
Subsidiaries	936	874	891
Equity-accounted entities	170	302	288
	1,106	1,176	1,179
Natural gas million cubic feet per day			
Subsidiaries	5,585	5,845	6,193
Equity-accounted entities	431	415	416
	6,016	6,259	6,609
Total hydrocarbons <sup>b</sup> thousand barrels of oil equivalent per day			
Subsidiaries	1,898	1,882	1,959
Equity-accounted entities	245	374	360
	2,143	2,256	2,319

<sup>a</sup> 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.


<sup>b</sup> A minor amendment has been made to the split between subsidiaries and equity-accounted entities for the comparative periods.

## Extending the life of the North Sea

This year marked 50 years since we were awarded our first licence in the UK North Sea. And now, after producing more than 5 billion barrels of oil equivalent, we are not only finding more oil and gas, but also extending the life of our existing fields.

Our latest discovery in the Central North Sea – called Vorlich – demonstrates the basin's ongoing potential. The find was made jointly with GDF SUEZ E&P, underlining the benefits increased collaboration can bring to a mature basin. Vorlich spans two adjacent but separately operated blocks – one by BP and one by GDF SUEZ. It has been tested to a flow rate of 5,350 barrels a day.

We identified Vorlich through analysis of existing wells in the area, along with detailed mapping of high-quality seismic data, and are now looking at options to develop it. These options range from a simple subsea tie back into existing infrastructure, through to possibly introducing new infrastructure that could also serve to unlock additional undeveloped resources in the area.

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

Our total hydrocarbon production for the segment in 2014 was 5% lower compared with 2013. The decrease comprised a 1% increase (7% increase for liquids and 4% decrease for gas) for subsidiaries and a 35% decrease (44% decrease for liquids and 4% increase for gas) for equity-accounted entities compared with 2013. Divestments in 2014 accounted for 2% of the year-on-year production decrease. For more information on production see Oil and gas disclosures for the group on [AR](#) page 219.

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 2.2% higher compared with 2013. This primarily reflects strong Gulf of Mexico performance that was not impacted by weather, higher entitlements from lower oil prices and ADMA offshore concession (BP 14.67%) benefiting from higher OPEC nomination for Abu Dhabi.

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 (including liquefied natural gas (LNG)), 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 our 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 and risk management processes, systems and controls.

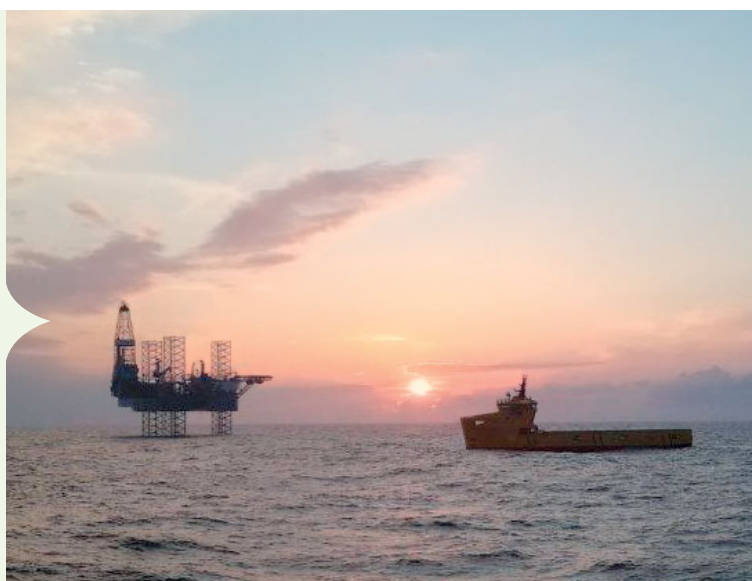
Gas and power marketing and trading activity is undertaken primarily in the US, Canada and Europe to market both BP production and third-party natural gas, support group LNG activities, and to manage market price risk and create incremental trading opportunities through the use of commodity derivative contracts. This activity also enhances margins and generates fee income from sources such as the management of price risk on behalf of third-party customers.

The group's risk governance framework seeks to manage and oversee the financial risks associated with this trading activity, as described in [AR](#) Financial statements – Note 27.

The group uses a range of commodity derivative contracts, storage and transport contracts in connection with its trading activities. The range of contracts that the group enters into is described in Glossary – commodity trading contracts on [AR](#) page 252.



For an analysis of our upstream business by geographic region and key events in 2014, see [AR](#) page 213.



# Downstream

In 2014 we saw continued improvement in our process safety and delivered strong operational performance resulting in profit and operating cash flow growth.



▲ The storage tanks, pipes and towers at BP's Rotterdam refinery, which can run at least 70 different kinds of crude.

## Our business model and strategy

Our Downstream segment has significant operations in Europe, North America and Asia, and also manufactures and markets products in Australasia, Africa and Central and South America.

Downstream is the product and service-led arm of BP, made up of three businesses:

- **Fuels** – includes refineries, fuels marketing and convenience retail businesses, together with global oil supply and trading activities that make up fuels value chains (FVCs). We sell refined petroleum products including gasoline, diesel and aviation fuel.
- **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, mainly using proprietary BP technology. These products are then used by others to make essential consumer products such as paint, plastic bottles and textiles.

We aim to run safe and reliable operations across all our businesses, supported by leading brands and technologies, to deliver high-quality products and services to meet our customers' needs.

Our strategy focuses on improving returns, growing operating cash flow★, and building a quality Downstream business that aims to lead the industry as measured by net income per refining barrel. Our five strategic priorities are:

- **Safe and reliable operations** – this remains our first priority and we continue to drive improvement in personal and process safety performance.
- **Advantaged manufacturing** – we aim to continue building a top quartile refining business by having a competitively advantaged portfolio which is underpinned by operations excellence. In petrochemicals we seek to create a business with higher earnings potential which is significantly more robust to a bottom of cycle environment.

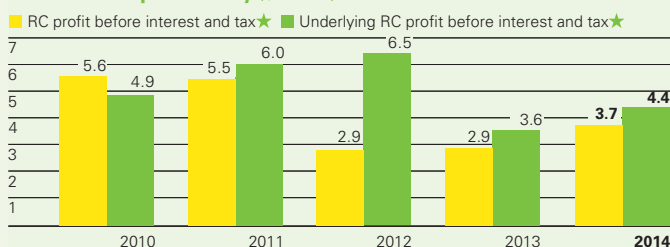
- **Fuels marketing and lubricants** – we will invest in higher returning businesses which have operating cash flow growth potential.
- **Portfolio quality** – we will maintain our focus on quality by high-grading of assets combined with capital discipline. Where businesses do not fit our strategic frame, we will seek to divest.
- **Simplification and efficiency** – we have launched a simplification and efficiency programme to support performance improvement and to make our businesses even more competitive.

Implementing this strategy is expected to lead to a growing downstream earnings profile and increasingly make the business more robust to external environmental impacts. Growing operating cash flows and capital discipline should ensure that Downstream remains a source of increasing cash flow for BP.

## Our performance summary

- For downstream safety performance see page 41.
- We continue to deliver strong operational performance across our refining system with the Whiting refinery now fully onstream.
- We acquired the aviation fuel business, Statoil Fuel and Retail Aviation AS, to expand our Air BP business in Scandinavia.
- We launched a new product, *Castrol EDGE* boosted with *Titanium Fluid Strength Technology* in our lubricants business.
- We sold our lubricants global aviation turbine oils business and completed the sale of our LPG marketing businesses.
- We announced that we will halt refining operations at the Bulwer refinery in Australia in 2015.
- In petrochemicals, we decided to invest and retrofit some of our operations in the US and Europe with new proprietary technology while ceasing certain other operations in our aromatics business as a result of our strategic review.

### Downstream profitability (\$ billion)



See Financial performance on page 30 for the main factors influencing downstream profit.

## Outlook for 2015

- We anticipate a weaker refining environment due to narrowing crude differentials in the low crude price environment.
- We expect the financial impact of refinery turnarounds to be comparable to that in 2014.
- We expect gradual improvement in the petrochemicals margin environment.



## Financial performance

	\$ million		
	2014	2013	2012
Sale of crude oil through spot and term contracts	<b>80,003</b>	79,394	56,383
Marketing, spot and term sales of refined products	<b>227,082</b>	258,015	274,666
Other sales and operating revenues	<b>16,401</b>	13,786	15,342
Sales and other operating revenues <sup>a</sup>	<b>323,486</b>	351,195	346,391
RC profit before interest and tax <sup>b</sup>			
Fuels	<b>2,830</b>	1,518	1,403
Lubricants	<b>1,407</b>	1,274	1,276
Petrochemicals	<b>(499)</b>	127	185
	<b>3,738</b>	2,919	2,864
Net (favourable) unfavourable impact of non-operating items★ and fair value accounting effects★			
Fuels	<b>389</b>	712	3,609
Lubricants	<b>(136)</b>	(2)	9
Petrochemicals	<b>450</b>	3	(19)
	<b>703</b>	713	3,599
Underlying RC profit before interest and tax <sup>b</sup>			
Fuels	<b>3,219</b>	2,230	5,012
Lubricants	<b>1,271</b>	1,272	1,285
Petrochemicals	<b>(49)</b>	130	166
	<b>4,441</b>	3,632	6,463
Capital expenditure and acquisitions	<b>3,106</b>	4,506	5,249

<sup>a</sup> Includes sales to other segments.

<sup>b</sup> 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.

### Financial results

Sales and other operating revenues in 2014 decreased compared with 2013 primarily due to falling crude prices. The increase in 2013, compared with 2012, reflected higher prices largely offset by lower volumes and foreign exchange losses.

The 2014 result included a net non-operating charge of \$1,570 million, primarily relating to impairment charges in our petrochemicals and fuels businesses, while 2013 and 2012 results included impairment charges in our fuels business, which were mainly associated with our disposal programme. In addition, fair value accounting effects had a favourable impact of \$867 million in 2014 versus unfavourable impacts in 2013 and 2012.

After adjusting for non-operating items and fair value accounting effects, underlying replacement cost (RC) profit before interest and tax in 2014 was higher than 2013 but lower than 2012.

### Our fuels business

The fuels strategy focuses primarily on fuels value chains (FVCs). These include large-scale, highly upgraded, feedstock-advantaged refineries which are integrated with logistics and marketing businesses.

We believe that having a quality refining portfolio connected to strong marketing positions is core to our integrated FVC businesses as this provides optimization opportunities in highly competitive markets. We look to build on our strong portfolio of refining assets and, through advantaged crude, optimize across the supply chain.

We have improved our refining portfolio quality in terms of crude feedstock and location advantage, scale and have sustained competitive complexity through portfolio rationalization and selective investment. Across all regions we expect to operate our portfolio at top quartile availability and with improved efficiency.

We continue to grow our fuels marketing businesses, including retail, through differentiated marketing offers and distinctive partnerships. We partner with leading retailers globally, creating distinctive offers that deliver good returns and reliable profit and cash generation.

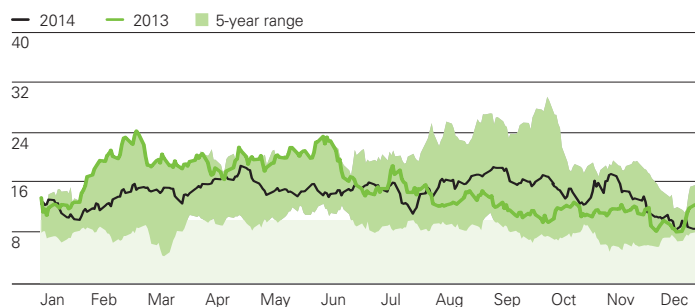
Underlying RC profit before interest and tax was higher than 2013, mainly due to improved fuels marketing performance, increased heavy crude processing and higher production, mainly as a result of the ramp-up of operations at our Whiting refinery following the modernization project. This was partially offset by a weaker refining environment. Compared with 2012, the 2013 results were impacted by significantly weaker refining margins, reduced throughput due to the planned Whiting refinery outage as a result of our 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.

### Refining marker margin★

We track the margin environment by 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. In addition, the RMM does not include estimates of energy or other variable costs.

		\$ per barrel		
Region	Crude marker	2014	2013	2012
US North West	Alaska North Slope	<b>16.6</b>	15.2	18.0
US Midwest	West Texas Intermediate	<b>17.4</b>	21.7	27.8
Northwest Europe	Brent	<b>12.5</b>	12.9	16.1
Mediterranean	Azeri Light	<b>10.6</b>	10.5	12.7
Australia	Brent	<b>13.5</b>	13.4	14.8
BP RMM		<b>14.4</b>	15.4	18.2

### BP refining marker margin (\$/bbl)



The average global RMM in 2014 was \$14.4/bbl, the lowest level since 2010 and \$1.0/bbl lower than 2013. This was largely due to the narrower West Texas Intermediate-Brent spread as improving pipeline and rail logistics in the US reduced the discount of US domestic crude oil relative to the international benchmark.

### Refining

At 31 December 2014 we owned or had a share in 14 refineries producing refined petroleum products that we supply to retail and commercial customers. For a summary of our interests in refineries and average daily crude distillation capacities see [AR](#) page 217.

In 2014, refinery operations were strong, with Solomon refining availability sustained at around 95% and utilization rates of 88% for the year. Overall refinery throughputs in 2014 were lower than those in 2013, mainly due to the divestment of the Texas City and Carson refineries.



	2014	2013	2012
Refinery throughputs <sup>a</sup>		thousand barrels per day	
US <sup>b</sup>	<b>642</b>	726	1,310
Europe	<b>782</b>	766	751
Rest of world	<b>297</b>	299	293
Total	<b>1,721</b>	1,791	2,354
		%	
Refining availability <sup>★</sup>	<b>94.9</b>	95.3	94.8
Sales volumes		thousand barrels per day	
Marketing sales <sup>c</sup>	<b>2,872</b>	3,084	3,213
Trading/supply sales <sup>d</sup>	<b>2,448</b>	2,485	2,444
Total refined product sales	<b>5,320</b>	5,569	5,657
Crude oil <sup>e</sup>	<b>2,360</b>	2,142	1,518
Total	<b>7,680</b>	7,711	7,175

<sup>a</sup> Refinery throughputs reflect crude oil and other feedstock volumes.

<sup>b</sup> The Texas City and Carson refineries were both divested in 2013.

<sup>c</sup> 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.

<sup>d</sup> Trading/supply sales are sales to large unbranded resellers and other oil companies.

<sup>e</sup> 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. 88,000 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 that includes pipelines, storage terminals and tankers for road and rail. We seek to drive for excellence in operational and transactional processes and deliver compelling customer offers in the various markets where we operate. For example, in 2014 we added the capability to receive additional US shale crudes by rail at our Cherry Point refinery in Washington. This increases the use of location-advantaged crudes at this refinery, improving access and diversification of crude slates.

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

	Number of retail sites operated under a BP brand		
Retail sites <sup>f</sup>	2014	2013	2012
US	<b>7,100</b>	7,700	10,100
Europe	<b>8,000</b>	8,000	8,300
Rest of world	<b>2,100</b>	2,100	2,300
Total	<b>17,200</b>	17,800	20,700

<sup>f</sup> The number of retail sites includes sites not operated by BP but instead operated by dealers, jobbers, franchisees or brand licensees 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.

Retail is the most material element of our fuels marketing operations and has good exposure to growth markets. We have distinctive partnerships with leading retailers in six countries and plan to expand elsewhere. Retail is a significant source of growth today and is expected to be so in the future. See Driving success below.

### 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 our FVCs to maintain a single interface with oil trading markets and to operate with a single set of trading compliance and risk management processes, systems and controls. The oil trading function (including support functions) has trading offices in Europe, the US and Asia. Our presence in the more actively-traded regions of the global oil markets supports overall understanding of the supply and demand forces across these markets. 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 we will look to optimize value across the supply chain. For example, we will often sell our own crude and purchase alternative crudes from third parties for our refineries where this will provide incremental margin.



### Driving success


Since 2005, our retail partnership with Marks & Spencer (M&S) has gone from strength to strength, offering a premium convenience experience that's helped to drive overall service station sales growth above the industry average.

Our success is reflected not only by our expansion rate – 26 stores opening across the UK in 2014 – but also by strong sales growth across our existing M&S Simply Food<sup>®</sup> forecourts.

The combination of BP and M&S brands complement each other, creating a highly differentiated offer for our target customers who are looking for a forecourt offer that combines high-quality fuel, premium convenience foods and the *Wild Bean Cafe*.

A typical customer's spend in a M&S Simply Food<sup>®</sup> outlet is more than 50% higher than in our other stores, and we've had a significant increase in customers visiting the store specifically for our food offer.

BP currently owns and operates nearly 200 BP forecourts with an M&S Simply Food<sup>®</sup>.

 Our Downstream business provides significant cash generation for the group.

Second, the function aims to create and capture incremental trading opportunities by entering into a full range of exchange-traded commodity derivatives, over-the-counter 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, which seeks to manage and oversee the financial risks associated with this trading activity, is described in [AR](#) Financial statements – Note 27.

The range of contracts that the group enters into is described in Glossary – commodity trading contracts on [AR](#) page 252.

### Aviation

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. We are one of the world's largest global aviation fuels suppliers. Air BP serves many major commercial airlines as well as the general aviation sectors. We have marketing sales of approximately 400,000 barrels per day. For details of acquisitions in 2014, see Running reliably on page 40.

### Our lubricants business

Our lubricants strategy is to focus on our premium brands and growth markets while leveraging technology and customer relationships. With more than 50% of profit generated from growth markets and continued growth in premium lubricants, we have an excellent base for further expansion and sustained profit growth.

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

We are one of the largest purchasers of base oil in the market, but have chosen not to produce it or manufacture additives at scale. Our participation choices in the value chain are focused on areas where we can leverage competitive differentiation and strength, such as:

- Applying cutting-edge technologies in the development and formulation of advanced products.
- Creating and developing product brands and clearly communicating their benefits to our customers.
- Building and extending our relationships with customers to better understand and meet their needs.

The lubricants business delivered an underlying RC profit before interest and tax which is largely consistent with 2013 and 2012 levels. The 2014 result saw an underlying 6% year-on-year improvement in results, which was offset by adverse foreign exchange translation impacts.

### Our petrochemicals business

Our petrochemicals strategy is to own and develop petrochemicals value chain businesses that are built around proprietary technology to deliver leading cost positions against our competition. We manufacture and market four main product lines:

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

We also produce a number of other specialty petrochemicals products.

We aim to improve our earnings potential and make the business more robust to a bottom of cycle environment. We are taking steps to significantly improve the cash break even performance of the business. This should improve our earnings potential and make the business more robust to a bottom of cycle environment. The actions to achieve this include:

- Restructuring a significant portion of our portfolio, primarily in our aromatics business, to shut down older capacity in the US and Asia and assess disposal options for less advantaged assets.
- Retrofitting our best technology in our advantaged sites to reduce overall operating costs.
- Growing third-party licensing income to create additional value.
- Delivering operational improvements focused on turnaround efficiency and improved reliability.

In addition to the assets we own and operate, we have also invested in a number of joint arrangements in Asia, where our partners are leading companies within their domestic market. An example of this is our latest generation technology PTA plant in China, which we are building with our partner, Zhuhai Port Co. The plant is currently commissioning with planned start-up in the first half of 2015.

In 2014 the petrochemicals business delivered a lower underlying RC profit before interest and tax compared with 2013 and 2012. This result reflected a continuation of the weak margin environment, particularly in the Asian aromatics sector, and unplanned operational events.

Our petrochemicals production in 2014 was flat compared with 2013 and slightly lower than 2012, with the low margin environment in 2014 and 2013 driving reduced output.

In November 2014 we announced plans to invest more than \$200 million to upgrade PTA plants at Cooper River in South Carolina and Geel in Belgium using our latest proprietary technology. We expect these investments to significantly increase manufacturing efficiency at these facilities. We plan to continue deploying our technology in new asset platforms to access Asian demand and advantaged feedstock sources.

BP holds a unique position in Russia through its 19.75% share in Rosneft.



Rosneft discovery in the South Kara Sea.

## BP and Rosneft

- 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.
- Russia has significant hydrocarbon resources and will continue to play an important role in long-term energy supply to the global economy.
- BP believes the primary sources of value to BP shareholders from its investment in Rosneft will be potential long-term share price appreciation and dividend growth.
- BP is positioned to contribute to Rosneft's strategy implementation through collaboration on technology and best practice. We also have the potential to undertake standalone projects with Rosneft, both in Russia and internationally.
- We remain committed to our strategic investment in Rosneft while complying with all relevant sanctions.

## 2014 summary

- US and EU sanctions were imposed on certain Russian activities, individuals and entities, including Rosneft.
- BP received \$693 million, net of withholding taxes, in July – representing our share of Rosneft's dividend of 12.85 Russian roubles per share for 2013.
- Rosneft and BP signed a contract in June to supply BP with up to 12 million tons of oil products over five years. A syndicate of banks, through a pre-export financing agreement, made a payment of approximately \$1.935 billion to Rosneft.
- Rosneft and BP signed a heads of agreement in May relating to a long-term project for the exploration and potential development of the Domanik formations in the Volga-Urals region of Russia.
- Rosneft and BP concluded framework agreements in May to enable technical collaboration between the parties. Work is ongoing in a number of areas pursuant to these agreements in both upstream and downstream.
- Bob Dudley serves on the Rosneft board of directors, and its strategic planning committee.

## 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 has a major resource base of hydrocarbons onshore and offshore, with assets in all key hydrocarbon regions of Russia: Western Siberia, Eastern Siberia, Timan-Pechora, Volga-Urals, North Caucasus, the continental shelf of the Arctic Sea, and the Far East.

Rosneft participates in international exploration projects or has operations in countries including the US, Canada, Vietnam, Venezuela, Brazil, Algeria, United Arab Emirates, Turkmenistan and Norway.

To progress Arctic exploration, it conducted exploration drilling with ExxonMobil in the South Kara Sea and announced a hydrocarbon discovery in September. Exxon subsequently suspended its participation in this project with Rosneft due to sanctions. Rosneft also began production drilling in the Sea of Okhotsk in September 2014, and continued to grow its gas business – increasing gas production from 38 to 57bcm as well as advancing plans for the development of LNG export capacity.

## Downstream

Rosneft is the leader of the Russian refining industry. It owns and operates 10 refineries in Russia and also has an interest in four refineries in Germany through its Ruhr Oel GmbH partnership with BP. It continued implementation of the modernization programme for its Russian refineries in 2014 to significantly upgrade and expand refining capacity.

Rosneft refinery throughput in 2014 amounted to 2,027mb/d. As at 31 December 2014, Rosneft owned and operated more than 2,500 retail service stations, representing the largest network in Russia. This included BP-branded sites acquired as part of the TNK-BP acquisition in 2013 which continue to operate under the BP brand under a licence agreement with BP. 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 segment result includes equity-accounted earnings from Rosneft, representing BP's share in Rosneft.

	\$ million	
	2014 <sup>a</sup>	2013 <sup>b</sup>
Profit before interest and tax <sup>c</sup>	2,076	2,053
Inventory holding (gains) losses★	24	100
RC profit before interest and tax	2,100	2,153
Net charge (credit) for non-operating items★	(225)	45
Underlying RC profit before interest and tax★	1,875	2,198
Average oil marker prices		
	\$ per barrel	
Urals (Northwest Europe – CIF)	97.23	107.38
Russian domestic oil	50.40	54.97

<sup>a</sup> The operational and financial information of the Rosneft segment for 2014 is based on preliminary operational and financial results of Rosneft for the three months ended 31 December 2014. Actual results may differ from these amounts.

<sup>b</sup> From 21 March 2013.

<sup>c</sup> 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.

★ Includes \$25 million (2013 \$5 million loss) of foreign exchange losses arising on the dividend received.

Replacement cost (RC) profit before interest and tax for the segment included a non-operating gain of \$225 million, relating to Rosneft's sale of its interest in the Yugragazpererabotka joint venture★. In addition, the result was affected by an unfavourable duty lag effect, lower oil prices and other items, partially offset by certain foreign exchange effects which had a favourable impact on the result. See also [AR](#) Financial statements – Notes 15 and 30 for other foreign exchange effects.

## Balance sheet

	\$ million	
	2014	2013
Investments in associates★* (as at 31 December)	<b>7,312</b>	13,681

## Production and reserves

	2014 <sup>b</sup>	2013
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### Production (net of royalties) (BP share)<sup>c</sup>

Liquids★ (mb/d)		
Crude oil <sup>d</sup>	<b>816</b>	643
Natural gas liquids	<b>5</b>	7
Total liquids	<b>821</b>	650
Natural gas (mmcf/d)	<b>1,084</b>	617
Total hydrocarbons★ (mboe/d)	<b>1,008</b>	756

### Estimated net proved reserves (net of royalties) (BP share)

Liquids (million barrels)		
Crude oil <sup>d</sup>	<b>4,961</b>	4,860
Natural gas liquids	<b>47</b>	115
Total liquids	<b>5,007</b>	4,975
Natural gas (billion cubic feet)	<b>9,827</b>	9,271
Total hydrocarbons (mmboe)	<b>6,702</b>	6,574

\* See [AR](#) Financial statements – Note 15 for further information.

<sup>b</sup> The operational and financial information of the Rosneft segment for 2014 is based on preliminary operational and financial results of Rosneft for the three months ended 31 December 2014. Actual results may differ from these amounts.

<sup>c</sup> 2013 reflects production for the period 21 March to 31 December, averaged over the full year. Information on BP's share of TNK-BP's production for comparative periods is provided on [AR](#) pages 222 and 223.

<sup>d</sup> Includes condensate.



# Other businesses and corporate

Comprises our biofuels and wind businesses, shipping, treasury and corporate activities including centralized functions.



▲ Crew carrying out mooring operations on the deck of BP's oil tanker, *British Chivalry*, as it berths in Singapore.

## Financial performance

	\$ million		
	2014	2013	2012
Sales and other operating revenues <sup>a</sup>	<b>1,989</b>	1,805	1,985
RC profit (loss) before interest and tax	<b>(2,010)</b>	(2,319)	(2,794)
Net (favourable) unfavourable impact of non-operating items★	<b>670</b>	421	798
Underlying RC profit (loss) before interest and tax★	<b>(1,340)</b>	(1,898)	(1,996)
Capital expenditure and acquisitions	<b>903</b>	1,050	1,435

<sup>a</sup> Includes sales to other segments.

The replacement cost (RC) loss before interest and tax for the year ended 31 December 2014 was \$2.0 billion (2013 \$2.3 billion, 2012 \$2.8 billion). The 2014 result included a net charge for non-operating items of \$670 million (2013 \$421 million, 2012 \$798 million). This represented restructuring provisions and impairments, principally in respect of our biofuels businesses in the UK and US.

After adjusting for these non-operating items, the underlying RC loss before interest and tax for the year ended 31 December 2014 was \$1.3 billion (2013 \$1.9 billion, 2012 \$2.0 billion). This result reflected improved shipping, biofuels and wind performance and a number of one-off credits.

## Biofuels

Our investment in alternative energies is focused on biofuels, where our strategy is to focus on the conversion of cost-advantaged and sustainable feedstocks that are materially scalable and can be competitive without subsidies.

We operate three sugar cane mills in Brazil producing bioethanol and sugar and exporting power to the local grid. We continue to evaluate options to increase production at these facilities and completed work on expanding ethanol production capacity at one mill as planned.

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 our partner DuPont, we are undertaking research into the production of biobutanol under the company name Butamax.

Across our biofuels business, BP's share of ethanol-equivalent production (which includes ethanol and sugar) for 2014 was 653 million litres compared with 521 million litres in 2013. The majority of this production was from BP's sugar cane mills in Brazil.

## Wind

We have a wind energy business in the US, with interests in 16 operating wind farms. Gross generating capacity from this portfolio is 2,585MW of electricity. Our focus is on safe operations and optimizing performance at our owned and joint venture★ wind farms.

Based on our financial stake, BP's net wind generation capacity★<sup>b</sup> was 1,588MW at 31 December 2014, compared with 1,590MW at 31 December 2013. Our net share of wind generation for 2014 was 4,617GWh, compared with 4,203GWh a year ago.

<sup>b</sup> Capacity figures include 32MW in the Netherlands managed by our Downstream segment.

## Shipping

The primary purpose of BP's shipping and chartering activities is the transportation of the group's hydrocarbon products using a combination of BP-operated, time-chartered and spot-chartered vessels. Surplus capacity may also be used to transport third-party products. All vessels conducting BP shipping activities are subject to our health, safety, security and environmental requirements. At 31 December 2014, our fleet included four Alaskan vessels, 46 BP-operated and 41 time-chartered vessels for our deep-sea, international oil and gas shipping operations. In December 2014 BP shipping entered into contracts with Daewoo Shipbuilding & Marine Engineering in South Korea for the construction of LNG tankers to be delivered in 2018 and 2019.

## Treasury

Treasury manages the financing of the group centrally, with responsibility for managing the group's debt profile, share buyback programmes and dividend payments while ensuring liquidity is sufficient to meet group requirements. It also 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 [AR](#) Financial statements – Note 27.

## Insurance

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. We bear losses as they arise, rather than spreading them 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

Other businesses and corporate annual charges, excluding non-operating items, are expected to be around \$1.6 billion in 2015.

# Gulf of Mexico oil spill

Economic and environmental restoration progress continues, while BP makes its case in court.



BP restoration projects in Louisiana include creating a fish hatchery and rebuilding and restoring beach, dune and marsh habitat on a number of coastal islands.

## Key events

- In April the US Coast Guard ended active clean-up along the Gulf of Mexico shoreline, with any future identification of residual oil to be dealt with through the National Response Center process.
- The federal district court in New Orleans ruled in September that the discharge of oil was the result of the gross negligence and wilful misconduct of BP Exploration & Production Inc. BP has appealed this ruling.
- In January 2015 the district court ruled that 3.19 million barrels of oil were discharged into the Gulf of Mexico and that BP was not grossly negligent in its source control efforts. We have also appealed this ruling.
- BP continued to challenge the implementation of the settlement agreement with the Plaintiffs' Steering Committee, including issues around compensation for losses with no apparent connection to the spill. In December, the US Supreme Court declined BP's petition to review the lower court decisions relating to these issues.
- As at the end of 2014, the cumulative pre-tax income statement charge since the incident amounted to \$43.5 billion. This does not include amounts that BP does not consider possible to measure reliably at this time. The magnitude and timing of all possible obligations continue to be subject to significant uncertainty.
- The cumulative charges to be paid from the Deepwater Horizon Oil Spill Trust fund reached \$20 billion in 2014. Subsequent additional costs are being charged to the income statement as they arise.

## Environmental and economic restoration

We have made significant progress in completing the response to the accident and supporting environmental and economic recovery efforts in affected areas. The US Coast Guard ended patrols and operations on the final shoreline miles in Louisiana in April 2014. The Coast Guard has now transitioned all shoreline areas to their National Response Center process. If residual oil from the Deepwater Horizon incident is later identified and requires removal, BP will take action at the direction of the Coast Guard.

BP is responsible for the reasonable and necessary costs of assessing injury to natural resources resulting from the oil spill and of restoration as defined under the Oil Pollution Act of 1990 (OPA 90). In 2014 activity was focused on natural resource damage assessment and further progress was made on early restoration work.

## Natural resource damage assessment and early restoration projects

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. The plan will address the identified injuries including the recreational use of these resources, as well as an estimated cost to implement it. By the end of 2014, BP had spent approximately \$1.3 billion to support the assessment process. See [gulfsciencedata.bp.com](http://gulfsciencedata.bp.com) for environmental data collected through the natural resource damage assessment process.

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 incident. BP and the trustees, as at December 2014, had reached agreement on a total of 54 early restoration projects that are expected to cost approximately \$700 million, of which \$629 million had been funded by the end of 2014. BP is providing project funding in exchange for restoration credits to be applied against the trustees' final assessment of BP's natural resource damages funding obligations.

## 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 on marine and coastal ecosystems. BP has contributed \$215 million to the programme as at 31 December 2014.

## Economic recovery

BP continued to support economic recovery efforts in local communities through a variety of actions and programmes in 2014. By 31 December 2014, BP had spent \$13.4 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.

See [bp.com/gulfofmexico](http://bp.com/gulfofmexico) for more information on environmental and economic restoration activities.

## Multi-district litigation proceedings in New Orleans

The multi-district litigation trial relating to liability, limitation, exoneration and fault allocation (part of MDL 2179) began in the federal district court in New Orleans in February 2013.

### Phase 1 – causes of the accident and allocation of fault

The district court issued its ruling on the first phase of the trial in September 2014. It found that BP Exploration & Production Inc. (BXP – the BP group company that conducts exploration and production operations in the Gulf of Mexico), BP America Production Company and various other parties are each liable under general maritime law for the blowout, explosion and oil spill from the Macondo well. With respect to the United States' claim against BXP under the Clean Water Act, the district court found that the discharge of oil was the result of BXP's gross negligence and wilful misconduct and that BXP is therefore subject to enhanced civil penalties. BP does not believe that the evidence at trial supports a finding of gross negligence and wilful misconduct and has appealed the Phase 1 ruling.

A provision of \$3,510 million was recognized in 2010 for estimated civil penalties under Section 311 of the Clean Water Act. BP continues to believe that a provision of \$3,510 million represents a reliable estimate of the amount of the liability if the appeal is successful and this provision, calculated on the basis of the previous assumptions, has been maintained in the accounts. If BP is unsuccessful in its appeal, and the ruling of gross negligence and wilful misconduct is upheld, the maximum penalty that could be imposed is up to \$4,300 per barrel. Based upon this penalty rate and the district court's ruling of the number of barrels spilled which, as noted above is also subject to appeal, the maximum penalty could be up to \$13.7 billion. The court has wide discretion in its application of statutory penalty factors and we are therefore unable to determine a reliable estimate for any additional penalty which might apply should the gross negligence finding be upheld.

## Phase 2 – efforts to stop the flow of oil and the volume of oil spilled

The district court issued its ruling on the second phase of the trial in January 2015. It found that 3.19 million barrels of oil were discharged into the Gulf of Mexico. In addition, the district court found that BP was not grossly negligent in its source control efforts. We have also appealed this Phase 2 ruling.

### Penalty phase

The penalty phase of the trial concluded in February 2015. In this phase, the district court will determine the amount of civil penalties owed to the United States under the Clean Water Act. This will be based on the court's rulings or ultimate determinations on appeal as to the presence of negligence, gross negligence or wilful misconduct and the volume of oil spilled, as well as the application of the penalty factors under the Clean Water Act.

BP is not currently aware of the timing of the district court's ruling for the penalty phase.

### 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 was established to act on behalf of individual and business plaintiffs in MDL 2179. During 2014, amounts paid out under the PSC settlements totalled approximately \$600 million.

### Individual and business claims

As part of its monitoring of payments made by the court-supervised 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. BP has also raised issues about misconduct and inefficiency in the facility administering the settlement.

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 when the revenues and expenses were recorded at different times. In May 2014, the district court approved the claims administrator's revised matching policy reflecting this order and the policy is now in effect. The PSC has filed a motion with the district court to alter or amend the policy.

In September 2014 the district court denied BP's motion to order the return of excessive payments made by the Deepwater Horizon Court Supervised Settlement Program under the matching policy in effect before the district court's December 2013 ruling requiring a claimant's revenue to be matched with variable expenses. BP has appealed this decision to the US Court of Appeals for the Fifth Circuit (Fifth Circuit).

Following the ruling by the district court, which was affirmed by the Fifth Circuit, that the settlement agreement did not contain a causation requirement beyond the revenue and related tests set out in an exhibit to that agreement, the district court in May dissolved the injunction that had halted the processing and payment of business economic loss claims and instructed the claims administrator to resume the processing and payment of claims. In August BP petitioned the US Supreme Court for review of the Fifth Circuit's decisions relating to compensation of claims for losses with no apparent connection to the Deepwater Horizon spill. In December 2014 the US Supreme Court denied BP's petition for review.

Business economic loss claims continue to be assessed and paid under the revised matching policy. The deadline for submitting claims is 8 June 2015.

In September 2014 BP sought to remove Patrick Juneau from his roles as claims administrator and settlement trustee for the economic and property damages settlement for reasons including a conflict of interest. This was denied by the district court and BP has appealed this decision.

### Medical claims

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 was one year from the effective date.

## Process safety and ethics monitors

Two independent monitors – a process safety monitor and an ethics monitor – were appointed under the terms of the criminal plea agreement BP reached with the US government in 2012 to resolve all federal criminal claims arising out of the Deepwater Horizon incident. Under the terms of the agreement, BP is taking additional actions, enforceable by the court, to further enhance the safety of drilling operations in the Gulf of Mexico.

The process safety monitor is reviewing and providing recommendations concerning BPXP's process safety and risk management procedures for deepwater drilling in the Gulf of Mexico.

The ethics monitor is reviewing and providing recommendations concerning BP's ethics and compliance programme.

The monitors have interviewed BP employees, reviewed policies and procedures and made site visits in preparation for their initial reports, which will be delivered in 2015.

A 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. See [bpxpcompliance.com](http://bpxpcompliance.com) for annual updates on BP's compliance with the plea agreement.

### Other legal proceedings

BP is subject to a number of different legal proceedings in connection with the Deepwater Horizon incident in addition to the legal proceedings relating to the PSC settlements and the multi-district litigation proceedings in New Orleans. For more information see Legal proceedings on [AR](#) page 228.

### OPA 90 and other civil claims

BP p.l.c., BPXP and various other BP entities have been among the companies named as defendants in approximately 3,000 civil lawsuits resulting from the accident and oil spill, including the claims by several states and local government entities. The majority of these lawsuits assert claims under OPA 90, 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 into MDL 2179.

Alabama, Mississippi, Florida, Louisiana, Texas and various local government entities have submitted or asserted claims to BP under OPA 90 for alleged losses including economic losses and property damage as a result of the Gulf of Mexico oil spill. 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 90, not supported by documentation and to be substantially overstated.

### Securities litigation proceedings

The multi-district litigation proceedings pending in federal court in Houston (MDL 2185), including a purported class action on behalf of purchasers of American Depositary Shares under US federal securities law, are continuing. A jury trial is scheduled to begin in January 2016.

### SEC settlement

In connection with the 2012 settlement with the SEC resolving the SEC's Deepwater Horizon-related civil claims, in August 2014, the final instalment of \$175 million was paid under the civil penalty of \$525 million.

### US Environmental Protection Agency (EPA) suspension and debarment

In March 2014, BP p.l.c., BPXP, and all other BP entities that the EPA had suspended from receiving new federal contracts or renewing existing ones entered into an administrative agreement with the EPA resolving all issues related to suspension or debarment arising from the Deepwater Horizon incident. The administrative agreement restores the eligibility of BP entities to enter into new contracts or leases with the US government. Under the terms and conditions of the administrative agreement, which applies for five years, BP has agreed to safety and operations, ethics and compliance and corporate governance requirements.



## Financial update

### Analysis of cumulative \$43.5 billion<sup>a</sup> charge to the income statement (\$ billion)



<sup>a</sup>The cumulative income statement charge does not include amounts that BP considers are not possible to measure reliably at this time.

<sup>b</sup>The litigation and claims cost is net of recoveries of \$5.7 billion.

The group income statement for 2014 includes a pre-tax charge of \$819 million in relation to the Gulf of Mexico oil spill. The charge for the year reflects additional litigation and claims costs and the ongoing costs of the Gulf Coast Restoration Organization. As at 31 December 2014, the total cumulative charges recognized to date amount to \$43.5 billion. The total amounts that will ultimately be paid by BP in relation to all the obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BP and the timing of such costs will be dependent on many factors, including in relation to any new information or future developments. These could have a material impact on our consolidated financial position, results and cash flows.

BP has provided for spill response costs, environmental expenditure, litigation and claims and Clean Water Act penalties that can be measured reliably. The cumulative income statement charge does not include amounts for obligations that BP considers are not possible to measure reliably at this time, such as:

- Natural resource damages, except for reasonable costs for damage assessment, the \$1-billion allocation for early restoration projects and associated legal costs.
- Any obligation that may arise from securities-related litigation.
- The cost of business economic loss claims under the PSC settlement not yet received, or received but not yet processed, or processed but not yet paid (except where an eligibility notice had been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility).
- Claims asserted in civil litigation, including any further litigation through excluded parties from the PSC settlement.
- Any further liability for the Clean Water Act penalty arising in the event the gross negligence finding is upheld.
- Any further obligation that may arise from state and local claims.

The additional amounts payable for these and other items could be considerable. More details regarding the impacts and uncertainties relating to the Gulf of Mexico oil spill can be found in Risk factors on page 48, Legal proceedings on [AR](#) page 228 and [AR](#) Financial statements – Note 2.

### Deepwater Horizon Oil Spill Trust update

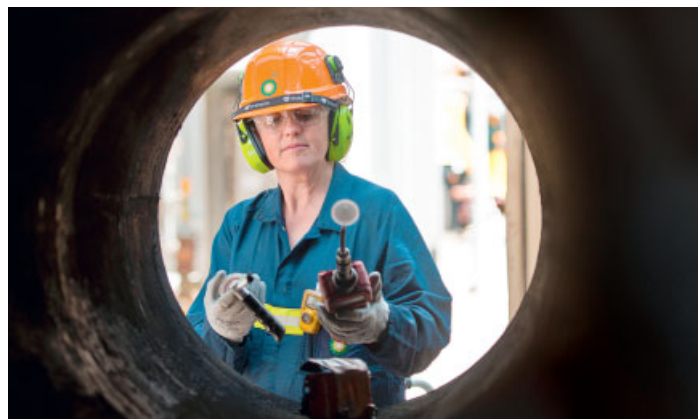
BP, in agreement with the US government, set up the \$20-billion Deepwater Horizon Oil Spill Trust (the Trust) to provide confidence that funds would be available to satisfy legitimate individual and business claims, state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. The cumulative charges to the Trust had reached \$20 billion in 2014. Subsequent additional costs over and above those provided within the \$20 billion, are being charged to the income statement as they arise.

Payments made out of the Trust during 2014 totalled \$1.7 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 programme and other resolved items. As at 31 December 2014, the aggregate cash balances in the Trust and the associated qualified settlement funds amounted to \$5.1 billion, including \$1.1 billion remaining in the seafood compensation fund, from which a further \$0.5 billion partial distribution started in early 2015, and \$0.4 billion held for natural resource damage early restoration projects.



# Corporate responsibility

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



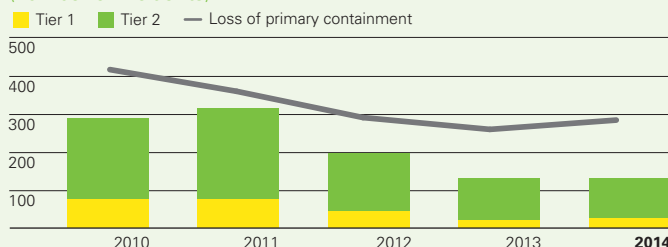
▲ A safety and health specialist tests a confined space to make sure it's safe for entry at the Kwinana refinery in Western Australia.

## Safety

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

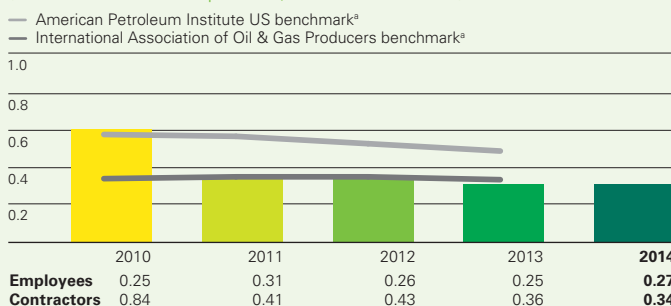
- Our operating management system (OMS)★ sets out BP's principles for good operating practice.
- By the end of 2014, we had completed 25 of the 26 recommendations from BP's internal investigation regarding the Deepwater Horizon accident, the Bly Report.
- Contractors carried out 52% of the 357 million hours worked by BP in 2014.

### Process safety events (number of incidents)



### Recordable injury frequency

(workforce incidents per 200,000 hours worked)



★ API and IOGP 2014 data reports are not available until May 2015.



Additional information on our safety, environmental and social performance is available in our Sustainability Report. See [bp.com/sustainability](http://bp.com/sustainability) for case studies, country reports and an interactive tool for health, safety and environmental data.

## Group safety performance

In 2014, BP reported three fatalities; a fall from height in the UK, an incident involving a forklift in Indonesia, and an incident that occurred while working inside a process vessel in Germany. We deeply regret the loss of these lives.

### Personal safety performance

	2014	2013	2012
Recordable injury frequency (group) <sup>b</sup>	<b>0.31</b>	0.31	0.35
Day away from work case frequency <sup>c</sup> (group) <sup>b</sup>	<b>0.081</b>	0.070	0.076
Severe vehicle accident rate <sup>d</sup>	<b>0.132</b>	0.120	0.130

<sup>b</sup> Incidents per 200,000 hours worked.

<sup>c</sup> Incidents that resulted in an injury where a person is unable to work for a day (shift) or more.

<sup>d</sup> Number of vehicle incidents that result in death, injury, a spill, a vehicle rollover, or serious disabling vehicle damage per one million kilometres travelled.

### Process safety performance

	2014	2013	2012
Tier 1 process safety events★	<b>28</b>	20	43
Tier 2 process safety events	<b>95</b>	110	154
Loss of primary containment – number of all incidents <sup>a</sup>	<b>286</b>	261	292
Loss of primary containment – number of oil spills <sup>f</sup>	<b>156</b>	185	204
Number of oil spills to land and water	<b>63</b>	74	102
Volume of oil spilled (thousand litres)	<b>400</b>	724	801
Volume of oil unrecovered (thousand litres)	<b>155</b>	261	320

<sup>a</sup> Does not include either small or non-hazardous releases.

<sup>f</sup> Number of spills greater than or equal to one barrel (159 litres, 42 US gallons).

We report our safety performance using industry metrics including the American Petroleum Institute (API) RP-754 standard. These include 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. Tier 2 process safety events are those of lesser consequence than tier 1. We take a long-term view on process safety indicators because the full benefit of the decisions and actions in this area is not always immediate.

We seek to record all losses of primary containment (LOPC), regardless of the volume of the release and report on losses over a severity threshold. These include unplanned or uncontrolled releases from a tank, vessel, pipe, rail car or equipment used for containment or transfer. Our 2014 data reflects increases in part due to the introduction of enhanced automated monitoring for many remote sites in our Lower 48 business.

Our performance in these areas over time suggests that our focus on safety is having a positive impact. However, we need to continue to remain vigilant and focused on delivering safe, reliable and compliant operations.

## Managing safety

We are working to continuously improve safety and risk management across BP. Our operating businesses are responsible for identifying and managing risks and bringing together people with the right skills and competencies to address them. They are also required to carry out self-verification and are subject to independent scrutiny and assurance. Our safety and operational risk team works alongside our operating businesses to provide oversight and technical guidance, while members of our group audit teams visit certain sites, including third-party rigs, to check how they are managing risks.




## Running reliably

Every day Air BP fuels around 6,000 flights – that's around four a minute, making safe and efficient processes critical to the way we operate for each and every one of these flights.

With a combination of flammable liquids, people and aircraft, running operations safely is Air BP's first priority. Technical and operations teams are dedicated to servicing customers safely at more than 700 locations across 50 countries.

The business designs, builds and operates aviation fuelling facilities around the world, and each year it supplies more than 23.2 billion litres of aviation fuel, helping to make it one of the world's largest aviation fuel products and services suppliers.

Air BP is delivering its growth strategy through efficient operations and investment in assets. In 2014 we expanded our activities with a supply contract at Brazil's largest heliport, Helibase, in São Paulo. We also acquired Statoil Fuel & Retail's aviation fuel business, which is principally based in Scandinavia. This has added more than 70 airports to our global network, helping to position Air BP as one of Scandinavia's leading, competitive suppliers.

 We prioritize the safety and reliability of our operations.

Each business segment has a safety and operational risk committee, chaired by the business head, to oversee the management of safety and operational risk in their respective areas of the business. In addition, the group operations risk committee facilitates the group chief executive's oversight of safety and operational 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 safety and operational risk on the management of the highest priority risks. SEEAC also receives 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 46.

### Operating management system (OMS)

BP's OMS is a group-wide framework designed to help us manage risks in our operating activities. It brings together BP requirements on health, safety, security, the environment, social responsibility and operational reliability, as well as related issues, such as maintenance, contractor relations and organizational learning, into a common management system. Any necessary variations in the application of OMS – in order to meet local regulations or circumstances – are subject to a governance process.

OMS also helps us improve the quality of our operating activities. All businesses covered by OMS undertake an annual performance improvement cycle and assess alignment with the OMS framework. Recently acquired operations need to transition to OMS. We review and amend our group requirements within OMS from time to time to reflect BP's priorities and experience or changing external regulations. See page 41 for information about contractors and joint arrangements★.

## Capability development

We aim to equip our staff with the skills needed to run safe and efficient operations. Our OMS capability development programmes cover areas such as process safety, risk, and safety leadership. Our applied deepwater well control course uses simulator facilities to train key members of rig teams, including contractors. We have conducted more than 35 classes for rig crews from around the world since the course began in October 2012.

## Security and crisis management

The scale and spread of BP's operations means we must prepare for a range of 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. See page 42 for information on BP's approach to oil spill preparedness and response.

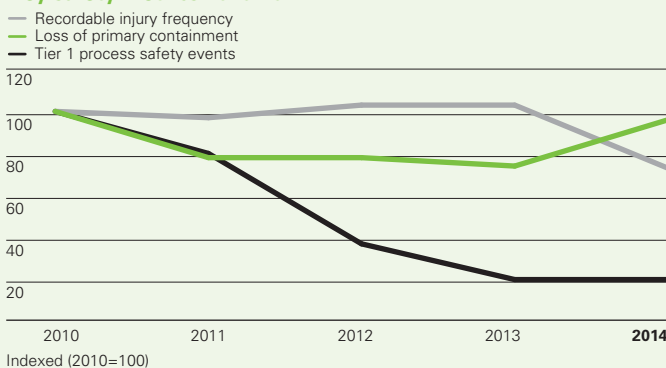
In January 2013, the In Amenas gas plant in Algeria, which is run as a joint operation between BP, the Algerian state oil and gas company Sonatrach and Statoil, came under armed terrorist attack. Algerian military action regained control of the site. Forty people, including four BP employees, and a former employee, lost their lives in the incident. This was a tragic and unprecedented event which impacted many employees and their families.

BP participated fully in the UK Coroner's inquest, which we considered the most effective means of providing a greater understanding of what happened. The UK Coroner handed down his verdicts, conclusions and detailed factual findings on 26 February 2015.

Since the attack, BP and Statoil have jointly carried out an extensive review of security arrangements in Algeria and have been working with Sonatrach and the Algerian authorities on a programme of security enhancements. The Coroner accepted the opinion of his independent security expert who endorsed the security measures now in place and commented that in his opinion the security enhancements now provide a significantly safer environment for the staff working there.

## Upstream safety

### Key safety metrics 2010-2014



## Safety performance

	2014	2013	2012
Recordable injury frequency	<b>0.23</b>	0.32	0.32
Day away from work case frequency	<b>0.051</b>	0.068	0.053
Loss of primary containment incidents – number	<b>187</b>	143	151

## Safer drilling

Our global wells organization is responsible for planning and executing all our wells operations across the world. It is also responsible for establishing standards on compliance, risk management, contractor management, performance indicators, technology and capability for our well operations.

### Completing the Bly Report recommendations

BP's investigation into the Deepwater Horizon accident, the Bly Report, made 26 recommendations aimed at further reducing risk across our global drilling activities. A total of 25 recommendations had been completed by the end of 2014.

We expect the final recommendation to be completed by the end of 2015, as scheduled. This recommendation involves verifying the implementation of revised well control and monitoring standards to BP-owned and BP-contracted offshore rigs. It takes time to fully implement as it requires training a large proportion of our global wells operating personnel on the revised standards.

Our group audit team has verified closure of the recommendations.

See [bp.com/26recommendations](http://bp.com/26recommendations) for the Bly Report recommendations.

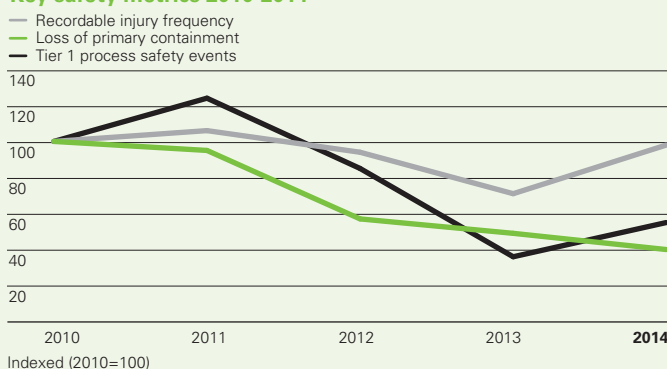
The BP board appointed Carl Sandlin as independent expert in 2012 to provide an objective assessment of BP's global progress in implementing the recommendations from the Bly Report. Mr Sandlin also provides his views on the organizational effectiveness and culture of the global wells organization, and process safety observations.

As part of his activities in 2014, Mr Sandlin conducted his third round of visits to regional wells teams with active drilling operations. Mr Sandlin visited 10 regions in total. During each visit he conducted reviews with senior managers, and held discussions with key wells personnel and drilling contractors on site.

Mr Sandlin is engaged through to June 2016.

### Downstream safety

#### Key safety metrics 2010-2014



### Safety performance

	2014	2013	2012
Recordable injury frequency	<b>0.34</b>	0.25	0.33
Day away from work case frequency	<b>0.121</b>	0.063	0.089
Severe vehicle accident rate	<b>0.09</b>	0.10	0.16
Loss of primary containment incidents – number	<b>82</b>	101	117

We take measures to prevent leaks and spills at our refineries and other downstream facilities through well-designed, well-maintained and properly operated equipment. We also seek to provide safe locations, emergency procedures and other mitigation measures in the event of a release, fire or explosion.

We focus on managing the highest priority risks associated with our storage, handling and processing of hydrocarbons. We use technology, such as automated systems, which are intended to prevent our gasoline storage tanks from overfilling, to help manage our operations within safe operating and design limits. In 2014 a total of 12 facilities participated in our 'exemplar' programme, which aims to help sites apply our OMS using continuous improvement processes.

### Process safety expert

The board appointed Duane Wilson as process safety expert for our downstream activities in 2012 for a three-year term and assigned him to work in a global capacity with the business. Mr Wilson provided an independent perspective on the progress that BP's fuels, lubricants and

petrochemicals businesses were making toward becoming industry leaders in process safety performance.

### Working with contractors and partners

BP, like our industry peers, rarely works in isolation – we need to work with contractors, suppliers and partners to carry out our operations. In 2014, 52% of the 357 million hours worked by BP were carried out by contractors.

Our ability to be a safe and responsible operator depends in part on the capability and performance of those who help us carry out our operations. We therefore seek to identify and manage risks in the supply chain relating to areas such as safety, corruption and money laundering, and aim to have suitable provisions in our contracts with contractors, suppliers and partners.

#### Contractors

We expect and encourage our contractors and their employees to act in a way that is consistent with our code of conduct. Our OMS includes requirements and practices for working with contractors.

We seek to set clear and consistent expectations of our contractors. Our standard model upstream contracts, for example, include health, safety, security and environmental requirements. Bridging documents are necessary in some cases to define how our safety management system and those of our contractors co-exist to manage risk on site.

To help us manage risks effectively and take advantage of economies of scale, we are focusing on developing deeper, longer-term relationships with selected upstream contractors. We have established global agreements in areas such as engineered equipment and well services.

#### Our partners in joint arrangements

We seek to work with companies that share our commitment to ethical, safe and sustainable working practices. Our code of conduct states that we seek to clearly communicate our relevant expectations to our business partners, agreeing contractual obligations where applicable.

We have a group framework for identifying and managing BP's exposure related to safety, operational, and bribery and corruption risk from our participation in non-operated joint arrangements.

Typically, our level of influence or control over a joint arrangement is linked to the size of our financial stake compared with other participants. In some joint arrangements we act as the operator. Our OMS applies to the operations of joint arrangements only where we are the operator.

In other cases, one of our 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 generally available as a reference point for engagement with operators and co-venturers.



▲ The Toledo refinery in Ohio processes around 160,000 barrels of crude oil each day to make gasoline, jet fuel and other products.

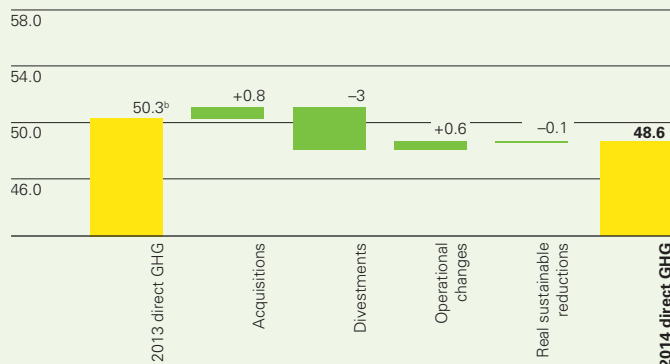


## Environment and society

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

- Almost three quarters of our businesses with the potential to spill oil have updated oil spill planning scenarios and response strategies.
- We actively monitor and report greenhouse gas (GHG) emissions to improve our understanding and management of potential carbon risks.
- We are working towards aligning with the United Nations Guiding Principles on Business and Human Rights.

### Greenhouse gas emissions<sup>a</sup> (MteCO<sub>2</sub> equivalent)



<sup>a</sup> This is based on BP's equity share basis.

<sup>b</sup> The reported 2013 figure of 49.2 MteCO<sub>2</sub>e has been amended to 50.3 MteCO<sub>2</sub>e.

## Managing our impacts

Our operating sites can have a lifespan of several decades and our operations are expected to work to reduce their impacts and risks. This starts in early project planning and continues through operations and decommissioning.

Our operating management system<sup>★</sup> (OMS) includes practices that set out requirements and guidance for how we identify and manage environmental and social impacts. The practices apply to our major projects<sup>★</sup>, projects that involve new access, those that could affect an international protected area and some BP acquisition negotiations.

In the early planning stages of these projects, we complete a screening process to identify the most significant environmental and social impacts. We completed the process for 19 projects in 2014. Following screening, projects are required to carry out impact assessments, identify mitigation measures and implement these in project design, construction and operations.

BP's environmental expenditure in 2014 totalled \$4,024 million (2013 \$4,288 million, 2012 \$7,230 million). For a breakdown of environmental expenditure see [AR](#) page 225. This figure includes a charge of \$190 million relating to the Gulf of Mexico oil spill. For reference, expenditure related to the Gulf of Mexico oil spill was a credit of \$66 million in 2013 and a charge of \$919 million in 2012. For Regulation of the group's business – Environmental regulation see [AR](#) page 225.

We review our management of material issues such as greenhouse gas emissions, water, sensitive and protected areas and oil spill response. This includes examining emerging risks and actions taken to mitigate them.

## Oil spill preparedness and response

Our requirements for oil spill preparedness and response planning, and crisis management incorporate what we have learned over many years of operation, and specifically from the Deepwater Horizon accident. Almost three quarters of our businesses with the potential to spill oil have updated oil spill planning scenarios and response strategies, in line with our new requirements issued in 2012. We aim to complete the remaining updates by the end of 2016.

Meeting the requirements is a substantial piece of work and we believe this has already resulted in a significant increase in our oil spill response capability. For example, this includes using specialized modelling techniques that help predict the impact of potential spills, the provision of stockpiles of dispersants and the use of new tools for environmental monitoring, such as aerial and underwater robotic vehicles.

### Enhancing response capabilities

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 be affected by oil spills and develop appropriate response strategies. We are implementing a mapping system that brings together geographical, operational, infrastructure, socio-economic, biological and habitat information to help us identify and better understand potential impacts of an oil spill.

We are also testing the applicability of a number of emerging technologies for oil spill response, including the use of robotic vehicles with camera sensors to locate spills and provide remote visibility for oil spill response at sea.

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 2014 we shared lessons on dispersant use and oil spill response technologies with government regulators in Angola, the UK and the US.

See page 39 for information on volume of oil spilled by our operations in 2014, including volume of oil unrecovered.

## Climate change

BP believes that climate change is an important long-term issue that justifies global action. We are taking steps to address carbon risk and collaborating with others on climate change issues. For example, we require our operations to incorporate energy use considerations in their business plans and to assess, prioritize and implement technologies and systems that could improve usage. We factor a carbon cost into our own investments and engineering designs for large new projects, and invest in lower-carbon energy products. We seek to address potential climate change impacts on our new projects in the design phase. We have guidance for existing operations and projects on how to assess potential climate risks and impacts – to enable mitigation steps to be incorporated into project planning, design and operations.

### Greenhouse gas emissions

We report on direct and indirect GHG emissions on a carbon dioxide-equivalent (CO<sub>2</sub>e) basis. Direct emissions include CO<sub>2</sub> and methane from the combustion of fuel and the operation of facilities, and indirect emissions include those resulting from the purchase of electricity, heat, steam or cooling. In 2014 we changed our GHG reporting boundary from a BP equity-share basis to an operational control basis.

Our approach to reporting GHG emissions broadly follows the IPIECA/API/IOGP Petroleum Industry Guidelines for Reporting GHG Emissions (the IPIECA guidelines). 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 it is not practical to collect this data.



## Greenhouse gas emissions (MteCO<sub>2</sub>e)

	2014	2013	2012
Operational control <sup>a</sup>			
Direct emissions	<b>54.1</b>	–	–
Indirect emissions	<b>7.2</b>	–	–
BP equity share <sup>b</sup>			
Direct emissions	<b>48.6</b>	50.3 <sup>c</sup>	59.8
Indirect emissions	<b>6.6</b>	6.6	8.4

<sup>a</sup> Operational control data comprises 100% of emissions from activities that are operated by BP, going beyond the IPIECA guidelines by including emissions from certain other activities such as contracted drilling activities. Data for emissions on an operational control basis was not available prior to 2014.

<sup>b</sup> BP equity share comprises our share of BP's consolidated entities and equity-accounted entities, other than BP's share of TNK-BP and Rosneft. Rosneft's emissions data can be found on its website.

<sup>c</sup> The reported 2013 figure of 49.2 MteCO<sub>2</sub>e has been amended to 50.3 MteCO<sub>2</sub>e.

The decrease in our GHG emissions is primarily due to the sale of our Carson and Texas City refineries in the US as part of our divestment programme. See [bp.com/greenhousegas](http://bp.com/greenhousegas) for more information about our GHG emissions from upstream production, refining throughput and chemicals produced.

### Intensity

In 2014 we changed the intensity ratio we report on from a financial to a production-based one. The ratio of our total GHG emissions reported on an operational control-based boundary to gross production was 0.25teCO<sub>2</sub>e/te production in 2014. Gross production comprises upstream production, refining throughput and petrochemicals produced.

In 2013 we reported the ratio of our total GHG emissions on a BP equity-share basis to adjusted revenue of those entities or share of entities included in GHG reporting. This was 0.15kte/\$million. Adjusted revenue reflects total revenues and other income, less gains on sales of businesses and fixed assets.

### Greenhouse gas regulation

GHG regulation is increasing globally. For example, we are seeing the growth of emission pricing schemes in Europe, California and China, additional monitoring regulations in the US and increased focus on reducing flaring and methane emissions in many jurisdictions.

We expect that GHG regulation 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. In industrialized countries, our standard cost assumption is currently \$40 per tonne of CO<sub>2</sub> equivalent. 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 GHG emissions.

See [AR](#) page 225 for information on other environmental regulations.

### Water

BP recognizes the importance of managing fresh water use and water discharges effectively in our operations and evaluates risks, including water scarcity, wastewater disposal and the long-term social and environmental pressures on local water resources.

We have invested in a specialist water treatment company to support operations in areas of water scarcity. The company manufactures desalinization and brine management systems and we aim to trial these technologies at our operations.

### 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 risks.

Water and sand constitute on average 99.5% of the injection material used in hydraulic fracturing. Some of the chemicals that are added to this when used in certain concentrations, are classified as hazardous by the relevant regulatory authorities. BP works with service providers to minimize their use where possible. We list the chemicals we use in the fracturing process in material safety data sheets at each site. We also 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](http://fracfocus.org) or other state-designated websites.

We aim to minimize air pollutant and GHG emissions, such as methane, at our operating sites. For example, we use a process called green completions at the majority of our gas operations in the US. This process, which we have been using since 2001, captures natural gas that would otherwise be flared or vented during the completion and commissioning of wells.

Our US Lower 48 onshore business's approach is to operate in line with industry standards developed within the context of the highly regulated US environment.

See [bp.com/unconventionalgas](http://bp.com/unconventionalgas) for information about our approach to unconventional gas and hydraulic fracturing.

### Canada's oil sands

BP is involved in three oil sands lease areas in Canada. Sunrise Phase 1, operated by Husky Energy, started up at the end of 2014 and we expect first oil to be recovered in the first quarter of 2015. Pike Phase 1, operated by Devon Energy, was granted regulatory approval in November 2014 and is at the design and planning stage. 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. Projects are managed through governance committees, with equal representation from BP and our partners, and approval rights laid out in agreements with our partners.

See [bp.com/oilsands](http://bp.com/oilsands) for information on BP's investments in Canada's oil sands.

### Human rights

We are committed to conducting our business in a manner that respects the rights and dignity of all people. We 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. We set out our commitments in our human rights policy. Our code of conduct references the policy, requiring employees to report any human rights abuse in our operations or in those of our business partners.

We are delivering our human rights policy by implementing the relevant sections of the United Nations Guiding Principles on Business and Human Rights and incorporating them into the processes and policies that govern our business activities. Our action plan aims to achieve closer alignment with the UN Guiding Principles over a number of years using a risk-based approach. Representatives from key functions, including human resources, ethics and compliance, procurement, security, and safety and operational risk oversee the plan's implementation.

In 2014 our actions included:

- Human rights training events for more than 270 people, including awareness training for relevant senior leadership teams and representatives from functions such as procurement, shipping, finance and legal.
- The inclusion of human rights clauses in a number of our standard model contracts.
- Participation in the work of oil and gas industry organization IPIECA on developing shared industry approaches to managing human rights risks in the supply chain and guidance on responding to community grievances.
- Continued implementation of the Voluntary Principles on Security and Human Rights, with periodic internal assessments to identify areas for improvement.



Construction work on the Sunrise energy project, based in the Canadian oil sands of northern Alberta.

See [bp.com/humanrights](http://bp.com/humanrights) for more information about our approach to human rights.

### Business ethics

Bribery and corruption are significant risks in the oil and gas industry. We have a responsibility to our shareholders and the countries and communities in which we do business to be ethical and lawful in all our dealings. Our code of conduct explicitly states that we do not tolerate bribery and corruption in any of its forms.

Our group-wide anti-bribery and corruption policy applies to all BP-operated businesses. The policy governs areas such as appropriate clauses in contracts, risk assessments and training. We target training on a risk basis and to those employees for whom it is thought to be most relevant, for example, given specific incidents or the nature or location of their role.

### Financial transparency

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 preparing to comply with the transposed EU Accounting Directive in the UK and are participating in the development of industry guidance. We are awaiting publication of the final rules of the US Dodd-Frank Act, expected to be issued before the end of 2015.

As a founding member of the Extractive Industries Transparency Initiative (EITI), BP works with governments, non-governmental organizations and international agencies to improve transparency and disclosure of payments to governments. We support governments' efforts towards EITI certification in countries where we operate and have worked with many countries on implementation of their EITI commitments, including Australia, Azerbaijan, Indonesia, Iraq, Norway, Trinidad & Tobago, the UK and the US.

### Enterprise and community development

We run programmes to help build the skills of businesses and to develop the local supply chain in a number of locations. For example, in Indonesia, we provide one-on-one business consultancy and technical assistance to local businesses during the tender process.

BP's community investments support development that meets local needs and are relevant to our business activities. We contributed \$85 million in social investment in 2014.

See [bp.com/society](http://bp.com/society) for more information about our social contribution.

## Employees

We seek employees who have the right skills and who understand and embody the values and expected behaviours that guide everything we do.

- Our values and code of conduct set out the expected qualities and actions of all our people.
- We aim for a workforce that is engaged and representative of the societies where we operate.
- We have a bias towards building capability and promoting within the organization. Where necessary, this is complemented by selective external recruitment.

### Our values

Safety
Respect
Excellence
Courage
One Team

### BP headcount

Number of employees at 31 December*	2014	2013	2012
Upstream	24,400	24,700	24,200
Downstream	48,000	48,000	51,800
Other businesses and corporate	12,100	11,200	10,400
Total	84,500	83,900	86,400

\* Reported to the nearest 100. For more information see [AR](#) Financial statements – Note 33.

The above table includes:

	2014	2013	2012
Retail staff	14,400	14,100	14,700
Agricultural, operational and seasonal workers in Brazil	5,300	4,300	3,500

At the end of December 2014, we had 84,500 employees. This includes 14,400 service station staff and 5,300 agricultural, operational and seasonal workers in Brazil, which has increased by 1,000 in 2014 due to the expansion of one of our sugar cane processing mills which was completed in 2014. Meanwhile, operational headcount decreased in other areas. We expect our number of employees to align with BP's smaller footprint in 2015 and 2016 as we right-size the organization as part of our response to a lower oil price.

### 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 use these values as part of our recruitment, promotion and individual performance assessment processes. See [bp.com/values](http://bp.com/values) for more information.

### Our people

We aim to develop the talents of our workforce – with a focus on maintaining safe and reliable operations, engaging and developing our employees, and increasing the diversity of our workforce.

The group people committee, chaired by the group chief executive, has overall responsibility for key policy decisions relating to employees and governance of BP's people management processes. In 2014 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.

### Attracting and retaining our people

The complex projects we work on require a wide range of specialist skills – from the capability to explore for new sources of energy through to transporting and distributing hydrocarbons safely across the world. We have a bias towards building capability and promoting from within the organization. Where necessary, we complement this with selective external recruitment. In 2014, 84% of new senior leaders were recruited from within the organization.

A total of 670 graduates joined BP in 2014. We target the fields of science, technology, engineering and maths and run initiatives and awareness days at universities and colleges. We also run 'future leader' programmes to recruit post-graduates. In 2014, 37% of our graduate intake were women and 50% were from outside the UK and US.

We conduct external assessments for people entering senior managerial roles to help achieve rigour and objectivity in our hiring and talent processes. These provide an in-depth analysis of leadership behaviour and whether candidates have the necessary experience and skills for the role.

### Building enduring capability

Our development opportunities help to build the diverse skills and expertise that we need. We provide a range of opportunities for our employees, with an increased focus on on-the-job learning. This can include mentoring, team development days, workshops, seminars, online learning and international assignments.

A career transition is a critical moment in an employee's professional growth. We have moved towards prioritizing learning at these points, for example, for those joining BP or moving into a new level of management. We also offer in-role development that covers a range of levels and subject areas, from effective planning to inclusive leadership and change management. Employees from 51 countries attended leadership training, delivered in six different languages in 2014.

Through our internal academies, we provide leading technical, functional, compliance and leadership learning opportunities. In 2014, we launched five academies including the 'operating management system (OMS) academy' that provides training to operations personnel on implementing and applying OMS.

### Diversity

As a global business, we aim for a workforce 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 women to represent at least 25% of our group leaders – the most senior managers of our businesses and functions – by 2020. We continue to support the UK government's review of gender diversity on boards, undertaken by Lord Davies in 2011. Currently we have two women on our board. We are actively seeking qualified candidates and remain committed to Lord Davies' goal of a quarter of our board to be female by the end of 2015. For more information on our board composition see page 51.

### Workforce by gender

Numbers as at 31 December	Male	Female	Female %
Board directors	12	2	14
Group leaders	426	95	18
Subsidiary★ directors	776	125	14
All employees	58,700	25,800	31

At the end of 2014, 22% of our group leaders came from countries other than the UK and the US, compared with 14% in 2000. We have continued to increase the number of local leaders and employees in our operations so that they reflect the communities in which we operate. This is monitored at a local, business and national level.

### 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.

We aim to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees regardless of race, colour, national origin, religion, gender, age, sexual orientation, gender identity, marital status, disability, or any other characteristic protected by applicable laws. Where existing employees become disabled, our policy is to provide continuing employment and training wherever possible.

### Employee engagement

Executive team members hold regular meetings and webcasts with employees around the world. Team 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.

Each year, we conduct a survey to gather employees' views on a wide range of business topics and to identify areas where we can improve. Approximately 38,000 people in 70 countries completed our 2014 survey. We measure employee engagement with our strategic priorities using questions about perceptions of BP and how it is managed in terms of leadership and standards. This measure remained stable in 2014 at 72% (2013 72%, 2012 71%).

Business leadership teams review the results of the survey and agree actions to address focus areas. The 2014 survey found that employees remain clear about the safety procedures, standards and requirements that apply to them and that pride in working at BP has increased steadily since 2011. Understanding and support of BP's strategy is strong at senior levels, but needs further communication and engagement across the organization – this is a focus area for 2015. Scores related to development and career opportunities have fallen slightly compared to 2013. We have been making changes to how we deliver learning and manage talent and we expect to see benefits in the longer term.

### 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 group-wide equity plan which allows employee participation at different levels globally and is linked to the company's performance.

### The BP code of conduct

Our code of conduct is based on our values and clarifies the principles and expectations for everyone who works at BP. It applies to all employees, officers and members of the board.

Employees, contractors or other third parties who have a question about our code of conduct or see something they feel to be unsafe, unethical or potentially harmful can get help through OpenTalk, a confidential helpline operated by an independent company.

In 2014 1,114 people contacted OpenTalk with concerns or enquiries (2013 1,121, 2012 1,295). The most common concerns 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.

We take steps to identify and correct areas of non-conformance and take disciplinary action where appropriate. In 2014, our businesses dismissed 157 employees for non-conformance with our code of conduct or unethical behaviour (2013 113). This excludes dismissals of staff employed at our retail service stations for incidents such as thefts of small amounts of money. We have enhanced our human resources processes, resulting in improved identification and recording of code-related dismissals.

### Policy on political activity

We do not use BP funds or resources to support any political candidate or party. 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 provides administrative support to the BP employee political action committee to facilitate employee involvement and to assess whether contributions comply with the law and satisfy all necessary reporting requirements.



# 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 48.

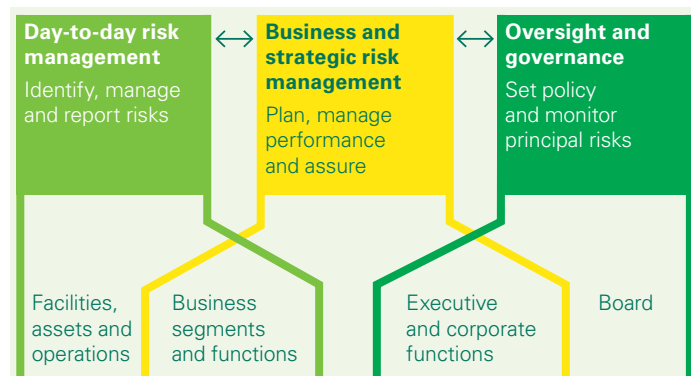
Our management systems, organizational structures, processes, standards, code of conduct and behaviours together form a system of internal control that governs how we conduct the business of BP and manage associated risks.

## BP's risk management system

BP's risk management system is designed to be a 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 and to the board on a periodic basis on how significant 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. BP requirements, which take into account applicable laws and regulations, underpin the practical plans developed to help reduce risk and deliver strong, sustainable performance. For example, our operating management system (OMS)★ integrates BP requirements on health, safety, security, environment, social responsibility, operational reliability and related issues.

**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 using a standard framework for collating risk data, assessing risk management activities, making further improvements and planning new activities.

**Oversight and governance** – functional leadership, the executive team, the board and relevant committees provide oversight to identify, understand and endorse management of 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 significant 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, as to 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 investment decision risks.
- Group ethics and compliance committee – for legal and regulatory compliance and ethics risks.

### 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 [AR](#) page 58.

## Risk management processes

As part of BP's annual planning process, we review the group's principal risks and uncertainties. These may be updated throughout the year in response to changes in internal and external circumstances.

We aim for a consistent basis of measuring risk to allow comparison on a like-for-like basis, taking into account potential likelihood and impact, and to inform how we prioritize specific risk management activities and invest resources to manage them.

## Our risk profile

The nature of our business operations is long term, resulting in many of our 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.

We identify those risks as having a high priority for particular oversight by the board and its various committees in the coming year. Those identified for 2015 are listed on page 47. These may be updated throughout the year in response to changes in internal and external circumstances.

The oversight and management of other risks is undertaken in the normal course of business throughout the business and in executive and board committees. For example market pricing and liquidity reviews are conducted on a regular basis by the board and executive committees, including the group financial risk committee, to consider how we respond to market conditions and when making or reviewing investment decisions. For further information see page 10.

There can be no certainty that our risk management activities will mitigate or prevent these, or other risks, from occurring.

Further details of the principal risks and uncertainties we face are set out in Risk factors on page 48.



## Risks for particular oversight by the board and its committees in 2015

The risks for particular oversight by the board and committees in 2015 remain the same as those for 2014 except that we have replaced risks associated with delivery of our 10-point plan, which has now been delivered, with those relating to major project delivery – one of our group key performance indicators.

### Gulf of Mexico oil spill

A wide range of risks have arisen as a result of the Gulf of Mexico 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 while protecting and defending BP's interests.

The committee's responsibilities include oversight and review of the following activities: the legal strategy for litigation; 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 and administrative agreements arising out of the accident and oil spill.

 See Legal proceedings **AR** page 228, **AR** Financial statements – Note 2 and Gulf of Mexico committee **AR** page 69 for further information.

## Strategic and commercial risks

### 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, and heightened political or social tensions or changes in key relationships could adversely affect the group.

We seek to actively manage this risk through development and maintenance of relationships with governments and stakeholders and becoming trusted partners in each country and region. In addition, we closely monitor events (such as the situation that arose in Ukraine in 2014) and implement risk mitigation plans where appropriate.

### Major project★ delivery

Renewing our portfolio requires ongoing innovation and development in exploration, production, processing and distribution. Major projects contribute significantly to reshaping our portfolio and delivering our strategy.

To manage the risks associated with major project delivery, each stage of a project's life cycle must meet certain criteria to proceed to the next stage, or it will be re-assessed to improve value or be discontinued. Additionally, executive directors regularly review capital allocation at the resource commitment meetings. In the upstream our global projects organization focuses specifically on major projects and the risks to their delivery. We undertake post-project evaluations to review decision-making processes, project execution and project outcomes, and share these with other major projects as appropriate to support continuous improvement.

 For information on our major projects portfolio see page 26, and for a recent example of how we remodel projects see Increasing value on page 21.

### Cybersecurity

The threats to the security of our digital infrastructure continue to evolve rapidly 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, testing of cyber response procedures and close co-operation with authorities. Over the past few years our employee campaigns on topics such as email phishing and the protection of our information and equipment have helped to raise awareness of these issues.

## Safety and operational risks

### Process safety, personal safety and environmental risks

The nature of the group's operating activities 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.

Our OMS helps us manage these risks and drive performance improvements. It sets out the rules and principles which govern key risk management activities such as inspection, maintenance, testing, business continuity and crisis response planning and competency development. 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.

 For more information on safety and our OMS see page 39.

### 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 information security.


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. We continue to monitor the situation in the Middle East and North Africa closely.

## 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 and training covering areas such as anti-bribery and corruption, anti-money laundering, competition/anti-trust law and international trade regulations. We seek to keep abreast of new regulations and legislation and plan our response to them. We offer an independent confidential helpline, OpenTalk, for employees, contractors and other third parties. Under the terms of the US Department of Justice settlement, an ethics monitor will also review and provide recommendations concerning BP's ethics and compliance programme.

 Find out more about our code of conduct, our business ethics and the ethics monitor on pages 45, 44 and 37 respectively.

### 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 manage these risks, including guidelines specific to trading, and 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.

 For further information see Upstream gas marketing and trading activities on page 28, Downstream supply and trading on page 31 and **AR** Financial statements – Note 27.

# Risk factors

The risks discussed below, separately or in combination, could have a material adverse effect on the implementation of our strategy, our business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation.

## 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), including the amount of claims, fines and penalties that become payable by BP (including as a result of any ultimate determination of BP's appeal of the ruling of gross negligence), the outcome or resolution of current or future litigation and any costs arising from any longer-term environmental consequences of the incident, the impact of the incident on our reputation and the resulting possible impact on our licence to operate. The provisions recognized in the income statement represent the current best estimates of expenditures required to settle certain present obligations that can be reliably estimated at the end of the reporting period, and there are future expenditures for which we currently cannot measure our obligations reliably. These uncertainties are likely to continue for a significant period. See **AR** Financial statements – Note 2.

The risks associated with the incident could also heighten the impact of other risks the group is exposed to as described below.

## Strategic and commercial risks

**Prices and markets** – our financial performance is subject to fluctuating prices of oil, gas, refined products, exchange rate fluctuations and the general macroeconomic outlook.

Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply from new oil and gas sources, technological change, global economic conditions and the influence of OPEC can impact supply and prices for our products. Decreases in oil, gas or product prices could have an adverse effect on revenue, margins and profitability and, if significant, we may have to write down assets and re-assess the viability of certain projects. A prolonged period of low prices may impact our cash flows, profit, capital expenditure and ability to maintain our long-term investment programme. Conversely, an increase in oil, gas and product prices may not improve margin performance as there could be increased fiscal take, cost inflation and more onerous terms for access to resources. The profitability of our refining and petrochemicals activities can be volatile, with periodic over-supply or supply tightness in regional markets and fluctuations in demand.

Exchange rate fluctuations can create currency exposures and impact underlying costs and revenues. Crude oil prices are generally set in US dollars, while products vary in currency. Many of our major project★ development costs are denominated in local currencies, which may be subject to fluctuations against the US dollar.

**Access, renewal and reserves progression** – our inability to access, renew and progress upstream resources in a timely manner could adversely affect our long-term replacement of reserves.

Delivering our group strategy depends on our ability to continually replenish a strong exploration pipeline of future opportunities to access and produce oil and natural gas. Competition for access to investment opportunities, heightened political and economic risks in certain countries where significant hydrocarbon basins are located and increasing technical challenges and capital commitments may adversely affect our strategic progress. This, and our ability to progress upstream resources and sustain long-term reserves replacement, could impact our future production and financial performance.

**Major project delivery** – failure to invest in the best opportunities or deliver major projects successfully could adversely affect our financial performance.

We face challenges in developing major projects, particularly in geographically and technically challenging areas. Operational challenges and poor investment choice, efficiency or delivery at any major project that underpins production or production growth could adversely affect our financial performance.

**Geopolitical** – we are exposed to a range of political developments and consequent changes to the operating and regulatory environment.

We operate and may seek new opportunities in countries and regions where political, economic and social transition may take place. Political instability, changes to the regulatory environment or taxation, international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism and acts of war may disrupt or curtail our operations or development activities. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

**Rosneft investment** – our investment in Rosneft may be impacted by events in or relating to Russia and our ability to recognize our share of Rosneft's income, production and reserves may be adversely impacted.

Events in or relating to Russia, including further trade restrictions and other sanctions, could adversely impact our investment in Russia. To the extent we are unable in the future to exercise significant influence over our investment in Rosneft or pursue growth opportunities in Russia, our business and strategic objectives in Russia and our ability to recognize our share of Rosneft's income, production and reserves may be adversely impacted.

**Liquidity, financial capacity and financial, including credit, exposure** – failure to work within our financial framework could impact our ability to operate and result in financial loss.

Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. Trade and other receivables, including overdue receivables, may not be recovered and a substantial and unexpected cash call or funding request could disrupt our financial framework or overwhelm our ability to meet our obligations.

An event such as a significant operational incident, legal proceedings or a geopolitical event in an area where we have significant activities, could reduce our credit ratings. This could potentially increase financing costs and limit access to financing or engagement in our trading activities on acceptable terms, which could put pressure on the group's liquidity. Credit rating downgrades could trigger a requirement for the company to review its funding arrangements with the BP pension trustees and may cause other impacts on financial performance. In the event of extended constraints on our ability to obtain financing, we could be required to reduce capital expenditure or increase asset disposals in order to provide additional liquidity. See Liquidity and capital resources on **AR** page 211 and **AR** Financial statements – Note 27.

**Joint arrangements★ and contractors** – we may have limited control over the standards, operations and compliance of our partners, contractors and sub-contractors.

We conduct many of our activities through joint arrangements, associates★ or with contractors and sub-contractors where we may have limited influence and control over the performance of such operations. Our partners and contractors are responsible for the adequacy of the resources and capabilities they bring to a project. If these are found to be lacking, there may be financial, operational or safety risks for BP. Should an incident occur in an operation that BP participates in, our partners and contractors may be unable or unwilling to fully compensate us against costs we may incur on their behalf or on behalf of the arrangement. Where we do not have operational control of a venture, we may still be pursued by regulators or claimants in the event of an incident.

**Digital infrastructure and cybersecurity** – breach of our digital security or failure of our digital infrastructure could damage our operations and our reputation.

A breach or failure of our digital infrastructure due to intentional actions such as attacks on our cybersecurity, negligence or other reasons, could seriously disrupt our operations and could result in the loss or misuse of data or sensitive information, injury to people, disruption to our business, harm to the environment or our assets, legal or regulatory breaches and potentially legal liability. These could result in significant costs or reputational consequences.

**Climate change and carbon pricing** – public policies could increase costs and reduce future revenue and strategic growth opportunities.

Changes in laws, regulations and obligations relating to climate change could result in substantial capital expenditure, taxes and reduced profitability. In the future, these could potentially impact our upstream assets, revenue generation and strategic growth opportunities.

**Competition** – inability to remain efficient, innovate and retain an appropriately skilled workforce could negatively impact delivery of our strategy in a highly competitive market.

Our strategic progress and performance could be impeded if we are unable to control our development and operating costs and margins, or to sustain, develop and operate a high-quality portfolio of assets efficiently. We could be adversely affected if competitors offer superior terms for access rights or licences, or if our innovation in areas such as exploration, production, refining or manufacturing lags the industry. Our performance could also be negatively impacted if we fail to protect our intellectual property.

Our industry faces increasing challenge to recruit and retain skilled and experienced people in the fields of science, technology, engineering and mathematics. Successful recruitment, development and retention of specialist staff is essential to our plans.

**Crisis management and business continuity** – potential disruption to our business and operations could occur if we do not address an incident effectively.

Our business and operating activities could be disrupted if we do not respond, or are perceived not to respond, in an appropriate manner to any major crisis or if we are not able to restore or replace critical operational capacity.

**Insurance** – our insurance strategy could expose the group to material uninsured losses.

BP generally purchases insurance only in situations where this is legally and contractually required. We typically bear losses as they arise rather than spreading them over time through insurance premiums. This means uninsured losses could have a material adverse effect on our financial position, particularly if they arise at a time when we are facing material costs as a result of a significant operational event which could put pressure on our liquidity and cash flows.

## Safety and operational risks

**Process safety, personal safety, and environmental risks** – we are exposed to a wide range of health, safety, security and environmental risks that could result in regulatory action, legal liability, increased costs, damage to our reputation and potentially denial of our licence to operate.

Technical integrity failure, natural disasters, human error and other adverse events or conditions could lead to loss of containment of hydrocarbons or other hazardous materials, as well as fires, explosions or other personal and process safety incidents, including when drilling wells, operating facilities and those associated with transportation by road, sea or pipeline.

There can be no certainty that our operating management system or other policies and procedures will adequately identify all process safety, personal safety and environmental risks or that all our operating activities will be conducted in conformance with these systems. See Safety on page 39.

Such events, including a marine incident, or inability to provide safe environments for our workforce and the public while at our facilities, premises or during transportation, could lead to injuries, loss of life or environmental damage. We could as a result face regulatory action and legal liability, including penalties and remediation obligations, increased costs and potentially denial of our licence to operate. Our activities are

sometimes conducted in hazardous, remote or environmentally sensitive locations, where the consequences of such events could be greater than in other locations.

**Drilling and production** – challenging operational environments and other uncertainties can impact drilling and production activities.

Our activities require high levels of investment and are often conducted in extremely challenging environments which heighten the risks of technical integrity failure and the impact of natural disasters. The physical characteristic of an oil or natural gas field, and 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.

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

Acts of terrorism, piracy, sabotage and similar activities directed against our operations and facilities, pipelines, transportation or digital infrastructure could cause harm to people and severely disrupt business and operations. Our activities could also be severely affected by conflict, civil strife or political unrest.

**Product quality** – supplying customers with off-specification products could damage our reputation, lead to regulatory action and legal liability, and potentially impact our financial performance.

Failure to meet product quality standards could cause harm to people and the environment, damage our reputation, result in regulatory action and legal liability, and impact financial performance.

## Compliance and control risks

**US government settlements** – our settlements with legal and regulatory bodies in the US in respect of certain charges related to the Gulf of Mexico oil spill may expose us to further penalties, liabilities and private litigation or could result in suspension or debarment of certain BP entities.

Settlements with the US Department of Justice (DoJ) and the US Securities and Exchange Commission (SEC) impose significant compliance and remedial obligations on BP and its directors, officers and employees, including the appointment of an ethics monitor, a process safety monitor and an independent third-party auditor. Failure to comply with the terms of these settlements could result in further enforcement action by the DoJ and the SEC, expose us 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 reputation and financial performance. Failure to satisfy the requirements or comply with the terms of the administrative agreement with the US Environmental Protection Agency (EPA), under which BP agreed to a set of safety and operations, ethics and compliance and corporate governance requirements, could result in suspension or debarment of certain BP entities.

**Regulation** – changes in the regulatory and legislative environment could increase the cost of compliance, affect our provisions and limit our access to new exploration opportunities.

Governments that award exploration and production interests may impose specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field and possibly, nationalization, expropriation, cancellation or non-renewal of contract rights. Royalties and taxes tend to be high compared with those of other commercial activities, and in certain jurisdictions there is a degree of uncertainty relating to tax law interpretation and changes. Governments may change their fiscal and regulatory frameworks in response to public pressure on finances, resulting in increased amounts payable to them or their agencies.

Such factors could increase the cost of compliance, reduce our profitability 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, decommissioning, environmental and legal liabilities. Potential changes to pension or financial market regulation could also impact funding requirements of the group.

Following the Gulf of Mexico oil spill, there have been cases of additional oversight and more stringent regulation of BP and other companies' oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, which could result in increased compliance costs. In addition, we may be subjected to a higher number of citations and level of fines imposed in relation to any alleged breaches of safety or environmental regulations, which could result in increased costs.

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

Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including anti-bribery and corruption and anti-fraud laws, trade restrictions or other sanctions, or non-compliance with the recommendations of the ethics monitor appointed under the terms of the DoJ and EPA settlements, could damage our reputation, result in litigation, regulatory action and penalties.

**Treasury and trading activities** – ineffective management of treasury and trading activities could lead to business disruption, financial loss, regulatory intervention or damage to our reputation.

We are subject to operational risk around our treasury and trading activities in financial and commodity markets, some of which are regulated. Failure to process, manage and monitor a large number of complex transactions across many markets and currencies while complying with all regulatory requirements could hinder profitable trading opportunities. There is a risk that a single trader or a group of traders could act outside of our delegations and controls, leading to regulatory intervention and resulting in financial loss and potentially damaging our reputation. See [AR](#) Financial statements – Note 27.

**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, including reserves estimates, relies on the integrity of systems and people. Failure to report data accurately and in compliance with applicable standards could result in regulatory action, legal liability and damage to our reputation. For a period of three years after the SEC settlement in December 2012, we are unable to rely on the US safe harbor provisions regarding forward-looking statements, which may expose us to future litigation and liabilities in connection with our public disclosures. See Legal proceedings on [AR](#) page 228.



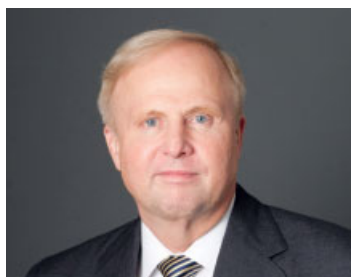
## Board of directors

As at 3 March 2015



**Carl-Henric Svanberg**  
Chairman

Chair of nomination and chairman's committees; attends Gulf of Mexico, SEEAC<sup>a</sup> and remuneration committees

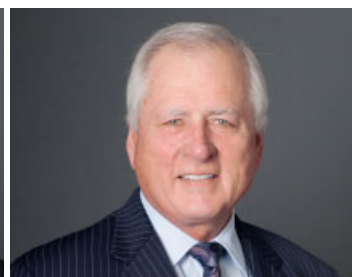


**Bob Dudley**  
Group chief executive



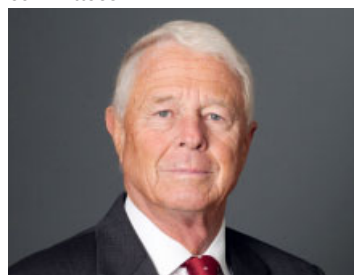
**Paul Anderson**  
Independent non-executive director

Chair of the SEEAC; member of the chairman's, Gulf of Mexico and nomination committees



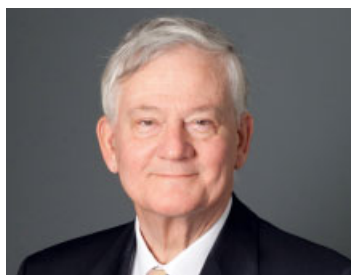
**Alan Boeckmann**  
Independent non-executive director

Member of the chairman's, Gulf of Mexico and SEEAC committees; attends the remuneration committee



**Admiral Frank Bowman**  
Independent non-executive director

Member of the chairman's, SEEAC and Gulf of Mexico committees



**Antony Burgmans**  
Independent non-executive director

Chair of the remuneration committee; member of the chairman's, SEEAC and nomination committees



**Cynthia Carroll**  
Independent non-executive director

Member of the chairman's, SEEAC and nomination committees



**George David**  
Independent non-executive director

Member of the chairman's, audit, Gulf of Mexico and remuneration committees



**Ian Davis**  
Independent non-executive director

Chair of the Gulf of Mexico committee; member of the chairman's, nomination and remuneration committees



**Professor Dame Ann Dowling**  
Independent non-executive director

Member of the chairman's, SEEAC and remuneration committees



**Dr Brian Gilvary**  
Chief financial officer



**Brendan Nelson**  
Independent non-executive director

Chair of the audit committee; member of the chairman's and nomination committees



**Phuthuma Nhleko**  
Independent non-executive director

Member of the chairman's and audit committees



**Andrew Shilston**  
Senior independent non-executive director

Member of the chairman's and audit committees; attends nomination committee



### Board biographies

Board biographies can be found in *BP Notice of Meeting 2015* and *BP Annual Report and Form 20-F 2014*, or see [bp.com/governance](http://bp.com/governance) for board and executive team biographies.



**David Jackson**  
Company secretary

<sup>a</sup> Safety, ethics and environment assurance committee.

# Directors' remuneration report

## Chairman's annual statement



### Dear shareholder,

2014 started strongly but, as others have commented in this report, ended more turbulently as the price of oil fell, mainly in the last quarter. This formed the backdrop for the decisions of the committee at the end of 2014. The work of the committee is governed by a number of overriding principles. Key among these is seeking a fair outcome in reward that is linked to BP's immediate and long-term performance and strategy delivery. As part of this, the committee seeks to ensure that variable remuneration is based on underlying performance and is not driven by factors over which the directors have no control. All of this work is carried out within the policy framework that was approved overwhelmingly by shareholders earlier in the year.

In this context:

- 2014 saw the end of an improving three-year period for BP. This is demonstrated elsewhere in the report. The high-performance gearing in remuneration of the executive directors reflects good business results through an overall increase in remuneration compared to last year.
- The world is a more uncertain place in 2015. BP has responded broadly to this, including freezing salaries, and the committee has refocused the measures for the annual bonus to reflect new challenges.
- There are clear concerns in society and among shareholders that remuneration for executive directors is simply too much. The policy, now approved by shareholders, is clear and recognizes these concerns particularly by placing limits on the amounts that can be awarded. Equally, this remuneration has to be appropriate to be aligned with the global market for talent in which BP works. Here the committee has to strike a balance.

### 2014 in retrospect

Our remuneration policy was approved at the 2014 AGM for a three-year period. At the same meeting, a number of shareholders voted against or withheld their votes on our annual remuneration report. There were several reasons for this. There were concerns around our commitment to disclosure of targets, whether prospectively or retrospectively, and the need for additional disclosure when the committee was exercising judgements around qualitative measures. Some shareholders believed that the overall remuneration of the executive directors was excessive.

We are responding to these concerns and are committed to making as full a retrospective disclosure of those targets that we are able to, subject to confidentiality. I believe that this is demonstrated in this year's report, particularly in the tables relating to annual bonus and performance shares. In terms of overall quantum of remuneration, I have previously made clear that the committee understands the concerns felt in society and by some shareholders. The committee, however, believes that these concerns are properly recognized and balanced in the way in which the policy is framed and implemented.

At the time of our last report, the outcome for the performance shares was based on an estimated second place for relative reserves replacement. Once results for the oil majors were publicly available it was assessed that BP was in first place, resulting in a vesting of 45.5%. The awards were adjusted and announced accordingly.

Finally, in July, Iain Conn agreed with the board that he would stand down as a director on 31 December 2014. Iain has made a significant contribution to the company over his long career and, on this basis, the terms of his departure were agreed with the committee within the policy. The terms were promptly communicated on BP's website.

### 2014 outcomes

BP has performed well in increasingly difficult circumstances. This has been demonstrated by the delivery of the 10-point plan, which the board approved as BP's strategic direction in 2011. In considering performance in 2014 and its effect on remuneration, two areas stand out. Firstly, a key milestone in delivery of the plan was achieving \$32.8 billion of operating cash flow★. The excellent performance in this measure had a strong influence on both the annual bonus and the performance share element. The second area with an equally strong influence was safety. Over the three years of the performance share element, performance improved by more than 15% on two of the measures and over 60% on one measure.

### Annual bonus

Measures for the annual bonus that focused on safety and value were largely unchanged from previous years to encourage continuity of performance and delivery. There had been a strong safety performance in 2013. We seek continuous improvement in this area and the targets for 2014 were ambitious. Against that background, performance was mixed and showed a modest improvement.

Operating cash stood out as being well ahead of target but underlying replacement cost profit★ was below. Seven projects started up in 2014, making 16 major projects★ start-ups since the beginning of 2012. All of this resulted in a group performance score of 1.10, compared with a score of 1.32 last year. The committee felt that this score reasonably reflected the overall performance for the year. Following elections by the executive directors, one third of this bonus will be paid in cash and two thirds in shares that are deferred for three years and matched. See [bp.com/remuneration](http://bp.com/remuneration) for retrospective disclosure of many of the targets for the annual bonus.

### Deferred bonus

2011 deferred bonus share awards became eligible for vesting at the end of 2014. Vesting is dependent on safety and environmental sustainability performance over that period. The committee reviewed this in consultation with the SEEAC. Based on strong and consistent improvement and no significant incidents, the deferred and matching shares vested in full.

## Performance shares

The 2012-2014 performance share plan was, as in the previous year, based on three sets of measures equally weighted; relative total shareholder return (TSR), operating cash flow and finally strategic imperatives, which include relative reserves replacement ratio (RRR), safety and operational risk and rebuilding trust. The committee made its assessment of performance over the three-year period against the agreed targets and its view of the achievements over that time. There were no shares awarded for TSR as the minimum threshold was not reached. As I have mentioned above, there was strong performance against the safety measures and the committee exercised its judgement based on qualitative data in respect of the need to rebuild trust. As for 2013, the assessment was preliminary as the final results from the comparator group for RRR were not available. On the basis of information available, second place was recorded. Based on this preliminary assessment, 60.5% of the shares are expected to vest. The committee believes that this represents a fair outcome for a continually improving performance over the period. Again, there is retrospective disclosure of many of the targets used for the 2012-2014 performance share plan.

## 2015 and the future

During 2014, BP set out a clear proposition to shareholders aimed at delivering value rather than volume through active portfolio management, growing sustainable free cash flow through capital discipline and growing distributions for shareholders. The company's key performance indicators (KPIs) are designed to measure performance against this proposition. The committee is determined that the remuneration of the directors remains clearly linked to the company's strategy. There has been a refocus of some of the measures for the 2015 annual bonus to reflect this and the current short-term imperatives facing BP. The graphic below sets out BP's strategic priorities and links them to the measures used for short and long term remuneration.

Previously, the committee reviewed the executive directors' salaries in May each year. In future, it will do so in January for implementation in April, at the same time as the rest of the organization. Given the general company pay freeze, no salary increases were awarded to directors for 2015.

## Policy issues

In 2014, the UK Corporate Governance Code was revised. The Code introduced, on a 'comply or explain' basis, a requirement to introduce malus and clawback provisions into all performance related elements of directors' remuneration. The committee has reviewed the terms of the executive directors' remuneration and confirmed that malus and clawback provisions exist in all terms save the cash element of the annual bonus. It will propose an appropriate provision on the next occasion that it renews the remuneration policy. The committee also undertook a detailed examination of its tasks. The changes that have been made are set out in more detail in the full Directors' remuneration report.

## Conclusion

Whilst BP has performed well in recent years and momentum has been building, there are clearly more challenging times ahead. We have set out our approach in this changing world. It is likely that, within our policy, we will need to exercise judgement and discretion based on solid data. Should we be required to do so, it will be done within our policy and with subsequent disclosure so that our shareholders are clear on the decisions that we have taken.

Finally, I will be standing down as the chair of the committee in June and I will be succeeded by Professor Dame Ann Dowling. Ann has sat on the committee after joining the board in 2012 and I look forward to introducing her to our shareholders. I would like to thank our shareholders for the support, and the challenge, over the past four years.

## Antony Burgmans

Chairman of the remuneration committee  
3 March 2015



The full Directors' remuneration report is available at [bp.com/remuneration](http://bp.com/remuneration).

## Strategic priorities



## 2015 bonus and equity plans supporting BP's strategic priorities

Short-term: annual bonus		Long-term: performance share plan	
Safety and operational risk		Safety and operational risk	
Operating cash flow		Operating cash flow	
Underlying replacement cost profit	Net investment (organic)	Total shareholder return	
Major projects delivery	Corporate and functional costs	Major projects delivery	Reserves replacement
Creating long-term shareholder value			

Group key performance indicator. Safety and operational risk KPIs include loss of primary containment, tier 1 process safety events★ and recordable injury frequency.

## Executive directors

### Total remuneration summary 2014

**Salary** – reviewed mid-year and **increased by an average of 3%** for all directors – this was in line with average employee increases in the UK and US.

**Annual bonus** – the key focus for 2014 was delivery of the group's 10-point plan, strong operating cash flow, safe and reliable operations and delivery of major projects within the year. Operating cash flow exceeded planned targets. Overall safety results were satisfactory and consolidated the improvements made over the last three years. The underlying operating performance was strong. **Overall group score was 1.10 times target.**

**Deferred bonus** – 2011 deferred bonus was conditional on safety and environmental sustainability performance over the period 2012 through to

2014. There was strong and consistent delivery against this hurdle and **2011 deferred and matched shares vested in full.**

**Performance shares** – vesting was based one third on relative total shareholder return (TSR), one third on operating cash flow and one third on strategic imperatives including safety and operational risk (S&OR), relative reserves replacement ratio (RRR) and rebuilding trust internally and externally. TSR performance did not achieve the minimum level necessary for this part of the award to vest. There was strong operating cash flow. There was similarly strong performance against the strategic imperatives.

**On a preliminary assessment 60.5% of the 2012-2014 award are expected to vest.**

**Pension** – pension figures reflect the UK requirements to show 20 times the increase in accrued pension over the year for defined benefit plans, as well as any cash paid in lieu.

### Single figure table of remuneration of executive directors in 2014 (audited)

Remuneration is reported in the currency received by the individual						
	Bob Dudley thousand		Dr Brian Gilvary thousand		Iain Conn thousand	
	2014	2013	2014	2013	2014	2013
<b>Annual remuneration 2014</b>						
Salary	<b>\$1,827</b>	\$1,776	<b>£721</b>	£700	<b>£786</b>	£763
Annual cash bonus <sup>a</sup>	<b>\$1,005</b>	\$2,344	<b>£396</b>	£924	<b>£1,252</b>	£961
Benefits	<b>\$114</b>	\$90	<b>£51</b>	£45	<b>£55</b>	£59
<b>Total</b>	<b>\$2,946</b>	\$4,210	<b>£1,168</b>	£1,669	<b>£2,093</b>	£1,783
<b>Vested equity</b>						
Deferred bonus and match <sup>b</sup>	<b>\$3,401</b>	\$0	<b>£0</b>	£0	<b>£1,698</b>	£242
Performance shares	<b>\$6,391<sup>c</sup></b>	\$5,963 <sup>d</sup>	<b>£1,904<sup>c</sup></b>	£505	<b>£2,014<sup>c</sup></b>	£1,688 <sup>d</sup>
<b>Total</b>	<b>\$9,792</b>	\$5,963	<b>£1,904</b>	£505	<b>£3,712</b>	£1,930
<b>Total remuneration</b>	<b>\$12,738</b>	\$10,173	<b>£3,072</b>	£2,174	<b>£5,805</b>	£3,713
<b>Pension</b>						
Pension value increase <sup>e</sup>	<b>\$2,596</b>	\$4,447	<b>£21</b>	£44	<b>£18</b>	£46
Cash in lieu of future accrual	<b>N/A</b>	N/A	<b>£252</b>	£245	<b>£275</b>	£267
<b>Total including pension</b>	<b>\$15,334</b>	\$14,620	<b>£3,345</b>	£2,463	<b>£6,098</b>	£4,026

<sup>a</sup> This reflects the amount of bonus paid in cash with the deferred portion as set out in the following conditional equity table. In the case of Iain Conn, there was no deferral of bonus and all bonus was paid in cash.

<sup>b</sup> Value of vested deferred bonus and matching shares. The amounts reported for 2014 relate to the 2011 annual bonus deferred over three years, which vested on 11 February 2015 at the market price of \$40.35 and £4.46 and include re-invested dividends on shares vested. The amounts reported for 2013 relate to the 2010 annual bonus.

<sup>c</sup> Represents the assumed vesting of shares in 2015 following the end of the relevant performance period, based on a preliminary assessment of 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 2014 which was £4.27 for ordinary shares and \$40.74 for ADSs. The final vesting will be confirmed by the committee in second quarter 2015 and provided in the 2015 Directors' remuneration report.

<sup>d</sup> In accordance with UK regulations, in the 2013 single figure table, the performance outcome value was based on an estimated vesting at an assumed share price of £4.69 for ordinary shares and \$45.52 for ADSs. In May 2014, after the external data became available, the committee reviewed the relative reserves replacement ratio position and assessed that the group was first place relative to the other oil majors. This resulted in an adjustment to the final vesting from 39.5% to 45.5%. On 15 May 2014, 115,766 ADSs for Bob Dudley and 331,330 shares for Iain Conn vested at prices of \$50.90 and £5.03 respectively. The vesting of the final notional dividends prior to the vesting date took place on 24 June 2014 when Bob Dudley received 1,331 ADSs and Iain Conn received 4,122 shares at prices of \$52.84 and £5.24 respectively. The 2013 values for the total vesting have increased by \$1,440,954 for Bob Dudley and £356,604 for Iain Conn.

<sup>e</sup> Represents the annual increase net of inflation in accrued pension multiplied by 20 as prescribed by UK regulations.



## Conditional equity – to vest in future years, subject to performance

		Bob Dudley		Dr Brian Gilvary		Iain Conn	
<b>Deferred bonus in respect of bonus year</b>		<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Total deferred bonus	Value (thousand)	<b>\$2,010</b>	\$1,172	<b>£793</b>	£462	–	£481
Total deferred converted to shares	Shares	<b>294,108</b>	149,628	<b>176,576</b>	96,653	–	100,563
Total matched shares	Shares	<b>294,108</b>	149,628	<b>176,576</b>	96,653	–	100,563
Vesting date		<b>Feb 2018</b>	Feb 2017	<b>Feb 2018</b>	Feb 2017	–	Feb 2017
Release date <sup>a</sup>		<b>Feb 2021</b>	Feb 2020	<b>Feb 2021</b>	Feb 2020	–	Feb 2018

<b>Performance share element</b>		<b>2014-2016</b>	<b>2013-2015</b>	<b>2014-2016</b>	<b>2013-2015</b>	<b>2014-2016</b>	<b>2013-2015</b>
Potential maximum shares		<b>1,304,922</b>	1,384,026	<b>605,544</b>	637,413	<b>220,043<sup>b</sup></b>	463,126 <sup>b</sup>
Vesting date		<b>Feb 2017</b>	Feb 2016	<b>Feb 2017</b>	Feb 2016	<b>Feb 2017</b>	Feb 2016
Release date		<b>Feb 2020</b>	Feb 2019	<b>Feb 2020</b>	Feb 2019	<b>Feb 2018</b>	Feb 2017

<sup>a</sup> Deferred shares are released at vesting with the exception of matched shares which normally have a further three-year retention period.

<sup>b</sup> Potential maximum of performance shares element has been pro-rated to reflect actual service during the performance period.

## Non-executive directors

### 2014 remuneration (audited)

	Fees		Benefits <sup>a</sup>		Total	
	2014	2013	2014	2014	2013	2013
£ thousand						
Carl-Henric Svanberg <sup>b</sup>	785	773	37	822	822	
Paul Anderson	175	175	48	223	175	
Alan Boeckmann <sup>c</sup>	70	–	17	87	–	
Admiral Frank Bowman	165	165	17	182	165	
Antony Burgmans	150	145	9	159	145	
Cynthia Carroll	125	120	66	191	120	
George David <sup>d</sup>	185	185	18	203	185	
Ian Davis	150	150	5	155	150	
Professor Dame Ann Dowling <sup>e</sup>	140	140	11	151	140	
Brendan Nelson	125	130	16	141	130	
Phuthuma Nhleko	150	150	9	159	150	
Andrew Shilston	150	150	8	158	150	

<sup>a</sup> Benefits include travel and other expenses relating to the attendance at board and other meetings. Amounts disclosed are estimated and have been grossed up using a tax rate of 45%, where relevant, as an estimation of tax due. These are disclosed for 2014 following approval of the policy.

<sup>b</sup> In 2013 Carl-Henric Svanberg received £49,000 by way of taxable benefits. Benefits include travel and other expenses relating to attendance at board and other meetings.

<sup>c</sup> Appointed on 24 July 2014.

<sup>d</sup> In addition, George David received £12,500 for chairing the BP technology advisory council until 1 July 2013.

<sup>e</sup> In addition, Professor Dame Ann 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.

This directors' remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary on 3 March 2015.

## 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 2014*, 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 2014. The statutory accounts are to be filed with the Registrar of Companies. The independent auditor's report on the consolidated financial statements: (1) was unqualified; (2) included a statement that the information given in the Strategic report and the Directors' report in *BP Annual Report and Form 20-F 2014* was consistent with the financial statements and that statement was also unqualified; and (3) included an emphasis of matter paragraph relating to significant uncertainty over provisions and contingencies related to the Gulf of Mexico oil spill.

## Summary group income statement

For the year ended 31 December	\$ million		
	2014	2013	2012
Total revenues and other income	<b>358,678</b>	396,217	388,074
Purchases	<b>281,907</b>	298,351	292,774
Manufacturing, exploration and production expenses	<b>33,535</b>	37,556	43,212
Depreciation, depletion, amortization, impairments and losses on sale of businesses and fixed assets	<b>24,128</b>	15,471	18,962
Distribution and administration expenses	<b>12,696</b>	13,070	13,357
Profit before interest and taxation	<b>6,412</b>	31,769	19,769
Finance costs	<b>1,148</b>	1,068	1,072
Net finance expense relating to pensions and other post-retirement benefits	<b>314</b>	480	566
Profit before taxation	<b>4,950</b>	30,221	18,131
Taxation	<b>947</b>	6,463	6,880
Profit for the year	<b>4,003</b>	23,758	11,251
Attributable to			
BP shareholders	<b>3,780</b>	23,451	11,017
Non-controlling interests	<b>223</b>	307	234
	<b>4,003</b>	23,758	11,251
Earnings per share – cents			
Profit for the year attributable to BP shareholders			
Basic	<b>20.55</b>	123.87	57.89
Diluted	<b>20.42</b>	123.12	57.50



### Income statement

For information on the group income statement, see Group performance on page 22.

## Group statement of comprehensive income

For the year ended 31 December	\$ million		
	2014	2013	2012
Profit for the year	<b>4,003</b>	23,758	11,251
Other comprehensive income	<b>(12,715)</b>	(892)	975
Total comprehensive income	<b>(8,712)</b>	22,866	12,226
Attributable to			
BP shareholders	<b>(8,903)</b>	22,574	11,988
Non-controlling interests	<b>191</b>	292	238
	<b>(8,712)</b>	22,866	12,226

## Group statement of changes in equity

	\$ million		
	BP shareholders' equity	Non- controlling interests	Total equity
At 1 January 2014	129,302	1,105	130,407
Profit for the year	3,780	223	4,003
Other comprehensive income	(12,683)	(32)	(12,715)
Total comprehensive income	(8,903)	191	(8,712)
Dividends	(5,850)	(255)	(6,105)
Repurchases of ordinary share capital	(3,366)	–	(3,366)
Share-based payments, net of tax	185	–	185
Share of equity-accounted entities' changes in equity, net of tax	73	–	73
Transactions involving non-controlling interests	–	160	160
At 31 December 2014	111,441	1,201	112,642
At 1 January 2013	118,546	1,206	119,752
Profit for the year	23,451	307	23,758
Other comprehensive income	(877)	(15)	(892)
Total comprehensive income	22,574	292	22,866
Dividends	(5,441)	(469)	(5,910)
Repurchases 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

## Summary group balance sheet

At 31 December	\$ million	
	2014	2013
Fixed assets	183,851	195,310
Other non-current assets	13,192	13,540
Non-current assets	197,043	208,850
Current assets	87,262	96,840
Total assets	284,305	305,690
Current liabilities	63,615	72,812
Non-current liabilities	108,048	102,471
Total liabilities	171,663	175,283
Net assets	112,642	130,407
Equity		
BP shareholders' equity	111,441	129,302
Non-controlling interests	1,201	1,105
Total equity	112,642	130,407

## Summary group cash flow statement

For the year ended 31 December

		\$ million	
	2014	2013	2012
Operating activities			
Profit before taxation	4,950	30,221	18,131
Depreciation and other similar non-cash charges	26,262	5,066	13,010
Movements in working capital	6,925	(6,843)	(6,912)
Income taxes paid	(4,787)	(6,307)	(6,482)
Other	(596)	(1,037)	2,732
Net cash provided by operating activities	32,754	21,100	20,479
Net cash used in investing activities	(19,574)	(7,855)	(13,075)
Net cash used in financing activities	(5,266)	(10,400)	(2,010)
Currency translation differences relating to cash and cash equivalents	(671)	40	64
Increase (decrease) in cash and cash equivalents	7,243	2,885	5,458
Cash and cash equivalents at beginning of year	22,520	19,635	14,177
Cash and cash equivalents at end of year	29,763	22,520	19,635



### Cash flow statement

For information on the group cash flow statement, see Group performance on page 22.



## Five year record

This information, insofar as it relates to 2014, has been extracted or derived from the audited consolidated financial statements of the BP group presented on [AR](#) page 89. Note 1 to the financial statements includes details on the basis of preparation of these financial statements. The selected information should be read in conjunction with the audited financial statements and related notes elsewhere herein.

	\$ million except per share amounts				
	2014	2013	2012	2011	2010
<b>Income statement data</b>					
Sales and other operating revenues	<b>353,568</b>	379,136	375,765	375,713	297,107
Underlying replacement cost (RC) profit before interest and taxation★	<b>20,818</b>	22,776	26,454	33,601	31,704
Net favourable (unfavourable) impact of non-operating items★ and fair value accounting effects★	<b>(8,196)</b>	9,283	(6,091)	3,580	(37,190)
RC profit (loss) before interest and taxation★	<b>12,622</b>	32,059	20,363	37,181	(5,486)
Inventory holding gains (losses)★	<b>(6,210)</b>	(290)	(594)	2,634	1,784
Profit (loss) before interest and taxation	<b>6,412</b>	31,769	19,769	39,815	(3,702)
Finance costs and net finance expense relating to pensions and other post-retirement benefits	<b>(1,462)</b>	(1,548)	(1,638)	(1,587)	(1,605)
Taxation	<b>(947)</b>	(6,463)	(6,880)	(12,619)	1,638
Profit (loss) for the year	<b>4,003</b>	23,758	11,251	25,609	(3,669)
Profit (loss) for the year attributable to BP shareholders	<b>3,780</b>	23,451	11,017	25,212	(4,064)
Inventory holding (gains) losses, net of taxation	<b>4,293</b>	230	411	(1,800)	(1,195)
RC profit (loss) for the year attributable to BP shareholders	<b>8,073</b>	23,681	11,428	23,412	(5,259)
Non-operating items and fair value accounting effects, net of taxation	<b>4,063</b>	(10,253)	5,643	(2,242)	25,436
Underlying RC profit for the year attributable to BP shareholders	<b>12,136</b>	13,428	17,071	21,170	20,177
Per ordinary share – cents					
Profit (loss) for the year attributable to BP shareholders					
Basic	<b>20.55</b>	123.87	57.89	133.35	(21.64)
Diluted	<b>20.42</b>	123.12	57.50	131.74	(21.64)
RC profit (loss) for the year attributable to BP shareholders	<b>43.90</b>	125.08	60.05	123.83	(28.01)
Underlying RC profit for the year attributable to BP shareholders	<b>66.00</b>	70.92	89.70	111.97	107.39
Dividends paid per share – cents	<b>39.00</b>	36.50	33.00	28.00	14.00
– pence	<b>23.850</b>	23.399	20.852	17.404	8.679
Capital expenditure and acquisitions, on an accruals basis	<b>23,781</b>	36,612	25,204	31,959	23,016
Acquisitions and asset exchanges, on an accruals basis	<b>420</b>	71	200	11,283	3,406
Organic capital expenditure★ <sup>a</sup> , on an accruals basis	<b>22,892</b>	24,600	23,950	19,580	18,218
<b>Balance sheet data (at 31 December)</b>					
Total assets	<b>284,305</b>	305,690	300,466	292,907	272,262
Net assets	<b>112,642</b>	130,407	119,752	112,585	95,891
Share capital	<b>5,023</b>	5,129	5,261	5,224	5,183
BP shareholders' equity	<b>111,441</b>	129,302	118,546	111,568	94,987
Finance debt due after more than one year	<b>45,977</b>	40,811	38,767	35,169	30,710
Net debt to net debt plus equity★	<b>16.7%</b>	16.2%	18.7%	20.4%	21.2%
<b>Ordinary share data<sup>b</sup></b>					
				Shares million	
Basic weighted average number of shares	<b>18,385</b>	18,931	19,028	18,905	18,786
Diluted weighted average number of shares	<b>18,497</b>	19,046	19,158	19,136	18,998

<sup>a</sup> Organic capital expenditure excludes acquisitions and asset exchanges, and: in 2014 \$469 million relating to the purchase of an additional 3.3% equity in Shah Deniz, Azerbaijan and the South Caucasus Pipeline; in 2013 \$11,941 million relating to our investment in Rosneft; in 2012 \$1,054 million associated with deepening our US natural gas and North Sea asset bases; in 2011 \$1,096 million associated with deepening our US natural gas bases; in 2010 \$900 million relating to the formation of a partnership with Value Creation Inc. to develop the Terre de Grace oil sands acreage and \$492 million for the purchase of additional interests in the Valhall and Hod fields in the North Sea.

<sup>b</sup> The number of ordinary shares shown has been used to calculate the per share amounts.

## Shareholder information

**Company Secretary:** David Jackson

**Registered Office:** 1 St. James's Square, London SW1Y 4PD

### 2015 shareholder calendar<sup>a</sup>

27 Mar 2015	Fourth quarter interim dividend payment for 2014
16 Apr 2015	Annual General Meeting
28 Apr 2015	First quarter results announced
8 May 2015	Record date (to be eligible for the first quarter interim dividend)
19 Jun 2015	First quarter interim dividend payment for 2015
3 Jul 2015	8% and 9% preference shares record date
28 Jul 2015	Second quarter results announced
31 Jul 2015	8% and 9% preference shares dividend payment
7 Aug 2015	Record date (to be eligible for the second quarter interim dividend)
18 Sep 2015	Second quarter interim dividend payment for 2015
27 Oct 2015	Third quarter results announced
6 Nov 2015	Record date (to be eligible for the third quarter interim dividend)
18 Dec 2015	Third quarter interim dividend payment for 2015

<sup>a</sup> All future dates are provisional and may be subject to change. For the full calendar see [bp.com/financialcalendar](http://bp.com/financialcalendar)

From 6 October 2014, the London Stock Exchange shortened the standard settlement cycles from T+3 to T+2 and means ordinary shares now settle one day earlier than American Depositary Shares (ADSs) traded on the New York Stock Exchange which remains on a T+3 settlement cycle.

### Share capital

	31 Dec 2014
Ordinary shares of 25 US cents each (excluding shares held in treasury)	18,234,858,213
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<sup>b</sup>



<sup>b</sup> Represents BP's best efforts to determine ownership of the group's shares, based on analysis of the year-end share register.

<sup>c</sup> 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 17 Feb 2015
Guaranty Nominees Limited <sup>d</sup>	29.07
BlackRock, Inc.	6.25
The Capital Group Companies, Inc.	3.51
Legal & General Group plc	3.27

<sup>d</sup> Nominee for JPMorgan Chase Bank, N.A., depositary for ADSs.

### 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 2014* or at [www.bp.com/dividends](http://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 <sup>*</sup>	US cents <sup>*</sup>	US cents <sup>†</sup>
Fourth quarter 2013	5.7065	9.50	57
First quarter 2014	5.8071	9.75	58.5
Second quarter 2014	5.9593	9.75	58.5
Third quarter 2014	6.3769	10.00	60

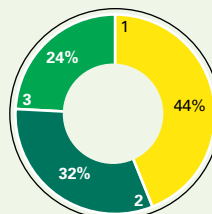
<sup>\*</sup> Per ordinary share.

<sup>†</sup> Per ADS (1 ADS represents 6 ordinary shares).

A Scrip Dividend Programme (Scrip 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. The renewal of the Scrip Programme is being proposed at our AGM in 2015. For further details, see the *Notice of BP Annual General Meeting 2015*.

### Dividend payment choices

(as at 17 February 2015)



- 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](http://www.bp.com/scrip).
- 3. Cheque: contact the BP Registrar to see if you have any unclaimed dividends.

### Manage your shares online

You can manage your account online via the BP Share Centre at [www.mybpshares.com](http://www.mybpshares.com) (for ordinary shareholders) and at [www.adr.com/bp](http://www.adr.com/bp) (for ADS holders). This service allows you to view details of your BP shareholding and dividend payments online, amend your address details, apply for dividends to be paid directly to your bank, download forms and documents and state your preference for receiving company mailings by email or otherwise.

### 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. To find out more please call the BP Registrar or visit the BP Share Centre at [www.mybpshares.com](http://www.mybpshares.com) to access the frequently asked questions.

### Annual General Meeting (AGM)

The 2015 AGM will be held on Thursday, 16 April 2015 at 11.30am at ExCeL London, One Western Gateway, Royal Victoria Dock, London, E16 1XL. A separate notice convening the meeting (*Notice of BP Annual General Meeting 2015*) is distributed to shareholders which includes an explanation of the items of business to be considered at the meeting.

### Notice of meeting

To order a copy of the *Notice of BP Annual General Meeting 2015*, please contact the BP Registrar or the BP Depositary.

### 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, 8.30am to 5.30pm (UK time)  
Email: [mybpshares@capita.co.uk](mailto:mybpshares@capita.co.uk)  
Internet: [www.mybpshares.com](http://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

## Abbreviations, glossary and trade marks

### ADR

American depositary receipt.

### ADS

American depositary share. 1 ADS = 6 ordinary shares.

### Barrel (bbl)

159 litres, 42 US gallons.

### bcf/d

Billion cubic feet per day.

### bcfe

Billion cubic feet equivalent.

### bcma

Billion cubic metres per annum.

### b/d

Barrels per day.

### boe/d

Barrels of oil equivalent per day.

### DoJ

US Department of Justice.

### GAAP

Generally accepted accounting practice.

### Gas

Natural gas.

### GWh

Gigawatts per hour.

### IFRS

International Financial Reporting Standards.

### KPIs

Key performance indicators.

### LNG

Liquefied natural gas.

### LPG

Liquefied petroleum gas.

### mb/d

Thousand barrels per day.

### mboe/d

Thousand barrels of oil equivalent per day.

### mmb/d

Million barrels per day.

### mmboe/d

Million barrels of oil equivalent per day.

### mmBtu

Million British thermal units.

### mmcf/d

Million cubic feet per day.

### mmte

Million tonnes.

### MWh

Megawatt per hour.

### NGLs

Natural gas liquids.

### PSA

Production-sharing agreement.

### PTA

Purified terephthalic acid.

### RC

Replacement cost.

### SEC

The United States Securities and Exchange Commission.

## Glossary

Unless the context indicates otherwise, the definitions for the following glossary terms are given below.

### Associate

An entity, including an unincorporated entity such as a partnership, over which the group has significant influence and that is neither a subsidiary nor a joint arrangement of the group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

### Commodity trading contracts

BP's Upstream and Downstream segments both participate in regional and global commodity trading markets in order to manage, transact and hedge the crude oil, refined products and natural gas that the group either produces or consumes in its manufacturing operations. These physical trading activities, together with associated incremental trading opportunities, are discussed in Upstream on page 28 and in Downstream on page 31. Further information on the range of contracts the group enters into in its commodity trading operations can be found at [bp.com/glossary](http://bp.com/glossary). Using these contracts, in combination with rights to access storage and transportation capacity, allows the group to access advantageous pricing differences between locations, time periods and arbitrage between markets.

### Dividend yield

Sum of the four quarterly dividends declared in the year as a percentage of the year-end share price on the respective exchange.

### Fair value accounting effects

We use derivative instruments to manage the economic exposure relating to inventories above normal operating requirements of crude oil, natural gas and petroleum products. Under IFRS, these inventories are recorded at

historical cost. The related derivative instruments, however, are required to be recorded at fair value with gains and losses recognized in the income statement. This is because hedge accounting is either not permitted or not followed, principally due to the impracticality of effectiveness-testing requirements. Therefore, measurement differences in relation to recognition of gains and losses occur. Gains and losses on these inventories are not recognized until the commodity is sold in a subsequent accounting period. Gains and losses on the related derivative commodity contracts are recognized in the income statement from the time the derivative commodity contract is entered into on a fair value basis using forward prices consistent with the contract maturity.

BP enters into commodity contracts to meet certain business requirements, such as the purchase of crude for a refinery or the sale of BP's gas production. Under IFRS these contracts are treated as derivatives and are required to be fair valued when they are managed as part of a larger portfolio of similar transactions. Gains and losses arising are recognized in the income statement from the time the derivative commodity contract is entered into.

IFRS require that inventory held for trading is recorded at its fair value using period-end spot prices, whereas any related derivative commodity instruments are required to be recorded at values based on forward prices consistent with the contract maturity. Depending on market conditions, these forward prices can be either higher or lower than spot prices, resulting in measurement differences. BP enters into contracts for pipelines and storage capacity, oil and gas processing and liquefied natural gas (LNG) that, under IFRS, are recorded on an accruals basis. These contracts are risk-managed using a variety of derivative instruments that are fair valued under IFRS. This results in measurement differences in relation to recognition of gains and losses.

The way BP manages the economic exposures described above, and measures performance internally, differs from the way these activities are measured under IFRS. BP calculates this difference for consolidated entities by comparing the IFRS result with management's internal measure of performance. Under management's internal measure of performance the inventory and capacity contracts in question are valued based on fair value using relevant forward prices prevailing at the end of the period. The fair values of certain derivative instruments used to risk manage LNG and oil and gas processing contracts are deferred to match with the underlying exposure and the commodity contracts for business requirements are accounted for on an accruals basis. We believe that disclosing management's estimate of this difference provides useful information for investors because it enables investors to see the economic effect of these activities as a whole.

#### Free cash flow

Operating cash flow less net cash used in investing activities, as presented in the condensed group cash flow statement.

#### Gearing

See Net debt and net debt ratio definition.

#### Hydrocarbons

Liquids and natural gas. Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

#### Inventory holding gains and losses

The difference between the cost of sales calculated using the replacement cost of inventory 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. Under the FIFO method, which we use for IFRS reporting, the cost of inventory charged to the income statement is based on its historical cost of purchase or manufacture, rather than its replacement cost. In volatile energy markets, this can have a significant distorting effect on reported income. The amounts disclosed represent the difference between the charge to the income statement for inventory on a FIFO basis (after adjusting for any related movements in net realizable value provisions) and the charge that would have arisen based on the replacement cost of inventory. For this purpose, the replacement cost of inventory is calculated using data from each operation's production and manufacturing system, either on a monthly basis, or separately for each transaction where the system allows this approach. The amounts disclosed are not separately reflected in the financial statements as a gain or loss. No adjustment is made in respect of the cost of inventories held as part of a trading position and certain other temporary inventory positions. See Replacement cost (RC) profit or loss definition below.

#### Joint arrangement

An arrangement in which two or more parties have joint control.

#### Joint venture

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

#### Liquids

Comprises crude oil, condensate and natural gas liquids. For reserves, it also includes bitumen.

#### Major projects

Have a BP net investment of at least \$250 million, or are considered to be of strategic importance to BP or of a high degree of complexity.

#### Net debt and net debt ratio (gearing)

Non-GAAP measures. Net debt includes the fair value of associated derivative financial instruments that are used to hedge foreign exchange and interest rate risks relating to finance debt, for which hedge accounting is claimed. The derivatives are reported on the balance sheet within the headings 'Derivative financial instruments'. We believe that net debt and net debt ratio 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. The net debt ratio is defined as the ratio of finance debt (borrowings, including the fair value of associated derivative financial instruments that are used to hedge foreign exchange and interest rate risks relating to finance debt, plus obligations under finance leases) to the total of finance debt plus shareholders' interest. See [AR](#) Financial statements – Note 25 for

information on gross debt, which is the nearest equivalent measure to net debt on an IFRS basis.

#### Net wind generation capacity

The sum of the rated capacities of the assets/turbines that have entered into commercial operation, including BP's share of equity-accounted entities. The gross data is the equivalent capacity on a gross-JV basis, which includes 100% of the capacity of equity-accounted entities where BP has partial ownership.

#### Non-operating items

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. 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.

#### Operating capital employed

Non-GAAP measure. Total assets (excluding goodwill) less total liabilities, excluding finance debt and current and deferred taxation.

#### Operating cash flow and operating cash

Net cash provided by (used in) operating activities as stated in the condensed group cash flow statement. When used in the context of a segment rather than the group, the terms refer to the segment's share thereof.

#### Operating management system (OMS)

BP's OMS helps us manage risks in our operating activities by setting out BP's principles for good operating practice. It brings together BP requirements on health, safety, security, the environment, social responsibility and operational reliability, as well as related issues, such as maintenance, contractor relations and organizational learning, into a common management system.

#### Organic capital expenditure

Excludes acquisitions, asset exchanges, and other inorganic capital expenditure. An analysis of capital expenditure by segment and region is shown in [AR](#) Financial statements – Note 4.

#### Plant efficiency

Plant efficiency is calculated taking 100% less the ratio of total plant deferrals divided by installed production capacity. Plant deferrals include planned and unplanned deferrals associated with the topside plant and where applicable the subsea equipment (excluding wells and reservoir). Plant deferrals include breakdowns, planned events, turnarounds, and weather.

#### Production-sharing agreement (PSA)

An arrangement through which an oil company bears the risks and costs of exploration, development and production. In return, if exploration is successful, the oil company receives entitlement to variable physical volumes of hydrocarbons, representing recovery of the costs incurred and a stipulated share of the production remaining after such cost recovery.

#### Proved reserves replacement ratio

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.

#### 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 downtime.

#### Refining marker margin (RMM)

The average of regional indicator margins weighted for BP's crude refining capacity in each region. Each regional marker margin is based on product yields and a marker crude oil deemed appropriate for the region. The regional indicator margins may not be representative of the margins achieved by BP in any period because of BP's particular refinery configurations and crude and product slate.



### Replacement cost (RC) profit or loss

Reflects the replacement cost of inventories sold in the period 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 that is required to be disclosed for each operating segment under International Financial Reporting Standards (IFRS). RC profit or loss for the group is not a recognized GAAP measure. Management believes this measure is useful to illustrate to investors the fact that crude oil and product prices can vary significantly from period to period and that the impact on our reported result under IFRS can be significant. Inventory holding gains and losses vary from period to period due to changes in prices as well as changes in underlying inventory levels. In order for investors to understand the operating performance of the group excluding the impact of price changes on the replacement of inventories, and to make comparisons of operating performance between reporting periods, BP's management believes it is helpful to disclose this measure. See **AR** Financial statements – Note 4.

### Subsidiary

An entity that is controlled by the BP group. Control of an investee exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

### Tier 1 process safety events

Losses 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.

### Tight gas

Natural gas reservoirs locked in hard sandstone rocks with low permeability, making the underground formation extremely tight.

### Underlying production

2014 underlying production, when compared with 2013, is after adjusting for the effects of the Abu Dhabi onshore concession expiry in January 2014, divestments and entitlement impacts in our PSAs.

2015 underlying production, when comparing with 2014, is after adjusting for divestments and entitlement impacts in our PSAs.

### Underlying RC profit or loss

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. See **AR** pages 209 and 210 for additional information on the non-operating items and fair value accounting effects that are used to arrive at underlying RC profit or loss in order to enable a full understanding of the events and their financial impact. BP believes that underlying RC profit or loss 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.

### Unit cash margin

Net cash provided by operating activities for relevant projects in the Upstream segment, divided by the total number of barrels of oil and gas equivalent produced for the relevant projects. It excludes dividends and production for TNK-BP and Rosneft.

## Trade marks

Trade marks of the BP group appear throughout this report in italics. They include:

<i>Aral</i>	<i>Titanium Fluid Strength Technology</i>
<i>ARCO</i>	<i>SaaBre</i>
<i>BP</i>	<i>Wild Bean Cafe</i>
<i>Castrol</i>	Permasense is a trade mark of
<i>EDGE</i>	Permasense Limited.
<i>Field of the Future</i>	M&S Simply Food is a registered trade
<i>Fluid Strength Technology</i>	mark of Marks & Spencer plc.

## Information about this report

This *BP Strategic Report 2014* for the year ended 31 December 2014 constitutes the Strategic report, as included in the *BP Annual Report and Form 20-F 2014*, 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 2014* 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 2014*. Shareholders may obtain a copy of *BP Annual Report and Form 20-F 2014* or *BP Strategic Report 2014* online at [bp.com/annualreport](http://bp.com/annualreport) or a printed copy on request, free of charge (see outer back cover).

No material on the BP website, other than the items identified as *BP Annual Report and Form 20-F 2014* or *BP Strategic Report 2014*, 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 2014* 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 2014* and on its website at [bp.com/NYSEcorporategovernancerules](http://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.  
London 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 including but not limited to statements under the headings ‘Our market outlook’, ‘Beyond 2035’, ‘Our business model’, ‘Our strategy’, ‘Outlook’ and ‘Outlook for 2015’, and including but not limited to statements regarding plans and prospects relating to future value creation, capital discipline and growth in sustainable free cash flow; plans to develop resources, increase production, strengthen BP’s portfolio of high-return and longer-life assets and unlock value from BP’s resource base; plans relating to future workforce size, initiatives and composition, including workforce diversity; plans and expectations regarding future board activities and composition; expectations regarding the future level of oil and gas prices and industry product supply, demand and pricing in the near term and long term and BP’s outlook and projections of future energy trends, including the role of oil, gas and renewables therein; plans to form key partnerships and relationships with governments, customers, partners, communities, suppliers and other institutions; expectations regarding and timing of planned and future acquisitions and divestments, including the completion of \$10 billion of divestments in 2015; expectations regarding future dividend and optional scrip dividend payments; expectations regarding future capital expenditures and capital investment, gearing and the net debt ratio and taxation, including estimated 2015 levels thereof; expectations regarding the current and future prospects of BP’s discoveries, resources, reserves and positions; expectations regarding BP’s reported and underlying production in 2015; 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 of such projects; expectations regarding future market conditions and pricing in India; expectations regarding Rosneft’s future share price and dividend growth and BP’s plans to explore future opportunities with Rosneft; plans regarding growing operating cash flow and returns in Downstream, including by leveraging assets, portfolio management, customer relationships, technology and trading activity; expectations regarding the 2015 environment for refining and petrochemicals margins; expectations regarding 2015 refinery turnarounds and future refinery operations; expectations regarding improvements in cash break even performance, earnings potential and future plant events in the petrochemicals business; expectations regarding future safety performance and plans to enhance safety, cybersecurity, compliance and risk management; Air BP’s strategic aims; the future strategy for and planned investments in alternative energies; the expected annual charges of Other business and corporate for 2015; expectations regarding the actions of contractors and partners and their terms of service; expectations regarding future environmental regulations, their impact on BP’s business and plans to reduce BP’s environmental impact; expectations regarding changes in laws and regulations and their impact on BP’s business; plans to increase efficiency, reliability and product quality, improve margins and create new market opportunities; expectations regarding future restoration or other actions to be taken as a result of the Deepwater Horizon incident and related proceedings and their impact on BP’s business; and 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; 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; production-sharing agreements effects; operational and safety problems; potential lapses in product quality; 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; the timing and amount of future payments relating to the Gulf of Mexico oil spill; exchange rate fluctuations; development and use of new technology; recruitment and retention of a skilled workforce; the success or otherwise of partnering; the actions of competitors, trading partners, contractors, subcontractors, creditors, rating agencies and others; our access to future credit resources; business disruption and crisis management; the impact on our reputation of ethical misconduct and non-compliance with regulatory obligations; trading losses; major uninsured losses; 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 report including under Risk factors (pages 48-50). In addition to factors set forth elsewhere in this report, 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.



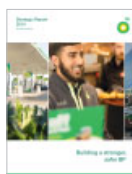


BP's corporate reporting suite includes information about our financial and operating performance, sustainability performance and also on global energy trends and projections.



#### Annual Report and Form 20-F 2014

Details of our financial and operating performance in print and online.  
Published in March.  
[bp.com/annualreport](http://bp.com/annualreport)



#### Strategic Report 2014

A summary of our financial and operating performance in print and online.  
Published in March.  
[bp.com/annualreport](http://bp.com/annualreport)



#### Energy Outlook 2035

Projections for world energy markets, considering the potential evolution of global economy, population, policy and technology.  
Published in February.  
[bp.com/energyoutlook](http://bp.com/energyoutlook)



#### Sustainability Report 2014

Details of our sustainability performance with additional information online.  
Published in March.  
[bp.com/sustainability](http://bp.com/sustainability)



#### Financial and Operating Information 2010-2014

Five-year financial and operating data in PDF and Excel format.  
Published in April.  
[bp.com/financialandoperating](http://bp.com/financialandoperating)



#### Statistical Review of World Energy 2015

An objective review of key global energy trends.  
Published in June.  
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