

BP PLC  
Form 20-F  
March 02, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F**

(Mark One)

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

**OR**

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

For the fiscal year ended 31 December 2010

**OR**

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

**OR**

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

**Commission file number: 1-6262**

**BP p.l.c.**

(Exact name of Registrant as specified in its charter)

**England and Wales**

(Jurisdiction of incorporation or organization)

**1 St James s Square, London SW1Y 4PD**

**United Kingdom**

(Address of principal executive offices)

**Dr Byron E Grote**

**BP p.l.c.**

**1 St James s Square, London SW1Y 4PD**

**United Kingdom**

**Tel +44 (0) 20 7496 4495**

**Fax +44 (0) 20 7496 4630**

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<b>Ordinary Shares of 25c each</b>	<b>New York Stock Exchange*</b>
<b>Floating Rate Guaranteed Notes due 2011</b>	<b>New York Stock Exchange</b>
<b>Substitute Floating Rate Guaranteed Note due 2011</b>	<b>New York Stock Exchange</b>
<b>1.55% Guaranteed Notes due 2011</b>	<b>New York Stock Exchange</b>
<b>3.125% Guaranteed Notes due 2012</b>	<b>New York Stock Exchange</b>
<b>5.25% Guaranteed Notes due 2013</b>	<b>New York Stock Exchange</b>
<b>3.625% Guaranteed Notes due 2014</b>	<b>New York Stock Exchange</b>
<b>3.875% Guaranteed Notes due 2015</b>	<b>New York Stock Exchange</b>
<b>3.125% Guaranteed Notes due 2015</b>	<b>New York Stock Exchange</b>
<b>4.75% Guaranteed Notes due 2019</b>	<b>New York Stock Exchange</b>
<b>4.5% Guaranteed Notes due 2020</b>	<b>New York Stock Exchange</b>

Edgar Filing: BP PLC - Form 20-F

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

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

**None**

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

**None**

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

<b>Ordinary Shares of 25c each</b>	18,796,461,292
<b>Cumulative First Preference Shares of £1 each</b>	7,232,838
<b>Cumulative Second Preference Shares of £1 each</b>	5,473,414

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).\*

Yes  No

\*This requirement does not apply to the registrant until its fiscal year ending December 31, 2011.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

International Financial Reporting Standards as issued by the International Accounting Standards Board   
U.S. GAAP  Other

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

Item 17  Item 18

Edgar Filing: BP PLC - Form 20-F

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

---

Annual Report  
and Form 20-F  
2010  
bp.com/annualreport  
What's inside?

5	<u>Business review</u>
6	<u>Chairman's letter</u>
123	<u>Additional information for shareholders</u>
124	<u>Critical accounting policies</u>
127	<u>Property, plants and equipment</u>
127	<u>Share ownership</u>
128	<u>Major shareholders and related party transactions</u>
129	<u>Dividends</u>
130	<u>Legal proceedings</u>
133	<u>Relationships with suppliers and contractors</u>
134	<u>Share prices and listings</u>
135	<u>Material contracts</u>
135	<u>Exchange controls</u>
135	<u>Taxation</u>
137	<u>Documents on display</u>
137	<u>Purchases of equity securities by the issuer and affiliated purchasers</u>
138	<u>Fees and charges payable by a holder of ADSs</u>
138	<u>Fees and payments made by the Depositary to the issuer</u>
139	<u>Called-up share capital</u>
139	<u>Administration</u>
139	<u>Annual general meeting</u>
140	<u>Exhibits</u>
141	<u>Financial statements</u>
142	<u>Consolidated financial statements of the BP group</u>
150	<u>Notes on financial statements</u>
228	<u>Supplementary information on oil and natural gas (unaudited)</u>



**Table of Contents**

Cross reference to Form 20-F

	Page
Item 1.	n/a
Item 2.	n/a
Item 3.	n/a
A.	23
B.	n/a
C.	n/a
D.	27-32
Item 4.	n/a
A.	4, 14-15
B.	14-22, 33-82
C.	220-221
D.	22, 43, 50-54, 127, 247-248
Item 4A.	None
Item 5.	n/a
A.	24-26, 34, 41-42, 56-57, 61, 124-127
B.	63-67
C.	76-77, 175
D.	67
E.	64
F.	65
G.	4
Item 6.	n/a
A.	84-87
B.	112-121, 214-217
C.	90-104, 214-217
D.	74-75
E.	87, 112-118, 127-128, 214-216
Item 7.	n/a
A.	128-129
B.	129, 183-184
C.	n/a
Item 8.	n/a
A.	129-133, 134, 144-227
B.	None
Item 9.	n/a
A.	134
B.	n/a
C.	134
D.	n/a
E.	n/a
F.	n/a
Item 10.	n/a

	A. Share capital	n/a
	B. Memorandum and articles of association	108-109
	C. Material contracts	135
	D. Exchange controls	135
	E. Taxation	135-137
	F. Dividends and paying agents	n/a
	G. Statements by experts	n/a
	H. Documents on display	137
	I. Subsidiary information	n/a
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	185-190, 192-196
Item 12.	Description of securities other than equity securities	
	A. Debt Securities	n/a
	B. Warrants and Rights	n/a
	C. Other Securities	n/a
	D. American Depositary Shares	138
Item 13.	Defaults, Dividend Arrearages and Delinquencies	None
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	None
Item 15.	Controls and Procedures	106-107
Item 16A.	Audit Committee Financial Expert	97
Item 16B.	Code of Ethics	106
Item 16C.	Principal Accountant Fees and Services	107
Item 16D.	Exemptions from the Listing Standards for Audit Committees	n/a
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	137
Item 16F.	Change in Registrant's Certifying Accountant	None
Item 16G.	Corporate governance	105
Item 17.	Financial Statements	n/a
Item 18.	Financial Statements	144-227, 228-248
Item 19.	Exhibits	140
2 BP Annual Report and Form 20-F 2010		



**Table of Contents**

Miscellaneous terms

In this document, unless the context otherwise requires, the following terms shall have the meaning set out below.

**ADR**

American depositary receipt.

**ADS**

American depositary share.

**AGM**

Annual general meeting.

**Amoco**

The former Amoco Corporation and its subsidiaries.

**Annulus**

The space between two concentric objects, such as between the wellbore and casing of an oil well or between casing and tubing, where fluid can flow. It allows fluids, such as drilling mud, to circulate in the well.

**Atlantic Richfield**

Atlantic Richfield Company and its subsidiaries.

**Associate**

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

**Barrel**

42 US gallons.

**b/d**

barrels per day.

**boe**

barrels of oil equivalent.

**BP, BP group or the group**

BP p.l.c. and its subsidiaries.

**Burmah Castrol**

Burmah Castrol PLC and its subsidiaries.

**Cent or c**

One-hundredth of the US dollar.

**The company**

BP p.l.c.

**Dollar or \$**

The US dollar.

**EU**

European Union.

**GAAP**

Generally accepted accounting practice.

**Gas**

Natural gas.

**GCRO**

Gulf Coast Restoration Organization.

**Hydrocarbons**

Crude oil and natural gas.

**IFRS**

International Financial Reporting Standards.

**Joint control**

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

**Joint venture**

A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

**Jointly controlled asset**

A joint venture where the venturers jointly control, and often have a direct ownership interest in the assets of the venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

**Jointly controlled entity**

A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

**Liquids**

Crude oil, condensate and natural gas liquids.

**LNG**

Liquefied natural gas.

**London Stock Exchange or LSE**

London Stock Exchange plc.

**LPG**

Liquefied petroleum gas.

**mb/d**

thousand barrels per day.

**mboe/d**

thousand barrels of oil equivalent per day.

**mmBtu**

million British thermal units.

**mmboe**

million barrels of oil equivalent.

**mmcf**

million cubic feet.

**mmcf/d**

million cubic feet per day.

**MW**

Megawatt.

**NGLs**

Natural gas liquids.

**OPEC**

Organization of Petroleum Exporting Countries.

**Ordinary shares**

Ordinary fully paid shares in BP p.l.c. of 25c each.

**Pence or p**

One-hundredth of a pound sterling.

**Pound, sterling or £**

The pound sterling.

**Preference shares**

Cumulative First Preference Shares and Cumulative Second Preference Shares in BP p.l.c. of £1 each.

**PSA**

A production-sharing agreement (PSA) is an arrangement through which an oil company bears the risks and costs of exploration, development and production. In return, if exploration is successful, the oil company receives entitlement to variable physical volumes of hydrocarbons, representing recovery of the costs incurred and a stipulated share of the production remaining after such cost recovery.

**SEC**

The United States Securities and Exchange Commission.

**Subsidiary**

An entity that is controlled by the BP group. Control is the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities.

**Tonne**

2,204.6 pounds.

**Trust**

Deepwater Horizon Oil Spill Trust.

**UK**

United Kingdom of Great Britain and Northern Ireland.

**US**

United States of America.

**Table of Contents****Information about this report**

This document constitutes the Annual Report and Accounts in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the US Securities Exchange Act of 1934, for BP p.l.c. for the year ended 31 December 2010. A cross reference to Form 20-F requirements is on page 2.

This document contains the Directors' Report, including the Business Review and Management Report, on pages 5-109 and 123-140, 142. The Directors' Remuneration Report is on pages 111-121. The consolidated financial statements of the group are on pages 141-248 and the corresponding reports of the auditor are on pages 143-145.

*BP Annual Report and Form 20-F 2010* and *BP Summary Review 2010* may be downloaded from

[www.bp.com/annualreport](http://www.bp.com/annualreport). No material on the BP website, other than the items identified as *BP Annual Report and Form 20-F 2010* or *BP Summary Review 2010*, forms any part of those documents.

BP p.l.c. is the parent company of the BP group of companies. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiaries.

The term 'shareholder' in this report means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and indirect. As BP shares, in the form of ADSs, are listed on the New York Stock Exchange (NYSE), an Annual Report on Form 20-F is filed with the US Securities and Exchange Commission (SEC).

**Cautionary statement**

*BP Annual Report and Form 20-F 2010* contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and businesses of BP and certain of the plans and objectives of BP with respect to these items.

In order to utilize the 'Safe Harbor' provisions of the United States Private Securities Litigation Reform Act of 1995, BP is providing the following cautionary statement. This document contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of BP and certain of the plans and objectives of BP with respect to these items. These statements may generally, but not always, be identified by the use of words such as 'will', 'expects', 'is expected to', 'aims', 'should', 'may', 'objective', 'is likely to', 'intends', 'believes', 'plan' expressions. In particular, among other statements, (i) certain statements in the Business review (pages 6-82), including under the heading 'Outlook', with regard to strategy, management aims and objectives, future capital expenditure, the completion of planned and announced divestments and disposals, acquisitions and other transactions, future hydrocarbon production volume and the group's ability to satisfy its long-term sales commitments from future supplies available to the group, date(s) or period(s) in which production is scheduled or expected to come onstream or a project or action is scheduled or expected to begin or be completed, capacity of planned plants or facilities and impact of health, safety and environmental regulations; (ii) the statements in the Business review (pages 6-63 and 68-81) with regard to anticipated energy demand and consumption, global economic recovery, oil and gas prices, global reserves, refining capacity, expected future energy mix and the potential for cleaner and more efficient sources of energy, management aims and objectives, strategy, production, petrochemical and refining margins, anticipated investment in Alternative Energy, anticipated future project developments, growth of the international businesses, Refining and Marketing investments, reserves increases through technological developments, with regard to planned investment or other projects, timing and ability to complete announced transactions and future regulatory actions; (iii) the statements in the Business review (pages 23-26, 63-67 and 73) with regard to the plans of the group, the cost of and provision for future remediation programmes and environmental operating and capital expenditures, taxation, liquidity and costs for providing pension and other post-retirement benefits; and including under 'Liquidity and capital resources' 'Trend Information', with regard to global economic recovery, oil and gas prices, petrochemical and refining margins, production, demand for petrochemicals, production and production growth, depreciation, underlying average quarterly charge from Other businesses and corporate, costs, foreign exchange and energy costs, capital expenditure, timing and proceeds of divestments, balance of cash inflows and outflows, dividend and optional scrip dividend, cash flows, shareholder distributions, gearing, working capital, guarantees, expected payments under contractual and commercial commitments and purchase obligations; and (iv) certain statements in Chairman's letter (pages 6-7) and Business review (pages 10-11) in relation to an anticipated increase in the level of the dividend; are all forward-looking in nature.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of BP. Actual results may differ materially from those expressed in such statements, depending on a variety of factors, including the specific factors identified in the discussions accompanying such forward-looking statements; the timing of bringing new fields onstream; future levels of industry product supply, demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; actions by regulators; exchange rate fluctuations; development and use of new technology; the success or otherwise of partnering; the actions of competitors; natural disasters and adverse weather conditions; changes in public expectations and other changes to business conditions; wars and acts of terrorism or sabotage; and other factors discussed elsewhere in this report including under *Risk factors* (pages 27-32). In addition to factors set forth elsewhere in this report, those set out above are important factors, although not exhaustive, that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

**Statements regarding competitive position**

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

Unless otherwise indicated, information in this document reflects 100% of the assets and operations of the company and its subsidiaries that were consolidated at the date or for the periods indicated, including minority interests. The company was incorporated in 1909 in England and Wales and changed its name to BP p.l.c. in 2001. BP's primary share listing is the London Stock Exchange. Ordinary shares are also traded on the Frankfurt Stock Exchange in Germany and, in the US, the company's securities are traded in the form of ADSs. *(See page 134 for more details.)*

The registered office of BP p.l.c., and our worldwide headquarters, is:

1 St James's Square,  
London SW1Y4PD, UK.  
Tel +44 (0)20 7496 4000.

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

Our agent in the US is BP America Inc.,  
501 Westlake Park Boulevard, Houston, Texas 77079.  
Tel +1 281 366 2000.

**Table of Contents**

6	Chairman's letter
8	Board of directors
10	Group chief executive's letter
12	Progress in 2010
14	Group overview
34	Gulf of Mexico oil spill
40	Exploration and Production
55	Refining and Marketing
61	Other businesses and corporate
63	Liquidity and capital resources
68	Corporate responsibility
76	Research and technology
78	Regulation of the group's business
81	Certain definitions

**Table of Contents**

Business review

Chairman's

letter

Dear fellow shareholder

2010 was a profoundly painful and testing year. In April, a tragic accident on the Deepwater Horizon rig claimed the lives of 11 men and injured others. Above all else, I want to remember those men, and say that our thoughts remain with their families and friends. BP's priority is to ensure that the people who work for us, and with us, return home safely. The accident should never have happened. We are shocked and saddened that it did.

The spill that resulted caused widespread pollution. Our response has been unprecedented in scale, and we are determined to live up to our commitments in the Gulf. We will also do everything necessary to ensure BP is a company that can be trusted by shareholders and communities around the world.

In the days after the accident in the Gulf of Mexico the company faced a complex and fast-changing crisis. With oil escaping into the ocean, uncertainty grew around our ability to seal the well and restore the areas affected. This was an intense period, with the situation worsening almost daily. Our meeting with President Obama on 16 June 2010 provided reassurance to the US government that BP would do the right thing in the Gulf, and this marked a turning point. Through diligence and invention, our teams stopped the flow of oil in July and completed relief-well operations in September.

During these difficult days your board focused on three critical objectives.

First, we ensured the response team had the resources it required to stop the leak, contain and clean up the damage, and provide financial support to those affected. This was an unprecedented response to an industrial accident, with some 48,000 people involved at the height of the effort. We have set up a \$20-billion fund to show our willingness and capacity to pay all legitimate claims for compensation. For the long term, we have committed \$500 million to a 10-year independent research programme that will examine the environmental impact of the oil spilled and dispersants used. BP will continue to help restore the environment and economy of the Gulf, however long that takes.

Second, we resolved to understand what happened on and below the Deepwater Horizon, to apply the lessons learned and to make our findings available publicly. BP's comprehensive internal investigation concluded that a sequence of failures involving a number of different parties led to the explosion and fire.

We are implementing the report's recommendations. We have established a powerful safety and operational risk function, and we have enhanced risk management through the restructuring of our upstream business. We are also conducting a wide-ranging review of when and how we outsource operations.

Third, we moved to secure the long-term future of BP and our capacity to meet our financial responsibilities in the Gulf of Mexico. Decisive action was required here because events in the US led to a crisis of confidence in BP within the financial markets. In response, we made the difficult decision to cancel three dividend payments. We do not underestimate the effect of this on small and large shareholders alike. However, there is no doubt in my mind that this action steadied and strengthened our position at a critical point.

I am pleased that we have been able to resume dividend payments promptly. The dividend for the fourth quarter of 2010, to be paid in March 2011, is 7 cents per share (US\$0.42 per ADS). The scrip dividend programme approved last year is in operation once again, and this presents an opportunity to take the dividend in shares or ADSs rather than cash. We intend to raise the level of the dividend as the company's circumstances and performance improve.



**Table of Contents**

## Business review

During the year we further reinforced our financial position. Having taken a total pre-tax charge of \$40.9 billion in relation to the accident and spill, we announced our intention to sell up to \$30 billion of assets. We have already secured almost \$22 billion. We intend to reduce the net debt ratio to within the range of 10-20%, compared with our previously targeted range of 20-30%.

We have made significant changes to the board and I want to acknowledge Tony Hayward and Andy Inglis, who have left the company. Tony stood down as group chief executive on 1 October 2010. The board was saddened to lose someone whose long-term contribution to BP was so widely admired. Andy Inglis stood down on 31 October 2010. Andy was a strong leader of Exploration and Production and a significant contributor to the board.

BP is fortunate to have an exceptional successor to the role of group chief executive. Bob Dudley has spent his working life in the oil industry and has proved himself a robust, successful leader in the toughest circumstances. I am delighted to be working alongside a man of such substance and experience.

Douglas Flint will be standing down at the annual general meeting in April 2011, having taken up a new role as chairman of HSBC Holdings plc. Douglas has chaired our audit committee for the past year. DeAnne Julius will be standing down at the same time, having joined the board in 2001. DeAnne has chaired the remuneration committee since 2005 and is succeeded in that role by Antony Burgmans. Both DeAnne and Douglas have been immensely valuable board members. We thank them and wish them both well.

Boards must evolve if they are to engage effectively with new issues and opportunities. We have acted to strengthen the board of BP to ensure we have the right mix of skills, knowledge and experience as we work to achieve sustainable success in a fast-changing world. In early 2010 we appointed Paul Anderson and Ian Davis as non-executive directors. We have since made three further non-executive appointments. Admiral Frank L Skip Bowman is former head of the US Nuclear Navy and was a member of the Baker Panel that reviewed safety at BP's US refineries. We will benefit from his exceptional experience on safety matters and his knowledge of BP. Brendan Nelson brings vast financial and auditing experience from KPMG, where latterly he was vice chairman. He is eminently well qualified to take over the chair of the audit committee following the annual general meeting. Phuthuma Nhleko will bring deep experience of emerging markets, gained while he was group president and chief executive officer of multinational telephony company MTN Group.

Clearly, after a very troubled and demanding 12 months, BP is a changed company. As a board we have much to do, and we are working with the executive team to ensure successful implementation of a refocused strategy built on the pillars of safety, trust and value creation. Foremost is the need to ensure the right checks and balances are in place across the company. The full board will continue to maintain close oversight of matters related to safety. And we will have even greater engagement on the strategic implications of risk.

Looking ahead, we believe that a growing population and rising levels of prosperity will create strong demand for energy. BP's ability to produce oil and gas from harsh environments means we have a vital contribution to make here. We will also continue to respond to climate change, and to the prospect of fossil fuels becoming a smaller part of the energy mix. For these reasons, BP must continue to be a leader in high-quality hydrocarbons today, while developing the intelligent options we will all rely on tomorrow. Lower-carbon resources remain central to this long-term strategy. BP is able to help meet the world's growing need for energy, but we can only do this if we have the trust of society. To achieve this, we must ensure that safety and responsibility are at the heart of everything we do. We must show that we can be trusted to understand and manage our risks. And we must demonstrate that we respect the environment and the needs of local communities and society as a whole.

The many strengths of BP are united in our remarkable people, who showed in 2010 that they can rise to the sternest challenge. I thank them for their efforts.

While we face substantial challenges, shareholders must be in no doubt BP has the determination and strength needed to restore its reputation and deliver long-term shareholder value. Through its refocused strategy, the company is working to become more agile and more competitive, with strong emphasis on realizing value rather than building volume and scale. We will not be afraid to develop new and innovative approaches that redefine the model of an international oil company, as our recently announced partnerships with Rosneft and Reliance demonstrate.

I want to end by thanking shareholders for their support. You have been steadfast through one of the most testing periods in BP's long history. We have learned many lessons about ourselves over the past 12 months, and these will never be forgotten. I believe we will emerge a stronger, wiser company with a very important role to play, for many years to come.

**Carl-Henric Svanberg**

Chairman

2 March 2011

**Table of Contents**

**Board of directors**

8 BP Annual Report and Form 20-F 2010

---

**Table of Contents**

Business review  
BP Annual Report and Form 20-F 2010 9

---

**Table of Contents**

Business review

Group chief

executive's letter

Dear fellow shareholder

The tragic events of 2010 will forever be written in the memory of this company and the people who work here. The explosion and fire on the Deepwater Horizon rig shocked everyone within BP, and we feel great sadness that 11 people died. We are deeply sorry for the grief felt by their families and friends. We know nothing can restore the loss of those men.

The accident on 20 April 2010 turned into an unprecedented oil spill with deep consequences for jobs, businesses, communities, the environment and our industry. From this grew a corporate crisis that threatened the very existence of the company. And it all started in a part of the world that's very close to my heart. I grew up in Mississippi, and spent summers with my family swimming and fishing in the Gulf. I know those beaches and waters well. When I heard about the accident I could immediately picture how it might affect the people who live and work along that coast. Yet, just days before the accident, I had been reflecting on the progress made by BP. The company had put safe and reliable operations at the centre of everything, and we had turned a corner on financial performance. Then came the unthinkable. A subsea blowout in deep water was seen as a very, very low-probability event, by BP and the entire industry – but it happened.

Following the accident, a search-and-rescue operation was carried out by the rig's owner, Transocean, together with BP and the US Coast Guard. This continued for four days and covered 5,000 square miles. On 22 April 2010 the Deepwater Horizon sank, and a major oil spill response was activated. At its peak this involved the mobilization of some 48,000 people, the deployment of around 2,500 miles of boom and the co-ordination of more than 6,500 vessels. Field operations brought together experts from key agencies, organizations and BP. Thousands of our people flew in from around the world and stayed and worked for weeks and months. Nearly 500 retirees from BP America called up to say they wanted to help. This was an extraordinary response.

As the response developed, the problems grew in complexity and scale. Tackling the leak on the seabed demanded groundbreaking technical advances and dauntless spirit. We also found ourselves in the midst of intense political and media scrutiny. We received incredible support and faced tremendous criticism, but our priorities remained clear: provide support to the families and friends of those 11 men who died, stop the leak, attack the spill, protect the shore, support all the people and places affected. We also committed to carry out an immediate and detailed internal investigation.

As a responsible party, under the Oil Pollution Act, we knew we would face wide-ranging claims and potential fines, but we resolved to go beyond what the law required of us. We made swift payments to support local economies, and gave a total of \$138 million in direct state grants during 2010, which included behavioural health programmes. We set up the \$20-billion Deepwater Horizon Oil Spill Trust to meet individual, business, government, local and state claims, and natural resource damages. We provided \$500 million for the Gulf of Mexico Research Initiative, which is funding independent research to investigate impacts on affected ecosystems. And we contributed to a \$100-million fund to support rig workers hit by the drilling moratorium.

To meet our financial commitments, we announced the sale of up to \$30 billion in assets and, by the end of 2010, had agreed to \$22 billion of disposals. We have also cut back on discretionary capital spending and secured additional credit lines. The sound underlying performance across our business continues to give us a solid foundation, and speaks volumes for the inner strengths of BP and our people.

As part of our response, we took the decision to cancel further dividends in 2010. While we know that many shareholders rely on their regular payments, we also had to protect the company and secure its long-term future. The board of BP took this decision with a heavy heart, but I believe it was the right thing to do in truly exceptional circumstances.

Our investigation report was published on 8 September 2010, and found that no single factor caused the accident. The report stated that decisions made by multiple companies and work teams contributed to the accident, and these arose from a complex and interlinked series of mechanical, human judgement, engineering design, operational implementation and team interface failures.

We have accepted and are implementing the report's recommendations. We are also sharing what we have learned with governments and others in our industry, and we are co-operating with a series of other investigations, inquiries and hearings.

2010 stands as an inflexion point for BP and our industry, and it is right that we should help lead the development of better ways to operate in deep water. Good risk identification and management is integral to becoming safer, and we are working with governments, service contractors and industry peers to take risk management and equipment design to the next level. Within BP, we have introduced more layers of protection and resilience, with our new safety and operational risk function empowered to intervene in any operation. To enhance our specialist expertise and risk management, we have re-organized our upstream business into three divisions – Exploration, Developments and Production. To encourage excellence in risk management throughout the organization,

**Table of Contents**

Business review

we are reviewing how we incentivize and reward people. And to think hard about what was previously unthinkable, we are looking further afield for insight and wisdom. I have spent time with experts from the nuclear and chemicals industries, and I am convinced that we in the energy industry have much to learn from them and others. We must take what we learn and embed it deep in the fabric of our organization.

Part of BP's task right now is to show we can be trusted to handle the industry's most demanding jobs, including exploration and production in deep water. Around 7% of the world's oil supplies come from this source, and we expect this will rise to nearly 10% by 2020. We are one of only a handful of companies with the financial and technological strengths needed to operate in these geographies. Before April 2010, BP had drilled safely in the deep waters of the Gulf of Mexico for 20 years. The governments of Egypt, China, Indonesia, Azerbaijan and the UK have shown confidence in our ability to operate safely at depths, having signed new deepwater drilling agreements with us in the second half of 2010.

It is important to remember why companies such as BP have to take on the risks they do. Around 40 years ago, international oil companies had access to the majority of the world's oil reserves. Today these companies can access a much smaller share. This still provides substantial opportunities for value creation, but reaching many of those reserves requires us to overcome severe physical, technical, intellectual and geopolitical challenges. Global energy demand continues to rise, so the world needs BP and others to meet these challenges in an environmentally sustainable way. In doing this, we can never eliminate every hazard, but we can become an industry leader in understanding and limiting risk. That's our goal.

Clearly, one of the consequences of the events of 2010 was a substantial loss of value and returns for our shareholders. I am pleased that we have been able to resume dividend payments, and our intention is to grow the dividend level in line with the company's improving circumstances. We are now taking action to create and realize greater value. We are increasing our investment in exploration, which is one of our distinctive strengths.

We are gaining access to a wide range of new upstream resource opportunities, and already have 32 project start-ups planned between now and 2016. We are taking an even more active approach to buying, developing and selling upstream assets, with a focus on maximizing returns rather than building volume. And we are divesting roughly half of our US refining capacity, so we can focus downstream investments on refining positions and marketing businesses where we have competitive advantage. This builds on the success BP's Refining and Marketing business has achieved in driving itself back to significantly improved performance and returns over the past few years.

In short, BP is moving swiftly to address its weaknesses and build on its strengths. While doing this we will not hesitate to go beyond the conventional business model of an international oil company. Since 2003 we have had a strong alliance onshore in Russia with TNK-BP. In January 2011 we a