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# Directors' remuneration report

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## Directors' remuneration report

### Part 1 Summary

BP executives delivered a strong performance in a turbulent environment during 2008 and restored the group's operations to a high standard after several years of focused effort. We commend them for a job well done.

Key financial targets for the year were exceeded, even after adjusting for the effect of high oil prices during part of the year. Safe and reliable operations remained at the top of the agenda and key safety metrics and milestones were achieved. The year's results were especially strong in Exploration and Production, with the start-up of the Thunder Horse platform and excellent overall reserves replacement. Key targets were also met in Refining and Marketing and both the Texas City and Whiting refineries were safely restored to full capacity by the end of the year. The annual bonus results, set out in the table opposite, reflect this strong performance and determined leadership.

The committee undertook a detailed review of BP's underlying performance against competitors in determining the 2006-2008 share element vesting under the executive directors' incentive plan (EDIP). This review included financial measures such as earnings per share, returns on average capital employed, free cash flow, operating measures for both Exploration and Production and Refining and Marketing, and non-financial measures for safety and reputation. All measures were compared across competitors and showed BP firmly in the pack of the other European oil majors. The comparison of total shareholder return (TSR) was less favourable to BP, partly due to exchange rate movements and turbulence in the financial markets. After careful review, the committee concluded that TSR alone was not a fair reflection of underlying performance over the 2006-2008 period. We concluded that it was appropriate to approve the vesting of 15% of the shares in the plan for the current directors. This too is set out in the table opposite.

Salaries were increased mid-2008 after our normal review. For 2009, we have agreed with the group chief executive's view that salaries should be frozen at their current level. There also will be no change in the target and normal maximum levels of bonus for 2009. The group chief executive's and group chief financial officer's bonuses will be based 70% on group performance against key metrics in the annual plan, 15% on safety performance and 15% on people. The chief executives of Exploration and Production and Refining and Marketing will have 50% of their bonuses determined on the above basis and 50% on the performance of their respective businesses.

The EDIP share element will again provide the long-term component of remuneration for the 2009-2011 period, with some slight modifications. First, reflecting its recent growth, ConocoPhillips will be added to the peer group of comparators (currently ExxonMobil, Shell, Total and Chevron). Second, to provide a more balanced assessment, vesting will be based half on BP's total shareholder return relative to the peer group and half on underlying performance compared with this same peer group. BP's performance will be compared on an interpolated basis relative to the performance of the other five. As in previous years, shares will vest at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively and none for fourth or fifth.

We remain committed to a remuneration policy and practice that aligns with the long-term interests of shareholders and provides an appropriate reward for talented and committed executives. In the current volatile climate, executive leadership is more important than ever. The committee will continue to use careful and rigorous judgement in assessing performance, and to communicate our assessment in a clear way to shareholders.

**Dr DeAnne S Julius**

Chairman, Remuneration Committee

24 February 2009

### Summary of remuneration of executive directors in 2008<sup>a</sup>

|  | Annual remuneration |                |                                     |                |   |                         | Long-term remuneration              |                      |                                     |  |                               |   |         |
|--|---------------------|----------------|-------------------------------------|----------------|---|-------------------------|-------------------------------------|----------------------|-------------------------------------|--|-------------------------------|---|---------|
|  |                     |                |                                     |                |   |                         | Share element of EDIP <sup>b</sup>  |                      |                                     |  |                               |   |         |
|  | Salary (thousand)   |                | Annual performance bonus (thousand) |                | Non-cash benefits and other emoluments (thousand) |                         | 2005-2007 plan (vested in Feb 2008) |                      | 2006-2008 plan (vested in Feb 2009) |  | 2008-2010 plan                |   |         |
| 2007                                       | 2008                | 2007           | 2008                                | 2007           | 2008  | 2007                    | 2008                                | Actual shares vested | Value (thousand)                    | Actual <sup>c</sup> shares vested (thousand) | Value <sup>d</sup> (thousand) | Potential maximum performance shares <sup>e</sup> |         |
| Dr A B Hayward                             | £877                | <b>£998</b>    | £1,262                              | <b>£1,496</b>  | £14   | <b>£15</b>              | £2,153                              | <b>£2,509</b>        | 0                                   | 0  | 66,136                        | £336  | 845,319 |
| I C Conn                                   | £581                | <b>£670</b>    | £698                                | <b>£871</b>    | £45   | <b>£45</b>              | £1,324                              | <b>£1,586</b>        | 0                                   | 0  | 66,136                        | £336  | 578,376 |
| Dr B E Grote                               | \$1,175             | <b>\$1,340</b> | \$1,551                             | <b>\$1,742</b> | \$10  | <b>\$8</b>              | \$2,736                             | <b>\$3,090</b>       | 0                                   | 0  | 80,231 <sup>f</sup>           | \$603   | 581,748 |
| A G Inglis                                 | £556                | <b>£670</b>    | £800                                | <b>£1,173</b>  | £188  | <b>£212<sup>g</sup></b> | £1,544                              | <b>£2,055</b>        | 0                                   | 0  | 54,994                        | £279  | 578,376 |
| <b>Directors leaving the board in 2008</b> |                     |                |                                     |                |   |                         |                                     |                      |                                     |  |                               |   |         |
| Dr D C Allen <sup>h</sup>                  | £500                | <b>£128</b>    | £539                                | <b>£163</b>    | £13   | <b>£3</b>               | £1,052                              | <b>£294</b>          | 0                                   | 0  | 34,518                        | £175  | n/a     |

Amounts shown are in the currency received by executive directors. Annual bonuses are shown in the year they were earned.

<sup>a</sup>This information has been subject to audit.

<sup>b</sup>Or equivalent plans in which the individual participated prior to joining the board.

<sup>c</sup>Includes shares representing reinvested dividends received on the shares that vested at the end of the performance period.

<sup>d</sup>Based on market price on vesting date (£5.08 per share/\$45.13 per ADS).

<sup>e</sup>Maximum potential shares that could vest at the end of the three-year period depending on performance.

<sup>f</sup>Dr Grote holds shares in the form of ADSs. The above number reflects calculated equivalent in ordinary shares.

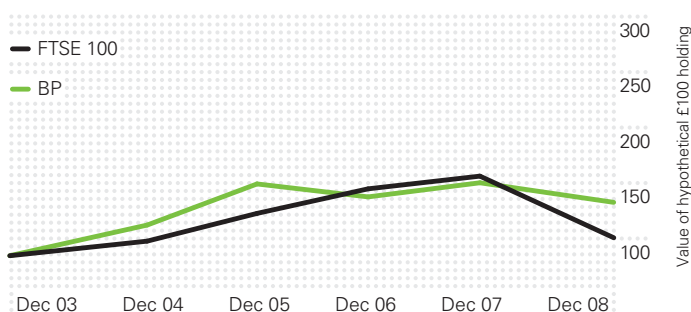
<sup>g</sup>This amount includes costs of London accommodation provided to Mr Inglis. In addition, under a tax equalization arrangement, BP also discharged a US tax liability arising on his participation in the UK pension scheme amounting to \$553,175.

<sup>h</sup>Dr Allen resigned from the board on 31 March 2008. In addition to the above, he was awarded compensation for loss of office equal to one year's salary (£510,000). He also received £30,000 in respect of statutory rights and retained his company car.

### Pensions

All executive directors are part of a final salary pension scheme. Accrued annual pension earned as at 31 December 2008 is £561,000 for Dr Hayward, £264,000 for Mr Conn, \$868,000 for Dr Grote and £326,000 for Mr Inglis.

### Historical TSR performance



This graph shows the growth in value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years, relative to the FTSE 100 Index (of which the company is a constituent). The values of the hypothetical £100 holdings at the end of the five-year period were £144.36 and £115.05 respectively.

### Remuneration of non-executive directors in 2008<sup>a</sup>

|  | £ thousand |            |
|--|------------|------------|
|  | 2007       | 2008       |
| A Burgmans                                 | 86         | <b>90</b>  |
| Sir William Castell                        | 87         | <b>108</b> |
| C B Carroll                                | 43         | <b>93</b>  |
| G David <sup>b</sup>                       | n/a        | <b>100</b> |
| E B Davis, Jr                              | 107        | <b>105</b> |
| D J Flint                                  | 86         | <b>90</b>  |
| Dr D S Julius                              | 106        | <b>110</b> |
| Sir Tom McKillop                           | 87         | <b>95</b>  |
| Sir Ian Prosser                            | 137        | <b>170</b> |
| P D Sutherland                             | 517        | <b>600</b> |
| <b>Directors leaving the board in 2008</b> |            |            |
| Dr W E Massey <sup>c</sup>                 | 133        | <b>90</b>  |

<sup>a</sup>This information has been subject to audit.

<sup>b</sup>Appointed on 11 February 2008.

<sup>c</sup>Also received a superannuation gratuity of £23,000.

In 2008 the board, after a review, determined that in future it would continue to set the remuneration of the non-executive directors. However, in the case of the chairman this would be based on a recommendation from the remuneration committee and, for the non-executive directors, it would be based on a recommendation from the chairman.

This process was adopted in 2008 and recommendations were made. However, the chairman and the non-executive directors informed the board that, in the current economic circumstances, they did not wish to receive any increase in remuneration for 2009. The board accordingly maintained the fees at the 2008 level for 2009 save that no committee membership fee would in future be paid to members of the nomination committee.

## Part 2 Executive directors' remuneration

### 2008 remuneration

#### Salary increases

As part of our normal cycle, salaries were reviewed mid-year and were increased to reflect market competitiveness and personal performance. Dr Hayward's salary was increased 10% to £1,045,000, and the other executive directors by 6% to the following: Mr Conn £690,000, Dr Grote \$1,380,000 and Mr Inglis £690,000.

#### Annual bonus result

Performance measures and targets were set at the beginning of the year based on the annual plan. The target level bonus of 120% of base salary placed 50% on group financial and operating results including earnings before interest, taxes, depreciation and amortization (EBITDA), cash costs, cash flow, return on average capital employed (ROACE) and capital expenditure. The remaining portion was weighted 25% on safety, 25% on people and 20% on individual performance, principally operating results and leadership.

Overall performance for 2008 was very strong and is more fully set out in other parts of this report. Financial results exceeded targets for EBITDA, free cash flow and returns on average capital employed, even after adjusting for the high oil prices for part of the year. Cash costs were managed below target, and capital expenditure within expected levels.

Operationally, the upstream business had an excellent year, replacing a high proportion of proved reserves, exceeding its production target and successfully starting up the important Thunder Horse development in the Gulf of Mexico. The downstream business successfully and safely completed the full re-commissioning of the Texas City and Whiting refineries and improved overall performance. Alternative Energy exceeded its targets for wind and met its solar sales target.

Safe and reliable operations remained at the top of the agenda and performance, both in terms of safety metrics and progress on OMS implementation, was assessed as satisfactory by the safety, ethics and environment assurance committee (SEEAC). On the people front, significant progress was made in reducing complexity and embedding a performance culture throughout the group.

Annual bonus results for 2008 reflect this overall strong performance and committed leadership and are set out in the table on page 79.

#### 2006-2008 share element result

Performance for the share element is assessed relative to the TSR of the company compared with the other oil majors – ExxonMobil, Shell, Total and Chevron. Recognizing the inherent imperfections in a TSR ranking, the EDIP rules give the committee power to adjust (upwards or downwards) the vesting level derived from the TSR ranking if it considers that the ranking does not fairly reflect BP's underlying business performance relative to the comparators. This is designed to enable a more comprehensive review of BP's long-term performance, with the aims of tempering anomalies created by relying solely on a formula-based approach.

For the 2006-2008 plan, BP was fifth relative to the other majors in terms of TSR when calculated on a common currency (US dollar) basis as originally anticipated. However, unusually large currency movements at the end of this period were an extraneous influence on this result. On a local currency basis, the TSRs of BP, Shell and Total were tightly bunched together. The committee also reviewed BP's underlying business performance relative to the comparator companies over the full three-year period. This review included financial measures (earning per share growth, ROACE, free cash flow, net income), operating measures (production, reserves replacement and Refining and Marketing profitability), and non-financial measures (health, safety and environmental and reputation). Again, the performance of the European comparators was quite similar: BP led the group on some measures (notably free cash flow and reserves replacement) but lagged on Refining and Marketing profitability.

The committee concluded that the TSR result, by itself, was not a fair reflection of BP's relative underlying performance over the period. After thorough consideration, the committee determined that 15% of the shares under the 2006-08 award should vest – this being a fair reflection of the overall results achieved and consistent with its approach to the clustering of results, as anticipated in the EDIP rules approved by shareholders in 2005.

In accordance with its powers under the EDIP rules, the committee also determined that, as there was clear evidence of a progressive turnaround of performance over the final 18 months of the performance period, individual vesting levels should only occur to the extent that eligible individuals contributed to the turnaround. The resulting final vesting for all eligible participants is shown in the table on page 83.

Mr Inglis's award was made prior to his appointment as an executive director under the MTPP (medium term performance plan) that is the comparable plan to the EDIP. Vesting conditions were the same as for the EDIP for Mr Inglis but, unlike the EDIP, the MTPP does not have a three-year retention period.

Lord Browne also held an award under the 2006-08 share element related to long-term leadership measures. These focused on sustaining BP's financial, strategic and organizational health. Performance relative to the award was assessed by the chairman's committee and, based on this assessment, no shares were vested.

#### Remuneration policy

Our remuneration policy for executive directors aims to ensure there is a clear link between the company's purpose, its business plans and executive reward, with pay varying with performance. In order to achieve this, the policy is based on these key principles:

- The majority of executive remuneration will be linked to the achievement of demanding performance targets, independently set to support the creation of long-term shareholder value.
- The structure will reflect a fair system of reward for all the participants.
- The remuneration committee will determine the overall amount of each component of remuneration, taking into account the success of BP and the competitive environment.
- There will be a quantitative and qualitative assessment of performance, with the remuneration committee making an informed judgement within a framework approved by shareholders.
- Remuneration policy and practice will be as transparent as possible.
- Executives will develop a significant personal shareholding in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the group will be taken into account, especially in setting annual salary increases.
- The remuneration policy for executive directors will be reviewed regularly, independently of executive management, and will set the tone for the remuneration of other senior executives.
- The remuneration committee will actively seek to understand shareholder preferences.

Executive directors' total remuneration consists of salary, annual bonus, long-term incentives, pensions and other benefits. The remuneration committee reviews this structure regularly to ensure it is achieving its aims. In 2008, over three-quarters of executive directors' total potential remuneration was performance related. The same will be true for total potential remuneration in 2009.

### Salary

The remuneration committee normally reviews salaries annually, taking into account other large Europe-based global companies and companies in the US oil and gas sector. These groups are each defined and analyzed by the committee's independent remuneration advisers. For 2009, the committee has agreed with the group chief executive's view that salaries should be frozen at their current level.

### Annual bonus

All executive directors are eligible to take part in an annual performance-based bonus scheme. The remuneration committee sets bonus targets and levels of eligibility each year.

The target level for 2009 is 120% of base salary. In normal circumstances, the maximum payment for substantially exceeding performance targets will continue to be 150% of base salary.

The group chief executive's and group chief financial officer's bonus will be determined on group results as follows:

- 70% on group performance compared with key metrics and milestones from the annual plan including:
  - Cash costs and organic capex.
  - Underlying replacement cost profit and operating cash flow.
  - Production and reserves replacement.
  - Refining availability and earnings/barrel.
  - Installed wind capacity.
- 15% on safety performance, including satisfactory and improving key metrics as well as progress on OMS implementation.
- 15% on people, including behaviour, culture and values.

For the chief executive of Exploration and Production, and the chief executive of Refining and Marketing, 50% of their bonus will be based on the above group results and 50% on the results of their respective businesses as measured by key metrics and milestones set out in the annual plan. For Exploration and Production, these include production costs and reserves replacement as well as safety and new opportunities. For Refining and Marketing, they include refining availability, earnings and cash costs, as well as safety and work simplification.

The remuneration committee will also review carefully the underlying performance of the group in light of company business plans and will look at competitors' results, analysts' reports and the views of the chairmen of other BP board committees when assessing results.

In exceptional circumstances, the remuneration committee can decide to award bonuses moderately above the maximum level. The committee can also decide to reduce bonuses where this is warranted and, in exceptional circumstances, bonuses could be reduced to zero. We have a duty to shareholders to use our discretion in a reasonable and informed manner, acting to promote the success of the company, and also to be accountable and transparent in our decisions. Any significant exercise of discretion will be explained in the subsequent directors' remuneration report.

### Long-term incentives

Each executive director participates in the EDIP. It has three elements: shares, share options and cash. The remuneration committee does not intend to use either the share option or cash elements in 2009, nor to grant any retention awards which are also permitted under the EDIP. We intend that executive directors will continue to receive performance shares under the EDIP, barring unforeseen circumstances, until it expires or is renewed in 2010.

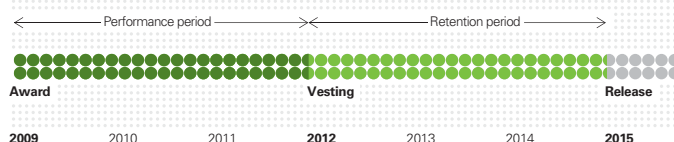
### Policy for performance share awards

The remuneration committee can award shares to executive directors that will only vest to the extent that demanding performance conditions are satisfied at the end of a three-year period. The maximum number of these performance shares that can be awarded to an executive director in any year is at the discretion of the remuneration committee, but will not normally exceed 5.5 times base salary.

In exceptional circumstances, the committee also has an overriding discretion to reduce the number of shares that vest or to decide that no shares vest.

The compulsory retention period will also be decided by the committee and will not normally be less than three years. Together with the performance period, this gives executive directors a six-year incentive structure, as shown in the timeline below, which is designed to ensure their interests are aligned with those of shareholders.

### Timeline for 2009-2011 EDIP share element



Where shares vest, the executive director will receive additional shares representing the value of the reinvested dividends.

The committee's policy continues to be that each executive director build a significant personal shareholding, with a target of shares equivalent in value to five times his or her base salary within a reasonable timeframe from appointment as an executive director. This policy is reflected in the terms of the performance shares under the EDIP, as shares vested will normally only be released at the end of the three-year retention period, described above, if these minimum shareholding guidelines are met.

### Performance conditions

Performance conditions for the 2009-11 share element will be somewhat modified from previous years. First, the peer group of oil majors against which we compare will be increased to include ConocoPhillips as well as ExxonMobil, Shell, Total and Chevron as previously. This change reflects ConocoPhillips' significant growth over the last few years, providing it with similar scale and global reach to the other oil majors.

Second, vesting of the shares will be based 50% on total shareholder return (TSR) versus the competitor group and 50% on a balanced scorecard of underlying performance versus the same competitors. The underlying performance will be assessed on three measures reflecting key priorities in BP's strategy – in Exploration and Production, hydrocarbon production growth, in Refining and Marketing, improvement in earnings per barrel, and group increase in underlying net income. Both Exploration and Production production growth and Refining and Marketing earnings improvement are key strategic objectives for the group and this inclusion aligns key measures with both executive director priorities as well as key drivers of value for shareholders. Group increase in underlying net income acts as a holistic measure of success reflecting revenues, costs and complexity as well as safe and reliable operations.

All the above measures will be compared with the five other oil majors to determine the overall vesting result. The methodology used will rank each of the five other majors on each of the measures. BP's performance will then be compared on an interpolated basis relative to the performance of the other five. For performance between second and third or first and second, the result will be interpolated based on BP's performance relative to the company ranked directly above and below it. As in previous years, performance shares will vest at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively and none for fourth or fifth place. The three underlying measures will be averaged to form the balanced scorecard component.

The committee considers that this combination of measures provides a good balance of external as well as internal metrics reflecting both shareholder value and operating priorities. As in previous years, the committee will exercise its discretion, in a reasonable and informed manner to adjust vesting levels upwards or downwards if it concludes the above quantitative approach does not reflect the true underlying health and performance of BP's business relative to its peers. It will explain any adjustments in the next directors' remuneration report following the vesting, in line with its commitment to transparency.

### Pensions

Executive directors are eligible to participate in the appropriate pension schemes applying in their home countries. Additional details are given in the table below.

#### UK directors

UK directors are members of the regular BP Pension Scheme. The core benefits under this scheme are non-contributory. They include a pension accrual of 1/60th of basic salary for each year of service, up to a maximum of two-thirds of final basic salary and a dependant's benefit of two-thirds of the member's pension. The scheme pension is not integrated with state pension benefits.

The rules of the BP Pension Scheme were amended in 2006 such that the normal retirement age is 65. Prior to 1 December 2006, scheme members could retire on or after age 60 without reduction. Special early retirement terms apply to pre-1 December 2006 service for members with long service as at 1 December 2006.

Pension benefits in excess of the individual lifetime allowance set by legislation are paid via an unapproved, unfunded pension arrangement provided directly by the company.

Although Mr Inglis is, like other UK directors, a member of the BP Pension Scheme, he is currently based in Houston, US. His participation in the BP Pension Scheme gives rise to a US tax liability. During 2008, the committee approved the discharge of this US tax liability under a tax equalization arrangement in respect of the period since Mr Inglis became a director in February 2007, amounting to \$553,175.

#### US directors

Dr Grote participates in the US BP Retirement Accumulation Plan (US plan), which features a cash balance formula. Pension benefits are provided through a combination of tax-qualified and non-qualified benefit restoration plans, consistent with US tax regulations as applicable.

The Supplemental Executive Retirement Benefit (supplemental plan) is a non-qualified top-up arrangement that became effective on 1 January 2002 for US employees above a specified salary level. The benefit formula is 1.3% of final average earnings, which comprise base salary and bonus in accordance with standard US practice (and as specified under the qualified arrangement), multiplied by years of service. There is an offset for benefits payable under all other BP qualified and non-qualified pension arrangements. This benefit is unfunded and therefore paid from corporate assets.

Dr Grote is eligible to participate under the supplemental plan. His pension accrual for 2008, shown in the table below, includes the total amount that could become payable under all plans.

#### Other benefits

Executive directors are eligible to participate in regular employee benefit plans and in all-employee share saving schemes and savings plans applying in their home countries. Benefits in kind are not pensionable. Expatriates may receive a resettlement allowance for a limited period.

As Mr Inglis is currently based in Houston, US, BP provides accommodation in London.

### Pensions<sup>a</sup>

|  | Service at<br>31 Dec 2008 | Accrued pension<br>entitlement<br>at 31 Dec 2008 | Additional pension<br>earned during the<br>year ended<br>31 Dec 2008 <sup>b</sup> | Transfer value of<br>accrued benefit <sup>c</sup><br>at 31 Dec 2007 (A) | Transfer value of<br>accrued benefit <sup>c</sup><br>at 31 Dec 2008 (B) | Amount of B-A less<br>contributions made by<br>the director in 2008 |
|--|---------------------------|--|---|---|---|---|
|  |                           |  |   |   |   | thousand  |
| Dr A B Hayward (UK)                        | 27 years                  | £561   | £72   | £7,986  | £8,045  | £9  |
| I C Conn (UK)                              | 23 years                  | £264   | £26   | £3,375  | £3,161  | (£214)  |
| Dr B E Grote (US)                          | 29 years                  | \$868  | \$45  | \$7,901   | \$11,220  | \$2,860   |
| A G Inglis (UK)                            | 28 years                  | £326   | £30   | £4,613  | £4,399  | (£214)  |
| <b>Directors leaving the board in 2008</b> |                           |  |   |   |   |   |
| Dr D C Allen (UK) <sup>d</sup>             | n/a                       | £260   | £12   | £4,256  | £5,580  | £1,324  |

<sup>a</sup>This information has been subject to audit.

<sup>b</sup>Additional pension earned during the year includes an inflation increase of 4.0% for UK directors and 5.8% for US directors.

<sup>c</sup>Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

<sup>d</sup>Dr D C Allen retired on 31 March 2008 and commuted part of his pension for a lump sum. The figures above make no allowance for the payment of this lump sum. If allowance is made (in line with the strict requirements of the regulations), and the transfer value at the end of the year is based on the pension in payment at that time, then the transfer value at 31 December 2008 would be £4.55 million and the change in value over the year would be £0.29 million.

**Share element of EDIP<sup>a</sup>**

|  |                        |                                     |  | Share element interests                           |              |                  | Interests vested in 2008 and 2009             |                   |  |
|--|------------------------|-------------------------------------|--|---|--------------|------------------|---|-------------------|--|
|  | Performance period     | Date of award of performance shares | Market price of each share at date of award of performance shares<br>£ | Potential maximum performance shares <sup>b</sup> |              |                  | Number of ordinary shares vested <sup>c</sup> | Vesting date      | Market price of each share at vesting<br>£ |
|  |                        |                                     |  | At 1 Jan 2008                                     | Awarded 2008 | At 31 Dec 2008   |   |                   |  |
| Dr A B Hayward                             | 2005-2007              | 28 Apr 2005                         | 5.33   | 436,623   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>383,200</b>                                    | –            | <b>383,200</b>   | <b>66,136</b>                                 | <b>6 Feb 2009</b> | <b>5.08</b>                                |
|  | 2007-2009              | 06 Mar 2007                         | 5.12   | 706,311   | –            | 706,311          | –   | –                 | –  |
|  | 2008-2010              | 13 Feb 2008                         | 5.61   | –   | 845,319      | 845,319          | –   | –                 | –  |
| I C Conn                                   | 2005-2007              | 28 Apr 2005                         | 5.33   | 415,832   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>383,200</b>                                    | –            | <b>383,200</b>   | <b>66,136</b>                                 | <b>6 Feb 2009</b> | <b>5.08</b>                                |
|  | 2007-2009              | 06 Mar 2007                         | 5.12   | 456,748   | –            | 456,748          | –   | –                 | –  |
|  | 2008-2010              | 13 Feb 2008                         | 5.61   | –   | 578,376      | 578,376          | –   | –                 | –  |
|  | 2008-2011 <sup>d</sup> | 13 Feb 2008                         | 5.61   | –   | 133,452      | 133,452          | –   | –                 | –  |
|  | 2008-2013 <sup>d</sup> | 13 Feb 2008                         | 5.61   | –   | 133,452      | 133,452          | –   | –                 | –  |
| Dr B E Grote <sup>e</sup>                  | 2005-2007              | 28 Apr 2005                         | 5.33   | 501,782   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>470,432</b>                                    | –            | <b>470,432</b>   | <b>80,231</b>                                 | <b>6 Feb 2009</b> | <b>5.08</b>                                |
|  | 2007-2009              | 06 Mar 2007                         | 5.12   | 491,640   | –            | 491,640          | –   | –                 | –  |
|  | 2008-2010              | 13 Feb 2008                         | 5.61   | –   | 581,748      | 581,748          | –   | –                 | –  |
| A G Inglis                                 | 2005-2007              | 8 Mar 2005                          | 5.70   | 209,000   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>27 Mar 2006</b>                  | <b>6.59</b>  | <b>325,750</b>                                    | –            | <b>325,750</b>   | <b>54,994</b>                                 | <b>6 Feb 2009</b> | <b>5.08</b>                                |
|  | 2007-2009              | 06 Mar 2007                         | 5.12   | 400,243   | –            | 400,243          | –   | –                 | –  |
|  | 2008-2010              | 13 Feb 2008                         | 5.61   | –   | 578,376      | 578,376          | –   | –                 | –  |
|  | 2008-2011 <sup>d</sup> | 13 Feb 2008                         | 5.61   | –   | 133,452      | 133,452          | –   | –                 | –  |
|  | 2008-2013 <sup>d</sup> | 13 Feb 2008                         | 5.61   | –   | 133,452      | 133,452          | –   | –                 | –  |
| <b>Directors leaving the board in 2008</b> |                        |                                     |  |   |              |                  |   |                   |  |
| Dr D C Allen                               | 2005-2007              | 28 Apr 2005                         | 5.33   | 436,623   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>383,200</b>                                    | –            | <b>383,200</b>   | <b>34,518</b>                                 | <b>6 Feb 2009</b> | <b>5.08</b>                                |
|  | 2007-2009              | 06 Mar 2007                         | 5.12   | 456,748   | –            | 456,748          | –   | –                 | –  |
| <b>Former directors</b>                    |                        |                                     |  |   |              |                  |   |                   |  |
| Lord Browne                                | 2005-2007              | 28 Apr 2005                         | 5.33   | 2,006,767   | –            | –                | 90,232  | 6 Feb 2008        | 5.45                                       |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>1,761,249</b>                                  | –            | <b>1,761,249</b> | <b>0</b>                                      | <b>n/a</b>        | <b>n/a</b>                                 |
| J A Manzoni                                | 2005-2007              | 28 Apr 2005                         | 5.33   | 436,623   | –            | –                | 0   | n/a               | n/a  |
|  | <b>2006-2008</b>       | <b>16 Feb 2006</b>                  | <b>6.54</b>  | <b>383,200</b>                                    | –            | <b>383,200</b>   | <b>0</b>                                      | <b>n/a</b>        | <b>n/a</b>                                 |

<sup>a</sup>This information has been subject to audit. Includes equivalent plans in which the individual participated prior to joining the board.

<sup>b</sup>BP's performance is measured against the oil sector. For the 2005-2007 and subsequent awards, the performance condition is TSR measured against ExxonMobil, Shell, Total and Chevron. Each performance period ends on 31 December of the third year.

<sup>c</sup>Represents awards of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes reinvested dividends on the shares awarded.

<sup>d</sup>Restricted award under share element of EDIP. As reported in the 2007 directors' remuneration report in February 2008, the committee awarded both Mr Inglis and Mr Conn restricted shares, as set out above.

These one-off awards will vest on the third and fifth anniversary of the award, dependent on the remuneration committee being satisfied as to their personal performance at the date of vesting. Any unvested tranche will lapse in the event of cessation of employment with the company.

<sup>e</sup>Dr Grote receives awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares.

**Share options<sup>a</sup>**

|  | Option type |               |         |           | At 31 Dec 2008       | Option price       | Market price at date of exercise | Date from which first exercisable |             |
|--|-------------|---------------|---------|-----------|----------------------|--------------------|----------------------------------|-----------------------------------|-------------|
|  |             | At 1 Jan 2008 | Granted | Exercised |                      |                    |                                  |                                   | Expiry date |
| Dr A B Hayward                             | SAYE        | 3,220         | –       | –         | 3,220                | £5.00              |                                  | 01 Sep 2011                       | 29 Feb 2012 |
|  | EXEC        | 34,000        | –       | –         | 34,000               | £5.99              |                                  | 15 May 2003                       | 15 May 2010 |
|  | EXEC        | 77,400        | –       | –         | 77,400               | £5.67              |                                  | 23 Feb 2004                       | 23 Feb 2011 |
|  | EXEC        | 160,000       | –       | –         | 160,000              | £5.72              |                                  | 18 Feb 2005                       | 18 Feb 2012 |
|  | EDIP        | 220,000       | –       | –         | 220,000              | £3.88              |                                  | 17 Feb 2004                       | 17 Feb 2010 |
|  | EDIP        | 275,000       | –       | –         | 275,000              | £4.22              |                                  | 25 Feb 2005                       | 25 Feb 2011 |
| I C Conn                                   | SAYE        | 1,456         | –       | 1,456     | –                    | £3.50              | £4.72 <sup>b</sup>               | 01 Sep 2008                       | 28 Feb 2009 |
|  | SAYE        | 1,186         | –       | –         | 1,186                | £3.86              |                                  | 01 Sep 2009                       | 28 Feb 2010 |
|  | SAYE        | 1,498         | –       | –         | 1,498                | £4.41              |                                  | 01 Sep 2010                       | 28 Feb 2011 |
|  | SAYE        | –             | 617     | –         | 617                  | £4.87              |                                  | 01 Sep 2011                       | 01 Feb 2012 |
|  | EXEC        | 72,250        | –       | –         | 72,250               | £5.67              |                                  | 23 Feb 2004                       | 23 Feb 2011 |
|  | EXEC        | 130,000       | –       | –         | 130,000              | £5.72              |                                  | 18 Feb 2005                       | 18 Feb 2012 |
| Dr B E Grote <sup>c</sup>                  | BPA         | 10,404        | –       | –         | 10,404               | \$53.90            |                                  | 15 Mar 2000                       | 14 Mar 2009 |
|  | BPA         | 12,600        | –       | –         | 12,600               | \$48.94            |                                  | 28 Mar 2001                       | 27 Mar 2010 |
|  | EDIP        | 40,182        | –       | 40,182    | –                    | \$49.65            | \$65.58-\$66.50                  | 19 Feb 2002                       | 19 Feb 2008 |
|  | EDIP        | 58,173        | –       | –         | 58,173               | \$48.82            |                                  | 18 Feb 2003                       | 18 Feb 2009 |
|  | EDIP        | 58,173        | –       | –         | 58,173               | \$37.76            |                                  | 17 Feb 2004                       | 17 Feb 2010 |
|  | EDIP        | 58,333        | –       | –         | 58,333               | \$48.53            |                                  | 25 Feb 2005                       | 25 Feb 2011 |
| A G Inglis                                 | SAYE        | 4,550         | –       | –         | 4,550                | £3.50 <sup>d</sup> |                                  | 01 Sep 2008                       | 28 Feb 2009 |
|  | EXEC        | 72,250        | –       | –         | 72,250               | £5.67              |                                  | 23 Feb 2004                       | 22 Feb 2011 |
|  | EXEC        | 119,000       | –       | –         | 119,000              | £5.72              |                                  | 18 Feb 2005                       | 17 Feb 2012 |
|  | EXEC        | 119,000       | –       | –         | 119,000              | £3.88              |                                  | 17 Feb 2006                       | 16 Feb 2013 |
|  | EXEC        | 100,500       | –       | –         | 100,500              | £4.22              |                                  | 25 Feb 2007                       | 24 Feb 2014 |
| <b>Directors leaving the board in 2008</b> |             |               |         |           |                      |                    |                                  |                                   |             |
| Dr D C Allen                               | EXEC        | 37,000        | –       | –         | 37,000 <sup>e</sup>  | £5.99              |                                  | 15 May 2003                       | 15 May 2010 |
|  | EXEC        | 87,950        | –       | –         | 87,950 <sup>e</sup>  | £5.67              |                                  | 23 Feb 2004                       | 23 Feb 2011 |
|  | EXEC        | 175,000       | –       | –         | 175,000 <sup>e</sup> | £5.72              |                                  | 18 Feb 2005                       | 18 Feb 2012 |
|  | EDIP        | 220,000       | –       | –         | 220,000 <sup>e</sup> | £3.88              |                                  | 17 Feb 2004                       | 17 Feb 2010 |
|  | EDIP        | 275,000       | –       | –         | 275,000 <sup>e</sup> | £4.22              |                                  | 25 Feb 2005                       | 25 Feb 2011 |

The closing market prices of an ordinary share and of an ADS on 31 December 2008 were £5.26 and \$46.74 respectively. During 2008, the highest market prices were £6.50 and \$76.12 respectively and the lowest market prices were £3.76 and \$39.56 respectively.

BPA = BP Amoco share option plan, which applied to US executive directors prior to the adoption of the EDIP.

EDIP = Executive Directors' Incentive Plan adopted by shareholders in April 2005 as described on page 80.

EXEC = Executive Share Option Scheme. These options were granted to the relevant individuals prior to their appointments as directors and are not subject to performance conditions.

SAYE = Save As You Earn employee share scheme.

<sup>a</sup>This information has been subject to audit.

<sup>b</sup>Closing market price for information. Shares were retained when exercised.

<sup>c</sup>Numbers shown are ADSs under option. One ADS is equivalent to six ordinary shares.

<sup>d</sup>Options exercised on 21 January 2009 and the shares were retained by Mr Inglis. Closing market price for information on that date was £4.86.

<sup>e</sup>On leaving the board on 31 March 2008.

## Service contracts

### Director

|                | Contract date | Salary as at 31 Dec 2008 |
|----------------|---------------|--------------------------|
| Dr A B Hayward | 29 Jan 2003   | £1,045,000               |
| I C Conn       | 22 Jul 2004   | £690,000                 |
| Dr B E Grote   | 7 Aug 2000    | \$1,380,000              |
| A G Inglis     | 1 Feb 2007    | £690,000                 |

Service contracts have a notice period of one year and may be terminated by the company at any time with immediate effect on payment in lieu of notice equivalent to one year's salary or the amount of salary that would have been paid if the contract had been terminated on the expiry of the remainder of the notice period. The service contracts are expressed to expire at a normal retirement age of 60 (subject to age discrimination).

Dr Grote's contract is with BP Exploration (Alaska) Inc. He is seconded to BP p.l.c. under a secondment agreement of 7 August 2000, which expires on 31 March 2010. The secondment can be terminated by one month's notice by either party and terminates automatically on the termination of Dr Grote's service contract.

There are no other provisions for compensation payable on early termination of the above contracts. In the event of the early termination of any of the contracts by the company, other than for cause (or under a specific termination payment provision), the relevant director's then-current salary and benefits would be taken into account in calculating any liability of the company.

Since January 2003, new service contracts include a provision to allow for severance payments to be phased, when appropriate. The committee will also consider mitigation to reduce compensation to a departing director, when appropriate to do so.

### Director leaving the board in 2008

Dr Allen left the company at the end of March 2008. He was entitled to one year's salary (£510,000) as compensation in accordance with his contractual entitlement, as well as a pro rata bonus for 2008 and continued full participation in the 2006-08 and 2007-09 share elements, according to the normal rules of the plan.

## Executive directors – external appointments

The board encourages executive directors to broaden their knowledge and experience by taking up appointments outside the company. Each executive director is permitted to accept one non-executive appointment, from which they may retain any fee. External appointments are subject to agreement by the chairman and reported to the board. Any external appointment must not conflict with a director's duties and commitments to BP.

During the year, the fees received by executive directors for external appointments were as follows:

### Executive director

|                | Appointee company | Additional position held at appointee company | Total fees  |
|----------------|-------------------|---|---|
| Dr A B Hayward | Tata Steel        | Senior Independent Director                   | £83,000   |
| I C Conn       | Rolls-Royce       | Senior Independent Director                   | £65,000   |
| Dr B E Grote   | Unilever          | Audit committee member                        | Unilever PLC<br>£33,500<br>Unilever NV<br>€48,625 |
| A G Inglis     | BAE Systems       | Chair of Corporate Responsibility Committee   | £86,754   |

## Remuneration committee

All the members of the committee are independent non-executive directors. Throughout the year, Dr Julius (chairman), Mr Davis, Sir Tom McKillop and Sir Ian Prosser were members. The group chief executive was consulted on matters relating to the other executive directors who report to him and on matters relating to the performance of the company; neither he nor the chairman were present when matters affecting their own remuneration were discussed.

### Tasks

The remuneration committee's tasks are:

- To determine, on behalf of the board, the terms of engagement and remuneration of the group chief executive and the executive directors and to report on these to the shareholders.
- To determine, on behalf of the board, matters of policy over which the company has authority regarding the establishment or operation of the company's pension scheme of which the executive directors are members.
- To nominate, on behalf of the board, any trustees (or directors of corporate trustees) of the scheme.
- To review the policies being applied by the group chief executive in remunerating senior executives other than executive directors to ensure alignment and proportionality.
- To recommend to the board the quantum and structure of remuneration for the chairman.

### Constitution and operation

Each member of the remuneration committee is subject to annual re-election as a director of the company. The board considers all committee members to be independent (*see page 70*).

They have no personal financial interest, other than as shareholders, in the committee's decisions.

The committee met six times in the period under review. Mr Sutherland, as chairman of the board, attended all the committee meetings.

The committee is accountable to shareholders through its annual report on executive directors' remuneration. It will consider the outcome of the vote at the AGM on the directors' remuneration report and take into account the views of shareholders in its future decisions. The committee values its dialogue with major shareholders on remuneration matters.

### Advice

Advice is provided to the committee by the company secretary's office, which is independent of executive management and reports to the chairman of the board. Mr Aronson, an independent consultant, is the committee's secretary and independent adviser. Advice was also received from Mr Jackson, the company secretary.

The committee also appoints external advisers to provide specialist advice and services on particular remuneration matters. The independence of the advice is subject to annual review.

In 2008, the committee continued to engage Towers Perrin as its principal external adviser. Towers Perrin also provided limited ad hoc remuneration and benefits advice to parts of the group, principally changes in employee share plans and some market information on pay structures.

Freshfields Bruckhaus Deringer LLP provided legal advice on specific matters to the committee, as well as providing some legal advice to the group.

Ernst & Young reviewed the calculations on the financial-based targets that form the basis of the performance-related pay for executive directors, that is, the annual bonus and share element awards described on page 79, to ensure they met an independent, objective standard. They also provided audit, audit-related and taxation services for the group.

## Part 3 Non-executive directors' remuneration

### Policy

Remuneration of the chairman and the non-executive directors continues to be set by the board. The process by which the board determines that remuneration was reviewed during the year with the result that:

- The quantum and structure of the chairman's remuneration would be reviewed by the remuneration committee. The remuneration committee would then make a recommendation to the board but the chairman would not vote on his own remuneration; and
- The quantum and structure of non-executive director remuneration would be reviewed by the chairman, with support and analysis provided by the company secretary. The chairman would then make a recommendation to the board but non-executive directors would not vote on their own remuneration.

The above changes came into effect for the 2008 review of remuneration.

The other elements of BP's non-executive director remuneration policy remain unchanged:

- Within the limits set by the shareholders from time to time, remuneration should be sufficient to attract, motivate and retain world-class non-executive talent.
- Remuneration of non-executive directors is set by the board and should be proportional to their contribution towards the interests of the company.
- Remuneration practice should be consistent with recognized best-practice standards for non-executive directors' remuneration.
- Remuneration should be in the form of cash fees, payable monthly.
- Non-executive directors should not receive share options from the company.
- Non-executive directors should be encouraged to establish a holding in BP shares broadly related to one year's base fee, to be held directly or indirectly in a manner compatible with their personal investment activities, and any applicable legal and regulatory requirements.

### Fee structure

The table below shows the current fee structure for non-executive directors:

|  | £ thousand |
|--|------------|
|  | Fee level  |
| Chairman <sup>a</sup>                                    | 600        |
| Deputy chairman <sup>b</sup>                             | 120        |
| Board member   | 75         |
| Audit committee and SEEAC chairmanship fees <sup>c</sup> | 30         |
| Remuneration committee chairmanship fee <sup>c</sup>     | 20         |
| Transatlantic attendance allowance                       | 5          |
| Committee membership fee <sup>d</sup>                    | 5          |

<sup>a</sup>The chairman remains ineligible for committee chairmanship and membership fees or transatlantic attendance allowance, but has the use of a fully maintained office for company business, a chauffeured car and security advice.

<sup>b</sup>The role of deputy chairman is combined with that of senior independent director. The deputy chairman is still eligible for committee chairmanship fees and transatlantic attendance allowance plus any committee membership fees.

<sup>c</sup>Committee chairmen do not receive an additional membership fee for the committee they chair.

<sup>d</sup>For members of the audit, SEEAC and remuneration committees.

### Remuneration of non-executive directors in 2008<sup>a</sup>

|                      | £ thousand |      |
|----------------------|------------|------|
|                      | 2007       | 2008 |
| A Burgmans           | 86         | 90   |
| Sir William Castell  | 87         | 108  |
| C B Carroll          | 43         | 93   |
| G David <sup>b</sup> | n/a        | 100  |
| E B Davis, Jr        | 107        | 105  |
| D J Flint            | 86         | 90   |
| Dr D S Julius        | 106        | 110  |
| Sir Tom McKillop     | 87         | 95   |
| Sir Ian Prosser      | 137        | 170  |
| P D Sutherland       | 517        | 600  |

#### Director leaving the board in 2008

|                            |     |    |
|----------------------------|-----|----|
| Dr W E Massey <sup>c</sup> | 133 | 90 |
|----------------------------|-----|----|

<sup>a</sup>This information has been subject to audit.

<sup>b</sup>Appointed on 11 February 2008.

<sup>c</sup>Also received a superannuation gratuity of £23,000.

No share or share option awards were made to any non-executive director in respect of service on the board during 2008.

Non-executive directors have letters of appointment, which recognize that, subject to the Articles of Association, their service is at the discretion of shareholders. All directors stand for re-election at each AGM.

### Review of chairman and non-executive director remuneration

The new process for the determination of non-executive remuneration, as described earlier, was operated during the year and recommendations were made. However, the chairman and the non-executive directors informed the board that, in the current economic circumstances, they did not wish to receive any increase in remuneration for the coming year 2009.

The board, therefore, decided after review to maintain fees for 2009 at the 2008 level set out in the fee structure table, save that the committee membership fee would no longer be paid to members of the nomination committee.

### Superannuation gratuities

Until 2002, BP maintained a long-standing practice whereby non-executive directors who retired from the board after at least six years' service were eligible for consideration for a superannuation gratuity. The board was, and continues to be, authorized to make such payments under the company's Articles of Association and the amount of the payment is determined at the board's discretion, having regard to the director's period of service as a director and other relevant factors.

In 2002, the board revised its policy with respect to superannuation gratuities so that:

- Non-executive directors appointed to the board after 1 July 2002 would not be eligible for consideration for such a payment.
- While non-executive directors in service at 1 July 2002 would remain eligible for consideration for a payment, service after that date would not be taken into account by the board in considering the amount of any such payment.

The board made a superannuation gratuity of £23,000 during the year to Dr Walter Massey, who retired in April 2008. This payment was in line with the policy arrangements agreed in 2002 and outlined above.

### Non-executive directors of Amoco Corporation

Non-executive directors who were formerly non-executive directors of Amoco Corporation have residual entitlements under the Amoco Non-Employee Directors' Restricted Stock Plan. Directors were allocated restricted stock in remuneration for their service on the board of Amoco Corporation prior to its merger with BP in 1998. On merger, interests in Amoco shares in the plan were converted into interests in BP ADSs. The restricted stock will vest on the retirement of the non-executive director at the age of 70 (or earlier at the discretion of the board). Since the merger, no further entitlements have accrued to any director under the plan. The residual interests, as interests in a long-term incentive scheme, are set out in the table below, in accordance with the Directors' Remuneration Report Regulations 2002.

|   | Interest in BP ADSs<br>at 1 Jan 2008 and<br>31 Dec 2008 <sup>a</sup> | Date on<br>which director<br>reaches age 70 <sup>b</sup> |
|---|--|--|
| E B Davis, Jr                             | 4,490  | 5 Aug 2014   |
| <b>Director leaving the board in 2008</b> |  |  |
| Dr W E Massey <sup>c</sup>                | 3,346  | 5 April 2008   |

<sup>a</sup>No awards were granted and no awards lapsed during the year. The awards were granted over Amoco stock prior to the merger but their notional weighted average market value at the date of grant (applying the subsequent merger ratio of 0.66167 of a BP ADS for every Amoco share) was \$27.87 per BP ADS.

<sup>b</sup>For the purposes of the regulations, the date on which the director retires from the board at or after the age of 70 is the end of the qualifying period. If the director retires prior to this date, the board may waive the restrictions.

<sup>c</sup>Dr Massey retired from the board on 17 April 2008. He had received awards of Amoco shares under the plan between 22 June 1993 and 28 April 1998 prior to the merger. These interests had been converted into BP ADSs at the time of the merger. In accordance with the terms of the plan, the board exercised its discretion over this award on 16 May 2008 and the shares vested on that date (when the BP ADS market price was \$74.57) without payment by him.

### Past directors

Mr Miles (who was a non-executive director of BP until April 2006) was appointed as a director and non-executive chairman of BP Pension Trustees Limited in October 2006 for a term of three years. During 2008, he received £150,000 for this role.

Dr Walter Massey (who retired as a non-executive director of BP in April 2008) remained a member of the nomination committee during the year to assist in the search for a successor to BP's chairman. Dr Massey received a total fee of £15,000 for this role in 2008. Dr Massey was also appointed to the BP America board in April 2008 for a term of two years. During 2008, he received US\$93,500 for this role.

This directors' remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary, on 24 February 2009.