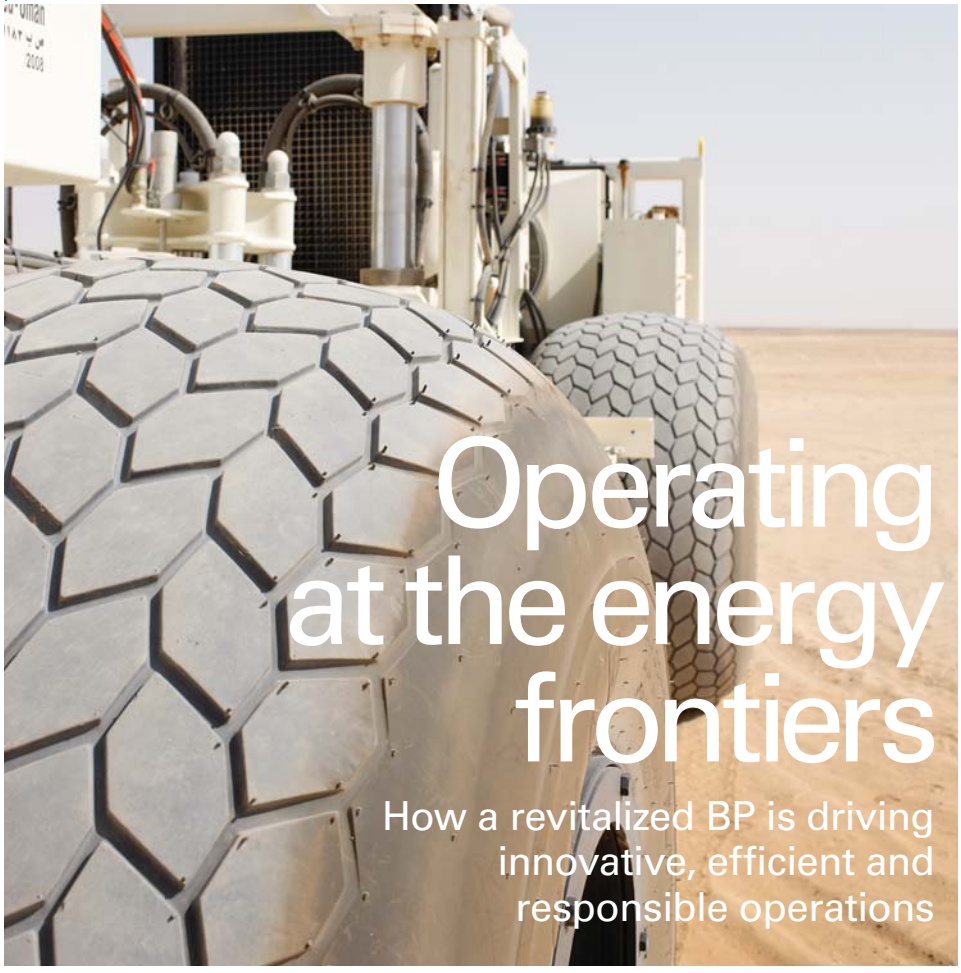
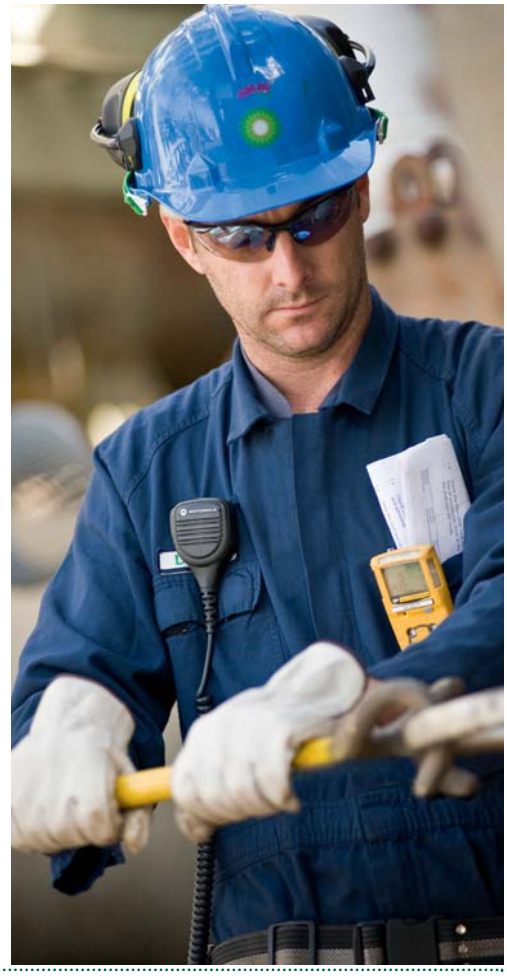
Sustainability Review 2009

bp.com/sustainability



Operating at the energy frontiers

How a revitalized BP is driving innovative, efficient and responsible operations



Meeting the energy demands of today and tomorrow

Oil Natural gas Wind Solar Biofuels Efficiency

This is BP

Our main brands

Our values

BP is progressive, responsible, innovative and performance driven.

Progressive
We believe in the principle of mutual advantage and build productive relationships with each other, our partners and our customers.

Responsible
We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment.

Innovative
We push boundaries today and create tomorrow's breakthroughs through our people and technology.

Performance driven
We deliver on our promises through continuous improvement and safe, reliable operations.

These values guide us in the conduct of our business. In all our business we expect our people to meet high ethical standards and to act in accordance with our code of conduct.

Our strategy

To meet growing world demand, BP is committed to:

- Exploring, developing and producing more fossil fuel resources.
- Manufacturing, processing and delivering better and more advanced products.
- Enabling the transition to a lower-carbon future.

We aim to do this while operating safely, reliably and in compliance with the law.

In Exploration and Production our strategy is to invest to grow production by strengthening our portfolio of leadership positions in the world's most prolific hydrocarbon basins, enabled by the development and application of technology and strong relationships based on mutual advantage. We intend to sustainably drive cost and capital efficiency in accessing, finding, developing and producing resources, enabled by deep technical capability and a culture of continuous improvement.

In Refining and Marketing our strategic focus is on enhancing portfolio quality, integrating activities across value chains and performance efficiency. We expect to continue building our business around advantaged assets in material and significant energy markets while improving the safety and reliability of our operations.

In Alternative Energy we have focused our investments in the areas where we believe we can create the greatest competitive advantage. We have substantial businesses in wind and solar power and are developing advanced biofuels and clean energy technologies such as hydrogen power and carbon capture and storage.

Looking ahead
We intend to play a central role in meeting the world's continued need for hydrocarbons. We are creating long-term options for the future in new energy technology and low-carbon energy businesses. We are also enhancing our capabilities in natural gas, which is likely to be a vital source of relatively clean energy during the transition to a lower-carbon economy and beyond.

An introduction to Ernst & Young's assurance process
We have reviewed the contents of *BP Sustainability Review 2009* to provide assurance on the information reported. This work included testing relevant management information, interviewing BP management and reviewing external media sources. Our conclusions, which can be found on page 34, have been prepared against the main principles of the AA1000 Assurance Standard (2008). Several of our specific observations have also been included on relevant pages of this *Sustainability Review*.

Specific observation from Ernst & Young
BP has highlighted 'energy challenges' but could also describe the issues that stakeholders consider to be emerging sustainability trends. This could include, for example, water management and reputational risks associated with supplier working practices, and how this may impact on the business.

What's inside?

At BP we define sustainability as the capacity to endure as a group: by renewing assets; creating and delivering better products and services that meet the evolving needs of society; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers, shareholders and the communities in which we operate.

Full sustainability reporting
bp.com/sustainability

Our website plays an integral part of our sustainability reporting, covering a wider set of issues and reporting on them in more depth. The website includes detailed information about our environmental and safety performance, as well as case studies that demonstrate our sustainability efforts in action.

Canadian oil sands
Leveraging our technical expertise to deliver a major energy resource responsibly.

See page **12**

BP and climate change
Aiming to be part of the solution – through efficient operations and products, low-carbon energy and advocacy.

See page **14**

Tangguh and sustainability
Delivering value to BP and the local community with the start-up of our liquefied natural gas project in Indonesia.

See page **32**

Cover images
Top left Truck with seismic exploration technology, Oman.
Top right Harvesting at Tropical BioEnergia, Brazil.
Bottom left Community project at Tangguh, Indonesia.
Bottom right Safety checking at Bulwer refinery, Australia.

Group chief executive's review

Diverse, innovative and efficient

Tony Hayward Group Chief Executive
April 2010

Highlights

- Improved financial performance.
- Progress on safe and reliable operations.
- People agenda essential to BP's transformation.

Tony Hayward, BP's group chief executive, discusses sustainability-related issues, including some frequently raised by those who read BP's reports on environmental and social performance.

Energy is high on the public agenda. What are the priorities for its future?

Reliable and affordable supplies of hydrocarbon energy were taken for granted through much of the 20th century as they laid the foundation for the world's economic progress. They will be just as fundamental in the future, particularly to meet rising demand in emerging economies such as China and India. What's different today is that energy has become a complex challenge, with strategic, economic and environmental dimensions.

Energy security, climate change and the energy needed to support economic development and jobs will keep energy high on the public and political agenda for some considerable time. I believe the main ways to meet the world's future energy challenges are through diversity, by accessing the widest range of energy sources; competition, by bringing out the best ways of finding, producing and distributing energy; and efficiency, by making the most of each unit of energy.

What role will an oil and gas company have in the decades to come?

According to International Energy Agency (IEA) projections, the world could potentially consume around 40% more energy in 2030 than we consume today – requiring investment of at least $1 trillion every year in energy infrastructure. In meeting this demand sustainably, there will need to be changes in the energy mix. We will need more low-carbon energy and we need to use all forms of energy more efficiently. The share of energy derived from renewable sources will certainly increase in the future, and carbon capture technology could be deployed at scale. However, the IEA anticipates fossil fuels still being the dominant source of energy in 2030, even in a scenario in which major carbon emissions are tightly constrained over the next two decades.

In other words, the energy companies of the future will need to supply a diverse energy mix. The mix will be more than oil and gas – but hydrocarbons will still be a major part of it.

So, what is BP doing to meet future energy demand for oil and gas?

Our analysis indicates the world has enough proved reserves to last for about 40 years for oil and 60 years for gas, at today's consumption rates. There is also a lot more oil and gas to find – but it requires working at the industry's frontiers and continuing to innovate in our technology and processes, as indeed BP has done through its 100-year history. Our progress in deepwater exploration is a good example. Last year we made the Tiber discovery more than 10 kilometres beneath the Gulf of Mexico. That's further below sea level than the top of Mount Everest is above it. That oil is in a geological layer, the lower tertiary, which we are only now starting to map and understand. We are also pioneering new technologies – such as digital imaging of reservoirs and advanced drilling techniques – to access gas that is locked in dense rock formations. We're also getting more oil and gas out of mature fields. The average recovery rate from a reservoir is about 35%, but in our Prudhoe Bay development in Alaska we now expect to recover around 60% of the oil as a result of our enhanced oil recovery processes.

How significant is BP's deal in Iraq?

Our deal to increase production from the Rumaila field is significant in several ways. It gives us a great opportunity to work with the people of Iraq and our partner China National Petroleum Company to develop one of the world's great oilfields. We see this as the beginning of a long-term relationship that will be instrumental in helping Iraq to rebuild its economy after years of war and sanctions. The investment in Rumaila will support Iraq in achieving its ambition of becoming a major player in global oil markets once again and will catalyse training and development opportunities for the many thousands of Iraqis working in Rumaila.

How do you respond to people's concerns about BP and Canadian oil sands?

Our Sunrise joint venture in the Canadian oil sands will make a significant contribution to energy security for North America. The project will be using steam assisted gravity drainage, which is close to conventional reservoir engineering. We plan to use our technology capabilities to achieve a high level of energy efficiency and minimize the greenhouse gas emissions associated with this form of oil sands production. We won't be pursuing Canadian oil sands mining projects. And, as with all new projects, we follow an established environmental and social practice, which includes water management, land use and community relations.

How do you view the outcome of the 2009 Copenhagen conference on climate change?

The Copenhagen conference had some very important outcomes even though a formal global treaty was not agreed. For the first time since the climate debate began in earnest some 20 years ago, the vast majority of the world's countries are aligned and heading in the same direction. Most importantly, China and the US are on board and politically committed to a negotiating process with a timetable and an agreed goal. Meanwhile, on the ground, many governments are acting to set emissions targets and companies like BP are responding with investments in energy efficiency and low-carbon energy. For a long time, BP has advocated a proactive approach to climate change and supported action to curb carbon emissions. However, governments also need to lead and create ways of reducing emissions that are fair, consistent and effective. We want to see a price put on carbon emissions, which treats all carbon as equal whether from the tailpipe or smokestack. The best way to achieve this, we believe, is through market mechanisms that encourage the most efficient ways to cut emissions.

Revitalizing BP
Tony Hayward discusses priorities, results and continuous improvement with employees at BP's International Centre for Business and Technology, Sunbury, UK.

What is BP specifically doing to address climate change in its plans for meeting the world's future energy needs?

For BP, supporting the transition to a low-carbon economy has several dimensions. We are improving energy efficiency in BP's own operations through close performance monitoring as well as developing more efficient fuels and lubricants. We are promoting natural gas as a key part of the energy future – gas is easily the cleanest burning fossil fuel, as well as being efficient, versatile and abundantly available. We are also including a cost of carbon in investment appraisals for all new major projects to allow informed investment in fossil fuels and encourage development of the technology needed to reduce their carbon footprint. And finally, we are investing in our low-carbon businesses. Since 2005 we have invested around $4 billion in Alternative Energy, with our activity focused on advanced biofuels, our wind business in the US, solar power, and carbon capture and storage.

What progress has BP made on safety during 2009?

Safety is fundamental to our success as a company and 2009 was important because of the progress we made in implementing our operating management system (OMS). The OMS contains rigorous and tested processes for reducing risks and driving continuous improvement. I see it as the foundation for a safe, responsible and high-performing BP. Having been initially introduced at eight sites in 2008, the OMS rollout extended to 70 sites by the end of 2009, including all our operated refineries and petrochemicals plants. This means implementation is 80% complete. I'm proud that our injury rates have come down around 75% in the past decade. However, we still have work to do and I deeply regret the two deaths we suffered in operations at BP sites last year. My deep sympathies are also with the families of those 16 colleagues who died in a helicopter accident on their way back from North Sea assignments in April 2009. We are closely following the work being done by investigators and the helicopter industry to enable lessons to be learned.

Does BP have the right capabilities among its people to meet the challenges of the future?

Our people agenda has been a key aspect of BP's transformation over the past few years. I think our improved performance is a good indication that we do have the right people in the right places with the right skills. We have developed a new leadership framework ensuring we value and deepen specialist expertise. We have put in place extensive programmes to build the professional skills of our people, with a particular focus on operations. And we're fostering a culture of operational excellence and continuous improvement across all our activities.
I am also absolutely committed to making BP a real meritocracy that reflects the communities it works in and genuinely practises diversity and inclusion. I want this to be a place where everyone can fulfil their potential. That is good for the individuals but it is also good for business.

Does BP need to operate according to internal standards or follow external benchmarks on sustainability-related issues?

Both, depending on the issue in question. We are responsible for our operations and we are accountable for setting and observing consistent and high standards within them. Our code of conduct, for example, provides clear expectations on behaviour and compliance. However, on wider issues where our influence extends into society more generally, we support relevant external standards. In particular, we support the UN Global Compact, which sets out a series of principles for corporate responsibility. My goal is that BP should not only be a leader in what we do – by achieving excellent financial and operational results – but also in how we do it, because the 'how' is central to building the trust and accountability needed for long-term success. We have emerged from 2009 in great shape and with a renewed confidence and determination to realize our potential both in the short and the long term.

Speeches by Tony Hayward
bp.com/speeches

BP in 2009

These highlights reflect the ramp-up and start-up of major new projects, including the first full year of production from the Thunder Horse field in the US. We increased both the Solomon availability and throughputs in our refineries while maintaining strong safety performance. We also gained access to new resource opportunities in Iraq, Egypt, Indonesia, Jordan, the Gulf of Mexico and onshore US, and focused our alternative energy business in four key areas.

15 January
Former German Chancellor Gerhard Schroeder agrees to join the restructured TNK-BP board.

18 February
BP and Verenium form a cellulosic ethanol joint venture to deliver advanced biofuels from energy grasses, in one of the first commercial-scale facilities of its kind in the US.

18 February
Former chief executive of TNK-BP Robert Dudley is appointed to the board of BP p.l.c., with oversight of our activities in the Americas and Asia.

21 February
At Spain's Castellón Refinery, a new 20,000-barrels-per-day coker unit became operational, ensuring the refinery is well placed to take advantage of Spain's growing diesel market.

14 April
In the US, BP's wind energy business and Dominion announce full operation of the Midwest's largest wind farm, in Benton County, Indiana.

30 April
At Texas City, the Solomon refinery availability – which measures the readiness of our refineries to refine crude oil into fuels – exceeds 90% this month, for the first time in four years.

25 June
BP selects Carl-Henric Svanberg, chief executive officer of the Swedish telecommunications company Ericsson, to succeed Peter Sutherland as chairman.

26 June
BP agrees to sell its ground fuels marketing business in Greece to Hellenic Petroleum, in a strategic move to focus on its automotive, industrial and marine lubricants businesses in the country.

6 July
The Tangguh liquefied natural gas project in Indonesia ships its first cargo, to Gwangyang, South Korea.

13 July
BP Azerbaijan signs a memorandum of understanding with the State Oil Company of Azerbaijan Republic to explore and develop a deepwater block in the Azerbaijan sector of the Caspian Sea.

2 September
BP announces a giant oil discovery in the deepwater US Gulf of Mexico. The Tiber well is the deepest oil and gas discovery well ever drilled.

1 October
BP Exploration (Angola) and Sonangol announce their third 2009 oil discovery in the southern portion of ultra-deepwater Block 31, Angola. This is the 19th discovery made by BP in Block 31.

26 October
BP announces that it is to join Jordan's state-owned National Petroleum Company to exploit the onshore Risha concession, an area of about 7,000 square kilometres.

3 November
BP and China National Petroleum Corporation sign a contract with Iraq's state-owned South Oil Company to expand production from the super-giant Rumaila oilfield near Basra in southern Iraq.

27 November
Lord Mandelson, the UK Secretary of State for Business, Innovation and Skills, praises the cutting-edge development and demonstration facility at BP's Saltend site, near Hull. The joint venture between BP and DuPont will focus on the commercialization of advanced biofuel technology.

30 November
Through its joint venture with local conventional gas producer VICO, BP signs a contract with the government of Indonesia to explore and develop coalbed methane resources.

18 December
BP's chemical production centre in Geel, Belgium, completes its implementation of the group-wide operating management system. All our operated refineries and petrochemicals plants are now using this system to deliver safe, responsible and reliable operating activities.

How we operate

Our systems of governance and management are designed to help us conduct our business responsibly, particularly with regard to environmental, social and financial issues. These systems reflect our support for globally recognized standards on safety, human rights and security.

Governance

BP operates globally according to a system of internal control that extends from corporate governance policies at board level to detailed processes that are applied in our operations.

The board

The board is responsible for the direction and oversight of BP p.l.c. on behalf of shareholders; it is accountable to them, as owners, for all aspects of BP's business. The board sets the tone from the top, and has established a set of board governance principles, which delegate management authority to the group chief executive (GCE) within defined limits. These include a requirement that the GCE will not engage in any activity without regard to health, safety and environmental consequence. On 1 January 2010, the board was composed of the chairman, eight non-executive directors and five executive directors.

SEEAC board site visit
SEEAC members on the Eastern Trough Area Project platform in the North Sea.

The board maintains five permanent committees that are composed entirely of non-executives. They include the audit committee, the remuneration committee and the safety, ethics and environment assurance committee (SEEAC). Monitoring the GCE's identification and management of the group's risks – both financial and non-financial – is conducted through the board and its committees.

SEEAC monitors non-financial risk, which includes regular reviews of information and reports from the safety and operations function. It also acts for the board in working with the Independent Expert to review the progress made in implementing the recommendations of the BP US Refineries Independent Safety Review Panel.

Managing the business

BP utilizes a comprehensive set of management systems, organizational structures, processes, standards and behaviours to conduct our business and deliver returns for shareholders. This system of internal control is maintained by the GCE.

Control environment

BP's code of conduct and values demonstrate our commitment to integrity, ethical values and legal compliance. Additionally, our commitment to competence is through having the right people with the right skills doing the right thing supported by our leadership framework.

The GCE has established an operating style that sets direction for the company and places continual emphasis on our priorities of safety, people and performance. Delegation of authority, designed to make sure employees understand what is expected of them, is integral to this control environment.

Risk management

Group risks – the significant risks that could affect the achievement of our objectives – have responses designed to deal with them in the most appropriate way. These include our operating management system for delivery of safe, responsible and reliable operating activity, and group standards, which set out processes for other major areas such as investment decisions or fraud and misconduct reporting.

The GCE's senior team – known as the executive team – is supported by sub-committees to be responsible for and monitor specific group risks. These include the group operations risk committee, the group financial risk committee and the group people committee. The GCE also conducts regular performance reviews with the business segments and key functions to monitor performance and the management of risk and to intervene if necessary.

People management

People management is based on performance objectives through which individuals are accountable for delivering specific elements of the group plan within agreed boundaries.

Clear lines of communication exist for the provision of relevant information to help ensure all people are clear on what is expected of them and are up to date with the latest context in which to do their job. Employees can raise concerns with line managers, human resources, legal or compliance teams or through OpenTalk, an independent confidential helpline.

Human rights

BP is committed to respecting human rights in line with our support for the Universal Declaration of Human Rights.

Our approach reflects human rights principles, as relevant, in the processes that govern our business activity. BP's code of conduct, for example, states our commitment to fair employment and equal employment opportunity. It also expresses our commitment to engage in open and transparent dialogue with communities. Additionally we also make a very explicit statement against the use of child labour and forced or compulsory labour.

How we operate – in detail
bp.com/howweoperate

BP in figures

Five-year data, trends and interpretations

For the year ended 31 December

	2005	2006	2007	2008	**2009**
Safety[a]					
Fatalities – employees	1	0	3	2	**0**
Fatalities – contractors	26	7	4	3	**18**
Days away from work cases – workforce	305	188	167	175	**134**
Days away from work case frequency[b] (DAWFCF) – workforce	0.110	0.085	0.075	0.080	**0.069**
Recordable injuries – workforce	1,471	1,067	1,060	951	**665**
Recordable injury frequency[b] (RIF) – workforce	0.53	0.48	0.48	0.43	**0.34**
Hours worked – employees (million hours)	242	207	204	195	**174**
Hours worked – contractors (million hours)	313	236	241	245	**216**
Number of oil spills – loss of primary containment[c]	541	417	340	335	**234**
Volume of oil spilled (million litres)	4.4	2.2	1.0	3.4	**1.2**
Volume of oil unrecovered (million litres)	1.2	0.4	0.3	0.9	**0.2**
Environmental[a]					
Direct carbon dioxide (CO_2)[d] (million tonnes (Mte))	73.2	59.3	59.2	57.0	**60.4**
Indirect carbon dioxide (CO_2)[e] (Mte)	13.9	10.1	10.7	9.2	**9.6**
Direct methane[d] (Mte)	0.23	0.24	0.20	0.21	**0.22**
Direct greenhouse gas (GHG) emissions[d] ($MteCO_2$ equivalent (CO_2e))	78.0	64.4	63.5	61.4	**65.0**
Flaring (E&P) (thousand tonnes (kte) of hydrocarbons)	1,514	1,241	1,124	1,718	**2,149**
Customer emissions[f] ($MteCO_2$)	570	539	521	530	**554**
Environmental and safety fines ($ million)	56.0	2.5	22.5	1.1	**66.6**
Environmental expenditure ($ million)	2,914	4,026	3,293	2,520	**2,483**
People[a g]					
Number of employees – group[i]	96,200	97,000	98,100[h]	92,000	**80,300**[i]
Number of group leaders[i]	606	625	624	583	**492**
Women in group leadership[i] (%)	17	17	16	14	**14**
People from UK and US racial minorities in group leadership[i] (%)	5	5	5	6	**6**
People from beyond the UK and US in group leadership[i] (%)	20	20	19	19	**21**
OpenTalk cases	634	1,064	973	925	**874**
Dismissals for non-compliance and unethical behaviour[j]	478	642	944	765	**524**
Benefits to employees – including wages, salaries, share-based payments, benefits and pensions ($ million)	10,746	10,643[k]	11,511[k]	12,280	**12,216**
Contracts terminated or not renewed due to non-compliance or unethical behaviour	77	69	48	22	**30**
Performance					
Total hydrocarbons produced (thousand barrels of oil equivalent (mboe) per day)	4,014	3,926	3,818	3,838	**3,998**
Reserves replacement ratio[l] (%)	100	113	112	121	**129**
Total refinery throughputs (thousand barrels per day (mb/d))	2,399	2,198	2,127	2,155	**2,287**
Total petrochemicals production[m] (thousand tonnes (kte))	14,076	14,064	14,028	12,518	**12,391**
Replacement cost profit[n] ($ million)	20,168	22,222	18,370	25,593	**13,955**
Taxes to governments – comprising income taxes and production taxes paid[o] ($ million)	13,057	19,235	14,919	22,239	**10,309**
Dividends paid to shareholders ($ million)	7,359	7,686	8,106	10,342	**10,483**
Contribution to communities ($ million)	95.5	106.7	135.8	125.6	**106.8**

[a] Quantitative performance indicators have been chosen, with external input, to reflect the most important sustainability issues for BP. Data is reported here only from operations under BP operational control, except for GHG emissions. We use consistent processes that seek to provide acceptable estimates to enable year-to-year comparisons.
[b] DAFWCF and RIF are the annual frequency per 200,000 hours worked.
[c] Oil spills are defined as any liquid hydrocarbon release of more than or equal to one barrel (159 litres, equivalent to 42 US gallons).
[d] Direct GHG emissions are the physical emissions from operations. Emissions represent all consolidated entities and BP's share of equity-accounted entities except TNK-BP.
[e] Indirect GHG emissions are a consequence of the import by operations of steam, electricity and heat from third-party sources. Emissions represent all consolidated entities and BP's share of equity-accounted entities except TNK-BP.
[f] Estimate rebased in 2009. All years now based on BP's total reported production of natural gas, natural gas liquids and refinery throughputs.
[g] Employees are defined as individuals who have a contract of employment with a BP group entity.
[h] 2007 data corrected from 97,600 to 98,100.
[i] As at 31 December.
[j] Misconduct-related dismissals of employees and contractors (other than those in the retail businesses including those for minor or immaterial incidents) fell by 32% in 2009 compared with 2008. This change is driven most significantly by the 43% decrease in Refining and Marketing employee and contractor dismissals, primarily the result of improvements in US refining operations.
[k] A minor amendment has been made to the comparative figures for 2006 and 2007 to include some employee costs that had previously been incorrectly excluded.
[l] Combined basis of subsidiaries and equity-accounted entities, excluding acquisitions and disposals.
[m] Petrochemicals production reported within Refining and Marketing.

Safety

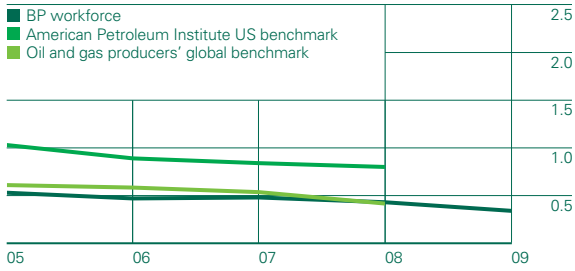
Overseen by group operations risk committee

Many of BP's key safety metrics showed improvement in 2009. Our workforce injury rates for days away from work frequency, recordable injury frequency and the number of oil spills were significantly lower in 2009 than the previous year. Tragically, 16 lives were lost when a third-party-operated helicopter crashed in the North Sea; and there were also two fatalities at sites operated by BP in Azerbaijan and Alaska. BP annually benchmarks safety performance indicators against its peers.

Safety data
bp.com/safetydata

Personal safety – recordable injury frequency[p]

(per 200,000 hours worked)



Environmental

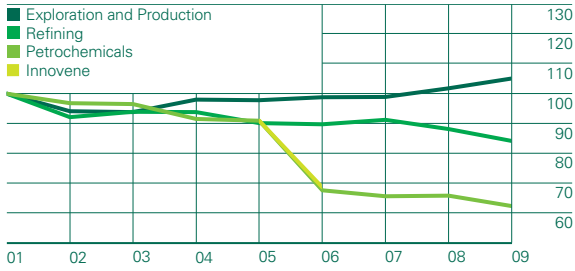
Overseen by group operations risk committee

Improved utilization at our US refineries has resulted in an improvement in our GHG intensity over 2008. Since 2001 refining and petrochemicals has shown an improvement in GHG intensity. The increase in exploration and production GHG intensity in 2009 is mainly due to the start-up of our Tangguh liquefied natural gas project, which also resulted in the increase in flaring. Performance on air, water and waste management are reported for each of our major operating sites where it is most relevant.

Environmental performance
bp.com/environmentalperformance

Normalized greenhouse gas emissions[q r s]

(indexed to 2001)



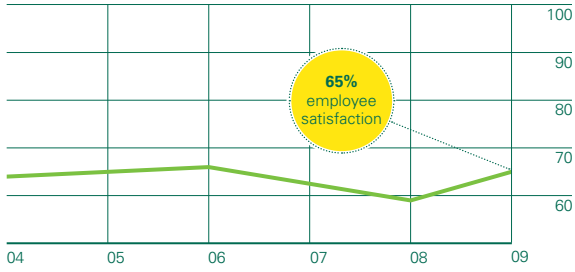
People

Overseen by group people committee, global diversity council

We conduct an annual employee survey to monitor employee attitudes and identify areas for improvement. Our 2009 survey, completed by more than 33,000 employees, showed a clear year-on-year improvement in employee satisfaction and support for BP's strategic direction. The overall employee satisfaction index showed a 6% increase to 65%. This was mainly driven by significant improvements in the level of trust and respect for BP management and the belief that BP is well managed. Areas highlighted for improvement included recognizing individuals for a job well done and encouraging them to contribute ideas.

Our people
bp.com/ourpeople

Employee satisfaction[t]



Performance

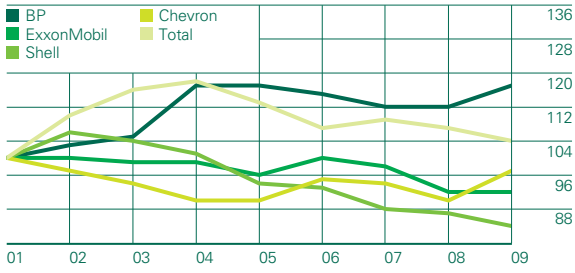
Overseen by executive team, group financial risk committee, resources commitments meeting

Volatile oil prices and a challenging economic environment were the dominating factors for 2009. Replacement cost profit for the year totalled $14.0 billion. In 2009 BP delivered solid production growth of more than 4% and, on a combined basis of subsidiaries and equity-accounted entities, added 1.9 billion barrels of new oil and gas to its reserve base, a replacement ratio of 129%, excluding acquisitions and divestments. 2009 was BP's 17th consecutive year of reported reserves replacement of more than 100%.

Financial performance
bp.com/annualreport

Supermajor oil production

(barrels of oil equivalent, as reported in company disclosures, indexed to 2001)



[n] Replacement cost profit reflects the replacement cost of supplies. The replacement cost profit for the year is arrived at by excluding from profit inventory holding gains and losses and their associated tax effect. Inventory holding gains and losses represent the difference between the cost of sales calculated using the average cost to BP of supplies incurred during the year and the cost of sales calculated on the first-in first-out method, including any changes in provisions where the net realizable value of inventory is lower than its cost. Inventory holding gains and losses, for this purpose, are calculated for all inventories except for those that are held as a part of a trading position and certain other temporary inventory positions. BP uses this measure to assist investors in assessing BP's performance from period to period. Replacement cost profit for the group is a non-GAAP measure.

[o] Comparative figures have been restated to include amounts previously reported as production and manufacturing expenses amounting to $2,549 million for 2008, $1,652 million for 2007, $1,545 million for 2006 and $1,062 million for 2005, which we believe are more appropriately classified as production taxes. There was no effect on the group profit or the group balance sheet.

[p] Workforce refers to employees and contractors.

[q] Chart based on direct GHG emissions, in tonnes of CO_2 equivalents, per thousand barrels of oil equivalent for Exploration and Production, per utilized equivalent distillation capacity (UEDC) for refining and per thousand tonnes for petrochemicals.

[r] Measures utilize the GHG emissions from businesses that account for over 85% of the group total reported direct GHG emissions. It relates to oil- and gas- related activity for Exploration and Production, all refineries and all petrochemicals assets.

[s] In 2009, we re-based the Exploration and Production measure to include emissions from our natural gas liquids processing businesses.

[t] The People Assurance Survey, conducted in 2004 and 2006, used a census methodology and targeted the entire BP employee population. Based on the same set of questions, the Pulse Plus Survey, in 2008 and 2009, adopted a sample-based approach, which achieved a representative view of BP.

Diverse and affordable energy

How can we meet current and future energy demand sustainably?

BP believes that a diverse energy mix including fossil fuels and renewables, produced and used efficiently, is best able to meet demand affordably at the same time as providing security of supply and addressing the issue of climate change.

Images
1 Liquefied petroleum gas refinery, Egypt.
2 Seismic imaging vibrator trucks, Libya.
3 Improving performance and production through technology.
4 The Trans-Alaska Pipeline.

Energy challenges
bp.com/energychallenges

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“There are three distinct challenges arising from the world’s growing demand for energy. First, how to provide energy reliably in a world where there is a mismatch between where energy is produced and where it is consumed. Second, how to meet this demand in a way that is environmentally sustainable, and avoids damaging climate change. Third, how to meet this demand in a way that is affordable and enables economic development. So, the three challenges are security, sustainability and affordability.”

Tony Hayward,
Group Chief Executive

Energy challenges

The energy market of the future will be shaped by the strength of demand and the availability of supply, as well as by the way the industry and policy-makers respond to the challenges of energy security, environmental sustainability and enabling economic development.

Long-term energy demand

Global energy demand is set to grow in the future. The International Energy Agency (IEA) anticipates growth of 40% in energy consumption by 2030 if current trends are continued or 20% in a scenario where emissions are sharply constrained[a].

In the short term, demand has been affected by the global economic downturn. *BP Statistical Review of World Energy June 2009* reported that overall growth in energy demand in 2008 was only 1.4%, the slowest growth since 2001. At the same time the geographical pattern of demand is shifting, with energy consumption in highly industrialized economies having been overtaken by that of developing countries. China alone accounted for nearly three-quarters of the world’s growth in energy use in 2008.

Long-term energy supply

BP’s analysis indicates that plentiful energy resources exist to meet growing global demand. Proved reserves offer enough oil to last for around 40 years and enough gas for around 60 years at today’s consumption rates, in addition to abundant coal and substantial renewable resources such as sunlight, wind and biomass.

Proved reserves of fossil fuels have risen in the past 20 years as a result of new discoveries and new technologies that unlock previously inaccessible oil and gas.

In its *World Energy Outlook 2009*, the IEA anticipates fossil fuels still being dominant in 2030, even in a scenario that envisages major carbon emissions constraints over the next two decades[a].

However policy unfolds, substantial investment will be required to provide the energy of the future. The IEA estimates the total investment needed to meet energy demand will be at least $1 trillion per year on average over two decades[b].

Security, sustainability and economic development

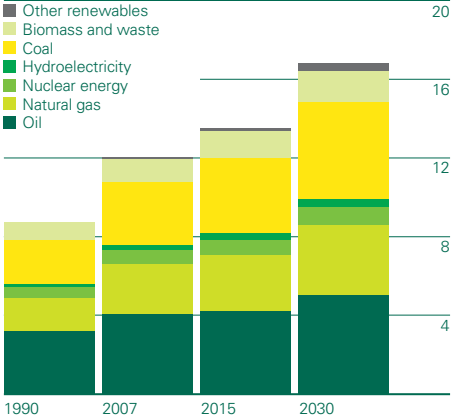
In balancing supply and demand, energy providers and policy-makers need to ensure that countries can count on dependable supplies. Energy security is a major strategic challenge as most oil and gas resources are located in a small number of countries, with 10 countries controlling 80% of global oil reserves and three possessing over half the world’s natural gas.

Policy-makers and energy providers also need to manage the environmental impacts of energy production and consumption. Fossil fuel emissions have contributed to a large increase in the levels of greenhouse gases in the atmosphere from pre-industrial times. Prompted by the risk of climate change and rising temperatures, governments are introducing measures to limit emissions. Other environmental considerations include air quality, physical and ecological impacts and demands on water and other resources. The future energy mix will need to be provided within these constraints, as directed by governments or companies acting voluntarily.

Economic development and an improved quality of life rely on energy that is accessible and affordable to those who need it. The scale of the expected demand for fuel, power and heat worldwide, particularly in large industrializing economies such as China, India, Brazil and Russia, makes this a significant challenge.

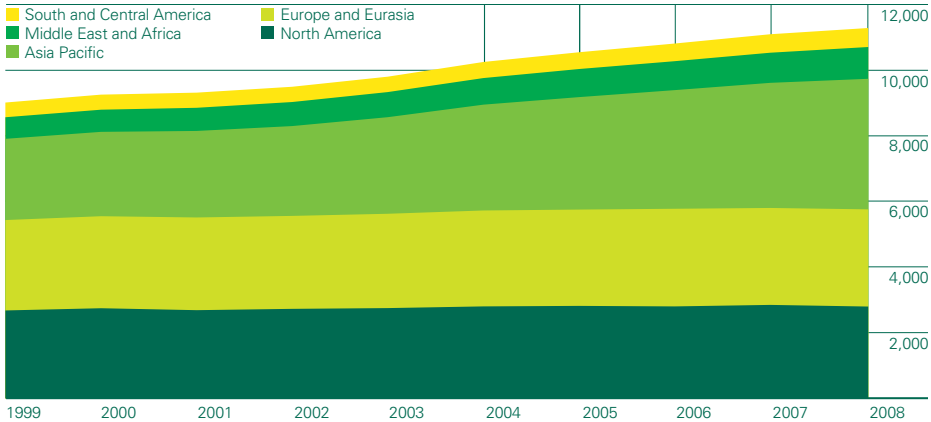
[a] *World Energy Outlook 2009*. © OECD/IEA 2009, pages 622-623: ‘Reference Scenario, World’.
[b] *World Energy Outlook 2009*. © OECD/IEA 2009, page 43.

Global energy demand by type
(billion tonnes of oil equivalent)



Source: *World Energy Outlook 2009*. © OECD/IEA 2009, page 622: ‘Reference Scenario, World’; and pages 196-197; as adapted by BP.

Primary energy consumption by region
(million tonnes of oil equivalent)



Source: *BP Statistical Review of World Energy June 2009*.

Meeting the energy challenge

BP believes the challenges of energy can be met through a broad and diverse mix of fuels and technologies, produced and used efficiently; innovation in technology and partnerships at the frontiers of the industry; and a clear policy framework that promotes market competition and addresses climate change.

BP's diverse energy mix

Our increasingly diverse energy portfolio reflects the world's need to source energy from many different types of resources, which vary in their local availability and cost, carbon intensity and contributions to energy security.

Fossil fuels will continue to play a major part in meeting the energy challenges, providing a continuing role for BP's core business. Beyond traditional forms of oil and gas, we have projects to produce hard-to-reach hydrocarbons, such as tight gas locked in dense rock formations, and Canadian oil sands.

We see an increasing role for natural gas as a key part of a lower-carbon future, using technology available today. BP invests in finding and producing gas around the world, including onshore projects in the US and Canada, offshore developments in the UK and Egypt, and plants to make liquefied natural gas in Trinidad & Tobago and Indonesia. Gas accounted for 37% of our total production in 2009.

We believe renewable and alternative energy will make up an increasing share of the mix and we have therefore invested around $4 billion since 2005 in low-carbon technologies with the potential to become material businesses for BP. The key thrusts of our alternative energy efforts are a series of biofuels ventures focused on sustainable feedstocks, along with increasing our capacity and capability in wind, solar and carbon capture and storage.

In all aspects of energy production and consumption, efficiency is going to become more important. In BP we require all our businesses to pursue energy efficiency and we also help our customers achieve greater efficiency, for example through the use of advanced fuels such as BP Ultimate and lubricants such as Castrol's Edge that improve fuel economy.

Low-carbon energy
Read about our alternative energy business on pages 16-19.

Working at the frontiers

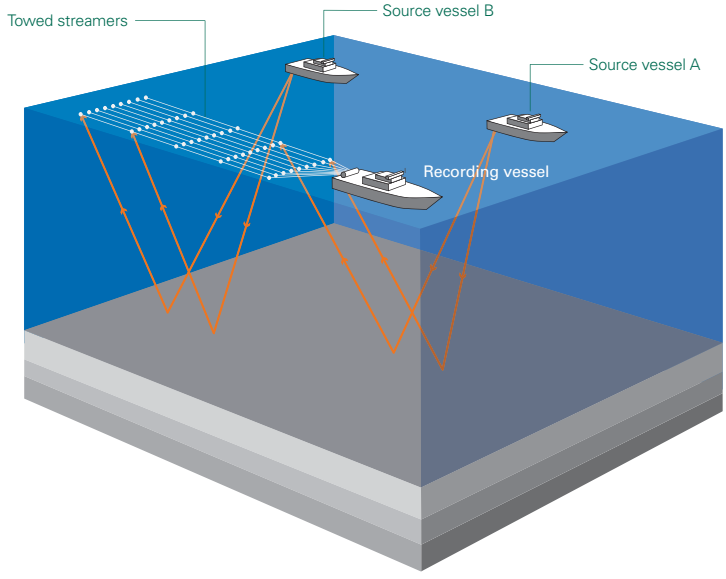
BP works at the geographical and technological frontiers of the energy industry. We have decades of experience of using cutting-edge skills and technology to undertake complex oil and gas projects in many of the world's most technically challenging and hostile environments, such as the Arctic and ultra deepwater. Recent innovations include new technologies to increase recovery from mature oil fields and advanced seismic techniques that create highly detailed images of reservoir formations miles below the surface. One of our recent finds, the Tiber field in the Gulf of Mexico, was made by drilling a well 31,000 feet into the earth in water 4,000 feet deep.

Our technological and project management capabilities are now being called on by governments and national oil companies as they encounter new challenges in producing their resources. Our frontier skills are being applied in new contexts such as our businesses in Azerbaijan and our exploration activity in Libya. In Iraq we are partnering with China National Petroleum Company and Iraq's South Oil Company in a major investment programme designed to nearly triple production from the super-giant Rumaila field.

Deepwater exploration

BP has substantial deepwater assets around the world, including the Gulf of Mexico, Angola and Brazil (pending closure). In these world-class hydrocarbon basins, a layer of salt covers much of the potential oil and gas resource. This layer of salt distorts the seismic image, preventing conventional techniques from giving a clear picture of what is underneath. Therefore, risk of unsuccessful and costly exploration and development activities increases.

To get a clearer view, BP has developed technologies such as wide azimuth towed streamer (WATS). The technique uses multiple sound sources to generate richer data, thus improving the seismic image beneath the salt. This enables us to discover reservoirs previously obscured, so we can place wells in the best locations to maximize recovery and efficiency.



How WATS works
A standard 3D seismic vessel with receivers incorporated into towed streamers collects the data, using sound sources mounted from boats positioned to one side, at the front and tail of the streamers.

Policy priorities

A supportive policy framework is essential if the industry is to develop an energy mix capable of meeting the challenges. In particular, we believe competitive markets offer the best framework for finding, producing and distributing energy, by encouraging efficiency and innovation.

More competition could be key to unlocking the energy resources that the world needs. Opening up oil and gas fields to a range of potential competitors encourages the most efficient solutions, often involving partnerships that provide new combinations of skills, as our joint venture in Iraq is showing.

The climate change challenge demands a clear, predictable way forward, with policy-makers creating a supportive environment for innovation. BP has been calling for action on this issue for over a decade, preferably by creating a price for carbon through market mechanisms as well as promoting efficiency and new investment in low-carbon technologies.

In these areas, policy action is an urgent priority. Without a credible and enduring framework, it will be difficult for industry to invest in maintaining and enhancing our energy supply.

Energy pathways

Our approach to investment, technology and policy is informed by looking at the future in terms of pathways to achieving the optimal energy mix. In looking at these pathways we seek to identify forms of energy that can be efficient, cost effective and material in the short, medium and long term at the same time as limiting greenhouse gas emissions and providing energy security.

In transport, we believe that making car engines much more efficient, using hybrid technologies and fuelling vehicles with advanced biofuels, offers the quickest and most effective pathway to a secure, lower-carbon future in the short to medium term. Electric vehicles will have a part to play, though currently they rely on fossil-fuel-generated power and are limited by battery costs and technology.

In power and heat, we believe an effective pathway would create a level playing field for all mature technologies and fuels – including coal, gas, oil and nuclear – as well as providing transitional support for emerging low-carbon energy. Progress can also be made through the use of smart grids and improved delivery networks, along with greater end-use energy efficiency from much more efficient buildings and high-performance equipment and insulation.

Our evolving business therefore reflects our view that the overall pathway to a lower-carbon future will be characterised by an inclusive energy mix; open energy markets in which carbon is priced; efficiency; and the targeted application of technology.

Enhanced oil recovery – boosting yields from ageing fields

Some of our most important technology programmes are those that help us extract more oil and gas from mature fields – known as enhanced oil recovery (EOR). This is significant because increasing recovery rates over a range of large projects by a few per cent can add millions of barrels to total yields. One recent breakthrough came about because we challenged the conventional wisdom that using water with low salt levels – as opposed to high ones – to sweep reservoirs would damage rocks and impede recovery. In fact, our trial at the Endicott fields in Alaska proved the opposite was true as low salinity waterflooding using our LoSal EOR™ process increased recovery by 20%. We also use a technology known as Bright Water™ [a], which uses tiny particles that expand like popcorn to block well-swept areas of a reservoir and divert water to parts where there is more oil to be recovered.

[a] Bright Water is a trademark of Nalco Company.

A quiet revolution – the strategic role of gas

Natural gas is strategically important because it is a substantial resource as well as being the fossil fuel that releases the least carbon dioxide. When burned to create electricity, it produces about half the emissions caused by conventional coal generation, per kilowatt hour. Other advantages of gas-fired power are the relatively low building costs of plants and the ease with which their output can be flexed up and down, for example to complement wind-generated power.

Recent highlights of our gas business include the start-up of a new gas platform off Trinidad & Tobago, producing up to 600 million standard cubic feet of gas per day and the departure of the first cargo of liquefied natural gas from BP's Tangguh project in Indonesia, bound for South Korea.

Technological developments for producing unconventional gas in rock formations – whose geology makes production particularly difficult – have made more gas available. Advanced techniques in hydraulic fracturing and horizontal drilling, as opposed to traditional vertical drilling, have brought these resources within commercial reach.

For instance, one field where these techniques were pioneered – the Barnett Shale in Texas – has almost singlehandedly turned around the production of natural gas in the US. Perfecting these technologies in an integrated manner has led to other shale plays including BP interests in Oklahoma, Arkansas and Texas. This can also be significant for the rest of the world as these new technologies have only just begun to be applied to unconventional gas resources elsewhere.

Canadian oil sands

BP group chief executive Tony Hayward discusses the main issues raised by the group's interests in the Canadian oil sands.

BP's interests in oil sands projects include a 50% share in the Sunrise oil sands field in Alberta, Canada, operated by Husky Energy, which has estimated resources in excess of three billion barrels. BP's oil sands portfolio also includes interests in the Kirby lease and the Terre de Grace block.

Oil sands projects have raised concerns because of issues including their greenhouse gas (GHG) emissions, their impacts on land, water and local communities and their commercial viability. Sunrise is being managed in a manner consistent with BP's environmental requirements for new projects, which require a thorough review of the environmental issues and opportunities associated with any investment. Furthermore, commencing in 2011, BP Canada will be publishing an annual sustainability report.

Q Why is BP developing the Canadian oil sands?

BP has a clear strategy to invest to grow exploration and production profitably through a portfolio of leadership positions in the world's most prolific hydrocarbon basins. Canada's oil sands more than qualify, being second only to Saudi Arabia in terms of proven reserves. BP creates value through the application of technology and capability to drive performance and operating efficiency. Also, through BP's Midwest US refineries there is a distinctive opportunity to create a balanced portfolio of upstream production and downstream conversion, which will allow BP to participate in the margin across the whole value chain.

Q Does the world need oil from the oil sands?

We estimate that demand for energy will rise significantly in the future. The International Energy Agency has indicated that, even if GHG emissions are tightly constrained, fossil fuels will still be the dominant source of energy in 2030 and that the world will require a wide range of hydrocarbons within a balanced and sustainable energy mix.[a] We believe there is enough supply to meet that demand affordably, through conventional and unconventional resources such as oil sands.

BP estimates that, assuming a rapid expansion in biofuels, there will only be gradual growth in demand for oil – primarily from developing countries. The key issue will be replacing oil supply from the decline of today's mature production as well as meeting new demand. We believe that the oil industry will be required to bring 50 to 60 million barrels of oil per day of new production on stream by 2030 – double the level of output from the entire Middle East today.

Oil sands also represent a significant and stable source of oil supply to enhance energy security and diversity, particularly for North America.

Q Has BP properly examined the commercial risks of oil sands projects?

All of BP's projects have to be evaluated against various assumptions of oil price and changes in the regulatory and fiscal environments in the countries in which BP is operating. New BP investments with material carbon emissions are required to include a cost of carbon that can realistically be expected over the life of the project, currently $40 per tonne of CO_2 for projects in industrialized countries. This acts as an incentive to promote energy efficiency in the engineering design as well as ensuring that projects will remain commercially robust as carbon is priced either through regulation or legislation.

Current estimates indicate that the average break-even price for Canadian oil sands projects range somewhere between $45 and $70 per barrel.[b] BP's current view of oil prices assumes a range of $60 to $90 per barrel out to 2015 and requires all projects to offer an acceptable rate of return at $60 per barrel. All investments in Canadian oil sands will be required to meet these basic criteria.

Q How is the oil excavated? Is opencast mining used?

BP is pursuing oil sands resources that can be developed through drilling, rather than opencast mining. We'll be using in situ steam assisted gravity drainage (SAGD), a technology that plays to our strengths in reservoir management and drilling, as well as providing scope to apply our capabilities in technology to increase efficiency.

Q Aren't the GHGs for this production method two to three times higher than for other crude oils?

We believe that, to compare projects on a consistent basis, one should look at the GHG emissions for the full life cycle of the fuel product. Recent 'well-to-wheels' studies[c] have compared the GHG emissions for a range of fuel products, from production through to consumption. They found the life cycle emissions for oil sands-based products to be 5-15% higher than those from the average crude oils consumed in the US. We expect that the in situ diluent bitumen from Sunrise will be in this range.

Q But aren't GHG emissions difficult to reduce in oil sands projects?

In fact, oil sands projects vary a lot in their emissions profiles and there is much scope for improvement. Some producers upgrade the bitumen before refining it, which involves two major processing steps and the emissions associated with them. Instead of

[a] *World Energy Outlook 2009.* ©OECD/IEA 2009, pages 622-623: 'Reference Scenario, World'.
[b] Wood Mackenzie, '*The cost of Canada's oil sands: the calm after the storm?*', 2009.
[c] Jacobs Consultancy, '*Life Cycle Assessment Comparison for North America and Imported Crude*', 2009; IHS Cambridge Energy Research Associates, '*Growth in the Canadian Oil Sands: Finding the New Balance*', 2009; Canadian Association of Petroleum Producers, 2009.

upgrading, for BP projects we will be looking at different approaches, including using a single processing method in which the bitumen is blended with a diluent such as condensate, to reduce its viscosity before piping it to BP's Midwest refineries. We're confident that we can cut emissions further still through new applications of technology. In the past decade, the best-in-class steam oil ratio – the amount of steam required to produce each barrel of oil – has been reduced from six to nearly two.

Together with our joint venture partners, we continue to develop and test improvements in SAGD technology, and we will incorporate technologies and operating practices that will improve the project's energy use and GHG emissions. BP has particular strengths in improving large-scale reservoir performance, in reservoir management and wells technologies, and it is these skills that we will bring to our projects. Examples where our technological expertise could be applied include 4D seismic interpretation to support steam chamber management and down-hole injection control to improve steam placement.

Are you planning to use carbon capture and storage (CCS)?

We recognize that CCS could be a longer-term mitigation opportunity at Sunrise and other in situ projects, but the economics are currently challenging and there is a lack of required infrastructure. That said, BP is participating in industry-wide initiatives to progress CCS – we are already deploying CCS at a gas production project in Algeria – and the layout of the first phase of Sunrise has been designed in such a way that will allow for CCS retrofit in the future.

Doesn't oil sands production involve a huge volume of water?

SAGD operations do require a lot of water. The Sunrise project is being designed so that more than 90% of the water required for steam generation will be continuously recycled. Water that cannot be recycled will be disposed of in deep underground aquifers for permanent storage, and replaced by water from non-potable underground aquifers. It is planned that no water from the Athabasca River or its tributaries will be used for operations nor will any process waste water be discharged into it.

Won't this cause long-term damage to the landscape?

In situ drilling, unlike opencast mining, does not create a large physical footprint or involve tailings ponds of liquid residues. Steps will be taken to minimize impacts on the ecosystem, animal corridors and sensitive areas. Reclamation work will be undertaken as the project progresses in line with the Alberta government's requirements to return the affected area to a land capability equivalent to its condition before development. Husky has already reclaimed areas used in the appraisal stages of the project – and has received certifications of the reclamation as required under Alberta law.

Aren't you riding roughshod over the interests of local people?

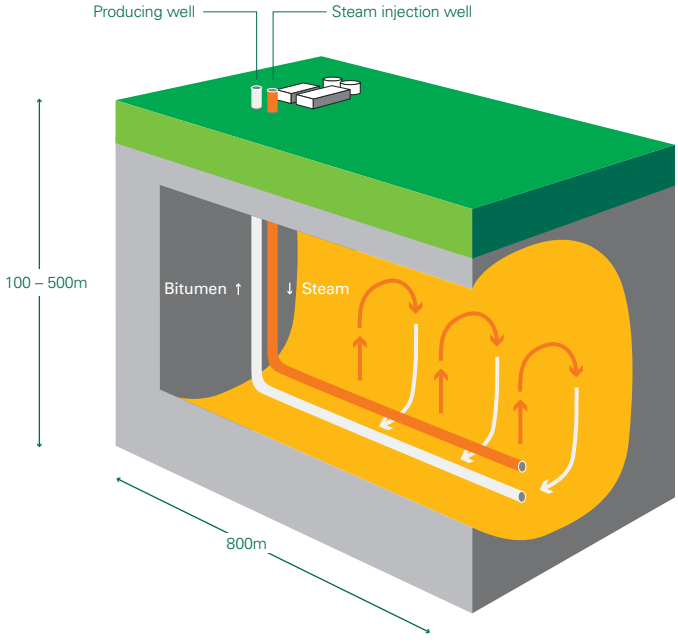
We have a record of conducting operations worldwide in a way that benefits local communities – from Indonesia to Trinidad and Angola to Azerbaijan. We will be following the same principles in Alberta, where consultation is also a matter of regulation. Husky has been consulting aboriginal communities and other local people as far as 100 kilometres away, since the early project planning stages through face-to-face meetings, community-based advisory committees and other means. Bilateral agreements, which outline how Husky and aboriginal communities involved in the project work together, have been put in place and are periodically reviewed. As the project proceeds, Husky will be working to facilitate business and economic benefits for local and aboriginal groups.

BP and oil sands
bp.com/oilsands

Specific observation from Ernst & Young
BP has acknowledged stakeholder concerns about the oil sands projects in Canada. These include energy intensity, impacts on water, land rights, biodiversity and production costs. We discussed and saw evidence that BP has entered into dialogue in an effort to be responsive, including correspondence with institutional investors and NGOs.

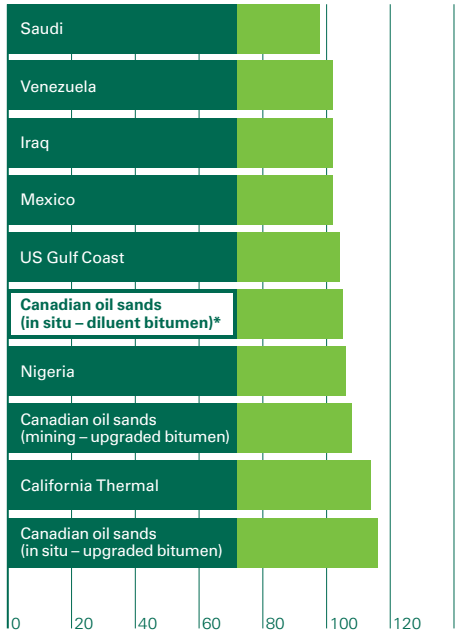
Steam assisted gravity drainage

Eighty per cent of oil sands resources are at depths too deep to be mined so they have to be extracted using technologies such as steam assisted gravity drainage. A horizontal well is located near the bottom of the reservoir. Steam, produced using natural gas, is injected into a second horizontal well located approximately five metres above and parallel to the producer. The steam heats the bitumen allowing it to flow along the condensed steam to the lower well for production.



Full life cycle GHG emissions

(gCO_2e/MJ gasoline, by different crude oil source (under current production techniques) for fuel consumed in the US)



■ GHG emissions from gasoline consumption
■ GHG emissions from production and refining
* Sunrise proposal: SAGD bitumen mixed with diluent

Source: Canadian Association of Petroleum Producers, based on Jacobs Consultancy, '*Life Cycle Assessment Comparison for North America and Imported Crudes*', June 2009

Climate change

Climate change is a major global issue – one which justifies precautionary action in pursuit of a long-term goal along with a programme of action to deliver it.

BP believes both governments and industry need to play their parts in achieving such a goal: governments by setting an appropriate policy framework and companies by investing within that framework to deliver a sustainable energy mix. The scale of change required can only be achieved through policy-makers acting to provide a clear, stable framework for investment.

Carbon pricing

In particular, we support a price for carbon, on the basis that there will continue to be great uncertainty in planning and making investments in low-carbon solutions, until consumers and producers recognize and pay a carbon price. We believe this price should treat all carbon equally, whether it comes out of a smokestack or a tailpipe.

We believe carbon pricing will make energy conservation more attractive and alternative energy more cost competitive. It will allow informed investment in fossil fuels while encouraging investment in the technology necessary to reduce the carbon they produce. In our view, carbon pricing is most effective when achieved through 'cap-and-trade' systems in which emissions are capped and participants trade emissions allowances.

Transitional incentives

While carbon pricing systems develop, other transitional incentives, in the form of government support and regulation, are sometimes required to stimulate the necessary investment in energy efficiency, innovation and the deployment of emerging low-carbon fuels and power.

Climate change: Copenhagen and beyond

Public debate and governmental policy development concerning climate change intensified in the run-up to the UN summit in Copenhagen in December 2009. At the conference, although no new legally binding global treaty was agreed, we believe important progress was made. The participants, including the US and China, noted an accord that stated that deep cuts in emissions are required to hold the increase in global temperature below 2°C and committed developed countries to provide significant additional funding for measures to help address climate change in developing countries. It also created a framework for developed countries to commit to quantified emissions targets, and for developing countries to identify mitigating actions. By the end of January 2010, 55 countries had submitted pledges to cut or limit greenhouse gas emissions, or to undertake mitigating actions. According to the United Nations Framework Convention on Climate Change, these countries account for 78% of global emissions from energy use.

Consistent with this, several countries in which BP operates – including the US, the UK and China – have introduced measures to improve energy efficiency or cut emissions. The EU, for example, has a '20-20-20' target for 2020 – to cut greenhouse gas emissions by 20%, to increase energy efficiency by 20% and to increase the share of renewables in the energy mix to 20%. As well as being active in solar energy and biofuels in Europe, BP has many European operations that are covered by the EU's Emissions Trading Scheme, under which emissions from heavy industry are capped and participants trade emissions allowances.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Images
1 Fowler Ridge wind farm, Indiana, US.
2 International summit.
3 Mumbai, India.
4 Working together on energy policy.
5 BP Ultimate fuel available at a BP Connect service station.

BP's programme of action

We are acting to address the issue of climate change by making our operations more energy efficient and by creating products that help lower customers' carbon footprints. We play our part in the debate over future priorities by speaking out in favour of more robust policies that would provide a stable framework for long-term investment in a sustainable energy mix.

1 Efficient operations

We maintain our decade-long efforts to manage greenhouse gas emissions from our operations.

We seek to increase energy efficiency across BP by requiring our operations to incorporate energy use in their business plans and implement technologies and systems to improve it.

Each year since 2002, we have estimated the reduction in our reported annual emissions due to efficiency projects. These projects include reductions in flaring and venting, as well as energy efficiency projects, such as process optimization and waste heat recovery. By the end of 2009, the running total of these reductions was 7.9 million tonnes.

2 Efficient fuels and lubricants

We work in partnership with vehicle and equipment manufacturers to improve the overall efficiency of use of our fuel and lubricant products.

We strive to produce our hydrocarbons as efficiently as possible, and work in partnership with vehicle and equipment manufacturers to improve the efficiency of fuels and lubricants. We have a relationship with Ford that covers several areas. For example, Ford's ECOnetic models – including the Fiesta, Focus and Mondeo – are engineered with specially formulated, advanced Castrol lubricants, which improve fuel efficiency and therefore reduce carbon dioxide emissions.

3 Low-carbon energy

We are building a focused portfolio of material renewable and low-carbon energy businesses.

We are focusing our low-carbon energy portfolio in four key areas, based on their potential to achieve scale and become major contributors to the performance of the BP group and to greenhouse gas mitigation. Our biofuels business is concentrating on advanced, sustainable options that offer significant life cycle greenhouse gas savings. Our wind power business has substantial growth potential, particularly in the US. We market solar photovoltaic systems to consumers and companies worldwide. We are also developing plans for pioneering power plants with carbon capture and storage.

4 Assessing carbon costs

We build carbon pricing into our business planning.

We factor a carbon cost into our investment appraisals and the engineering design of new projects. New BP investments with material carbon emissions are required to include a cost of carbon that can realistically be expected over the life of the project, currently $40 per tonne of CO_2 for projects in industrialized countries. This is used as a basis for assessing the economic value of the investment, and for optimizing the way the project is engineered. This helps to keep our investments competitive not only in today's world but in a future where carbon has a more robust price.

5 Advocacy and outreach

We participate in the policy debate, calling for policy action to put a price on carbon and stimulate renewable and low-carbon energy.

We support policy action to address climate change at international and national levels. For example, we signed the Copenhagen Communiqué, a declaration by businesses calling for "a long term ambitious, robust and equitable global deal on climate change." We take steps to make customers aware of energy issues and ways they can use energy more efficiently. Our website, for example, features the BP Energy Lab, which includes facts on energy use, a quiz, a children's game and a calculator that customers can use to estimate their energy use and carbon footprint.

6 Research programmes

We fund and participate in a wide variety of research programmes on climate change and low-carbon options for the future.

BP-supported research includes the Carbon Mitigation Initiative at Princeton University, which developed the well-known wedges approach to quantify potential emissions reductions from different technologies. We also work with the Chinese Academy of Sciences on the Clean Energy – Facing the Future programme and are a founding member of the interdisciplinary Energy Initiative at MIT. We support a number of non-governmental, public interest policy research organizations and think tanks including the World Resources Institute, the Centre for Clean Air Policy and the Forum for the Future.

BP and climate change
bp.com/climatechange

Low-carbon energy

What is BP doing to provide low-carbon energy?

We aim to play a leading role in the growing low-carbon energy sector, developing large-scale businesses that compete with traditional forms of power and fuel. Our focus is on four key businesses: biofuels, wind, solar and carbon capture and storage.

Images
1 BP solar panels on roof of Wal-Mart, Glendora, California, US.
2 Carbon capture and storage, In Salah, Algeria.
3 Cedar Creek I wind farm, Colorado, US.
4 Tropical BioEnergia biofuels joint venture, Brazil.

Low-carbon energy
bp.com/lowcarbonenergy

We have invested around $4 billion in our low-carbon businesses since 2005 and are on track with our commitment we made then to invest $8 billion in alternative energy by 2015. This represents a significant level of investment to date compared with our peers.

BP Alternative Energy's CEO, Katrina Landis, said: "We've reviewed more than 20 technologies, some of which may well become significant in the future. At present, however, we anticipate that our focus on four key areas represents the best way forward in terms of developing a viable, scalable, and sustainable alternative energy source."

Many of our low-carbon businesses involve partnerships with specialist companies whose technical expertise complements our reach and capabilities in areas such as project management.

Wind

Our wind power business enables us to compete in a fast growing, increasingly competitive market. Wind energy is growing at around 30% each year and wind farms accounted for 36% of all new power generating capacity installed in the US in 2009.

BP is focusing its wind power business onshore in the US where both the physical climate and public policy favour wind technology. Since 2005 we have built our wind power business in the US from zero to a gross generating capacity of more than 1,200 megawatts (MW), enough to provide electricity for a city the size of Washington DC. We have a further 1,000MW of capacity in an advanced stage of development.

Our US gross wind capacity includes interests in operating wind farms in Fowler Ridge, Indiana, the largest wind farm in the US Midwest (600MW); Cedar Creek I, Colorado (300MW); and two projects in Texas (more than 200MW). We have also moved into full commercial operation of phase one of the Titan facility in South Dakota, which has the potential to grow to more than 5,000MW and be the biggest wind farm worldwide.

Solar

Solar power has immense potential. According to the International Energy Agency, installed solar photovoltaic capacity increased from 8 gigawatts (GW) in 2007 to 13GW in 2008. This is projected to rise to 200GW by 2030, with two-thirds of it installed in OECD countries.[a]

BP has been providing solar power for more than 35 years and shipped its 10 millionth module in 2009. The business is constantly evolving and today our focus is on increasing our competitiveness and our share in residential, commercial and the emerging utility customer markets.

We have been rationalizing our manufacturing activities, by shifting to low-cost joint venture and supply partners to reduce unit costs and improve competitiveness. Manufacturing and module assembly have been phased out in the US and Spain.

The long-term nature of BP's solar business provides customers with the assurance that they can be supported through the life of the system, typically around 25 years.

Our solar module sales were 203MW in 2009, primarily in markets such as Germany and the US where uptake is encouraged by policy-makers. We are also participating in emerging solar markets such as China, Italy and several countries in the Middle East.

We can provide customers with complete solutions including system design, procurement, development and financing, as well as monitoring, operations and maintenance, using third-party providers where appropriate. In the US, for example, BP Solar Home Solutions® systems are available through Home Depot household supply stores. Our customers range from individual roof owners through to utility scale investors.

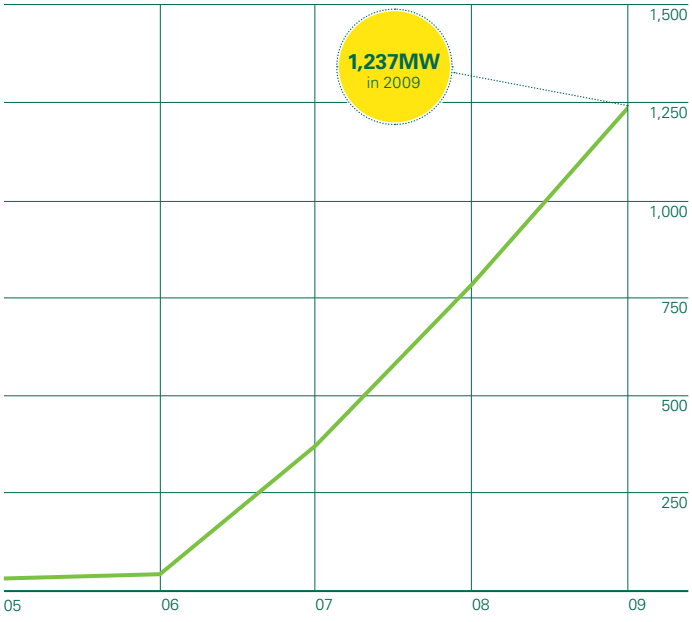
We have an increasing number of large-scale projects for commercial customers, such as a 32MW installation at Brookhaven National Laboratory on Long Island, US, and a rooftop array at Munich airport, developed with Lufthansa Airlines.

Innovation

Innovation is also necessary for solar power to become cost competitive with fossil fuels. BP's newly developed process for growing silicon, Mono2™, has been shown to convert 18% of sunlight energy into power – a relatively high efficiency level compared with many mono crystalline cells. We also support a range of research and development projects, including an agreement with SolarEdge to explore a solar harvesting system that uses electronics to maximize energy generation.

[a] *World Energy Outlook 2009*. ©OECD/IEA 2009, page 101.

Gross wind capacity
(megawatts)



Growth in wind
Our gross operational wind capacity increased to 1,237MW, predominantly in the US, where there is an attractive growth environment for wind power generation.

Investment in alternative energy

Since 2005, BP has invested around $1 billion per year in low-carbon energy. This brings our total investment since launching Alternative Energy in 2005 to around $4 billion – well on our way to reaching our commitment to invest $8 billion by 2015.

Carbon capture and storage, and hydrogen power

We have been playing a leading role in carbon capture and storage (CCS), which can capture most of the CO_2 emissions from a power plant or major industrial project by capturing the CO_2 and storing it underground. This technology can also be used in conjunction with plants that manufacture hydrogen from fossil fuel feedstock to provide industrial scale, low-carbon electricity.

CCS is recognized for its potential to de-carbonize economies at scale, featuring, for example, in all of the International Energy Agency's carbon abatement scenarios. It can be applied at power plants, upstream energy projects and industrial plants such as cement and steel factories.

Scaling up CCS presents challenges including cost, engineering and regulation. We are addressing these challenges in our projects, while our wider experience of CCS includes membership of the CO_2 Capture Project in which companies and government departments are examining how to lower costs and assure the safety of CCS.

Our portfolio

We have three of the world's most advanced CCS projects in our portfolio – two of which involve plans to use CCS to create hydrogen, from which low-carbon electricity can be generated. At our joint-venture project at the In Salah gas field in Algeria, we have been capturing, injecting and storing up to one million tonnes of CO_2 per year since 2004.

In Abu Dhabi, we are working with Masdar – the Abu Dhabi Future Energy Company – on plans for a 400MW natural-gas-based hydrogen power plant designed to capture up to 1.7 million tonnes of CO_2 each year, injecting it into a producing oilfield to maintain pressure and improve the proportion of oil reserves that can be recovered.

In California, we are working with Rio Tinto on plans for a 250MW power plant that is being designed to use petroleum coke supplemented with coal, as needed, to create hydrogen and CO_2. The hydrogen gas – around two to four million tonnes per year – would be used to fuel a power station and the CO_2 would be transported by pipeline to nearby oil reservoirs and be used for enhanced oil recovery.

Biofuels

Biofuels is a natural sector for BP. Along with our understanding of the transport fuels business, conversion technologies and delivering projects at scale, we have partnered with organizations with bioscience and agricultural expertise. As a result we are able to provide a major new source of lower-carbon fuel.

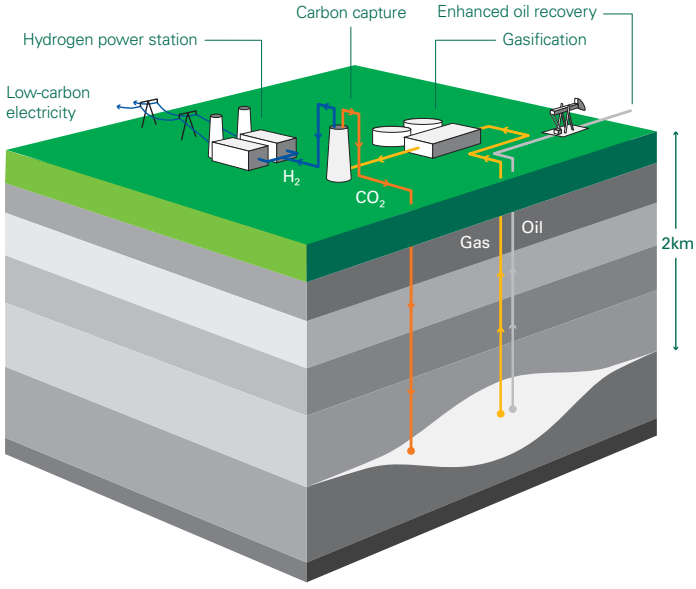
BP is working to produce biofuels that are low cost, low carbon, sustainable and scalable. Biofuels vary in their impacts on the local environment and their effect on greenhouse gas levels. We focus on feedstocks that are not needed for food and that create biofuels with net greenhouse gas emissions that are significantly lower than those of conventional fuels. The most sustainable have emissions that are only around a tenth of conventional gasoline or diesel. Producing biofuels also reduces dependence on imported oil and provides jobs and markets for farming communities.

We have committed more than $1.5 billion to biofuels operations and research since 2006. We use feedstocks with high yields and high energy content, converting them to fuels through a sugar fermentation process that can also create co-products used for purposes such as electricity generation, fertilizer and animal feed.

Sugar cane ethanol

We believe sugar cane ethanol is the most attractive biofuel widely available today, with net greenhouse gas emissions that are up to 90% lower than conventional gasoline. For this reason we have taken a 50% stake in a Brazil sugar cane ethanol venture, Tropical BioEnergia S.A. Tropical employs a closed loop system – in which by-products are used to generate electricity and to serve as fertilizer – thus further reducing its greenhouse gas emissions.

Carbon capture and storage



How it works

CCS involves capturing CO_2 before or after a fossil fuel is burned, and storing it more than one kilometre down in a suitable geological storage formation.

Understanding what's underground via satellite

Satellites high above the earth's surface are improving our understanding of what happens to CO_2 stored deep below it, thanks to a novel application by BP and its technology partners.

Permanent scatterer interferometry, originally developed by the defence industry, uses phase changes occurring between a series of radar images to identify tiny surface movements. These provide a guide to how CO_2 behaves deep below ground. Used in association with monitoring wells, it provides a cost-effective way to show how effectively the gas is being stored.

The application was developed by BP staff in Algeria, the UK and the US, working with leading academics in the US and Italy and contractors in Canada and Japan to adapt the technology. It has already been used to track CO_2 at the In Salah site in the Algerian Sahara where we are storing up to one million tonnes of CO_2 per year.

Cellulosic ethanol

The biofuels sector is on the verge of a major breakthrough in which fuels will be made from grasses and other fibrous or cellulosic crops that are not used for food but provide high volumes of energy from small areas of land. Through our Vercipia venture in Florida, we are planning to build one of the first commercial scale cellulosic ethanol plants in the US.

Biobutanol

As well as using high-energy biomass resources, another way for biofuels to progress is through advances in processes and the chemistry of the fuel molecules into which the raw materials are converted. Biobutanol represents a step forward from ethanol as it provides greater fuel economy and can be blended into fuel in higher concentrations, thereby providing greater greenhouse gas reductions. At BP, we are developing biobutanol with our partners DuPont, building a technology demonstration plant in Hull, UK, scheduled to begin operating in 2010.

Wheat ethanol

In Europe one of the most sustainable ways to create ethanol is from excess wheat of the grade used for animal feed. This produces a concentrated form of feed as well as biofuel. We will be using locally-sourced feed-grade wheat at a plant in Hull, UK, which we are building with our partners DuPont and British Sugar, an ABF subsidiary.

Blending biofuels responsibly

As well as our biofuel production businesses we also blend bio-components produced by other operators into fuel for markets where policies require that gasoline and diesel sold to motorists include a proportion of biofuel.

We seek biofuel suppliers who are best able to meet a range of general and feedstock-specific sustainability legal requirements. In jurisdictions where legal standards for sustainability are being established and implemented, we will seek to require the inclusion of contractual sustainability clauses. BP provides training on sustainability purchase practices and actively participates in industry discussions to improve contractual arrangements for sustainable biofuel supply chain practices, including verification.

Researching future biofuels

We invest in biofuels research because we believe there is scope for many more advanced, sustainable products. We are collaborating with Martek Biosciences Corporation on a potential step-change technology using microbes to create biodiesel through sugar fermentation, as an alternative to conventional methods that use vegetable oils. In the US, we are investing $500 million over 10 years into the Energy Biosciences Institute (EBI), the world's first research centre solely dedicated to applying biotechnology to energy. The EBI is a collaboration between BP, the Lawrence Berkeley National Laboratory and the Universities of California and Illinois.

Biofuels and sustainability

Biofuels have raised several sustainability concerns at local and global levels. Here is how we see some of the key issues.

The food chain

We believe the world currently has sufficient land to meet demand for food, animal feed and biofuels. However, to maintain this, more biofuel production needs to come from surplus or non-food crops. These include perennial energy grasses that achieve high yields and so require less land to produce each gallon of fuel than crops such as corn. We have a business developing a plant to create such fuels in the US.

Greenhouse gas levels

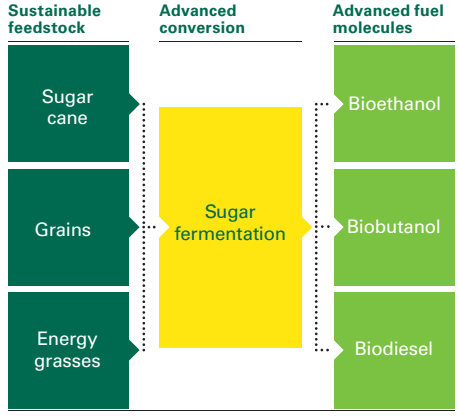
As well as absorbing carbon as they grow, biofuels emit carbon when burned and lead to other emissions through their processing and cultivation, for example through the carbon needed to make fertilizer and the carbon released when land is ploughed. Planting biofuel crops can also cause other farming to move elsewhere, triggering more emissions. Each biofuel operation therefore has its own greenhouse gas balance and these vary considerably. Some conventional biofuels have poor balances, for example when intensive farming methods are used, while advanced biofuels can have very positive effects. We estimate that sugarcane produced in our Brazilian business emits up to 90% less CO_2 than gasoline, partly as a result of using co-products of the cane to power the refinery and as fertilizer.

Tropical forests and ecosystems

As the UN's Food and Agriculture Organization has shown, the main causes of deforestation are not biofuels but subsistence farming and activities such as large-scale ranching. However, to help ensure biofuel production is not ecologically damaging, we support proposals such as those put forward in Brazil under which biofuel cultivation is restricted to certain areas and ecosystems such as the Amazon rainforest are off-limits.

Getting biofuels right
bp.com/gettingbiofuelsright

Biofuels process



The sustainable feedstock is fermented using advanced conversion processes to create low-carbon fuel molecules.

Safe and responsible energy

What is BP doing to ensure its operations are safe, reliable and compliant?

Our goal of 'no accidents, no harm to people and no damage to the environment' is fundamental to BP's activities. We work to achieve this through consistent management processes, ongoing training programmes, rigorous risk management and a culture of continuous improvement.

Images
1 Operations at Tangguh, Indonesia.
2 Photographing flora for identification, BTC pipeline, Turkey.
3 Drill site, Oklahoma, US.
4 Safety in practice at Tangguh, Indonesia.

BP and safety
bp.com/safety

Managing our impact
bp.com/environmentalmanagement

Safety, people and performance

Safety, people and performance are BP's top priorities.

Our commitment to safe and reliable operations starts with the group chief executive and leadership: a commitment that filters down through the organization and is regularly communicated to all staff.

All fatalities, other major incidents and many that had the potential to become major incidents are discussed by the group operations risk committee, chaired by the group chief executive. We undertake incident investigations with the aim of learning as much as possible and taking action to prevent recurrence.

We constantly seek to improve our personal, process and transportation safety performance through the use of established processes, ongoing capability development and knowledge sharing with other organizations.

Personal safety and health

Creating a safe and healthy working environment is essential for our success. Since 1999, injury rates and spills have reduced by approximately 75%.

In 2009, however, there were two fatalities at sites operated by BP: one, when a rig worker was lost overboard during drilling operations in Azerbaijan and a second, in a crush injury on a well pad in Alaska, and 16 fatalities resulting from the loss of a third-party-operated helicopter en route from a BP-operated platform in the North Sea. We deeply regret the loss of these lives.

North Sea helicopter accident

The accident in the North Sea occurred on 1 April when a Super Puma helicopter, operated by Bond Offshore Helicopters bringing BP contractors back from the Miller oilfield to Aberdeen, came down in the sea about 35 miles north east of Peterhead. All 14 passengers and two crew lost their lives.

This accident had a profound impact on BP's and Bond's workforces, as well as the wider UK offshore oil and gas industry and related aviation services. In the aftermath, BP reached out to the wider community, offering support to families and ensuring that counsellors were available for all our Aberdeen-based staff.

BP immediately suspended passenger operations with Bond and carried out a review of Bond's management systems, conducted by an international team comprised of experts within and external to BP. The UK Air Accident Investigation Branch (AAIB) of the Department of Transport, as of March 2010, had not yet issued a final report but initial findings were that the accident had been caused by a failure in the helicopter's gearbox. Following the AAIB investigation, the helicopter manufacturer, Eurocopter, and the European Aviation Safety Agency issued directives requiring more frequent inspections and certain modifications of such gearboxes. BP resumed operations with the company in May 2009.

Systematic approach to safe and environmentally responsible operations

BP's operating management system (OMS) provides a single framework for all BP operations to follow, covering all areas from process safety, to personal health, to environmental performance.

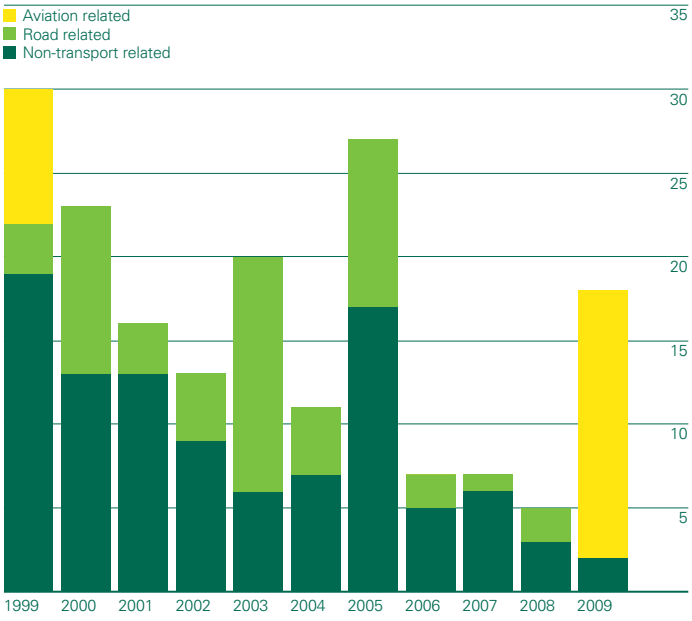
Providing an integrated and consistent way of working, the OMS helps ensure that a rigorous approach to safe operations continues to be taken. Its principles and processes are designed to simplify the organization, improve productivity, enable consistent execution and focus BP on performance.

By the end of 2009, the OMS had been rolled out to 70 operations across the business, including all our operated refineries and petrochemicals plants.

> "OMS certainly helps us prioritize better. And it brings much more consistency in language, making it easier to collaborate and share information. There's no doubt that our assets are working together more effectively thanks to OMS."

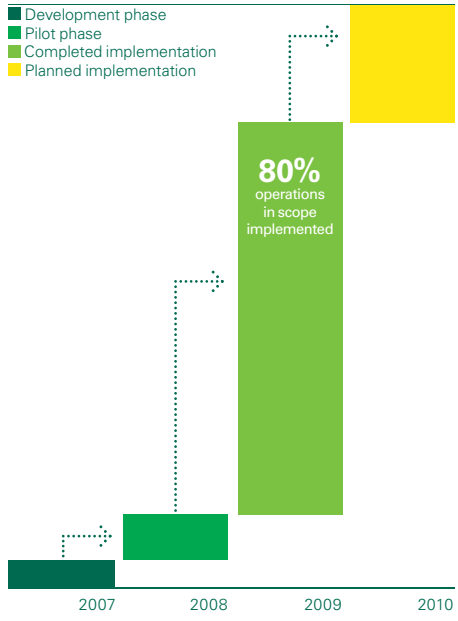
Damian Stead,
Operations support lead

Workforce fatalities



10-year fatalities
This graph, including employee and contractor fatalities, demonstrates the impact of significant incidents.

OMS implementation



Process safety

Process safety involves applying good design principles, engineering and operating and maintenance practices to manage our operations safely.

We integrate process safety requirements within our group-wide operating management system and monitor the need to incorporate any future process safety standards within our HSE & Operations Integrity Report. This report, the key source of management information relating to safety and operations in BP, is prepared quarterly for the executive-level group operations risk committee.

Our safety and operations audit team assesses our businesses against BP's relevant standards and requirements. A full cycle of audits, covering 94 BP operations, took place within the 2007-09 period.

We have taken action to close out our six-point plan, launched in 2006 to address immediate priorities for improving process safety and operational risk management at our operations worldwide, following the incident at Texas City in 2005 involving a fire, explosion, fatalities and injuries. In March 2009, a US District Court accepted BP's criminal plea agreement with the US Department of Justice in relation to the Texas incident.

We participate in industry-wide forums on process safety. We chaired the American Petroleum Institute/American National Standards Institute multi-stakeholder group developing a standard for public reporting of leading and lagging process safety indicators. Through this and other bodies, we share our learning with other organizations within and outside the oil and gas industry, and embed any new developments within our practices.

An operator at Texas City refinery
Every unit has now been restored and the plant has adopted the OMS.

Specific observation from Ernst & Young
We discussed work undertaken by the safety and operations audit team to monitor compliance with standards. We reviewed the summary results reported to management and discussed the focus on actions past due and the numbers of approved changes to actions. The scope of audits is being redefined with OMS implementation and we were told that future reporting will also highlight 'repeat' findings.

BP US Refineries Independent Safety Review Panel

In 2007, L Duane Wilson, a member of the BP US Refineries Independent Safety Review Panel (Panel), was appointed as the Independent Expert to monitor progress in implementing the Panel's recommendations. Mr Wilson regularly briefs SEEAC, and his third annual report was submitted in March 2010.

Comment and summary from Sir William Castell, Chairman of SEEAC
The board accepted Mr Wilson's report and welcomed his continued insights, analysis and challenges. It is Mr Wilson's view that the board, executive and refining management all continue to demonstrate strong commitment to delivering the Panel's recommendations and that substantial resources have been deployed in this regard. Mr Wilson, whose focus is BP's five US refineries, identified in his annual report areas of notable progress as well as matters requiring additional attention. These are summarized below:

Process Safety Leadership (Tone at the Top) – Both the board and management continued to reinforce important messages regarding process safety and devoted significant time to process safety improvement efforts.

Operating Management System (OMS) – BP's OMS incorporates an integrated and comprehensive process safety management system. All five US refineries have now transitioned to OMS.

Control of work (CoW) – US Refining implemented the CoW standard in 2009 through one of its most extensive programmes ever. This required extensive training and, in many cases, entirely new approaches to evaluating and planning maintenance.

Process safety knowledge and expertise – BP continued to make significant progress in delivering its programmes to strengthen process safety capability at all levels.

Performance indicators – The US refineries adopted a common set of leading and lagging process safety indicators that are reported monthly to line management and quarterly to executive management and the board.

Safer shelters – The US refineries made progress in addressing the risk to personnel in occupied buildings potentially impacted by process hazards and risk ranked each such building across the portfolio.

Area Electrical Classification (AEC) – All five US refineries have updated their AECs, finalized gap assessments against them and made progress on a number of mitigation activities to close the identified gaps.

Overtime – In 2009, US Refining took important steps resulting in reduced individual and average overtime rates. However, overtime for some individuals at all US refineries remains at a level that could, under some circumstances, compromise performance. Although progress continues to be made, addressing overtime issues, and in particular individual rates, requires more focused attention.

Safety Instrumented Systems (SIS) – US Refining developed a portfolio-wide plan to mitigate higher-level process risks through measures such as SIS by 2016. Lower-level risks will be mitigated on a site-by-site basis. More than 40 SISs are now in service at US refineries, but elements of the SIS life cycle management systems that are required by BP's internal standards, including SIS documentation, training and auditing, remain to be implemented on these existing systems. US Refining is developing a plan to address these requirements.

Process safety culture – BP has taken a number of steps to strengthen its process safety culture, and its leaders support process safety positively and sincerely. Considerable progress is evident at all US refineries in improving relationships between management, employees and contractors. Mr Wilson believes that there is an opportunity to encourage a more proactive and self-critical approach towards identifying and addressing process safety issues and risks. BP is pursuing this opportunity as part of an initiative to identify and establish a common cultural vision for US Refining.

Internal and external standards and practices – The US refineries have inconsistently implemented some standards and practices. Having established new systems and processes, US Refining now needs to demonstrate a higher level of systematic management across the sites, and needs a uniform system to confirm that equipment continues to meet applicable standards and practices after installation. These areas require more focused attention.

Mr Wilson acknowledges that implementation of the recommendations remains a critical performance objective and that virtually all of the milestones in US Refining's 2009 plans were delivered on time. While significant gaps have been closed, and most of the systems and processes required for continued process safety improvements have now been developed, much work remains to fully implement them. Mr Wilson observes that BP must now demonstrate improved capability for systematic management of the systems, processes, standards and practices it has developed so it can accelerate the overall pace of implementing the recommendations.

Operating skills and knowledge

Our safety and operations learning framework enhances the capability of our staff at all levels to deliver safe, reliable, responsible and efficient operations.

More than 2,700 front-line operational leaders across our global operations have started one or more of the modules within the Operating Essentials programme which seeks to embed the BP way of operating as defined by our operating management system. Our Operations Academy helps senior operations leaders learn to manage operations in a way that eliminates defects and drives continuous improvement, not only taking actions themselves, but empowering front-line employees to be agents of change. Executive Operations sessions support the executive team and senior business leaders in the development of operations capability specific to their role.

Transportation safety

Road, air and marine travel present some of the most significant risks people face when carrying out work in our industry. BP carries out formal safety reviews of our aviation services providers worldwide on a regular basis, as well as promoting safer driving, safer journeys and the use of safe vehicles. All shipping vessels conducting BP activities are subject to our health, safety, security and environmental requirements.

Safety and operational performance at a glance

Here are highlights of our activities and performance, showing key measures for safety, the environment and building our operating capability and knowledge.

Senior management commitment

100+

group leaders have participated in the Executive Operations Programme since 2007, including the group chief executive, his senior team and more than 30 strategic performance unit leaders.

Operating management system

80%

of our operations in scope to implement the group OMS have done so, with the rest scheduled for completion in 2010.

Employees on safety

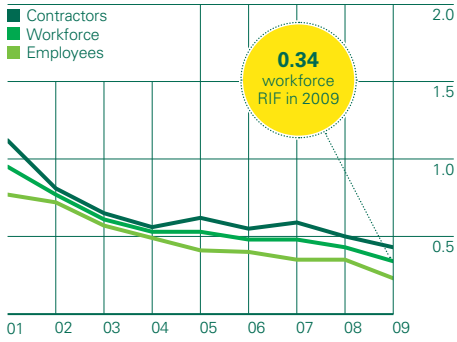
98%

of BP employees consider that line management is receptive to honest information about safety.

> “I am extremely proud of BP’s 2009 safety performance – it reflects a sustained effort across all our operations over many years.”
>
> **Tony Hayward, Group Chief Executive**

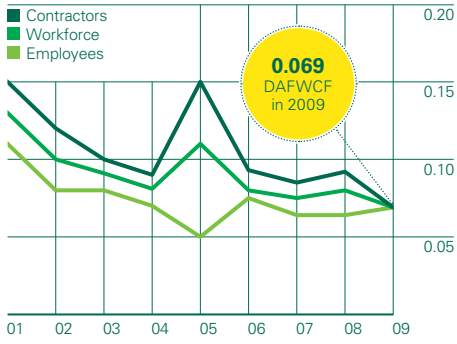
Recordable injury frequency (RIF)

(per 200,000 hours worked)



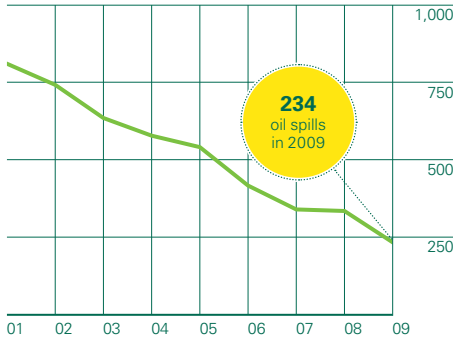
Days away from work case frequency (DAFWCF)

(per 200,000 hours worked)



Number of oil spills

(equal to one barrel or more)



Safety data
bp.com/safetydata

Managing our impact

BP operates throughout the world in locations, terrains and climates that are tremendously diverse and frequently challenging. We aim to minimize our environmental impact by taking a systematic and disciplined approach to operations, using sophisticated risk assessment techniques that directly inform our business plans.

We are incorporating our environmental management systems into OMS, the comprehensive operating management system that helps us set priorities for operations based on assessment of the key risks, including those related to environmental and social performance. We believe this integration will promote greater efficiency and consistency across the business.

Our major operating sites are all certified under the international environmental management system standard ISO 14001, with the exception of the Texas City petrochemicals plant, which is seeking certification in 2010.

Environmental challenges

In a world where a variety of energy sources is necessary to meet future demand for affordable, reliable and secure energy, we recognize that some of our projects present significant environmental challenges.

Sensitive areas

We have piloted an integrated approach to identify potential environmental and social impacts in new projects, which are intended to improve our consistency and effectiveness in mitigating such issues. This approach also applies to projects that seek access to sensitive areas, including internationally designated protected areas. Our protected areas classification includes the International Union for the Conservation of Nature (IUCN) I-IV, Ramsar and World Heritage designations. None of our new projects entered a protected area in 2009.

Technology

Technology applied throughout our operations helps minimize the environmental impact of finding and producing energy.

Our advanced seismic imagery technology, for example, delivers much higher quality information about the subsurface, meaning we can drill fewer wells, onshore and offshore. To obtain unconventional gas – found in tight sandstones, fine-grained shale or coalbed seams – the use of extended horizontal drilling enables us to access more of a reservoir from a single well, improving efficiency and minimizing impact.
At our Zhuhai 2 plant in China, we have developed a new way of making purified terephthalic acid – a building block for polyester used in clothing and plastic bottles – which cuts the facility's carbon footprint by approximately 65% as well as lowering variable costs by an estimated 40%.

Compliance management

BP operates in more than 80 countries and faces diverse and sometimes very complex regulatory requirements. We are working to ensure we have robust management systems in place to comply with the wide range of current and emerging environmental regulations that affect us. Climate change is one area where there is an increasing amount of regulation. Governments continue to identify regulatory measures at local, national and international levels.

We are making effective use of resources and networks to share practices.

Ecosystem services

The concept of ecosystem services considers the 'services' provided by nature – such as the provision of food, water and fibre or support for fundamental processes such as photosynthesis or nutrient cycling. Some governments are beginning to use this concept to frame discussion about human interactions with ecosystem services when shaping policy.

A number of BP businesses have used an ecosystems service approach to help assess potential impacts from projects and operations, typically as a regulatory requirement. Our Cherry Point refinery in the US used an ecosystems services approach as part of the permitting process for a facilities relocation project. This approach led BP to build a water retention pond and drainage system to compensate for the loss of the natural services previously provided by the undeveloped land.

We are working with non-governmental organizations and regulators to pilot and test pragmatic approaches to enable sustainable business development.

Local environmental performance

We report on air emissions, waste, water and biodiversity at a local level, where it is most relevant. We are making efforts to reduce emissions to air by improving process controls and upgrading equipment. For example, three of our refineries in the US have invested substantially in replacing or upgrading combustion units to reduce emissions of nitrogen oxides and sulphur oxides. We are seeking to improve our fresh water management, particularly at sites located in water-stressed areas, and try to minimize our consumption by decreasing volumes, increasing recycling or reducing leaks. We aim to reduce waste-water

Working in partnership on biodiversity

Working sensitively around flora and fauna is an integral part of our effort to manage environmental impacts. We work with others to manage biodiversity where relevant in new projects and in existing operations.

For example, we use techniques to mitigate the potential impact of sound on marine mammals. Prior to seismic work in the Canadian Beaufort Sea, we carried out modelling of underwater noise. We use soft start procedures to enable mammals to move from areas where seismic activity is taking place and we use trained marine mammal observers on board vessels to guide this activity, with the power to halt work if necessary.

In our onshore gas projects in the US, we have worked with The Nature Conservancy to develop plans to mitigate impacts on wildlife. In Alaska, the BP HSE team has stepped up monitoring of maternal polar bear dens and has started using infrared imagery to detect dens under snow so they can be avoided by workers and thus reduce the risk of accidental disturbance.

Our partnership with the World Conservation Monitoring Centre gives us access to the World Database on Protected Areas, which helps ensure environmental concerns are identified at a very early planning stage.

production at source and closely monitor our waste-water treatment facilities, replacing our plant-with new technology, as needed, to maintain performance. We continue to improve the segregation, handling and storage of wastes. Where waste-disposal infrastructure is limited, we engage with governments and waste contractors to try to improve facilities.

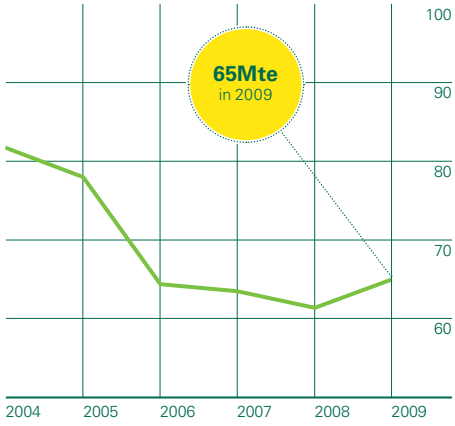
Greenhouse gas emissions

We track our greenhouse gas emissions at a group-wide level. Each year since 2002, we have estimated the reduction in our reported annual greenhouse gas emissions due to efficiency projects. These projects include reductions in flaring and venting, as well as energy efficiency projects, such as process optimization and waste-heat recovery. By the end of 2009, the running total of these reductions was 7.9 million tonnes (Mte).

However, the sustainable reductions for 2009 have been more than offset by additional emissions from increased operational activity. As such, we are reporting 65.0Mte of greenhouse gas emissions for the year 2009, which is 3.6Mte higher than the 61.4Mte reported for 2008. Increased throughput from our US refineries, the start-up of our Tangguh liquefied natural gas project in Indonesia and increased production from our deepwater production platforms in the Gulf of Mexico account for much of this increase.

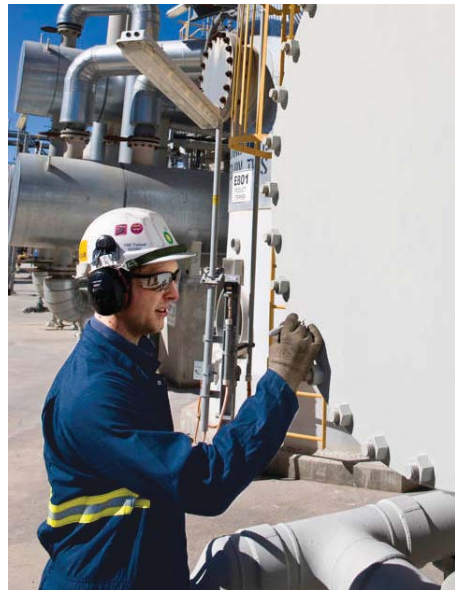
Environmental performance
bp.com/environmentalperformance

Direct greenhouse gas emissions[a]
(million tonnes of carbon dioxide equivalent)



[a] We report greenhouse gas emissions, and emission reductions, on a CO_2-equivalent basis including CO_2 and methane. This represents all consolidated entities and BP's share of equity-accounted entities except TNK-BP.

Specific observation from Ernst & Young
Our review of BP's stakeholder engagement processes showed continued interest in TNK-BP's HSE performance. TNK-BP reported greenhouse gas emissions for the first time in 2009 and referenced the assistance that BP provided in developing the calculation methodology. BP's online reporting references this data but consideration should be given to including BP's equity share of TNK-BP emissions within aggregated greenhouse gas data.



Innovation at the Kwinana refinery

At Kwinana, Australia's largest refinery, we have introduced new techniques to reduce our environmental impact, while minimizing our safety risk. Kwinana's tank turnaround team, working with cleaning contractor Veolia, has devised an effective cleaning procedure for crude oil tanks. We spray light crude into the tank to dissolve sludge, which is then processed in the refinery's crude units. With this method, we significantly reduce the need for staff to enter the tanks to clean them manually – a potentially dangerous task. Also, BP's refinery has reduced its dependency on town water to about 10% of that of the mid-1990s by utilizing the Kwinana Water Recycling Plant, a joint project with Australia's Water Corporation and neighbouring industries. This has freed up nearly 2 gigalitres – or 800 Olympic-size swimming pools – of potable water for public use per year.

Minimizing our impacts in a new natural gas project

BP Canada's Noel project, a natural gas development in north-east British Columbia, aims to minimize environmental impact and benefit the local economy.

Using solar and hydro-generated power, we estimate the project's greenhouse gas emissions to be 80% lower than a conventional development. We've lessened the impact on the landscape by using horizontal drilling, which requires only 20% of wells compared to developments using vertical wells.

We supply water for well operations via water pits, filled with runoff when water is abundant or supplied from shallow water wells during the remainder of the year. This has reduced the need to truck in water, reduced traffic and minimized the impact on local community water resources.

Working with local service providers, we enhance local economic and employment opportunities. To enable local contractors to compete, we separate contracting opportunities into small packages.

The Noel project received the Best Practice Award at the 2009 World Gas Conference for its work on reducing surface footprint and CO_2 emissions in a tight gas development.

People energy

How does BP inspire its people to deliver great performance?

We aim to get the right people in the right roles, accessing deep specialist skills and promoting excellent performance. We are carrying out focused recruitment, aligning rewards more closely with performance and investing in training and development. We are also taking practical steps to ensure BP is a diverse and inclusive company where everyone can achieve their potential.

Images
1 Ethane storage, Steelman gas plant, Saskatchewan, Canada.
2 The 3D seismic exploration team, Muscat, Oman.
3 Forecourt at Fanya service station, China.
4 Thunder Horse platform, Gulf of Mexico, US.

Our people
bp.com/ourpeople

Our people

People are fundamental to our progress in BP. Our performance and our safety record depend on our employees' skill and commitment. We therefore organize, manage and reward employees in ways designed to achieve the best possible performance, today and for the long term.

Organizing our workforce

BP is organized into two business segments: Exploration and Production, and Refining and Marketing, along with other businesses, including Alternative Energy. These are sub-divided into more than 30 strategic performance units, along with specialist support functions such as human resources; safety and operations; information technology and services; and finance.

Responsibility for people starts at the top. The group chief executive and the executive team make up the group people committee, which takes overall responsibility for policy decisions relating to employees.

BP strives for a streamlined, efficient organization. Recent transformation programmes have eliminated duplication and unnecessary layers of management, while bringing on board people to fill specific gaps in capability. This process, along with retail staff reductions, resulted in a decrease of around 11,700 employees in 2009, taking the total number of employees to around 80,300.

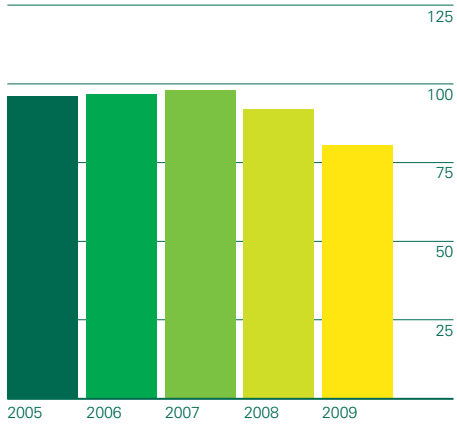
We have reviewed and reshaped our group leadership to ensure we have the right people in the right roles. As a result, we reduced the total number of people at our group leadership level by 16% during 2009.

Building a sustainable talent pipeline

BP recruits graduates from a wide range of technical disciplines as well as experienced individuals from the energy industry and beyond. Despite the challenging economic climate in 2009, we maintained our graduate recruitment levels, employing around 470 new graduates within a total of some 6,500 newly hired employees, excluding retail staff.

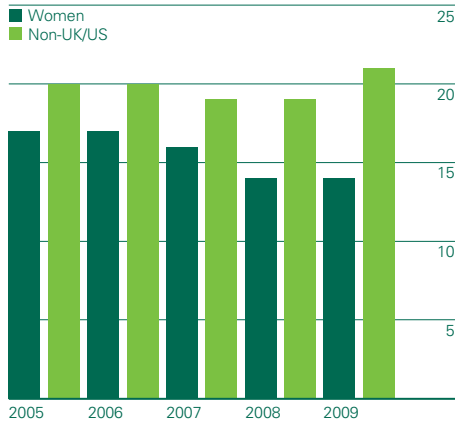
Graduate development remains a strategic priority. For example, Exploration and Production's Challenge programme keeps graduates in roles long enough to help their personal development and maximize their contribution to the business. Emphasis is placed on leadership behaviours as well as technical competence.

Number of employees[a]
(thousands)



[a] As at 31 December.

Diversity and inclusion
(% group leadership)



Our career acceleration programmes (CAPs) support the rapid development of people who have the highest potential and are expected to achieve senior and group leadership positions. We place CAPs members in stretching roles, enabling them to build potential, demonstrate performance and accelerate their progress.

BP carries out annual talent and succession reviews to examine business capabilities and put plans in place to deal with any gaps. The reviews identify people with the potential to rise into senior positions and create development plans for these key individuals. These reviews are designed to ensure there is equal opportunity for all to advance on merit.

Performance management and rewarding people

BP strives for a performance-driven culture, with a clear alignment between team performance, individual performance and the bonuses that are received.

Under our performance management approach, each BP business has a plan designed to accomplish elements of the group's overall strategy. Objectives and milestones for each individual are then set in accordance with the team plan. In addition to base pay, employees are rewarded according to how well they perform against specific objectives that must be clearly linked to the goals of the team as a whole.

There is direct alignment between the goals of BP set by the board, the goals of our key businesses and the performance contracts of our executive leadership. As part of a standard approach, executives' performance is evaluated against their performance contract. We believe our reward packages strike the appropriate balance between rewarding individual performance and reflecting group performance. Remuneration for executives is delivered in cash and BP equity.

Policy governing the reward of executive directors is established by the remuneration committee of the board. Policy for all other employees is established by the group people committee.

Developing our leaders

We believe that strong leadership and high performance depend on having a simple and consistent view of what leadership means throughout our varied businesses. We therefore adhere to a single, common leadership framework, with a clear and focused set of expectations. Leaders in BP are called on to value expertise, energize people, act decisively and deliver results.

We run a series of development programmes called Managing Essentials to help our line managers apply the leadership framework in their own teams. These programmes cover management foundations, effective teamworking, improving personal performance and effective performance conversations. More than 12,000 employees in 41 countries have undertaken Managing Essentials programmes since its launch in 2007.

We use internal and external evaluation processes to tailor the development plans for BP's group leaders. Managers, peers and team members review leaders' performance, using a 360° feedback tool, identifying their top three relative strengths and weaknesses.

In partnership with institutions such as MIT, Duke University and Cornell University, we run development programmes specifically designed to build excellence in important functional areas – operations, finance and human resource management.

Vocational training
Greater Plutonio project, Angola. BP Angola provides vocational training at all levels to develop the skills of the local workforce.

Growing energy skills

As part of our effort to develop deep specialist skills, BP uses a variety of methods to help employees at all levels develop their capabilities, ranging from major global programmes and facilities to tailored knowledge-sharing initiatives.

At the global level, we have set up a state-of-the-art learning centre for Exploration and Production employees in Houston, US. The centre, with high-definition conferencing suites and broadcasting facilities, covers all aspects of upstream work, from basic drilling techniques to advanced seismic imaging and real time digital management of production. We have also created a training and development programme for our refining engineers covering all relevant competencies, from hazard recognition and fuels blending to financial skills and efficiency improvement. Designed to ensure consistent development across our engineering teams, the programme is already in use at four of BP's five US refineries.

We use more targeted knowledge-sharing approaches as well. In 2009, we relocated five highly qualified engineers from the Trinidad & Tobago business to Azerbaijan, a business which is growing fast and in need of help in training engineers in offshore drilling techniques.

Creating an engaging and inclusive environment

We are committed to creating a work environment where diversity and inclusion are valued and where everyone is treated fairly, with dignity and respect, and without discrimination. We believe people perform at their best when they are valued as unique individuals and their views are taken into account.

We actively embed diversity and inclusion across the organization through our global diversity council, the establishment of diversity plans tailored to each strategic performance unit (SPU), and support for affinity groups for networking and sharing experiences.

Each SPU diversity plan includes specific targets, which are included in leaders' performance contracts from 2010 onwards. Mandatory training in diversity and inclusion for the 6,000 senior leaders in BP also begins in 2010.

BP encourages the formation of affinity groups by which particular sub-sets of employees can network and exchange experiences. These include the BP Women's International Network; the BP Pride group for the lesbian, gay, bisexual and transgender community; and the US-based BP Asian, African-American and Latino networks. The UK-based Global Reach group brings together Exploration and Production employees from outside the US and the UK, while Gray Matters in the US brings together older workers to demonstrate their importance in achieving business results. Positively Ethnic is a UK-based group for ethnic minority employees.

Listening to our employees

We conduct an annual employee survey to monitor employee attitudes and identify areas for improvement. Our 2009 survey, completed by around 33,000 employees, showed a clear year-on-year improvement in employee satisfaction and support for BP's strategic direction. The overall employee satisfaction index showed a 6% increase to 65%, while 93% of participants said they felt 'personally committed' to supporting BP's priorities of safety, people and performance. There were particularly encouraging scores for internal communications, awareness and understanding, commitment and confidence. Areas highlighted for improvement included listening to employees, encouraging people to contribute ideas and recognizing jobs well done.

The BP Women's International Network

The BP Women's International Network (BPWIN), formed in 2009, provides a global forum for women to discuss important issues and learn from each other through informal contacts as well as events such as webcasts. Built upon local women's groups that existed in several regions, this global network is intended to encourage women to stay with BP and find the best ways to fulfil their career goals. Men also actively participate in these events.

BPWIN is currently chaired by Katrina Landis, group vice president of BP's alternative energy business, and has a steering committee that includes women from across BP. Its website and resources are freely available within BP.

Compliance and ethics

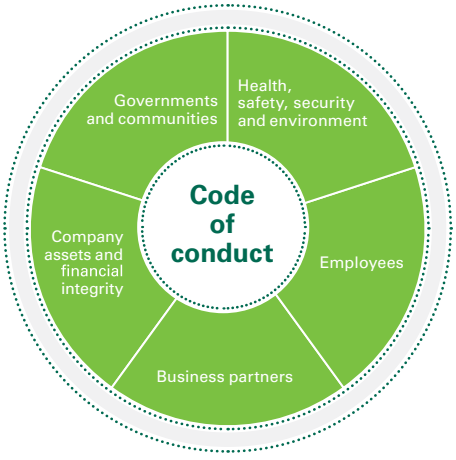
BP's reputation, and therefore its future, depends on every BP employee, everywhere, every day, taking personal responsibility for ethical and compliant business conduct. It is a fundamental BP commitment to comply with all applicable legal requirements and adhere to high ethical standards.

Code of conduct

Our code of conduct sets out standards for the way we behave, covering a range of issues from our ban on paying facilitation payments to looking after company assets. The code is about helping BP people to 'do the right thing' in a complex business environment.

The code of conduct covers a range of issues and is organized into five key areas: health, safety, security and the environment; employees; business partners; governments and communities; and company assets and financial integrity.

Code of conduct



We periodically review our code of conduct to ensure it continues to meet our stakeholders' expectations and our own high standards of care. We identified a number of ways to enhance and update our code during the most recent review completed in late 2009. For example, we clarified the corporate gifts and entertainment policy to improve controls in key risk areas. We expect the code update to be finalized and communicated to our employees in 2010.

Asking questions and raising concerns

BP expects employees to abide by the code of conduct and to ask questions or report any concerns they have about safety, environmental performance, employment-related matters or other possible breaches of the code of conduct. While employees are encouraged to ask questions or raise concerns with line managers, human resources, legal or compliance teams, BP also maintains OpenTalk, an independent confidential helpline. In the US, staff can also contact our independent US office of the ombudsman and the Independent Monitor who scrutinizes BP's market trading activity.

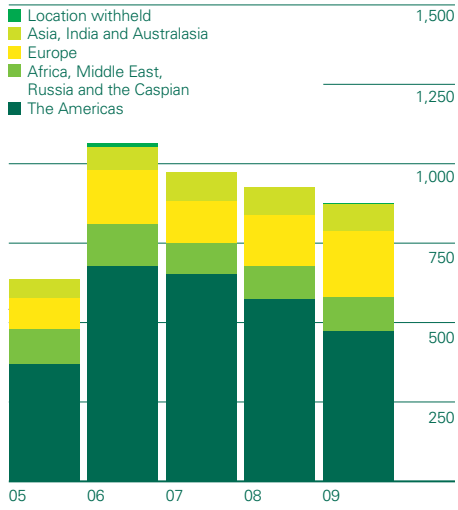
Individuals can contact OpenTalk anytime, using a multilingual telephone line or via fax, email or letter, 24 hours a day, seven days a week. Any employee who in good faith seeks advice, raises concern or reports misconduct is following our code of conduct and BP will not tolerate retaliation against that employee.

In 2009, 874 cases were raised through OpenTalk, compared with 925 in 2008. The most common issues raised in 2009 related to employment matters such as alleged failure to provide fair treatment, equal opportunity and a respectful, harassment-free workplace.

Managing and certifying compliance and ethics

We have an annual compliance certification process in which all senior level leaders are asked to submit a certificate stating that they personally understand and adhere to the code of conduct and have discussed the code and OpenTalk with their teams. Leaders are also required to report any breaches of the code that occurred in their teams. This process rolls up the management line to the group chief executive, who signs a certificate for the whole group and reports to the board's safety, ethics and environment assurance committee.

OpenTalk cases



Compliance in trading – US update

In response to manipulation of the price of propane trading by BP traders in February 2004, BP America Inc entered into a deferred prosecution agreement (DPA) with the US Department of Justice (DOJ) in October 2007. The DPA runs for three years provided BP America complies with its terms. In addition, BP Products North America Inc entered into a consent order with the US Commodity Futures Trading Commission (CFTC). Under the terms of the DPA and the consent order, an independent Trading Monitor was appointed by the DOJ and the CFTC. The Monitor continues to review BP's progress in implementing a trading compliance programme and to provide regular reports to the US authorities. In December 2009, the Monitor advised that BP continues to comply with the consent order and is making every effort to stay in this status. In the fourth quarter of 2010, the US government will determine whether sufficient progress has been made under the DPA before making any decisions about whether to exercise its unilateral authority to extend it.

BP is committed to working with the Monitor to ensure that the compliance programme is fully embedded in its trading activities and that this continues beyond the term of the agreement.

Local energy

How does BP contribute to the communities where it works?

We aim to make a positive difference in the places where we operate by using our skills and resources to do business in a way that benefits both local populations and BP.

Images

1 Process engineers inspecting equipment at the Bulwer refinery, Australia.
2 Trainee technicians in Angola.
3 Carbon Challenge workshop, Orpington, Kent, UK.
4 Solar panels at the Sri Aurobindo internal settlement, Pondicherry, India.

BP and local communities
bp.com/developmentandcommunity

As a business that invests in more than 80 countries worldwide, BP has an impact on many local communities and economies. We strive to make that impact a positive one by running our operations responsibly and by investing in the community in ways that benefit both local people and BP. The key test for any community investment is that it should create a meaningful and sustainable impact – one that is relevant to local needs, aligned with BP's business and undertaken in partnership with local organizations.

Our community investments perform three major roles: building business skills to facilitate economic participation in BP's business; supporting education and other community needs; and sharing technical expertise with local governments.

Building business skills

We run a range of programmes to develop local supply chains and build the skills of businesses in places where we work, from Azerbaijan and Indonesia to Trinidad & Tobago. These range from financing to sharing global standards and practice in areas such as health and safety. This benefits BP by enabling us to source goods and services locally at the same time as benefiting local companies by empowering them to reach the standards needed to supply ourselves and other clients.

Focus on Trinidad & Tobago

Taking this approach in Trinidad & Tobago has led to the creation of a new local industry in fabricating offshore gas platforms. Up to the early 2000s, oil and gas platforms used off Trinidad & Tobago were made elsewhere. In the past decade, however, BP has formed ventures to handle design and construction, employing and training local people. The first platform to be largely locally constructed, Cannonball, went into service in 2005. It has been followed by three 'clones' using the same design pattern. On the most recent platform, Savonette, Trinidad nationals were responsible for 98% of all the hours spent in fabrication.

Specific observation from Ernst & Young
BP previously reported anticipated community investment of at least $500 million every five years, most recently during the period ending 2008. Although spending has continued at a similar level, the majority is in developed countries, with almost half in the US. BP could report the criteria used for choosing projects and whether it has a long-term commitment to a specified level of spend.

Supporting education and other community needs

In many communities, we deploy our skills, resources and influence to invest in ways that are relevant to local interests and needs. We work closely with local authorities, community groups and others in delivering such programmes. These range from developing mathematics and science skills among Louisiana college and university students, to health education to helping people to cut the malaria rate near our plant in Indonesia.

Focus on education

Education is a critical driver of progress and opportunity in developing and developed countries alike. Our investments in learning range from providing science resources for UK classrooms to support for China's Tsinghua University in building strengths in management education. In 2009 we ran a competition challenging German students to cut greenhouse gas emissions at their schools. In Angola we have created and financed a post-graduate degree in law related to oil and gas, working with the government, state oil company and academia. The intention is to build greater local understanding of contractual rights issues and other complex legal subjects.

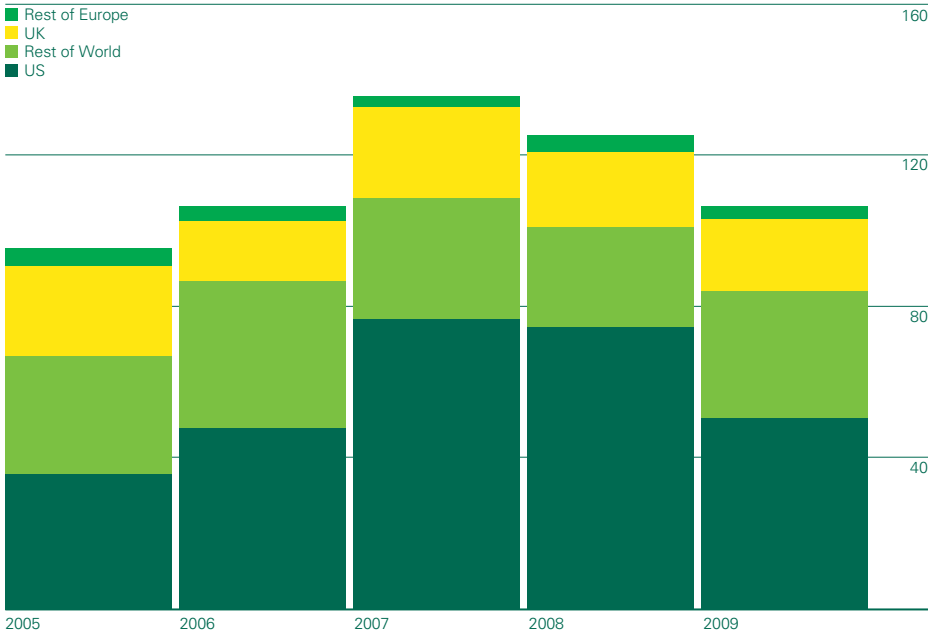
Sharing technical expertise with local governments

We use our expertise and global reach where relevant to support governments in their efforts to develop their economies sustainably. As well as country-specific projects, these include more general initiatives such as helping to start and continuing to be active in the Extractive Industries Transparency Initiative, which supports creating a standardized process for transparent reporting of company payments and government revenues from oil, gas and mining.

Focus on energy and economics

We support a project in Azerbaijan to improve the technical quality of the economic advice provided to policy-makers – the Advisory Programme for Macroeconomic Management and Institutional Reforms. As part of this project, we are funding an expert group from the Center for Social and Economic Research, an EU-based think tank, to provide technical assistance to the Azerbaijan Ministry of Economic Development on macroeconomic analysis, economic planning and policy formulation. In Trinidad & Tobago we have advised the government on its strategy for energy efficiency and renewable energy. Drawing on our group-level analysis and experience worldwide, we have suggested a pathway approach that would phase in efficiency measures and a variety of alternative energy sources over time.

Contribution to communities by region
($ million)



Tangguh and sustainability

Delivering value to BP and the local community with the start-up of our liquefied natural gas project in Indonesia.

Our Tangguh gas production project based at Bintuni Bay, in the Papua Barat province of Indonesia, is a major project designed not only to create value for BP but to make a significant contribution to the sustainable development of the local community.

The project, which started production in 2009, is extracting, liquefying and exporting natural gas from beneath Bintuni Bay on the western part of Papua. A share of the government's post-tax revenues from the project, according to Indonesian laws governing the distribution of oil- and gas-related income, should be directed to the local Papua Barat province.

The Bintuni Bay area is remote, relying on a traditional economy, largely centred on fishing and small-scale agriculture. When BP started planning its plant in early 2000, local villages had no clean water collection systems and education provision was limited.

In such surroundings, the challenge is to promote sustainable development through the lifetime of the operation to enable the community's long-term independence.

We have therefore launched a range of programmes that involve the community and encourage local government to assume greater leadership and responsibility. These are designed to drive improvements in health, education, business and other aspects of the community's life.

Building business skills

We support the Bird's Head Business Empowerment Programme, which enables local companies to acquire the skills needed to compete for work with BP and other potential customers. This includes arranging mentoring and running workshops on topics such as preparing tender documents and contractual processes. In 2009 alone, more than 350 people were trained and more than 20 local firms passed tenders, either from BP, contractors for Tangguh, other companies or local government.

Supporting community needs

We have acted in areas such as health, education and livelihoods, creating an integrated social programme that contains a variety of projects. Our Tangguh community health unit, for instance, carries out immunization and trains local residents in areas such as reproductive health and personal hygiene. The drop in malaria prevalence from 23% in 2000 to less than 1% in 2009 is just one indication of the success of our efforts. Educational investment has embraced books, classrooms, teacher training and management training. In some villages, homes and community facilities have been built and rainwater harvesting systems set up. Villagers have been assisted to create better livelihoods in activities such as fishing and farming through training and equipment.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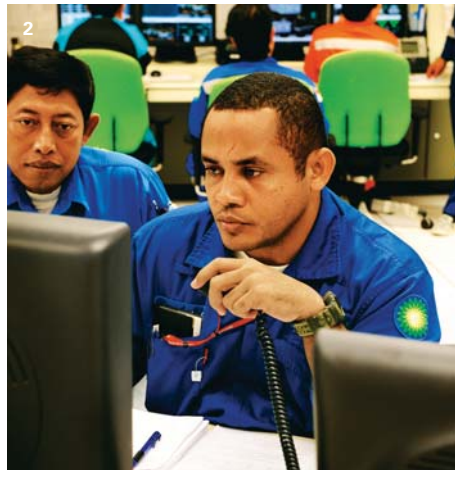
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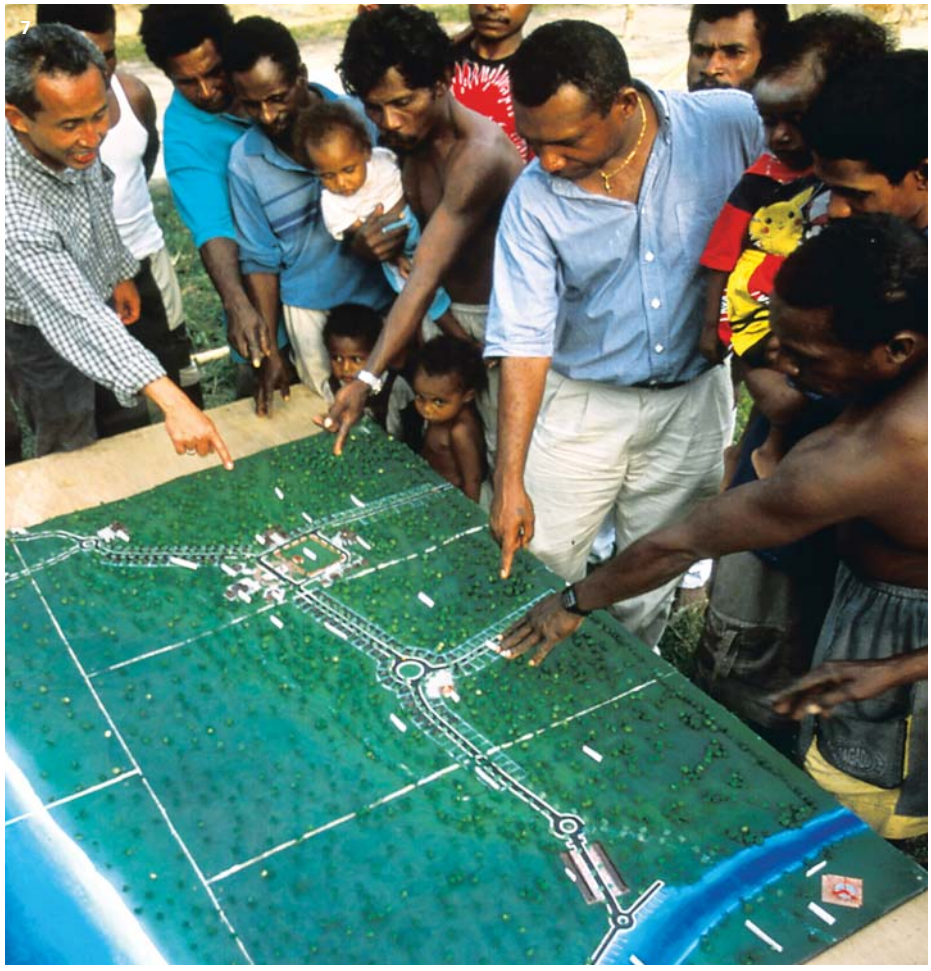


Images

1 Tangguh LNG, with Chinese tanker awaiting shipment to Fujian, China.
2 Monitoring in the main control room, Tangguh LNG.
3 Contractors assess electrical work, Tangguh LNG.
4 Community relations officers walking to the resettled Saengga village.
5 Elementary students at a renovated school part-funded by BP, in Otoweri.
6 Dispensary at a clinic supported by a BP-funded health foundation, in Babo.
7 A model of Tanah Merah village, built with public consultation.

Sharing expertise

In terms of assisting governments to advance sustainable development, we support projects to build skills and capacity among local government officials in the region. This includes technical assistance in budget topics and training in accounting and asset management.

Security for the Tangguh project is provided through an integrated community-based security programme, which involves locally recruited security guards backed up by the local police. The military are not involved except in extraordinary circumstances. Guards and police are trained in standards and practices consistent with the Voluntary Principles on Security and Human Rights – an initiative agreed between governments, NGOs and the extractive industry.

Minimizing our environmental impact

In an area rich in biodiversity, featuring mangrove swamps, dolphins and sea turtles, care has been taken to minimize the environmental footprint of the project. For example, no roads have been built to the site and the route followed by tankers has been lengthened to avoid an important marine nature reserve.

Independent review

Tangguh's progress has been monitored for several years by an expert Tangguh Independent Advisory Panel, chaired until 2009 by former US senator George Mitchell. In its 2009 report, the panel said Tangguh had brought tangible benefits to the area and was optimistic that the project could continue to deliver them. However, it added:

> "...in order to accomplish this objective, and to avoid effects that would be disruptive to the social, cultural, environmental, and economic structure of the region, BP must remain vigilant, flexible, and patient for the duration of the operating phase as it implements Tangguh's social and economic programmes."

Operating responsibly in Tangguh
bp.com/sustainabilityintangguh

Independent assurance statement to BP management

BP's Sustainability Report 2009 (the Report), which includes this *Sustainability Review* and *www.bp.com/sustainability*, has been prepared by the management of BP p.l.c., who are responsible for the collection and presentation of information within it. Our responsibility, in accordance with BP management's instructions, is to carry out a limited assurance engagement on the Report and to include specific observations from our work in relevant sections of the Report. We do not accept or assume any responsibility for any other purpose or to any other person or organization. Any reliance any such third party may place on the Report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with ISAE3000[a] and to meet the requirements of a Type 2 assurance engagement as defined by AA1000AS (2008)[b]. The AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness have been used as criteria against which to evaluate the Report.

In order to form our conclusions we undertook the steps outlined below:

1. Interviewed a selection of BP executives and senior managers to understand the current status of safety, social, ethical and environmental activities, and progress made during the reporting period.
2. Reviewed BP's approach to stakeholder engagement through interviews with employees at group and local level, and reviewing selected associated documentation.
3. Reviewed a selection of external media reports and conducted a high-level benchmarking exercise of the material issues and areas of performance covered in the environmental and social reports of BP's peers, to test the coverage of topics within the Report.
4. Reviewed selected group level documents relating to safety, social, ethical and environmental aspects of BP's performance, to understand progress made across the organisation and test the coverage of topics within the Report.
5. Reviewed information or explanation about the Report's data, statements and assertions regarding BP's sustainability performance.
6. Reviewed health, safety and environment, community investment, leadership diversity and ethics dismissals data samples and processes to test whether they have been collected, consolidated and reported appropriately at group level.
7. Reviewed BP's processes for determining material issues to be included in the Report.

Level of assurance

Our evidence gathering procedures have been designed to obtain a limited level of assurance (as set out in ISAE3000) on which to base our conclusions. The extent of evidence gathering procedures performed is less than that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

The limitations of our review

With the exception of selected telephone interviews, our work was limited to group level activities. We did not visit any of BP's businesses. Therefore, our conclusions are based on our discussions with BP management, our review of selected media and the review of documents provided to us by BP.

Our conclusions

Based on the scope of our review our conclusions are outlined below:

Inclusivity

Has BP been engaging with stakeholders across the business to develop its approach to sustainability?

- We are not aware of any key stakeholder groups which have been excluded from dialogue.
- We are not aware of any matters that would lead us to conclude that BP has not applied the inclusivity principle in developing its approach to sustainability.

Materiality

Has BP provided a balanced representation of material issues concerning BP's sustainability performance?

- With the exception of the subject areas listed below, we are not aware of any material aspects concerning BP's sustainability performance which have been excluded from the Report.
- We consider that BP could have covered the following subject areas in more depth in the Report:
  - Influencing the performance of business partners in relation to sustainability issues.
  - Disclosure of future environmental performance targets.
- Nothing has come to our attention that causes us to believe that BP management has not applied its processes for determining material issues to be included in the Report.

Responsiveness

How has BP responded to stakeholder concerns?

- With the exception of the issues highlighted in relation to Materiality, we are not aware of any additional issues of stakeholder interest that are not currently included in the Report's scope and content.
- We are not aware of any matters that would lead us to conclude that BP has not applied the responsiveness principle.

Completeness and accuracy of performance information

How complete and accurate is the HSE, community investment, leadership diversity data and ethics dismissals data in the Report?

- With the exception of TNK-BP's GHG emissions, we are not aware of any material reporting units that have been excluded from the group-wide data relating HSE, community investment, leadership diversity data and ethics dismissals data.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly from group-wide systems.
- We are not aware of any errors that would materially affect the data as presented in the Report.

How plausible are the statements and claims within the Report?

- We have reviewed information or explanation on the statements on BP's sustainability activities presented in the Report and we are not aware of any misstatements in the assertions made.

Observations and areas for improvement

Our observations and areas for improvement will be raised in a report to BP management. Selected observations regarding progress made and areas for improvement can be found in appropriate sections of the Report and in our online statement at *www.bp.com/sustainabilityobservations*. These observations do not affect our conclusions on the Report set out above.

Our independence

As auditors to BP p.l.c., Ernst & Young are required to comply with the independence requirements set out in the Institute of Chartered Accountants in England & Wales (ICAEW) Guide to Professional Ethics. Ernst & Young's independence policies, which address and in certain places exceed the requirements of the ICAEW, apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's policies.

We confirm annually to BP whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2009.

Our assurance team

Our assurance team has been drawn from our global environment and sustainability network, which undertakes similar engagements to this with a number of significant UK and international businesses.

ERNST & YOUNG

Ernst & Young LLP, London
15 April 2010

[a] International Federation of the Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000).
[b] AA1000AS (2008) – The second edition of the AA1000 assurance standard from the Institute of Social and Ethical Accountability.

Our approach to reporting

BP's sustainability reporting – in print and online formats – is aimed at all readers with an interest in BP's social, environmental and safety performance.

In this Sustainability Review, we provide our position and strategy around the following key sustainability topics of relevance to BP and the industry:

- Diverse and affordable energy – responding to today's energy challenges, including climate change.
- Low-carbon energy – focusing on four key businesses in this arena.
- Safe and responsible energy – improving our safety performance, and managing our environmental and social impacts.
- People energy – making sure we have the right people in the right roles.
- Local energy – operating in a way that benefits both local communities and BP.

Our website, *bp.com/sustainability*, examines these core topics in more depth, as well as reporting on a wider set of issues. The website includes detailed information about our social, environmental and safety performance in 2009, along with case studies that demonstrate our sustainability efforts in action.

Issues covered

We primarily report on subjects that have arisen from our materiality process, as well as from stakeholder research and input. We weigh BP's internal group risk approach against an assessment of the key external BP-related issues to generate a materiality matrix that prioritizes issues. Everything considered having potential group risk and high external awareness is included in our sustainability reporting.

We also carry out annual audience research to assess the impact of our previous report and identify areas for improvement or new content areas for consideration. This includes conducting surveys, interviews, website analysis and workshops in the UK, the US and Europe with different stakeholders. We have also commissioned detailed benchmarking from consultancies SustainAbility and TwoTomorrows.

Accuracy

We aim to ensure that the information we publish is accurate, complete and material and therefore contributes to building trust and credibility with key stakeholders. To achieve this, we have an established internal process for verifying our non-financial management information. Additionally, we engage professional auditors, who combine the strengths of financial auditing experience with technical competency in environmental and social standards.

Scope

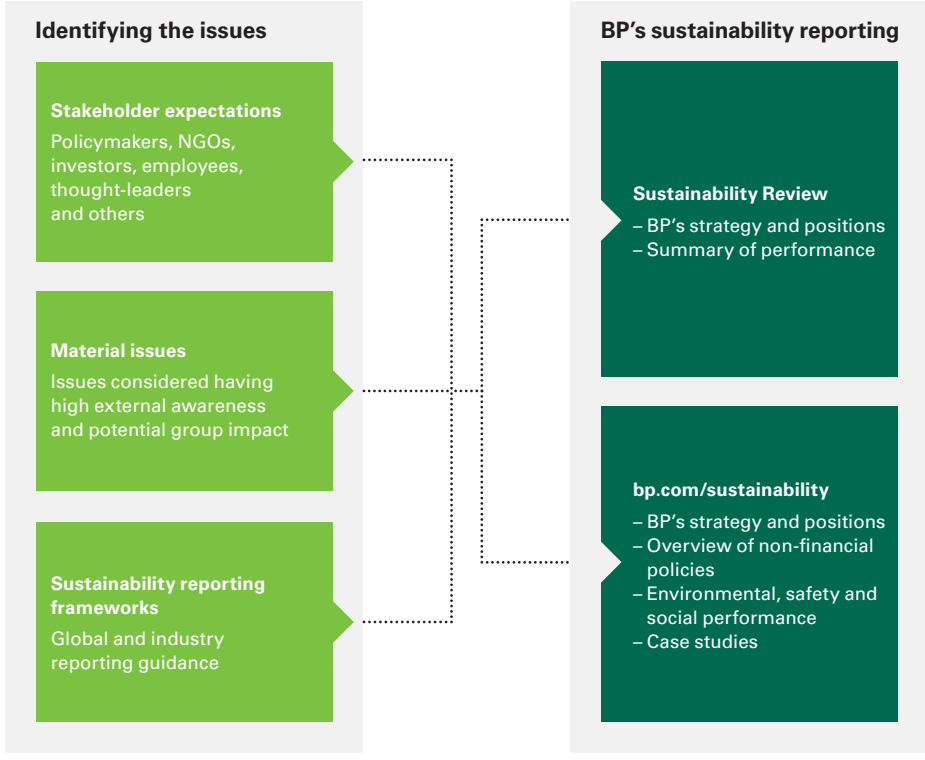
BP Sustainability Review 2009 and *www.bp.com/sustainability* concentrate on performance and activities from 1 January to 31 December 2009. In addition to our group sustainability reporting, our non-financial performance communications include country- and site-level reports.

We aim to report on all aspects of our business, including our share of joint ventures where the venturers have direct ownership interest in, and jointly control, the assets of the venture. Where appropriate, we also seek to provide an overview on activities where we have only joint control over entities along with other partners and where we have significant influence.

Frameworks and guidelines

We continue to report against the Global Reporting Initiative's (GRI) G3 sustainability reporting guidelines to an A+ level. For the fifth year, we map the indicators to the International Petroleum Industry Environmental Conservation Association (IPIECA)/American Petroleum Institute Oil and Gas Industry Guidance on Voluntary Sustainability Reporting. We are actively supporting and involved in the development of a GRI Oil and Gas Sector Supplement, as well as supporting in the revision of the IPIECA voluntary reporting guidance. A full table showing how we address the GRI and IPIECA guidelines, including information on those indicators where we have not reported, is available at *www.bp.com/gri*.

Our approach to reporting



Our online resources

BP communicates its non-financial commitments and performance at group, country and site levels online, as well as providing interactive tools for its website visitors.

Group reporting

Our website, *www.bp.com/sustainability*, is an integral part of our group sustainability reporting, covering a wide set of issues and reporting on them in more depth. The website also includes detailed information about our environmental and safety performance, as well as case studies that demonstrate our sustainability efforts in action.

BP Sustainability Review 2009 is available in pdf format in English, Mandarin Chinese and Russian.

www.bp.com/sustainabilityreview2009

Country and site reporting

We publish country reports on our operations in Angola, Australia, Azerbaijan, Georgia, Germany, New Zealand, Southern Africa, Trinidad & Tobago and Turkey. We also maintain a library of site reports for more than 30 of our major operations.

www.bp.com/countrysustainabilityreports
www.bp.com/sitereports

Sustainability mapping tool

Our sustainability mapping tool provides information about our management of emissions to air, water use and waste-water discharges, and waste, and about protected areas and biodiversity, at our major operating sites. You can also easily navigate to local case studies, country sustainability reports and site reports.

www.bp.com/sustainabilitymappingtool

HSE charting tool

Our HSE charting tool allows you to filter and analyse information on the group's greenhouse gas emissions, health, safety and environmental performance. Data for the past decade is available, and can be viewed or downloaded in a variety of chart formats.

www.bp.com/hsechartingtool

BP Energy Lab

The BP Energy Lab helps people learn how to be more energy efficient. The BP Energy Calculator can help assess your energy consumption and related carbon footprint, and the energy quiz and facts show how to save energy at home, at work and at play.

www.bp.com/energylab

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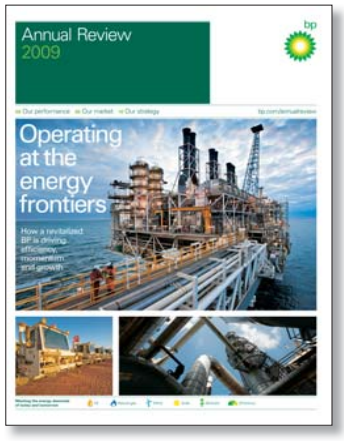

Annual Review
Read a summary of our financial and operating performance in *BP Annual Review 2009* in print or online.
www.bp.com/annualreview

Annual Report and Accounts
Read details of our financial and operating performance in *BP Annual Report and Accounts 2009* in print or online.
www.bp.com/annualreport

Contact details
Your feedback is important to us. You can email the Sustainability Reporting team at *sustainability@bp.com*

or send us your feedback online at *www.bp.com/sustainabilityfeedback*

You can also telephone +44 (0)20 7496 4000

or write to:
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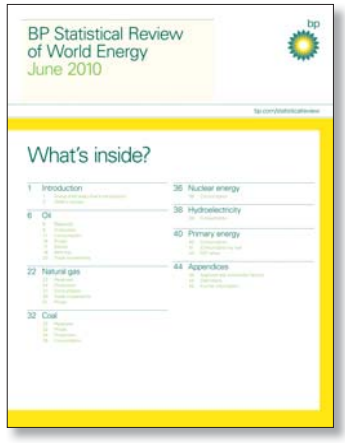
UK.

Financial and Operating Information
BP Financial and Operating Information 2005-2009 includes five-year financial and operating data.
www.bp.com/financialandreporting



Statistical Review of World Energy
Published in June each year, *BP Statistical Review of World Energy* reports on key global energy trends.
www.bp.com/statisticalreview

External reporting frameworks

GRI REPORT SELF DECLARED

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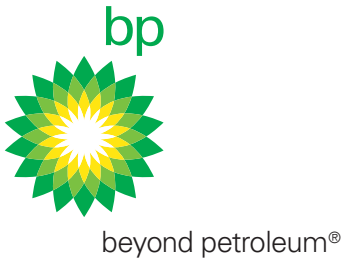
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