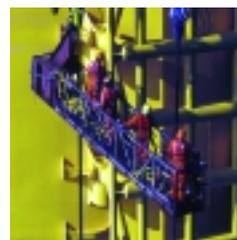




Our business is strong.  
Our company is soundly  
managed. Our people are  
determined to be the  
best in their field.



## Contents

- 2 Performance highlights
- 4 Chairman's letter
- 6 Group chief executive's review
- 8 Financial and business operating review
- 20 Environmental and social performance
- 22 Summary accounts
- 28 Corporate governance
- 30 Directors' remuneration report
- 40 Shareholdings and Annual General Meeting
- 40 Further information
- 41 Board of directors

The Annual Report and Accounts for the year ending 31 December 2002 comprises two volumes.

This volume, *Annual Report 2002*, contains the full Directors' Report on pages 1-21, 28-29 and 40-41, the Directors' Remuneration Report on pages 30-39, and a summary of the information in the annual accounts on pages 22-27. This complies with the information required under the Companies (Summary Financial Statement) Regulations 1995.

The full accounts for the year ending 31 December 2002 are contained in a separate volume, *Annual Accounts 2002*.

This volume on its own does not contain sufficient information to allow as full an understanding of the results and state of affairs of BP as when read in conjunction with *Annual Accounts 2002*. Shareholders requiring more detailed information may obtain a copy of *Annual Accounts 2002* on request, free of charge (see page 40).

As BP shares, in the form of ADSs, are listed on the New York Stock Exchange, an Annual Report on Form 20-F will be filed with the US Securities and Exchange Commission in accordance with the US Securities and Exchange Act 1934. This is expected to be filed around the end of March 2003, and copies may be obtained free of charge (see page 40).

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 subsidiary undertakings.

The term 'shareholders' in this report means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and/or indirect.

The registered office of BP p.l.c. is: 1 St James's Square, London SW1Y 4PD, UK. Telephone: +44 (0)20 7496 4000. Registered in England and Wales No. 102498. Stock exchange symbol 'BP'.

BP's Annual Report and Accounts 2002 may be downloaded from the BP website using the following URLs:

[www.bp.com/annualreport2002](http://www.bp.com/annualreport2002)

[www.bp.com/annualaccounts2002](http://www.bp.com/annualaccounts2002)

No other material on the BP website, except that found at the cited URLs, forms any part of the Annual Report and Accounts 2002.

### Cautionary statement

The Financial and business operating review and other sections of this report contain statements, particularly those regarding possible or assumed future performance, costs, dividends, returns, BP's asset portfolio and changes in it, earnings, cash flow, share repurchases, investment, debt equity ratio, reserves and growth of BP industry growth and other trend projections, that are forward-looking statements and involve risks and uncertainties. It is believed that the expectations reflected in these statements are reasonable, but actual results may differ 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; industry product supply; demand and pricing; political stability and economic growth in relevant areas of the world; development and use of new technology and successful commercial relationships; the actions of competitors; natural disasters and other changes in business conditions; and wars and acts of terrorism or sabotage.

Every day we serve around 13 million customers in more than 100 countries across six continents, providing products that improve their quality of life – fuel for transport, energy for heat and light, and petrochemicals for use in everyday items such as textiles, packaging and health products. Every day more than 100,000 people combine their energy and innovation to make BP one of the world's leading companies.

We face a time of uncertainty, with tensions in international relations, reduced stock market values and an unpredictable economic outlook. Public expectations of the behaviour of corporations grow ever stronger. All these factors must inform every decision we make and every action we take.

Our desire to deliver outstanding performance is matched by a determination to respond to new realities. It demonstrates that BP is a robust and growing business. We have clear objectives and strategy, while being guided by consistent and transparent standards and values.

## Performance highlights

These tables and charts show the highlights of BP's achievements in 2002. They reflect more than our financial performance. Our strong underlying profitability has allowed us to increase the dividend compared with 2001, and we are continuing to invest in our future performance. We also made substantial improvements in our underlying environmental and safety performance. We continue to make major financial commitments in all the communities in which we operate.

Owing to the significant acquisitions that took place in 2000, BP is presenting pro forma results, adjusted for special items, in addition to its reported results. This enables shareholders to assess current performance in the context of our past performance and against that of our competitors. The pro forma result is replacement cost profit before exceptional items excluding acquisition amortization as defined in footnote <sup>a</sup> to the reconciliation table (*below*). The pro forma result, adjusted for special items, has been derived from our UK GAAP accounting information but is not in itself a recognized UK or US GAAP measure. References within *Annual Report 2002* to 'operating result' and 'result' are to pro forma results, adjusted for special items. References to 'fixed assets', 'capital employed', 'operating capital employed' and 'net debt plus equity' are to these measures on a pro forma basis that excludes the fixed asset revaluation adjustment and goodwill consequent upon the Atlantic Richfield Company (ARCO) and Burmah Castrol acquisitions. 'Return', 'return on average capital employed'

### Key financial measures (\$ million)

	2002	2001
Pro forma result adjusted for special items	<b>8,715</b>	11,559
Replacement cost profit before exceptional items	<b>4,698</b>	8,291
Historical cost profit after exceptional items	<b>6,845</b>	6,556
Per ordinary shares – cents		
Pro forma result adjusted for special items	<b>38.90</b>	51.51
Replacement cost profit before exceptional items	<b>20.97</b>	36.95
Historical cost profit after exceptional items	<b>30.55</b>	29.21
Dividends per ordinary share – cents	<b>24.0</b>	22.0
– pence	<b>15.638</b>	15.436
Dividends per ADS – dollars	<b>1.44</b>	1.32

and the 'net debt ratio' (net debt/net debt plus equity) refer to ratios calculated using these measures.

The financial information for 2001 has been restated to reflect (i) the adoption by the group of Financial Reporting Standard No. 19 'Deferred Tax' (FRS 19) with effect from 1 January 2002 and (ii) the transfer of the solar, renewables and alternative fuels activities from the 'Other businesses and corporate' segment to Gas and Power on 1 January 2002. To reflect this transfer, Gas and Power was renamed Gas, Power and Renewables from the same date.

### Reconciliation of reported profit/loss to pro forma result adjusted for special items (\$ million)

	2002				2001			
	Reported	Acquisition amortization <sup>a</sup>	Special items <sup>b</sup>	Pro forma result adjusted for special items	Reported	Acquisition amortization <sup>a</sup>	Special items <sup>b</sup>	Pro forma result adjusted for special items
Exploration and Production	9,206	1,780	1,019	<b>12,005</b>	12,361	1,815	322	<b>14,498</b>
Gas, Power and Renewables	354	–	30	<b>384</b>	488	–	–	<b>488</b>
Refining and Marketing	872	794	415	<b>2,081</b>	3,573	770	487	<b>4,830</b>
Chemicals	515	–	250	<b>765</b>	128	–	114	<b>242</b>
Other businesses and corporate	(701)	–	186	<b>(515)</b>	(523)	–	73	<b>(450)</b>
<b>Replacement cost operating profit</b>	<b>10,246</b>	2,574	1,900	<b>14,720</b>	<b>16,027</b>	2,585	996	<b>19,608</b>
Interest expense	(1,279)	–	15	<b>(1,264)</b>	(1,670)	–	62	<b>(1,608)</b>
Taxation	(4,217)	–	(456)	<b>(4,673)</b>	(6,005)	–	(375)	<b>(6,380)</b>
Minority shareholders' interest (MSI)	(52)	–	(16)	<b>(68)</b>	(61)	–	–	<b>(61)</b>
<b>Replacement cost profit before exceptional items</b>	<b>4,698</b>	2,574	1,443	<b>8,715</b>	<b>8,291</b>	2,585	683	<b>11,559</b>
Exceptional items, net of tax	1,043	–	–	–	165	–	–	–
<b>Replacement cost profit after exceptional items</b>	<b>5,741</b>	–	–	–	<b>8,456</b>	–	–	–
Stock holding gains (losses), net of MSI	1,104	–	–	–	(1,900)	–	–	–
<b>Historical cost profit</b>	<b>6,845</b>	–	–	–	<b>6,556</b>	–	–	–

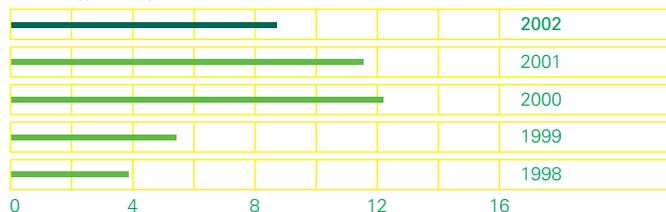
<sup>a</sup>Acquisition amortization refers to depreciation relating to the fixed asset revaluation adjustment and amortization of goodwill consequent upon the ARCO and Burmah Castrol acquisitions.

<sup>b</sup>The special items refer to non-recurring charges and credits.

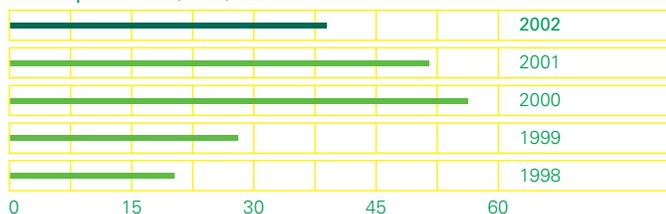
## Dividends per share (cents/pence)



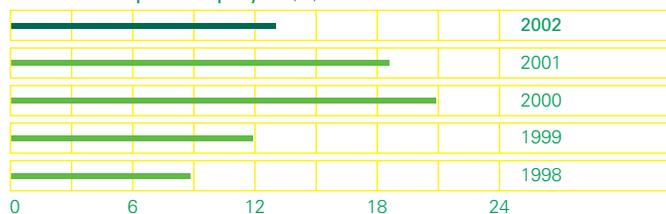
## Result (\$ billion)



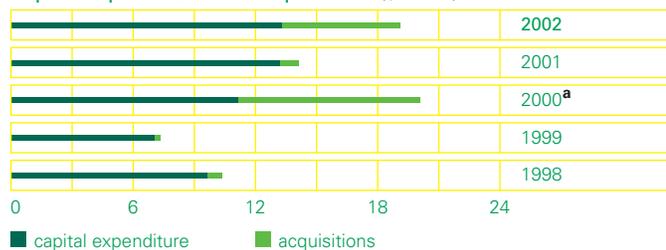
## Result per share (cents)



## Return on capital employed (%)



## Capital expenditure and acquisitions (\$ billion)



<sup>a</sup>Excludes \$27,056 for the ARCO acquisition.

## Environmental performance

	2002 BP	2002 underlying <sup>a</sup>	2001 BP
Greenhouse gas emissions (million tonnes) <sup>b</sup>	82.4	78.3	80.5
Total number of spills (>1 barrel) <sup>c</sup>	761	742	810 <sup>d</sup>
Percentage of major operations with ISO 14001 <sup>e</sup>	92	94	73

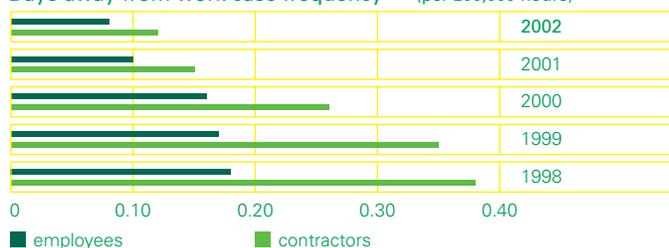
<sup>a</sup>BP operations excluding Veba.

<sup>b</sup>BP share of emissions of carbon dioxide and methane, expressed as an equivalent mass of carbon dioxide.

<sup>c</sup>1 barrel = 159 litres = 42 US gallons.

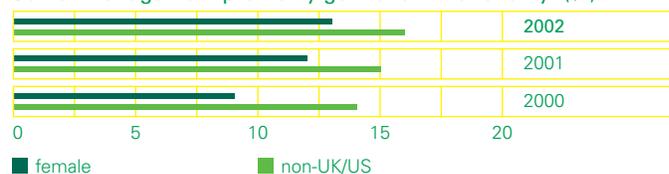
<sup>d</sup>2001 data has been restated to include all spills, whether the spill reached land or water or was contained.

<sup>e</sup>ISO 14001 is an international environmental management standard.

Days away from work case frequency<sup>a, b</sup> (per 200,000 hours)

<sup>a</sup>An injury or illness that results in a person being unable to work for a day (shift) or more.

<sup>b</sup>2002 data excludes Castrol and Veba contractors and Veba employees.

Senior management profile by gender and nationality<sup>a</sup> (%)

<sup>a</sup>Senior management includes the top 622 positions in BP.

## Community investment by region (\$ million)

	2002	2001	2000	1999	1998
UK	13.9	14.9	15.4	10.4	12.2
(including UK charities)	3.2	4.7	4.1	5.3	5.1
Rest of Europe	6.2	8.0	5.3	3.5	2.6
USA	46.3	52.9	46.0	36.4	37.0
Rest of World	18.8	18.9	14.9	17.1	13.1
Total	85.2	94.7	81.6	67.4	64.9

## Community investment by theme (\$ million)

	2002	including UK charities 2002	2001	including UK charities 2001	2000	1999	1998
Community development	24.3	0.7	33.3	0.9	28.2	29.5	15.8
Education	24.2	0.8	29.5	2.2	21.3	14.8	14.6
Environment and health	19.8	1.1	15.5	1.2	8.3	4.7	6.1
Arts and culture	6.6	0.1	8.2	-	15.0	11.0	13.6
Other	10.3	0.5	8.2	0.4	8.8	7.4	14.8
Total	85.2	3.2	94.7	4.7	81.6	67.4	64.9

## Chairman's letter

### Dear Shareholder

Weak stock markets worldwide have been driving down share prices, but I am pleased to report that we have been able to increase the total annual dividend per share to 24 cents, thanks to BP's strong underlying performance in 2002. This is a dividend increase in dollar terms of 9.1% over 2001.

This further increase is a testament to the performance we delivered in business conditions that remained difficult throughout the year. It reflects the success of our strategy of continually seeking to improve our portfolio of assets and of establishing leading market positions. The completion of the acquisition of Veba Oil in 2002 is a notable example.

Our fundamental objective is to protect and enhance shareholder value in a sustainable way, in both the short and long term. In order to fulfil this responsibility to our global shareholder base, we place great emphasis on the duties of the non-executive directors. They form a majority on the board and its committees and their role as champions of shareholders' interests is increasingly widely recognized.

We must recognize too that the oil business has a long-term project development cycle and the industry itself is cyclical over an extended period. In these circumstances, the board believes it is strongly in the shareholders' interests to have a number of non-executive directors with longer-term experience of the business. This is particularly so for BP over the next five years as the board works with John Browne to bring on a new executive team and leadership.

As a UK-registered company, we are pleased that our own policies and practices are already substantially in line with the Higgs and Smith reports on governance. In the USA, where we are listed on the NYSE, significant regulatory proposals are currently in the course of implementation. We look forward to monitoring progress as these developments are implemented on both sides of the Atlantic. We do not expect they will cause us to make any significant changes to our existing practice.

A particularly important task of the board is to monitor the way the company manages its approach to opportunities and risks, which may be operational, financial, environmental or ethical. This monitoring includes an annual review of the full range of possible risks, a review that shapes our continuing assessments. The board's committees review the business throughout the year. Their role, too often overlooked, is highlighted in the accompanying box.

We believe that we have robust policies and processes that give the board a clear picture of the business as a whole, and the ability to monitor and assess changes and developments. At the same time, the chief executive and his team must have the freedom and flexibility to exercise the day-to-day judgements needed to run the company.

These policies and processes are all the more important because, as a major international company, we come under intense and varied scrutiny in the societies in which we operate. This comes from regulatory authorities and others representing the interests of people who are affected in some way by our operations – as well as our shareholders, employees and customers.

We also believe that, in addition to serving our customers, the investment, trade, skills and opportunities we bring to countries around the world can be hugely beneficial. We try to have a positive impact on every community in which we work, and aim to operate in a way that does no harm to the environment. Our long-term performance is linked to our success in managing these challenges and our commitment to investment for the future.

Fundamentally, our ability to deliver outstanding performance depends on the work of the more than 100,000 people in BP and on the leadership provided by John Browne and his team. We depend on their determination, experience and creativity. On behalf of the board I would like to recognize their contribution in 2002, and thank them for it.

We have in place the management processes and the exceptional people to respond to challenges. These strengths underpin our commitment to build long-term shareholder value in a sustainable way.



It is essential to the success of our business that we attract and retain exceptional people at all levels, and create the conditions in which they are motivated to be the best in their field. This need shapes our remuneration policies, and we are confident that the current level and structure of executive reward provide the appropriate incentives. Reward is tied to performance and, at senior levels, to the long-term success of the company. The standards we set for performance are both clear and highly demanding, in a very competitive sector. Details of these remuneration policies are set out later in this report. As a board we believe our approach is confirmed by the value we have delivered to shareholders.

Two of our long-serving executive directors are leaving the board. Rodney Chase relinquished his role as deputy chief executive in January 2003. He will retire from the board in April, after a 38-year career with BP. Dr John Buchanan, our chief financial officer for the past six years, retired from the board last November after 33 years' service with BP. We have greatly valued their respective contributions and thank them very much for the part they have played in the development of the business.

Dick Olver, formerly chief executive of exploration and production and an executive director since 1998, has been appointed to the role of deputy group chief executive. We welcome to the board Dr David Allen, Dr Tony Hayward and John Manzoni, who were appointed executive directors on 1 February 2003.

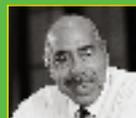


**Peter Sutherland**  
Chairman  
11 February 2003

The board's committees are key to the systematic assessment and management of the opportunities and risks facing BP. Particularly important in this process are the three described below. Each committee consists of up to six of our non-executive directors, and plays a vital role in representing the interests of shareholders and testing management decisions, processes and judgements. Further information on the work of these committees and the board as a whole is set out on pages 28 to 29 of this report.



**Sir Ian Prosser** chairs the **Audit Committee**. It is responsible for monitoring all the reporting, accounting, control and financial aspects of executive management activities.



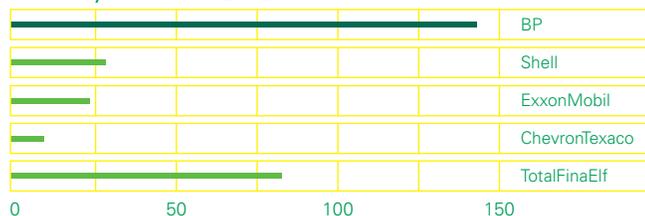
**Dr Walter Massey** heads the **Ethics and Environment Assurance Committee**. It is responsible for monitoring the non-financial aspects of executive management activities.



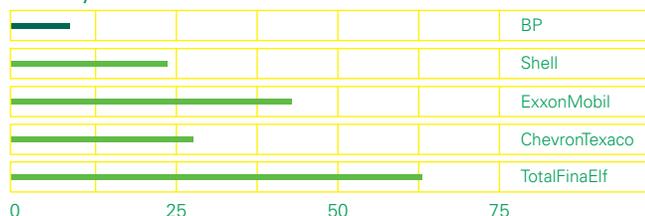
**Sir Robin Nicholson** is chairman of the **Remuneration Committee**. It is responsible for determining the structure of rewards for the group chief executive and executive directors.

**Shareholder returns against the market (%)**

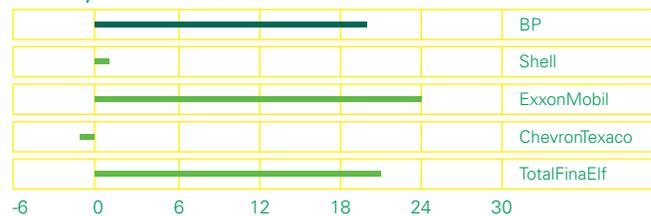
Over 10 years – 1993-2002



Over 3 years – 2000-2002



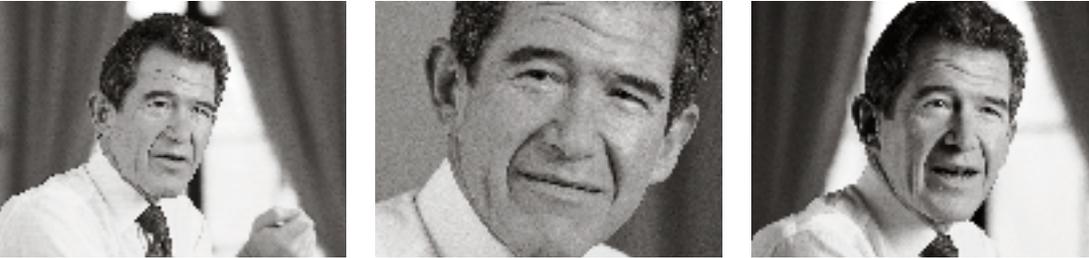
Over 5 years – 1998-2002



Shareholder returns comprise annual share price movements, with dividends reinvested, for investments held over the period shown.

Shareholder returns against the market reflect the returns generated above or below returns from equivalent investments in the overall market.

## Group chief executive's review



Our strategy is to create value from a distinctive set of opportunities, biased towards the upstream, which through a disciplined approach to long-term investment growth can produce returns that are secure and highly competitive.

Managing our business in uncertain times is nothing new to BP. Over the past few years we have demonstrated our ability to instigate change and react swiftly to external influences, time and time again. Despite dramatic swings in exchange rates, interest rates and stock market levels and volatile oil and natural gas prices, we have succeeded in delivering our strategic objectives.

We have always demonstrated our ability to deal with volatility without losing sight of our long-term goals, and have no doubt that we can continue to do so.

Reporting on our performance in 2002 against this backdrop of a volatile and often difficult trading and operating environment calls for a sense of balance and perspective. 2002 was a year in which we had some great successes, in which we failed to meet our production target and, above all, a year in which we learned a great deal.

In 2002, our safety record improved. Fewer people were hurt while working for BP, whether as employees or as contractors. Our performance on safety now compares well with that of the industry leaders.

Our financial performance was strongly competitive with our peers. In a world where natural gas prices and refining margins were significantly lower than in 2001, we delivered a result of \$8.7 billion. We generated more than \$19 billion

of cash from operations. Our return on capital was 13% and our gearing down at below 28%.

We replaced 175% of the reserves we produced, making 2002 the 10th year running in which our reserves replacement exceeded 100% and further growing our inventory of high-quality reserves to renew the company for the future.

In underlying terms – that is, under mid-cycle operating conditions – performance improved by \$1.2 billion before tax, against a target of \$1.4 billion. As a result of our performance, the board was able to increase the dividend for the year in dollar terms by 9.1% and has announced an intended share buyback programme of \$2 billion.

We were not satisfied with everything in 2002. The movement in our absolute stock price reflected the falls in all world markets. In addition, operational and political events gave us production growth of 2.9% – a level that compared very well with that of our competitors but was below our target growth rate of 5.5%. Having allocated capital in 2001-02 to high-value projects in new growth areas, we lacked the flexibility needed to close this gap.

That experience has taught us that production volumes, while potentially an indicator of growth, are only really useful when combined with a balanced view of all the other factors that go to create value.

The missed production target prompted us to undertake a thorough review. This has confirmed that our strategy is sound, on track and creating a business that is distinctive in its capacity to create value – today, tomorrow and subsequently. Our review of strategy also confirmed to me that we have an outstanding team of great people who have a clear understanding of our strategy and are confident about our future. I am most grateful for their dedication and delivery.

The world's need for energy is growing. BP has a strong portfolio of assets and the financial strength to take advantage of new opportunities as they arise. We have a great portfolio of world-class brands. We place much emphasis on clarity in the way we manage our company – setting and communicating governance standards, and implementing rigorous internal review procedures that help us challenge and, as necessary, refresh our ways of working. Our efforts to maintain our year-on-year track record of improvements to the safety performance of all our operations and to reduce the impact of our activities on the environment remain relentless.

Our strategy is to create value from a distinctive set of opportunities, biased towards the upstream, which through a disciplined approach to long-term investment growth can produce returns that are secure and highly competitive. We continue to dispose of those assets that no longer offer us the right performance potential.

In upstream, the key to success is the ability to access and focus on those opportunities that offer material and superior returns. My confidence that we are on the right path stems from our track record in finding giant fields, replacing reserves and the portfolio of projects now under development.

Our investment strategy for 2003-07 is focused on developing five new material upstream profit centres – in the deepwater Gulf of Mexico, Trinidad, Azerbaijan, Angola and Asia Pacific. These should begin to contribute significant earnings and free cash flow during next year and beyond. The development of these new activities is an important moment in the long history of BP – a move analogous for us to the development of the North Sea and Alaska 30 years ago. These new activities not only renew BP for the medium term. They also offer great potential for the longer term, with extensive further resources yet to be discovered.

In addition, we have announced an agreement in principle with the Alfa Group and Access-Renova to combine our interests in Russia to create that country's third largest oil and gas business. The transaction, scheduled for completion in the summer, will result in the formation of our sixth new upstream profit centre.

The strategy for our established upstream assets in areas such as North America and the North Sea is to maximize productivity. We will do this by strict control of capital reinvestment, based on risk and expected returns according to a global ranking, and applying best-in-class operating efficiency.

Our downstream businesses have grown rapidly, with capital employed increasing by 20% per year on average since 1999. Downstream growth potential is centred on four

distinctive business areas: refining; retailing; lubricants; and business-to-business marketing. Our approach is to improve operating and overhead costs to best-in-class, to offset increasing competitive pressure and to improve value by careful portfolio choice. Part of our potential is underpinned by the market-leading retail position we have established in Germany with the Veba Oil acquisition.

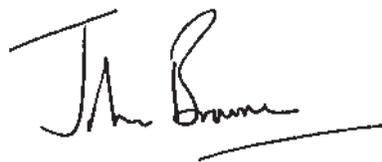
We have transformed our chemicals businesses, strengthening our capability in key product areas following the acquisitions of Erdölchemie and Veba. Now we are working to develop a differentiated, material portfolio based around seven core products with advantaged market positions. The scale of our operations, with production capacity increasing by 32% over the last three years, and the technologies we possess give us competitive advantage.

Our gas, power and renewables business represents an increasingly significant part of our operations as demand for clean and alternative energy sources such as natural gas and solar increases. Our strategy in this area is clear – to maximize the commercial value of the gas we produce by building markets ahead of availability, to develop a material and profitable renewables business and add value to our natural gas liquids business.

Our aspiration to be numbered among the world's great companies remains unchanged. Our goal is to create value – but, of course, maximizing value is not a mechanical process. It requires balance and judgement. If we knew far more about the world and the future than we ever could know, we could then manage the maximization of value with precision. But we cannot. All our experience over the last 95 years, since the company was first established, confirms that value is created through understanding and meeting the needs of all those with whom we do business.

We depend on the satisfaction of consumers with our products, on continued access to capital markets, on the motivation and skills of our people, on good relationships with governments and the communities in which we work and, of course, on our ability to judge the right response to the ever-changing circumstances in the external world.

We cannot neglect any of those issues. We cannot concentrate on one alone – because if we did we would risk endangering them all. Our success in continuing to deliver value for our shareholders will depend on our ability to judge and to maintain the right balance between all those factors.



**The Lord Browne of Madingley**  
Group Chief Executive  
11 February 2003

# Financial and business operating review

## Business environment

The trading environment was challenging during 2002, with natural gas prices and refining margins significantly weaker than in the previous year, owing to the global economic slowdown. Demand improved in most parts of the business after the first half of the year but economic conditions remained sluggish. We have taken a cautious view about the strength of the recovery through 2003.

The adverse business conditions had the greatest impact on refining and marketing. Worldwide refining margins were depressed for much of the year, at nearly half the average level of 2001. They may remain under pressure, although a colder winter after the unusually mild 2001-02 season could help offset the impact of a subdued economic recovery, especially in the key US market. Margins in chemicals were at levels similar to the bottom of previous cycles.

Oil prices were volatile in 2002. The Brent price ranged from around \$18 per barrel to above \$31 per barrel. The crude oil price increased during the second half of the year, partly reflecting a 'war premium'. Brent prices averaged \$25.03 per barrel compared with \$24.44 per barrel in 2001.

Natural gas prices in the USA were on average lower than in 2001, at around \$3.36 per mmBtu compared with \$3.96 per mmBtu, owing to a large surplus of gas in storage during the 2001-02 heating season. Cold weather and the start of a decline in domestic production in the USA brought about a rise in price to around \$5 per mmBtu towards the end of 2002.

## Results

BP's result for the year was \$8,715 million, compared with \$11,559 million in 2001. The result per share was 38.90 cents, a decrease of 24%. The replacement cost operating result was \$14,720 million (2001 \$19,608 million). Replacement cost profit before exceptional items was \$4,698 million (2001 \$8,291 million).

The special items in 2002 and 2001 are shown in the table below.

The return on average capital employed (ROACE) was 13%, compared with 19% in 2001. On a replacement cost before exceptional items basis, the 2002 return was 6% (2001 11%), and 8% (2001 9%) on a historical cost basis.

During 2002, we achieved \$1.2 billion pre-tax underlying performance improvement through volume growth and cost reductions compared with 2001. Underlying performance improvement is an assessment measured after adjusting prices, margins, costs and capacity utilization to levels that we would expect on average over the long term.

Net exceptional gains of \$1,168 million before tax included profits from disposal of interests in Ruhrgas and Colonial Pipeline and an electronic payment system, and a gain on the redemption of certain preferred limited partnership interests BP retained following the Altura Energy disposal in 2000. These items were partly offset by provisions for losses on the sale of certain upstream interests announced since the end of 2002.

Interest expense was \$1,264 million, compared with \$1,608 million in 2001, after adjusting for special charges of \$15 million (2001 \$62 million) arising from the early redemption of bonds. The decrease mainly reflects lower interest rates.

Corporate tax expense was \$4,342 million (2001 \$6,375 million), representing an effective tax rate of 47% on replacement cost profit before exceptional items. The effective tax rate on the pro forma result, adjusted for special items, was 35% in both years.

Historical cost profit was \$6,845 million, including exceptional net gains after tax of \$1,043 million and stock holding gains of \$1,104 million. The corresponding figures for 2001 were \$6,556 million profit, \$165 million net gains and \$1,900 million losses respectively.

Capital expenditure and acquisitions amounted to \$19,111 million, including \$5,038 million for the acquisition of Veba. Excluding acquisitions, capital expenditure was \$13,322 million, compared with \$13,200 million in 2001.

## External environment

	2002	2001
BP average liquids realizations (\$/barrel)	<b>22.69</b>	22.50
Brent oil price (\$/barrel)	<b>25.03</b>	24.44
BP average natural gas realizations (\$/thousand cubic feet)	<b>2.46</b>	3.30
Henry Hub gas price (\$/thousand cubic feet)	<b>3.22</b>	4.26
Global indicator refining margin (\$/barrel)	<b>2.11</b>	4.06
Chemicals indicator margin (\$/tonne)	<b>102<sup>a</sup></b>	109

<sup>a</sup>Provisional.

## Operating statistics

	2002	2001
Liquids production (thousand b/d)	<b>2,018</b>	1,931
Gas production (million cf/d)	<b>8,707</b>	8,632
Total production (thousand boe/d)	<b>3,519</b>	3,419
Gas sales (million cf/d)	<b>21,621</b>	18,794
Refinery throughputs (thousand b/d)	<b>3,103</b>	2,929
Marketing sales (thousand b/d)	<b>4,180</b>	3,797
Chemicals production (thousand tonnes)	<b>26,988</b>	22,716

## Special items (\$ million)

	2002	2001
Restructuring, integration and rationalization costs	<b>774</b>	761
Impairment charges and asset write-downs	<b>985</b>	175
Insurance claim	<b>(184)</b>	–
Vacant space provision	<b>140</b>	–
Pipeline incident	<b>62</b>	–
Litigation	<b>55</b>	60
Environmental charges	<b>46</b>	–
Other	<b>22</b>	–
Interest – bond redemption charges	<b>1,900</b>	996
	<b>15</b>	62
Total special items before tax	<b>1,915</b>	1,058
Taxation	<b>(456)<sup>a</sup></b>	(375)
Minority shareholders' interest	<b>(16)</b>	–
Total special items after tax	<b>1,443</b>	683

<sup>a</sup>Includes an adjustment to the North Sea deferred tax liability for the supplementary UK corporation tax as well as tax relief expected on impairments and related restructuring.

Environmental improvement or improved performance? This project proves you can have both – and deliver competitive technological advantage in the process.

BP has been refocusing its strategy for the chemicals business to concentrate on seven core product areas that rely on competitive technological advantage or command significant market positions. The challenge is to do this while maintaining – and beating – our target for reducing greenhouse gas emissions.

MATRO or, to give its full title, Membrane Application to Recover Olefins, a project completed by our Polyethylene Malaysia team, has demonstrated that we can indeed achieve significant environmental improvement while meeting our strategic priorities.

MATRO uses innovative technology and a smart solution originally discussed during a knowledge-sharing meeting attended by users of BP's licensed proprietary Innovene reaction technology. This should allow the team to reduce by about 30% the carbon dioxide emissions at our Malaysian plant, which produces polyethylene for use in a wide range of applications.

But this is only half the story. Because hydrocarbons are recycled back into the process, our materials costs are also reduced. In fact, with estimated cost savings of \$500,000 a year, the project should pay for itself within one year of commissioning.

MATRO offers a great example of how BP's technology and the scale of operations are helping to transform our chemicals business and deliver a distinctive portfolio of products.





A new oil and gas production unit in the Gulf of Mexico has been completed in record time, setting an operating efficiency benchmark for future projects.



BP's stated intention is to concentrate resources on the best investment opportunities and to focus production expertise where it will produce the very best returns.

That's just what we've done at Horn Mountain, BP's Gulf of Mexico deepwater production unit. The production team there has brought the well development into full production only 40 months after the discovery of deepwater reserves – about half the time traditionally required to complete a project of this scale.

Horn Mountain's 26,000-tonne spar, situated in 5,400 feet of water – a record for BP – is expected to produce an estimated 65,000 barrels of oil and 68 million cubic feet of gas daily. This will give BP another key production facility in one of our most important regions, with the prospect of continuing high productivity for many years.

Now, by sharing and applying best-in-class operating practices, the versatile topsides design and streamlined development timeline can be replicated on future projects in the Gulf of Mexico and around the world.

Net cash outflow for the year was \$344 million, compared with an inflow of \$1,002 million in 2001; lower operating cash flow and higher acquisition spending were partly offset by lower tax payments and higher disposal proceeds. Net cash outflow for capital expenditure and acquisitions, net of disposals, was \$10,983 million (2001 \$11,604 million).

The group's net debt, that is debt less cash and liquid resources, was \$20,273 million at the end of 2002, compared with \$19,609 million at the end of the previous year. The ratio of net debt to net debt plus equity was 28%, compared with 29% a year ago. We expect to keep this ratio in the range of 25-35%. In order to maintain the substance of our existing financial framework, the target range has been restated following the adoption of FRS 19. On a reported basis, the percentage was 22% (2001 23%).

In addition to reported debt, BP uses conventional off balance sheet sources of finance such as operating leases and borrowings in associates and joint ventures. The group has access to significant sources of liquidity in the form of committed facilities and other arrangements.

BP has a financial risk management process that addresses the various risk exposures we encounter in the financial markets; these include market risk, credit risk and liquidity risk.

### Critical accounting policies

The group's accounts are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). This requires the directors to adopt those accounting policies most appropriate to its particular circumstance for the accounts to give a true and fair view. In preparing the accounts the directors are required to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Actual outcomes could differ from the estimates and assumptions used.

The directors believe that the critical accounting policies and areas that require the most significant judgements and estimates to be used in the preparation of consolidated accounts are in relation to oil and natural gas reserves; depreciation and amounts provided; impairment; and provisions for decommissioning, environmental liabilities, pension obligations and other post-retirement benefits.

### Capital investment (\$ million)

	2002	2001
Exploration and Production	9,266	8,627
Gas, Power and Renewables	335	352
Refining and Marketing	2,682	2,386
Chemicals	810	1,446
Other businesses and corporate	228	389
Capital expenditure	13,321	13,200
Acquisitions	5,790	924
Disposals	19,111 (6,782)	14,124 (2,903)
Net investment	12,329	11,221



BP's creative thinking about a challenging technical problem has delivered a solution that will improve the design of future deepwater drilling projects.

As part of a drive towards greater efficiency, BP is determined to redefine best-in-class in every aspect of its operations, including its deepwater fields. These play a key role in our agenda for future production growth. The potential returns are excellent, although the process of drilling and operating deepwater wells challenges our ingenuity and technology.

A particular issue in deepwater wells is the impact of thermal effects in the wellbore. Historically, there had been little research into such effects, and traditional ways of dealing with this issue were technically challenging.

A smart solution arrived when, following the failure of the Marlin well in the Gulf of Mexico, BP's Houston technology team set out to tackle the problem. They used original thinking and innovative technology to create several ground-breaking well designs that in turn led to new ways of mitigating these effects.

The solution is fast becoming best practice across many other deepwater fields. Once again, BP people have shown their ability to manage technical risks in the most challenging operating environments.

### Creditor payment policy and practice

As a general policy, the group encourages long-term relationships founded on trust and mutual advantage. Within this overall policy, individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. These terms are adhered to when payments are made, subject to terms and conditions being met by the supplier.

BP p.l.c. is a holding company with no business activity other than the holding of investments in the group and therefore had no trade creditors at 31 December 2002.

### Dividends

The total dividends announced for 2002 were \$5,375 million, against \$4,935 million in 2001. Dividends per share for 2002 were 24 cents, an increase of 9.1% compared with 2001. In sterling terms, the increase was 1.3%. The board sets the dividend based on a balance of factors. It considers present earnings, together with long-term growth prospects and cash flow. It also considers the group's competitive position and determines the payment, which broadly corresponds to around 60% of sustainable earnings, calculated under standardized assumptions over a run of years.

BP intends to continue the operation of the Dividend Reinvestment Plan (DRIP) for shareholders who wish to receive their dividend in the form of shares rather than cash. The BP Direct Access Plan for US and Canadian investors also includes a dividend reinvestment feature.

### Share repurchases

As part of giving a return to shareholders, one of the steps we take from time to time is to repurchase our own shares. During 2002, a total of 100 million shares were repurchased and cancelled at a cost of \$750 million. The repurchased shares had a nominal value of \$25 million and represented 0.5% of ordinary shares in issue at the end of 2001. At that time the company still had shareholder approval, subject to conditions, for the repurchase of a further 2.1 billion ordinary shares. Since the inception of the share repurchase programme in 2000, 476 million shares have been repurchased and cancelled at a cost of \$4.1 billion. BP's present intention is to spend \$2 billion on further repurchases of its own shares, subject to market conditions and continuing support at the April 2003 annual general meeting.

### Business operating results (\$ million)

	2002	2001
Exploration and Production	12,005	14,498
Gas, Power and Renewables	384	488
Refining and Marketing	2,081	4,830
Chemicals	765	242

### Business performance

#### Exploration and Production

The result for the year was \$12,005 million, compared with \$14,498 million in 2001, mainly reflecting the fall in the price of natural gas. We continued to make underlying improvements through a 2.9% growth in production and a reduction in lifting costs.

Our strategy is to create a sustainable long-term business, delivering superior returns by building a greater share of large, low-cost oil and gas fields. We maintain a focused approach to choosing the opportunities we want to pursue out of all those available to us. That focus means we have created five new profit centres in which we have a distinctive competitive position: Gulf of Mexico, Trinidad, Azerbaijan, Angola and Asia Pacific.

Our aim is to balance growth and returns by allocating investment to projects with the highest expected returns, ranked globally; by improving operating efficiency; and by selling assets that are not strategic to us and have greater value to others. We have already agreed investments in 2003 amounting to approximately \$3 billion.

In 2002, a number of new fields started producing, the most significant of which were King, King's Peak, Horn Mountain, Aspen and Princess in the deepwater Gulf of Mexico. In Trinidad, production of gas was increased from the existing fields to supply the second liquefied natural gas (LNG) train, which started up in August. In Azerbaijan, the Chirag field contributed steady production. In Angola, production from Girassol built up to its plateau level after starting up at the end of 2001. Production started at the Lan Tay field in Vietnam in November. In our other operations, production from Northstar in Alaska also built up to plateau level, and there was strong performance from Australia and Egypt owing to higher gas sales.

These production increases in 2002 were partly offset by a number of factors, including lower gas demand resulting from warm weather in the UK, OPEC reductions, severe storm patterns in the Gulf of Mexico, the general strike in Venezuela and operational problems in Alaska and the UK.

Exploration successes in 2002 included discoveries in the Gulf of Mexico, Trinidad, Angola and Egypt. The Plutao field is the first ultra-deepwater discovery offshore Angola. We were awarded new licences in the Gulf of Mexico, Norway and Russia. We have led our major competitors in the number of giant discoveries (more than 250 million barrels of oil equivalent) during the past five years. Our reserve replacement ratio in 2002 was 175% – a very competitive result that underpins our long-term growth plans. Reserve replacement has exceeded production for 10 consecutive years.



BP is managing the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline – an ambitious project that will transport oil more than 1,760 kilometres from Baku in Azerbaijan, through Georgia and on to Ceyhan in south-eastern Turkey.

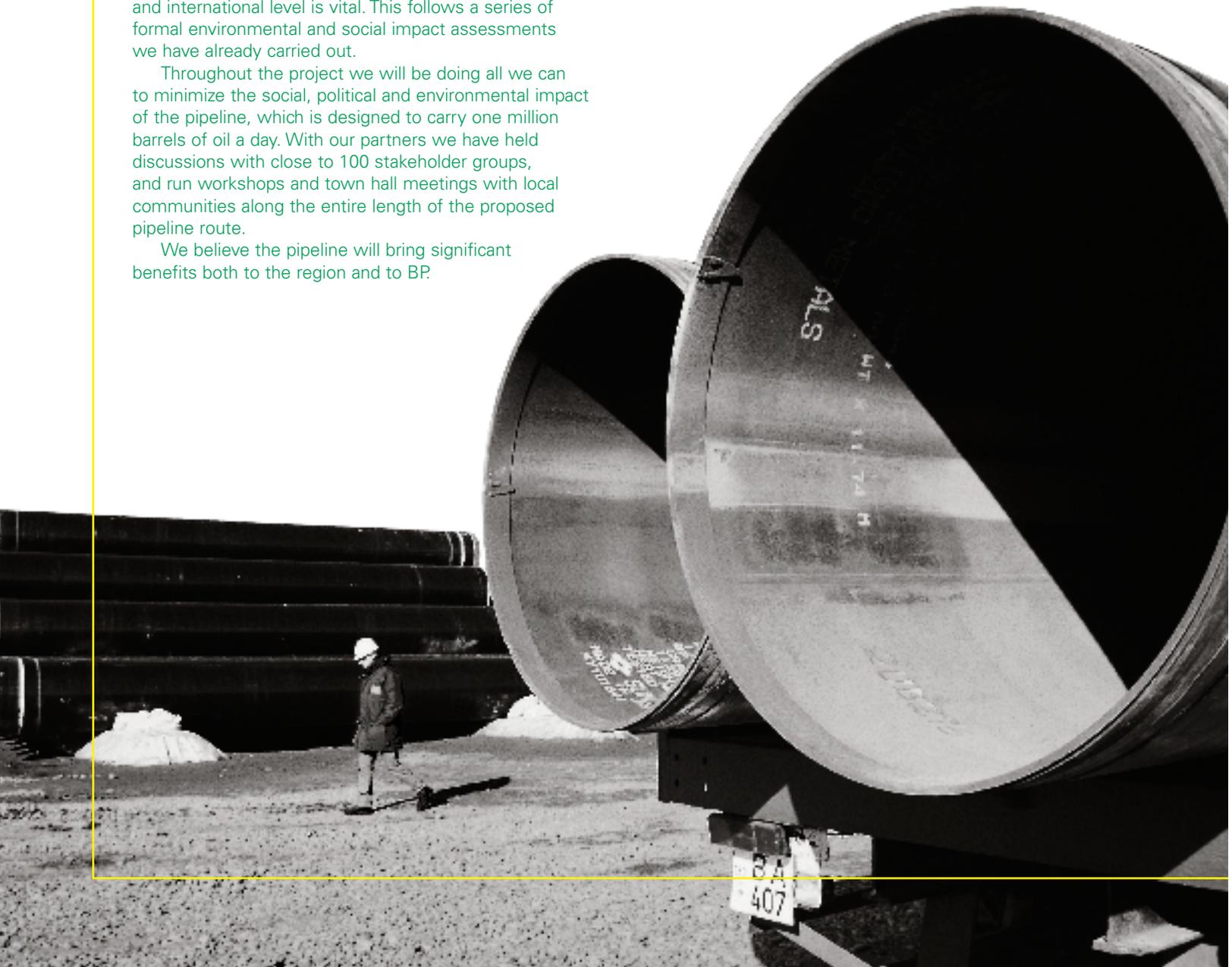
The scale and high profile of this project make it one of the most challenging BP has ever undertaken. A panel of external international experts will publish an independent assessment of how our conduct of the BTC project and our other businesses in the Caspian region matches up to our stated policies and principles.

We have negotiated agreements with the parliaments and governments of all the countries involved. Ongoing consultation with interested parties at local, national and international level is vital. This follows a series of formal environmental and social impact assessments we have already carried out.

Throughout the project we will be doing all we can to minimize the social, political and environmental impact of the pipeline, which is designed to carry one million barrels of oil a day. With our partners we have held discussions with close to 100 stakeholder groups, and run workshops and town hall meetings with local communities along the entire length of the proposed pipeline route.

We believe the pipeline will bring significant benefits both to the region and to BP.

The BTC pipeline project is helping to create a significant new profit centre for BP as well as the potential for lasting economic and social benefits in the region.



We made significant progress in 2002 in building up our five new material profit centres. Late in 2002, development started at the Atlantis field in the deepwater Gulf of Mexico. Atlantis joined four other fields – Na Kika, Holstein, Mad Dog and Thunder Horse – that are also being developed in the Gulf. Construction of the Mardi Gras pipeline system, to handle the oil and gas production from BP's new fields in the Gulf, continues and is on track.

We made two major natural gas discoveries off the coast of Trinidad in 2002, in Iron Horse and Red Mango #2, taking the total to four new discoveries in three years. We estimate that our undeveloped gas resources in Trinidad now stand at 16 trillion cubic feet. Along with the advantages of scale, improved liquefaction technology has reduced costs in Trinidad by nearly 30%, compared with LNG plants built elsewhere in the 1980s and early 1990s. Continuing technology developments and an increase in plant scale allow us to target a further 25% cost reduction by the end of the decade. This should enable us to compete successfully in new LNG markets.

In an important step towards making possible the export of oil from Azerbaijan and the Caspian region to Turkey's Mediterranean coast, we announced the formation of the Baku-Tbilisi-Ceyhan pipeline company. Initial construction contracts have been awarded, and the pipeline is on schedule for completion in 2005. This is designed to allow a new source of cost-effective and reliable crude oil supply, of up to one million barrels a day by late in the decade, to be brought to the market.

In Angola, Kizomba B was sanctioned and approved, while progress on the development of Kizomba A means it is expected to start up in 2004.

In Asia Pacific, we are continuing to move forward with key natural gas resources, including Tangguh in Indonesia.

Building the five new profit centres requires a high level of capital spending in 2002-04. We intend to invest around \$20 billion in these profit centres during 2003-07.

Technical innovations continued to make a substantial contribution to performance, allowing us to enhance the value of our projects. For example, the use of 4D seismic technology improved recovery of reserves to a degree impossible just 10 years ago. Through this technology we estimate some 24,000 barrels a day of additional production capability will become available. New deepwater well designs, already highly successful in fields such as Thunder Horse, Horn Mountain, Marlin, Mad Dog and Atlantis, are improving safety and efficiency.

Our overall safety record improved, with a decline in the number of days away from work case frequency to 0.10 per 200,000 man-hours. This was our best ever and also one of the best performances in our industry. It continues the improvement we have achieved since 1999. We do not intend to rest on this performance but will continue to seek further improvement in our safety record.

In February 2003, we announced an agreement in principle with the Alfa Group and Access-Renova to combine our interests in Russia to create that country's third largest oil and gas business. Once completed, the transaction will create our sixth new upstream profit centre.

## Gas, Power and Renewables

The result for 2002 was \$384 million, down from \$488 million in 2001, owing to a lower contribution from Ruhrgas as a result of its sale and a weaker marketing and trading environment. This was partially offset by a better year-on-year performance in natural gas liquids (NGLs) and increased gas sales volumes.

Gas sales volumes increased 15% in 2002, although margins in the industry were less favourable than in 2001, which had benefited from a period of unusual volatility in North America. Margins improved across our NGLs business through a combination of operating efficiency, lower costs and favourable market conditions. We also achieved more than 20% growth in sales of solar systems and panels, with an overall improvement in total gross margin against increasing competitive pressure.

We have responded to growing demand for cleaner energy by increasing the proportion of gas in our production to 42% from 34% in 1997. Through the gas, power and renewables stream we have established a gas marketing business that is creating and capturing new market opportunities and maximizing the value of the group's gas output.

We are one of the largest marketers of natural gas in North America, with a market share of more than 10%. With the completion of a multi-year transportation, supply and storage arrangement with Kinder Morgan, we now have a leading position in Texas, the largest energy market in the USA. BP is also a new entrant into several liberalizing European markets. We have attained a 10% share of the gas market in Spain and developed marketing activities in Germany, Belgium, Italy and France.

We are becoming a significant supplier to gas markets in the Asia Pacific region. Within the last year, we secured important new markets ahead of developments in our considerable upstream gas resource 'bank'. These include sales to major Chinese customers for liquefied natural gas (LNG) imports through the Guangdong and Fujian import terminals, which will have gas supplied from Australia's North West Shelf (BP 16.6%) and Tangguh, Indonesia (BP 37.2%), respectively.

Globally, the volume of BP's gas production sold as LNG grew by 18% in 2002, with a significant increase resulting from the expansion of our Trinidad and Tobago facilities. This translated into a 5.6% world share in gas produced and converted into LNG. We are progressing plans for new LNG import facilities in key markets in North America, Europe and Asia. In November we launched the *British Trader*, the first of three new leased LNG ships, underpinning significant growth in our trading, shipping and marketing of LNG volumes.

In NGLs, we maintained our position as North America's leading marketer, improving our margin per barrel during 2002. BP holds a 6% share of the global supply of NGLs, with interests in Europe, Asia Pacific and Australia, and also a number of development opportunities around the world.

Customer demand for renewable and alternative energies continued to increase rapidly in key markets. Demand for our solar products rose significantly, consolidating our position as a leading global photovoltaic supplier. In manufacturing, we rationalized our range of solar products by discontinuing the



BP has built a strong partnership with a new customer. This is adding value to the natural gas we market while meeting the customer's broader energy needs competitively.

Frito-Lay, the largest manufacturer and distributor of snack foods in the world, needed an energy services provider that could deliver a customized solution to the complex energy issues facing its North American operation. Crucially, it wanted to work with a partner who mirrored its aspirations and values.

Frito-Lay selected BP as an energy supplier, but soon found we could provide a full range of other products and services, including energy management, energy procurement, energy strategy and consulting, and commodity supplies – primarily natural gas and electricity.

With retail sales in excess of \$15 billion for its North American and international divisions, Frito-Lay is a leader in its industry, with progressive and environmental issues high on its agenda. This is an approach BP both understands and shares.

Marketing gas is a highly competitive business. But the ability to broaden the services we offer has added value for our customer while meeting our strategic aim of becoming a partner of choice.





People around the world recognize and trust our brands. Very valuable assets, they are a springboard to growth for our downstream businesses.

BP's challenge is to achieve lowest unit costs while simultaneously increasing market share. Our brands are distinctive and valuable assets that will help us realize these goals.

Amoco, Aral, ARCO, BP and Castrol are all world-class brands, with leading positions in many markets. They help us win new customers and deepen our relationship with the 13 million people we already serve every day.

By focusing investment on this portfolio of brands, supported by innovative technologies, we are achieving improved sales volumes and better profit margins worldwide.

We negotiated an exclusive two-year deal with footballer David Beckham to promote the motorcycle lubricant Castrol Power 1 in the Asia Pacific region – the world's largest motorcycle engine oil market. This initiative has consolidated our leading position in the region, with 80% of targeted consumers identifying Beckham as a positive reason to buy Castrol Power 1.

Meanwhile, in the USA, a focused campaign has made more motorists aware that Amoco fuels, and in particular Amoco Ultimate, are available from BP-branded sites. Sales of this premium fuel continue to outstrip all competitor products. Similar success has been achieved on the US West Coast, where ARCO am/pm has a higher level of brand loyalty than other major oil companies.

Aral is the leading retailer of oil products in Germany. The Aral brand will be extended across all our retail sites there, offering distinctive products and quality service at more than 2,700 stations.

And BP Connect is focused on quality too – providing a superior on-site food service in state-of-the-art convenience stores mainly in the UK and USA. To date, over 486 sites have been completed, with more to come in 2003.

Our world-class brands are building business for BP.



production of thin film modules. We are starting operations at our Tres Cantos plant in Spain, which is designed to produce very high-efficiency photovoltaic systems using Saturn, our proprietary solar technology.

At the Nerefco oil refinery in the Netherlands, jointly owned with ChevronTexaco (BP 69%), our first wind farm was completed and started providing electricity to the refinery and the local grid. It supplies enough clean power for 20,000 homes.

### Refining and Marketing

The result for the year was \$2,081 million (\$4,830 million in 2001). The acquisition of Veba Oil from E.ON, announced in 2001, was completed in 2002, along with the sale of most of Veba's upstream oil and gas assets.

The trading environment was tough, reflecting a halving of worldwide refining margins, together with a further adverse impact from price differentials in BP's crude oil mix, and lower US retail margins. Against this difficult background, we delivered underlying performance improvements in both our refining and marketing businesses, thanks to improved plant availability, increased retail store sales and volume and margin growth in lubricants, while overall operating unit costs were flat. Greater operating efficiency was also reflected in a further improvement in our safety record during the year.

Our strategy is to grow through investment focused on key assets and market positions. In each of our four areas of business – refining, retail, lubricants and business-to-business marketing – we continue to aim for greater operational efficiency. At the same time, we also seek to improve the quality of our assets. This was enhanced in 2002 thanks to the continuing integration of Veba's marketing and refining operations.

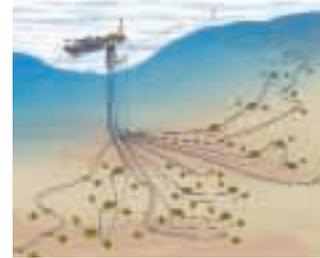
We are one of the leading refiners and marketers of gasoline and hydrocarbon products in the USA, where we own and operate five large refineries with extensive clean-fuel capability. In Europe we own or participate in 13 refineries, 10 of which are operated by BP, which substantially expand our capacity to market cleaner fuels. Investment in our refineries is focused on developing the capability to produce cleaner fuels and on enhancing the quality of the products we offer customers. By the end of 2002, we were marketing cleaner fuels in 119 cities worldwide.

In our retail business, competitive pressures intensified in some markets, especially the USA. In order to achieve above-average growth and take full advantage of our best assets, we invested in our new Connect convenience stores, expanding our presence mainly in core metropolitan markets. In 2002, we opened 147 new BP Connect convenience sites, mainly in the USA and UK, and rebranded 4,611 stations worldwide with the BP helios logo and colours.

At the end of 2002, there were about 26,000 BP, Amoco and ARCO branded service stations worldwide and 3,200 Aral branded stations in Europe. In due course we will rebrand all our stations in Germany as Aral.

Retail sales grew 7% last year in stores that were also operating in 2001, a similar rate to the previous year. Retail fuel volumes grew by 10%, including the effect of the Veba acquisition.

Pursuing an ambitious five-year agenda for exploration and production, BP is focusing more than 50% of its upstream investment on five material profit centres around the world.



Angola is one of those five. As one of the largest businesses operating in the country, BP is set to play an important role in delivering the resources that will support recovery within the new context of reconstruction and reform after 27 years of civil war.

The country's enormous potential makes it of key interest to us. Our Angola team has built a strong foundation for growth through both exploration and development. Technical skills developed in similar deepwater basins around the world have been used to great effect. Today, BP is unique in participating in the four major deepwater blocks in the country.

2002 has seen real progress, with Girassol, Angola's first deepwater project, delivering a full year's production. Several more projects are under construction, while new discoveries continue to be made.

All this is proof of our belief that new areas such as Angola will not only renew BP in the medium term, but offer further, as yet unrealized, opportunities in the longer term.

BP is delivering its commitment to provide a better environment through technological innovation and tailored offers for customers.



For all of us, particularly those living or working in major cities, air quality is a pressing issue. So an innovative low-emissions initiative pioneered by BP that has produced dramatic and immediate reductions in emissions of pollutants is very good news indeed.

System City, launched in December 2001, is aimed specifically at commercial fleet operators – typically bus or road haulage companies. The initiative encourages customers to use two new products together: Aspira, a revolutionary ultra-low sulphur diesel emulsion fuel, and Vanellus C8 Ultima, an ultra-high performance synthetic lubricant.

For customers who have made the switch, including Arriva buses in London, UK, the results have been impressive. Smoke has been cut by 65%, smog-promoting nitrous oxide by 15%, asthma-aggravating particulate matter by 35% and carbon dioxide by up to 12%. And these reductions have been achieved without extra capital investment. Old or new, any bus or truck can be switched to run on System City with no modifications at all.

Our leading global position in the lubricants business is based on powerful brands such as Castrol and BP, and continued technological improvements. We continued to invest in advertising and sales promotion. This allowed us to achieve volume growth in 2002, despite a decline of 0.5% on average for the market, with an expanding margin. In business-to-business marketing we offered our customers a range of innovative high-value services and cleaner fuels, and gained a bigger market share for businesses such as Air BP.

A €377 million sale of retail and refinery assets in Germany and central Europe announced in February 2003 will complete the divestments required by the Veba acquisition regulator.

### Chemicals

The result was \$765 million, an improvement of \$523 million compared with 2001. Despite a similarly adverse trading environment throughout the year, this was an increase of 216% compared with 2001. This performance was achieved through capacity growth from both capital investment and acquisitions, and significant reductions in fixed costs.

Underpinning this transformation in performance were better safety and reliability in all our manufacturing. For example, at Köln, Germany, our biggest site, our performance in both reliability and utilization was in the top quartile for the industry. The site safety record saw a second year of significant improvement, without a single day away from work case during a year in which more than 8.5 million man-hours were worked.

During the year we completely reviewed our strategy, and are now focusing on seven core products for which we have leading technologies and market positions. We have opened new world-class plants and shut some inefficient ones, for example, switching high-density polyethylene production to a world-scale plant in Houston from the older and smaller Deer Park plant elsewhere in Texas. This has enabled us to continue improving the quality of our portfolio. We also made some disposals, including the plastic fabrications business and one of the Burmah Castrol chemicals businesses. By early 2003, we had agreed the sale of the remaining Burmah Castrol chemicals businesses.

We continue to improve the environmental impact of our operations as we introduce new capacity. For example, at our Chocolate Bayou olefins complex in Texas we are planning to increase ethylene production by 20%. Yet the use of new technology at the site, where the expanded plant is expected to start operating in late 2005, should reduce emissions of nitrogen oxides from the olefins plants by up to 90%.

In addition to improving the performance of our own operations, we have also worked closely with suppliers to ensure that our products minimize energy use and waste while meeting customers' needs, as in the manufacture of speciality acrylic fibres. A unique partnership between BP, process suppliers, transport providers and key customers in Mexico and Italy has generated new methods of purifying and segregating acrylonitrile, which results in less waste and lower emissions at the point of fibre manufacture.

BP is now the world's third largest petrochemicals company in terms of capacity, and manufactures and markets more than 26 million tonnes of products each year.



In one of the world's largest and fastest-growing economies, our ability to share experience and expertise across cultural boundaries makes BP a natural business partner.

The Chinese economy, currently worth \$1.1 trillion, is growing at 8% a year. China's need for energy is enormous and it is committed to meet this need in an environmentally sustainable way. BP is playing an active role in fuelling this transformation.

Our chemicals strategy, focusing on seven core products in markets that offer significant market share, is exemplified in our Zhuhai plant. Here innovative thinking and cutting-edge technology will revolutionize production of purified terephthalic acid (PTA), used to make plastic bottles and polyester fibres and yarns. Working together, BP research, development, engineering and design teams have built a brand-new PTA plant in record time, achieving a 44% reduction in equipment requirements and targeting a reduction of 30% in site waste.

In Shanghai, BP has secured a joint venture with state-owned Sinopec and the Shanghai Petrochemicals Company to build Asia's largest ethylene cracker. The plant will be sited on partially reclaimed land 50 kilometres south of Shanghai, one of China's fastest-growing cities. When complete, the \$2.7-billion SECCO project should meet rigorous environmental standards. Its output will help satisfy China's growing need for products such as plastics for irrigation pipes, fabrics and fibres for clothing and other core consumer products.

The Chinese government aims to increase the proportion of natural gas in its energy mix from 2% to 8% by 2010 – an ambitious move that would have substantial environmental benefits.

A leader in LNG production, BP was delighted to be chosen as sole foreign partner in the construction of China's first LNG import facility at Guangdong. In addition, BP is involved in the supply of LNG to Chinese customers via Guangdong and China's second LNG import terminal at Fujian. These developments support our strategy of maximizing the value of our gas.

BP's downstream operations in China are thriving. We are a major importer and wholesaler of LPG – used in transport, retail, catering and manufacturing – into the developing markets of eastern and southern China. We have built and now manage our own LPG import terminal at Ningbo. Both activities show our focus on serving high-value markets.

Our strategy of investing for growth in new markets is spearheaded through a joint venture with PetroChina. Together we are launching 300 dual-branded service stations that will strengthen our market position in the country's potentially lucrative retail sector. In the long term our intention is to have a material share of the Chinese retail market.

Whether in chemicals, gas or retail markets, China offers huge potential for future growth to BP.

# Environmental and social performance

We believe our business should benefit society and the environment. We strive to understand all impacts of our activities, positive and negative, and with this knowledge seek opportunities that maximize value for all our stakeholders.

Our five business policies guide our actions. These cover health, safety and environment; employees; relationships; ethical conduct; and finance. They inform every decision made by every employee. Each individual in the company is required to comply; our partners, suppliers and contractors are encouraged to adopt them. We believe there is no trade-off between high standards and high performance.

## Dealing with risks

Doing business in environmentally and socially sensitive areas demands effective processes and controls. Our risk management processes analyse a range of impacts, whether local, national or global, including the effects our operations may have on specific communities.

Accountability for managing our social and environmental impact is written into business managers' individual performance contracts. These contain specific objectives and firm deadlines for delivery during the year.

## Health, safety and environmental performance

Increasing standards of safety at work is of the highest priority and is essential to the wellbeing of our workforce. Every facility aims to apply health, safety and environmental systems rigorously. These are implemented by all staff and verified through regular and extensive audits and assurance processes. In 2002, we more than met our target of reducing the number of accidents that cause injury (a 23% improvement compared with 2001), giving us again one of the best safety records in the industry. Safety audits, leadership training and formal incident investigations contributed to this improvement.

Although the total number of major incidents declined, we regret to report three employee and 10 contractor deaths at work in 2002, compared with 16 deaths in 2001. We are determined to continue to make progress towards our goal of zero fatalities. All executives have explicit safety improvement objectives that form part of their remuneration. One key objective for 2002, to establish BP's new 'Golden Rules of Safety', has been completed across all our businesses.

Oil spills at sea or on land remain a key environmental risk for our industry. Our independently certified environmental

management systems drive continuous performance improvement on the number of oil spills (of more than one barrel), which reduced from 810 in 2001 to 742 last year (excluding Veba operations). Our own shipping fleet transports significant volumes of oil, gas and chemicals around the world. We are undertaking a fleet replacement programme that should see 16 modern double-hulled vessels delivered by the end of 2003, with a further 19 confirmed for 2004 onwards. Where we charter additional vessels, they are vetted prior to use to ensure they meet our rigorous operational standards.

In 2002, we announced a new approach on climate change that received favourable reactions from many expert organizations worldwide. Having already lowered our emissions by 10%, we are now committed, through combinations of energy efficiency, flaring reductions and lower-carbon products, to maintain our net emissions at these reduced levels over the next decade. We are pleased to report that, on a like-for-like basis to take into account the effect of acquisitions and divestments, our net emissions reduction for 2002 was 0.3 million tonnes. This is in line with our new target. This result was primarily achieved through substantial cuts in flaring and venting, generating over 1.8 million tonnes of sustainable emission reductions, offsetting organic growth of 1.5 million tonnes. Including acquisitions and divestments, of which Veba contributed 4.1 million tonnes, greenhouse gas emissions of the group were 82.4 million tonnes for the year.

BP recognizes the need to protect and conserve the biodiversity of our planet. A review of operations following our undertaking prior to the AGM last year confirmed that, during 2002, no decisions were made to explore or develop in areas designated by the World Conservation Union (IUCN) as conservation management categories I-IV. Descriptions of our risk assessments supporting future decisions will be reported in the *BP Environmental and Social Review 2002* (see page 40). We are working closely with the IUCN to develop a consistent approach to the identification and designation of protected areas, which we will respect wherever we operate. In many locations, our biodiversity action plans have stimulated much local stakeholder engagement and innovative solutions to preserve natural habitats for flora and fauna.

## Employees

As a global group with operations in many of the world's developing countries, in 2002 we gave the employment and development of local staff an important focus. Programmes in countries such as China, Vietnam, Trinidad and Angola have ensured that our workforce is increasingly composed of locally based employees. The experience of both local and expatriate staff is helping each develop skills that can contribute to the successful future of our operations and the community.

With a global workforce, our leadership should reflect the diversity within our organization and recruitment intake. Through continuous review of our development processes, we again increased the proportion of our senior leaders who are female or of non-UK or non-US nationality.

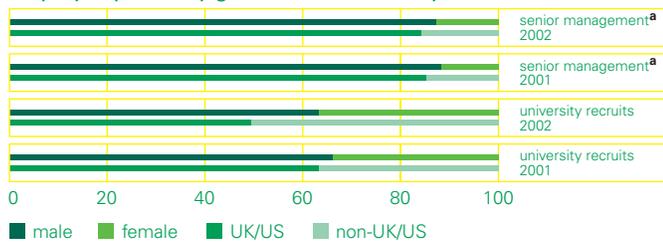
Our First Level Leaders programme, piloted in 2001 and successfully introduced in 2002, is an important step in

## Long-term improvement in safety performance (DAFWCF)<sup>a</sup> 1987-2002



<sup>a</sup>Days away from work case frequency (DAFWCF) is the annual frequency (per 200,000 hours) of injuries or illnesses that result in a person (employee or contractor) being unable to work for a day (shift) or more. Excludes data for Veba employees and contractors and Castrol contractors. Data before 1992 excludes contractors.

### Employee profile by gender and nationality (%)



<sup>a</sup>Senior management includes the top 622 positions in BP.

ensuring that this trend continues. Developing the skills of front-line leaders within a supportive network of colleagues, it is run in 29 countries. More than 4,500 people attended the programme in 2002, with similar numbers expected in 2003.

We have expanded employee ownership schemes, including 17 new countries for our ShareMatch scheme through which we match BP shares bought by employees. We now have employee share plans in 77 countries and have received several external awards for them.

It is BP's policy to ensure equal opportunity in recruitment, promotion, career development, training and reward for all employees, including those with disabilities. All applicants and employees are assessed against clear criteria related to job requirements. Where existing employees become disabled, it is BP's policy to provide continuing employment and training wherever practicable.

We use a range of media to communicate systematically with employees, including a global magazine, an intranet, e-mails to groups of staff selected by seniority or region and, most importantly, face-to-face communication. Team meetings are the core of our consultation with employees worldwide, complemented by formal consultation processes through works councils in parts of Europe. All these media, along with training programmes, enhance awareness of financial and economic factors affecting BP's performance.

### Relationships

We believe that long-term relationships, founded on trust and mutual advantage, are vital to BP's business success. Our business operations involve us in many relationships with investors, non-governmental organizations (NGOs), customers, suppliers, communities, governments and employees.

During the year, we continued with our stakeholder consultation process in Azerbaijan, Georgia and Turkey in order to understand the concerns and aspirations of people affected by our proposed investments. Their feedback is vital to the success of our business in the Caspian region and a number of their suggestions and recommended actions have already been implemented.

In dealing with broader issues that affect our business, we look to join partnerships, coalitions and alliances. For example, in 2002 we joined the Global Business Coalition on HIV/AIDS, a partnership between governments, companies and NGOs. It aims to tackle the growing social, economic

and political impacts of this disease. We are also involved in the World Bank's Extractive Industries Review and the UN Global Compact.

At the 2002 World Summit for Sustainable Development, a BP delegation took part in discussions concerning the use of energy in society. It was agreed that secure and affordable energy services were needed to support social and economic development in poorer developing countries without producing environmental degradation. We are now exploring how we can participate in various initiatives and partnerships that emerged from the summit.

We continue to confront the challenges of implementing international standards of human rights. In 2002, we engaged with a wide variety of NGOs and civil society organizations that on a global or local level are devoted to the promotion and protection of human rights. We have further contributed to the progress of the Voluntary Principles on Security and Human Rights, an international initiative for companies in the extractive sector, which is now supported by some governments as well as by leading human rights NGOs.

### Ethical conduct

We expect our staff to act according to the highest standards of ethical behaviour. This is reinforced through an annual process and through policy development, training and actions that uphold our standards, including disciplinary measures. During 2002, 132 people were dismissed for unethical behaviour, including fraud, conflict of interest and internet abuse.

In 2002, we strengthened our anti-corruption stance by prohibiting facilitation payments and by identifying and correcting areas of non-compliance. We decided to stop making corporate political contributions anywhere in the world from April 2002. During the first quarter of the year, group companies made contributions totalling \$220,100 to North American political parties and candidates; since then, we have made no further corporate political contributions. In 2002, we again made no donations to any UK or other EU political parties or organizations.

We increased the emphasis on ethical behaviour across the group. Eight regional ethics committees were established and more than 500 ethics workshops run worldwide. Two on-line ethics modules for employees were introduced and local case studies developed to share best practice. We are making it easier for staff to raise in confidence their concerns about any aspect of the business, including safety, the environment and finance. This process, starting in 2003, is being overseen by ombudsmen in each region.

Every year, those in positions of responsibility are asked to attest that their personal behaviour and the actions of their teams comply with our ethical conduct policy. We significantly enhanced this process last year to encourage open discussion and sharing of ethical issues, which we believe will contribute to continuous improvement in the way we do business.

## Summary group income statement

For the year ended 31 December

	Note	\$ million	
		2002	2001
<b>Group turnover</b>		<b>178,721</b>	174,218
<b>Group replacement cost operating profit</b>	3	<b>9,284</b>	14,824
Share of profits of joint ventures		<b>346</b>	443
Share of profits of associated undertakings		<b>616</b>	760
<b>Total replacement cost operating profit</b>	4	<b>10,246</b>	16,027
Profit (loss) on sale of businesses or termination of operations	5	<b>(33)</b>	(68)
Profit (loss) on sale of fixed assets	5	<b>1,201</b>	603
<b>Replacement cost profit before interest and tax</b>		<b>11,414</b>	16,562
Stock holding gains (losses)		<b>1,129</b>	(1,900)
<b>Historical cost profit before interest and tax</b>		<b>12,543</b>	14,662
Interest expense		<b>1,279</b>	1,670
<b>Profit before taxation</b>		<b>11,264</b>	12,992
Taxation		<b>4,342</b>	6,375
<b>Profit after taxation</b>		<b>6,922</b>	6,617
Minority shareholders' interest (MSI)		<b>77</b>	61
<b>Profit for the year</b>		<b>6,845</b>	6,556
Distribution to shareholders	6	<b>5,375</b>	4,935
<b>Retained profit for the year</b>		<b>1,470</b>	1,621
<b>Earnings per ordinary share – cents</b>			
Basic	7	<b>30.55</b>	29.21
Diluted	7	<b>30.41</b>	29.04

### Replacement cost results

<b>Historical cost profit for the year</b>		<b>6,845</b>	6,556
Stock holding (gains) losses (net of MSI)		<b>(1,104)</b>	1,900
<b>Replacement cost profit for the year</b>	2	<b>5,741</b>	8,456
Exceptional items (net of tax)	5	<b>(1,043)</b>	(165)
<b>Replacement cost profit before exceptional items</b>		<b>4,698</b>	8,291
<b>Earnings per ordinary share – cents</b>			
On replacement cost profit before exceptional items	7	<b>20.97</b>	36.95

### Directors' emoluments

Total emoluments received by BP directors were \$27,814,000 (\$33,767,000).

The summary financial statement on pages 1 to 26 and 28 to 41 was approved by a duly appointed and authorized committee of the board of directors on 11 February 2003 and signed on its behalf by:

**Peter Sutherland**, Chairman

**The Lord Browne of Madingley**, Group Chief Executive

## Summary group balance sheet

At 31 December

	\$ million	
	2002	2001
<b>Fixed assets</b>		
Intangible assets	15,566	16,489
Tangible assets	87,682	77,410
Investments	10,811	11,963
	<b>114,059</b>	105,862
<b>Current assets</b>		
Stocks	10,181	7,631
Debtors	33,150	26,669
Investments	215	450
Cash at bank and in hand	1,520	1,358
	<b>45,066</b>	36,108
<b>Creditors – amounts falling due within one year</b>		
Finance debt	10,086	9,090
Other creditors	36,215	28,524
<b>Net current liabilities</b>	<b>(1,235)</b>	(1,506)
<b>Total assets less current liabilities</b>	<b>112,824</b>	104,356
<b>Creditors – amounts falling due after more than one year</b>		
Finance debt	11,922	12,327
Other creditors	3,455	3,086
<b>Provisions for liabilities and charges</b>		
Deferred taxation	13,514	11,702
Other provisions	13,886	11,482
<b>Net assets</b>	<b>70,047</b>	65,759
Minority shareholders' interest – equity	638	598
<b>BP shareholders' interest</b>	<b>69,409</b>	65,161
Represented by		
<b>Capital and reserves</b>		
Called up share capital	5,616	5,629
Reserves	63,793	59,532
	<b>69,409</b>	65,161

### Movements in BP shareholders' interest

At 31 December 2001	74,367
Prior year adjustment – change in accounting policy (see Note 1)	(9,206)
As restated	65,161
Profit for the year	6,845
Distribution to shareholders	(5,375)
Currency translation differences (net of tax)	3,333
Issue of ordinary share capital for employee share schemes	195
Repurchase of ordinary share capital	(750)
<b>At 31 December 2002</b>	<b>69,409</b>

## Summary group cash flow statement

For the year ended 31 December

	\$ million	
	2002	2001
Net cash inflow from operating activities <sup>a</sup>	19,342	22,409
Dividends from joint ventures	198	104
Dividends from associated undertakings	368	528
Net cash outflow from servicing of finance and returns on investments	(911)	(948)
Tax paid	(3,094)	(4,660)
Net cash outflow for capital expenditure and financial investment	(9,646)	(9,849)
Net cash outflow for acquisitions and disposals	(1,337)	(1,755)
Equity dividends paid	(5,264)	(4,827)
<b>Net cash (outflow) inflow</b>	<b>(344)</b>	<b>1,002</b>
Financing	(181)	972
Management of liquid resources	(220)	(211)
Increase in cash	57	241
	<b>(344)</b>	<b>1,002</b>

### <sup>a</sup> Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities

	\$ million	
	2002	2001
Historical cost profit before interest and tax	12,543	14,662
Depreciation and amounts provided	10,401	8,858
Exploration expenditure written off	385	238
Share of profits of joint ventures and associated undertakings	(966)	(1,194)
Interest and other income	(358)	(478)
(Profit) loss on sale of fixed assets and businesses or termination of operations	(1,166)	(537)
(Increase) decrease in working capital and other items	(1,497)	860
<b>Net cash inflow from operating activities</b>	<b>19,342</b>	<b>22,409</b>

## Notes

### 1 Presentation of the accounts

These summarized financial statements represent an abridged version of the financial statements in *Annual Accounts 2002*. For 2002, the group has changed the method of accounting for deferred taxation to comply with a new UK accounting standard. Comparative figures have been restated to reflect this change in accounting policy, and also to reflect the transfer of the solar, renewables and alternative fuels activities from Other businesses and corporate to Gas, Power and Renewables.

### 2 Replacement cost profit

Replacement cost profits reflect the current cost of supplies. The replacement cost profit is arrived at by excluding stock holding gains and losses from the historical cost profit.

### 3 Other income

	\$ million	
	2002	2001
<b>Group replacement cost operating profit includes:</b>		
Income from other fixed asset investments	139	208
Other interest and miscellaneous income	502	486

### 4 Analysis of total replacement cost operating profit

	\$ million			\$ million	
	2002	2001		2002	2001
<b>By business</b>			<b>By geographical area</b>		
Exploration and Production	9,206	12,361	UK	1,696	2,668
Gas, Power and Renewables	354	488	Rest of Europe	1,703	1,814
Refining and Marketing	872	3,573	USA	2,890	6,941
Chemicals	515	128	Rest of World	3,957	4,604
Other businesses and corporate	(701)	(523)			
	<b>10,246</b>	<b>16,027</b>		<b>10,246</b>	<b>16,027</b>

### 5 Exceptional items

	\$ million	
	2002	2001
Exceptional items comprise profit (loss) on sale of fixed assets and businesses or termination of operations as follows:		
Profit on sale of businesses or termination of operations – Group	195	182
Loss on sale of businesses or termination of operations – Group	(228)	(250)
	(33)	(68)
Profit on sale of fixed assets – Group	2,736	948
– Associated undertakings	2	–
Loss on sale of fixed assets – Group	(1,537)	(343)
– Associated undertakings	–	(2)
Exceptional items	1,168	535
Taxation credit (charge):		
Sale of businesses or termination of operations	45	(100)
Sale of fixed assets	(170)	(270)
Exceptional items (net of tax)	1,043	165

**Sale of businesses or termination of operations** The profit on the sale of businesses in 2002 relates mainly to the disposal of the group's retail network in Cyprus and the UK contract energy management business. For 2001 the profit relates to the sale of the group's interest in Vysis.

The loss on sale of businesses or termination of operations for 2002 represents the loss on disposal of the plastic fabrications business, the loss on disposal of the former Burmah Castrol speciality chemicals business Fosroc Construction, the loss on withdrawal from solar thin film manufacturing and the provision for the loss on divestment of the former Burmah Castrol speciality chemicals businesses Sericol and Fosroc Mining. The loss during 2001 arose principally from the sale of the group's Carbon Fibers business and the write-off of assets following the closure or exit from certain chemicals activities.

**Sale of fixed assets** The major part of the profit on the sale of fixed assets during 2002 arises from the divestment of the group's shareholding in Ruhrgas. The other significant elements of the profit for the year are the gain on the redemption of certain preferred limited partnership interests BP retained following the Altura Energy common interest disposal in 2000 in exchange for BP loan notes held by the partnership, the profit on the sale of the group's interest in the Colonial pipeline in the USA and the profit on the sale of a US downstream electronic payment system. For 2001 the profit on the sale of fixed assets includes the profit from the divestment of the refineries at Mandan, North Dakota, and Salt Lake City, Utah; the group's interest in the Alliance and certain other pipeline systems in the USA; and BP's interest in the Kashagan discovery in Kazakhstan.

The major element of the loss on sale of fixed assets relates to provisions for losses on sale of exploration and production properties in the UK and USA announced in early 2003. For 2001 the loss on sale of fixed assets arose from a number of transactions.

## 6 Distribution to shareholders

	pence per share		cents per share		\$ million	
	2002	2001	2002	2001	2002	2001
Preference dividends (non-equity)					<b>2</b>	2
Dividends per ordinary share: First quarterly	<b>4.051</b>	3.665	<b>5.75</b>	5.25	<b>1,290</b>	1,178
Second quarterly	<b>3.875</b>	3.911	<b>6.00</b>	5.50	<b>1,346</b>	1,235
Third quarterly	<b>3.897</b>	3.805	<b>6.00</b>	5.50	<b>1,340</b>	1,232
Fourth quarterly	<b>3.815</b>	4.055	<b>6.25</b>	5.75	<b>1,397</b>	1,288
	<b>15.638</b>	15.436	<b>24.00</b>	22.00	<b>5,375</b>	4,935

## 7 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders, i.e. profit for the year less preference dividends, related to the weighted average number of ordinary shares in issue during the year. The profit attributable to ordinary shareholders is \$6,843 million (\$6,554 million). The average number of shares outstanding excludes the shares held by the Employee Share Ownership Plans.

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders as for basic earnings per share. However, the number of shares outstanding is adjusted to show the potential dilution if employee share options are converted into ordinary shares.

In addition to earnings per share based on the historical cost profit for the year, a further measure, based on replacement cost profit before exceptional items, is provided as it is considered that this measure gives an indication of underlying performance.

## 8 Capital expenditure and acquisitions

	\$ million			\$ million	
	2002	2001		2002	2001
<b>By business</b>			<b>By geographical area</b>		
Exploration and Production	<b>9,699</b>	8,861	UK	<b>1,637</b>	2,128
Gas, Power and Renewables	<b>408</b>	492	Rest of Europe	<b>6,556</b>	1,787
Refining and Marketing	<b>7,753</b>	2,415	USA	<b>6,095</b>	6,160
Chemicals	<b>823</b>	1,926	Rest of World	<b>4,823</b>	4,049
Other businesses and corporate	<b>428</b>	430			
	<b>19,111</b>	14,124		<b>19,111</b>	14,124

## Independent auditors' statement

### To the Members of BP p.l.c.

We have examined the group's summary financial statement for the year ended 31 December 2002. This report is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. To the fullest extent required by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing *Annual Report 2002* in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within *Annual Report 2002* with the full annual accounts, Directors' Report and Directors' Remuneration Report and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in *Annual Report 2002* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

### Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

### Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, Directors' Report and Directors' Remuneration Report of BP p.l.c. for the year ended 31 December 2002 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

### Ernst & Young LLP

Registered Auditor  
London  
11 February 2003

The auditors have issued an unqualified audit report on the annual accounts containing no statement under section 237 (2) or section 237 (3) of the Companies Act 1985.

## United States accounting principles

The following is a summary of adjustments to profit for the year and to BP shareholders' interest which would be required if generally accepted accounting principles in the USA (US GAAP) had been applied instead of those generally accepted in the United Kingdom (UK GAAP). The results are stated using the first-in first-out method of stock valuation.

	\$ million	
	2002	2001
<b>Profit for the year</b>	<b>6,845</b>	6,556
Deferred taxation/business combinations	<b>(315)</b>	(815)
Provisions	<b>8</b>	(182)
Impairment	<b>–</b>	(911)
Sale and leaseback	<b>24</b>	(36)
Goodwill	<b>1,302</b>	60
Derivative financial instruments	<b>540</b>	(313)
Gain arising on asset exchange	<b>(18)</b>	157
Other	<b>11</b>	10
<b>Profit for the year before cumulative effect of accounting change as adjusted to accord with US GAAP</b>	<b>8,397</b>	4,526
<b>Cumulative effect of accounting change:</b>		
Derivative financial instruments	<b>–</b>	(362)
<b>Profit for the year as adjusted to accord with US GAAP</b>	<b>8,397</b>	4,164
Dividend requirement on preference shares	<b>2</b>	2
<b>Profit for the year applicable to ordinary shares as adjusted to accord with US GAAP</b>	<b>8,395</b>	4,162
<b>Per ordinary share – cents</b>		
Basic – before cumulative effect of accounting change	<b>37.48</b>	20.16
Cumulative effect of accounting change	<b>–</b>	(1.61)
	<b>37.48</b>	18.55
Diluted – before cumulative effect of accounting change	<b>37.30</b>	20.04
Cumulative effect of accounting change	<b>–</b>	(1.60)
	<b>37.30</b>	18.44
<b>Per American depositary share<sup>a</sup> – cents</b>		
Basic – before cumulative effect of accounting change	<b>224.88</b>	120.96
Cumulative effect of accounting change	<b>–</b>	(9.66)
	<b>224.88</b>	111.30
Diluted – before cumulative effect of accounting change	<b>223.80</b>	120.24
Cumulative effect of accounting change	<b>–</b>	(9.60)
	<b>223.80</b>	110.64

	\$ million	
	2002	2001
<b>BP shareholders' interest</b>	<b>69,409</b>	65,161
Deferred taxation/business combinations	<b>(78)</b>	243
Provisions	<b>(1,088)</b>	(1,054)
Sale and leaseback	<b>(106)</b>	(134)
Goodwill	<b>(84)</b>	(1,414)
Derivative financial instruments	<b>(135)</b>	(675)
Gain arising on asset exchange	<b>142</b>	157
Ordinary shares held for future awards to employees	<b>(159)</b>	(266)
Dividends	<b>1,398</b>	1,288
Investments	<b>34</b>	(2)
Additional minimum pension liability	<b>(2,286)</b>	(942)
Other	<b>(48)</b>	(40)
<b>BP shareholders' interest as adjusted to accord with US GAAP</b>	<b>66,999</b>	62,322

<sup>a</sup> One American depositary share is equivalent to six 25 cent ordinary shares.

## Corporate governance

The board's governance policies regulate its relationship with shareholders, the conduct of board affairs and its relationship with the group chief executive. The policies recognize that the board has a separate and unique role as the link in the chain of authority between the shareholders and the group chief executive. In addition, they acknowledge the dual role played by the group chief executive and executive directors as both members of the board and leaders of the executive management. The policies therefore require a majority of the board to be composed of non-executive directors and delegate all aspects of the relationship between the board and the group chief executive to the non-executive directors. The policies also require the chairman and deputy chairman to be non-executive directors; throughout 2002 the posts were held by Mr Sutherland and Sir Ian Prosser respectively. Sir Ian Prosser acts as the senior independent non-executive director as required by the Combined Code on Corporate Governance. Finally, the company secretary reports to the non-executive chairman and is not part of the executive management.

### Relationship with shareholders

The policies emphasize the importance of the relationship between the board and the shareholders. In them the board acknowledges that its role is to represent and promote the interests of shareholders and that it is accountable to shareholders for the performance and activities of the group (including, for example, the system of internal control and the review of its effectiveness). The board is required to be proactive in obtaining an understanding of shareholder preferences and to evaluate systematically the economic, social, environmental and ethical matters that may influence or affect the interests of its shareholders. These interests are represented and promoted by the board through exercising its policy-making and monitoring functions. As a result, shareholder interests lie at the heart of the goals established by the board for the company.

The board is accountable to shareholders in a variety of ways. Directors are required to stand for re-election every three years to ensure that shareholders have a regular opportunity to reassess the composition of the board. New directors are subject to election at the first opportunity following their appointment. Names submitted to shareholders for election in 2002 were accompanied by biographical details.

The board makes use of a number of formal channels of communication to account to shareholders for the performance of the company. These include the Annual Report and Accounts, the Annual Report on Form 20-F filed with the US Securities and Exchange Commission, quarterly announcements made through stock exchanges on which BP shares are listed and the annual general meeting of shareholders. Given the size and geographical diversity of BP's shareholder base, the opportunities for shareholder interaction at the annual general meeting are limited. However, the chairman and all board committee chairmen were present at the 2002 annual general meeting to answer questions. All proxy votes at shareholder meetings are counted since votes on all matters except procedural issues are taken by way of a poll. BP has also pioneered the use of electronic communications to facilitate the exercise of shareholder control rights. Presentations given at appropriate intervals to representatives of the investment community are available simultaneously to all shareholders by live internet broadcast or open conference call.

### Board process

The board has laid down rules for its own activities in a board process policy that covers the conduct of members at meetings; the cycle of board activities and the setting of agendas; the provision of information to the board; board officers and their roles; board

committees, their tasks and composition; qualifications for board membership and the process of the Nomination Committee; the remuneration of non-executive directors; the appointment and role of the company secretary; the process for directors to obtain independent advice and the assessment of the board's performance. The board process policy places responsibility for implementation of this policy, including training of directors, on the chairman.

The policy recognizes that the board's capacity, as a group, is limited. The board therefore reserves to itself the making of broad policy decisions, delegating more detailed considerations involved in meeting its stated requirements either to board committees and officers (in the case of its own processes) or to the group chief executive (in the case of the management of the company's business activity). The policy allocates the tasks of monitoring executive actions and assessing reward to the following committees:

- *Chairman's Committee (all non-executive directors)* – to review the structure and effectiveness of the business organization; succession planning for the executive directors and the most senior executives; and to assess the overall performance of the group chief executive. The committee met four times during 2002.
- *Audit Committee (4-6 non-executive directors)* – to monitor all reporting, accounting, control and financial aspects of the executive management's activities. This includes systematic monitoring and obtaining assurance that the legally required standards of disclosure are being fully and fairly observed and that the executive limitations relating to financial matters are being observed. The committee keeps under review the scope and results of audit work, its cost-effectiveness and the independence and objectivity of the auditors. It requires the auditors to rotate their lead audit partner every five years and reviews non-audit assignments. Aside from its monitoring of external audit work, the committee considers the internal audit programme. The auditors' lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman. The committee met 10 times during 2002.
- *Ethics and Environment Assurance Committee (4-6 non-executive directors)* – to monitor the non-financial aspects of the executive management's activities. The auditors' lead partner and the BP general auditor (head of internal audit) attend each meeting at the request of the committee chairman. The committee met four times during 2002.
- *Remuneration Committee (4-6 non-executive directors)* – to determine performance contracts, targets and the structure of the rewards for the group chief executive and the executive directors and to monitor the policies being applied in remunerating other senior executives. The committee met five times during 2002. The directors' remuneration report appears on pages 30 to 39.
- *Nomination Committee (the chairman, group chief executive and three non-executive directors selected from time to time as required)* – to identify, evaluate and recommend candidates for appointment or reappointment as directors and as company secretary. The committee met once during 2002.

The qualification for board membership includes a requirement that non-executive directors be free from any relationship with the executive management of the company that could materially interfere with the exercise of their independent judgement. In the board's view, all non-executive directors fulfil this requirement. The board met nine times during 2002, six times in the UK, twice in the USA and once in Europe for a two-day strategy discussion. Committee meetings are held in conjunction with board meetings whenever possible.

In carrying out its work, the board has to exercise judgement about how best to further the interests of shareholders. Given the uncertainties inherent in the future of business activity, the board seeks to maximize the expected value of the shareholders' interest in the company, not to eliminate the possibility of any adverse outcomes for shareholders.

### Board/Executive relationship

The board/executive relationship policy sets out how the board delegates authority to the group chief executive and the extent of that authority. In its goals policy, the board states the long-term outcome it expects the group chief executive to deliver. The restrictions on the manner in which the group chief executive may achieve the required results are set out in the executive limitations policy, which addresses ethics, health, safety, the environment, financial distress, internal control, risk preferences, treatment of employees and political considerations. On all these matters, the board's role is to set general policy and to monitor the implementation of that policy by the group chief executive.

The group chief executive explains how he intends to deliver the required outcome in annual and medium-term plans, the former of which include a comprehensive assessment of the risks to delivery. Progress towards the expected outcome is set out in a monthly report that covers actual results and a forecast of results for the current year. This report is reviewed at each board meeting.

The board/executive relationship policy also sets out how the group chief executive's performance will be monitored and recognizes that, in the multitude of changing circumstances, judgement is always involved. The group chief executive is obliged through dialogue and systematic review to discuss with the board all material matters currently or prospectively affecting the company and its performance and all strategic projects or developments. This specifically includes any materially under-performing business activities and actions that breach the executive limitations policy. It also includes social, environmental and ethical considerations. This dialogue is a key feature of the board/executive relationship. Between board meetings the chairman has responsibility for ensuring the integrity and effectiveness of the board/executive relationship. The systems set out in the board/executive relationship policy are designed to manage, rather than to eliminate, the risk of failure to achieve the board goals policy or observe the executive limitations policy. They provide reasonable, not absolute, assurance against material misstatement or loss.

### Combined Code compliance and internal control review

BP complied throughout 2002 with the provisions of Section 1 of the Combined Code Principles of Good Governance, except in the following aspect. Not all the members of the Nomination Committee are identified in this report since three of its members are selected from among the non-executive directors when a meeting is arranged. Leaving part of the committee membership unspecified allows the board to manage the potential for conflicts of interest in the committee's work.

The board's governance policies include a process for the board to review regularly the effectiveness of the system of internal control as required by Code provision D.2.1. As part of this process, the board, the Audit Committee and the Ethics and Environment Assurance Committee requested, received and reviewed reports from executive management and the management of the principal businesses at their regular meetings. That enabled them to assess the effectiveness of the system of internal control in operation for managing significant risks throughout the year. These risks included those areas identified in the Disclosure Guidelines on Socially Responsible Investment issued by the Association of British Insurers. An explanation of how

certain of these risks are identified and managed in the course of the company's business is included in the 'Dealing with risks' section on page 20 of this report.

The executive management presented a report to the November meetings of both the Audit Committee and the Ethics and Environment Assurance Committee to support the board in its annual assessment of internal control. The report identified and evaluated significant risks and described the executive management's assurance process. It also described the changes since the last annual assessment in the nature and potential impact of significant risks and the continuing development of the internal control systems in place to manage them. Significant incidents that occurred during the year and management's response to them were also described. The report also included an assessment of future potentially significant risks.

In the board's view, the information it received was sufficient to enable it to review the effectiveness of the company's system of internal control in accordance with the Guidance for Directors on Internal Control (Turnbull).

### Directors' interests

in BP ordinary shares or calculated equivalents

	At 31 Dec 2002	At 1 Jan 2002 or on appointment	Change from 31 Dec 2002- 11 Feb 2003
<b>Current directors (excluding those appointed in 2003)</b>			
The Lord Browne of Madingley	1,681,652 <sup>a</sup>	1,392,184 <sup>a</sup>	-
J H Bryan	98,760 <sup>b</sup>	98,760 <sup>b</sup>	-
R F Chase	810,826	794,745	186
E B Davis, Jr	63,814 <sup>b</sup>	62,695 <sup>b</sup>	-
Dr B E Grote	722,562 <sup>b</sup>	595,845 <sup>b</sup>	-
Dr D S Julius	2,000	2,000	-
C F Knight	92,238 <sup>b</sup>	30,247 <sup>b</sup>	-
F A Maljers	33,492 <sup>b</sup>	33,492 <sup>b</sup>	-
Dr W E Massey	48,232 <sup>b</sup>	47,378 <sup>b</sup>	-
H M P Miles	22,145	9,445	-
Sir Robin Nicholson	3,758	3,643	-
R L Olver	738,563	585,852	2,573
Sir Ian Prosser	2,826	2,826	-
P D Sutherland	7,079	7,079	-
M H Wilson	43,200 <sup>b</sup>	43,200 <sup>b</sup>	-
	At retirement <sup>c</sup>	At 1 Jan 2002	
<b>Directors leaving the board in 2002</b>			
Dr J G S Buchanan	890,409	723,149	
W D Ford	435,607 <sup>b</sup>	333,139 <sup>b</sup>	
Sir Robert Wilson	5,478	5,478	
		On appointment on 1 Feb 2003	Change from 1 Feb 2003- 11 Feb 2003
<b>Directors appointed in 2003</b>			
Dr D C Allen		306,565 <sup>d</sup>	-
Dr A B Hayward		91,777	96
J A Manzoni		95,552	99

<sup>a</sup> Includes 50,368 shares held as ADSs throughout 2002.

<sup>b</sup> Held as ADSs.

<sup>c</sup> At retirement on 21 November 2002, 31 March 2002 and 18 April 2002 respectively.

<sup>d</sup> Includes 25,368 shares held as ADSs.

In disclosing the above interests to the company under the Companies Act 1985, directors did not distinguish their beneficial and non-beneficial interests. Executive directors are also deemed to have an interest in such shares of the company held from time to time by BP QUEST Company Limited and The BP Employee Share Ownership Plan (No. 2) to facilitate the operation of the company's option schemes.

No director has any interest in the preference shares or debentures of the company, or in the shares or loan stock of any subsidiary company.

## Directors' remuneration report

The directors' remuneration report this year has a new format that is designed to comply with requirements introduced by the Directors' Remuneration Report Regulations 2002. The report covers all directors, both executive and non-executive.

The report, which is set out on pages 30 to 39, is divided into two parts. Each part contains a section that is subject to audit. Executive directors' remuneration is in the first part, which was

prepared by the remuneration committee. Non-executive directors' remuneration is in the second part, which was prepared by the company secretary on behalf of the board.

The report has been approved by the board and signed on its behalf by the company secretary. This report is subject to the approval of shareholders at the annual general meeting.

### Part 1 – Executive directors' remuneration

#### Dear Shareholder

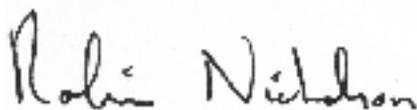
The remuneration committee places high value on the independence both of its decision-making processes and of the advice it receives. Throughout a sometimes challenging year, this independence has enabled the committee to take decisions on executive director remuneration that properly align directors' remuneration with the interests of shareholders while also meeting the imperative of retaining and engaging the world-class executive talent we are fortunate to have leading our company.

Our commitment to link pay to performance continues. In 2002, the company produced strong results in many areas of the business, balanced by a few disappointments. As you will see, the rating for the annual bonus for 2002, which assesses the full breadth of performance during the year, is some 11% lower than last year, reflecting good, but less favourable, overall performance this year. The expected award of shares under the Long Term Performance Plan for the period 2000-2002 is less than half last year's award.

Our approach to policy for 2003 will continue to be as for the past several years and will be underpinned by regular monitoring of remuneration policies and levels at competitor companies in Europe and the USA. The Executive Directors' Incentive Plan, which was approved by shareholders in April 2000, continues to be competitive and will again be used as last year. Details of this plan are explained on pages 32 and 33.

In 2003, the committee will continue to review the remuneration plans that apply to executive directors to ensure they meet the dual needs of alignment with shareholders' interests and of the retention and engagement of our executives. Consistent with our well-established policy of transparency, any significant changes we feel are warranted will be brought to shareholders for approval at a future annual general meeting.

Full details of the 2002 remuneration of executive directors and all other information about executive directors required under the Directors' Remuneration Report Regulations 2002 are contained in the committee's report below.



#### Sir Robin Nicholson

Chairman, Remuneration Committee  
11 February 2003

This report sets out the company's policy on executive directors' remuneration for 2003 and, so far as practicable, for subsequent years. The inclusion in the report of remuneration policy in respect of years after 2003 is required by the legislation under which this report is prepared.

The remuneration committee is able to state its remuneration policy for 2003 with reasonable certainty, but is less certain that this policy will continue without amendment in subsequent years. This is

because the committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in BP's business environment and in remuneration practice. Any changes in policy for years after 2003 will be described in future directors' remuneration reports, which will continue to be subject to shareholder approval. All statements in this report in relation to remuneration policy for years after 2003 should be read in the light of this paragraph.

## The remuneration committee

### Tasks

The committee's tasks as set out in the board governance policies 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 those to the shareholders.
- To determine on behalf of the board matters of policy over which the company has authority relating to 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 such scheme.
- To monitor the policies being applied by the group chief executive in remunerating senior executives other than executive directors.

### Constitution and operation

The committee members are all non-executive directors. The membership throughout 2002 was: Sir Robin Nicholson (chairman), Mr Davis, Dr Julius, Mr Knight and Sir Ian Prosser. Like other directors, each member of the committee is subject to re-election every three years. They have no personal financial interest, other than as shareholders, in the committee's decisions. They have no conflicts of interest arising from cross-directorships with the executive directors nor from being involved in the day-to-day business of the company. The committee met five times in the period under review.

In its constitution and operation the committee complies with the Combined Code on Corporate Governance. It is accountable to shareholders through its annual report on executive directors' remuneration. The committee will consider the outcome of the vote on the remuneration report, and the views of investors will be taken into account by the committee in its future decisions.

### Advice

Advice is provided to the committee by the company secretary's office, which is independent of executive management and reports to the non-executive chairman. Mr Gerrit Aronson, who is an independent consultant within the company secretary's office, was appointed in 2000 by the committee as its secretary and special adviser. He does not provide any other services to the group.

The committee, in consultation with Mr Aronson and the company secretary, also appoints external professional advisers to provide specialist advice and services on particular remuneration matters. This allows for a range of external independent opinion to be sourced by the committee. This advice is then subject to an independent review by Mr Aronson. The committee assesses the advice it receives, applying its own judgement. Procedures to ensure the independence of advice are subject to annual review.

During 2002, the following people provided advice or services on specific matters to the committee that materially assisted it in its consideration of matters relating to executive directors' remuneration:

- Mr Sutherland (chairman); Lord Browne (group chief executive), who was consulted on matters relating to the other executive directors who report to him and on matters relating to the performance of the company. He was not present when matters

affecting his own remuneration were considered; Mr Iain Macdonald (group vice president, planning, performance management and control, for the company), who provided to the committee some of the company's calculations for the performance-related pay which were then subject to independent verification by Ernst & Young as auditors; Mr Aronson; Miss Hanratty (company secretary); and Mrs Sarah Martin (senior counsel, company secretary's office). Only Mr Aronson among those above was appointed by the committee.

- Towers Perrin who, during 2002, have been the committee's principal advisers on matters of executive directors' remuneration and who also provided some ad hoc remuneration and benefits advice to parts of the group, mainly comprising pensions advice in Canada; Kepler Associates, who advised on the selection of the shareholder return against the market performance benchmark for the Executive Directors' Incentive Plan and tracked BP's performance against this benchmark (they provided a similar service in relation to the Long Term Performance Plan for senior executives); Freshfields Bruckhaus Deringer, Allen & Overy and Martin Moore, QC, all of whom provided legal advice on specific matters to the committee and who provide ad hoc legal advice to the group; and Ernst & Young in their capacity as auditors, who reviewed and reported to the committee on the calculations of BP's performance in respect of financial targets that form the basis for performance-related pay for the executive directors, and who also provide audit, audit-related and taxation services to the group. All the above were appointed separately by the committee or the secretary to the committee to provide the advice or services that it sought, except for Kepler Associates, who were appointed by the group chief executive and subsequently provided information to the remuneration committee.

## Policy on executive directors' remuneration

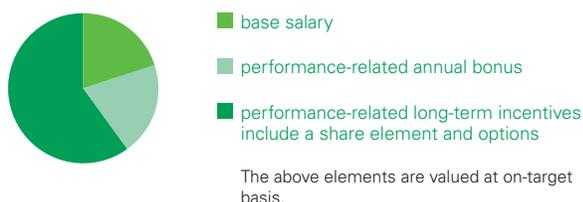
### Main principles

The remuneration committee's reward policy reflects its obligation to align executive directors' remuneration with shareholders' interests and to engage world-class executive talent for the benefit of the group. The main principles of the policy are:

- Total rewards should be set at appropriate levels to reflect the competitive global market in which BP operates.
- The majority of the total reward should be linked to the achievement of demanding performance targets.
- Executive directors' incentives should be aligned with the interests of ordinary shareholders. This is achieved through setting performance targets that are based on measures of shareholders' interests and through the committee's policy that each executive director should hold a significant shareholding in the company, currently equivalent to 5 x the director's base salary.
- The performance targets in the Executive Directors' Incentive Plan should encompass demanding comparisons of BP's shareholder returns and earnings with those of other companies in its own industry and in the broader marketplace.
- The wider scene, including pay and employment conditions elsewhere in the group, should be taken into account, especially when determining annual salary increases.

## Elements of remuneration

The executive directors' total remuneration consists of salary, annual bonus, long-term incentives, pensions and other benefits. This reward structure is regularly reviewed by the committee to ensure that it is achieving its objectives. In 2003, over three-quarters of executive directors' potential direct remuneration will again be performance-related (see illustrative chart below). It is intended that this balance of elements should continue.



### Salary

Each executive director receives a fixed sum payable monthly in cash. The committee expects to review salaries later in 2003 in line with global markets. The appropriate survey groups are defined and analysed by external remuneration advisers.

### Annual bonus

Each executive director is eligible to participate in an annual performance-based bonus scheme. The remuneration committee reviews and sets bonus targets and levels of eligibility annually. The target level is 100% of base salary (except for Lord Browne, for whom, as group chief executive, it is considered appropriate to have a target of 110%). There is a stretch level of 150% of base salary for substantially exceeding targets. Executive directors' annual bonus awards for 2003 will again be based on a mix of demanding financial targets and other leadership objectives, established at the beginning of the year. In addition to business performance, they cover areas such as people, safety, environment and organization.

### Long-term incentives

Long-term incentives are provided under the Executive Directors' Incentive Plan (EDIP), which was approved by shareholders in April 2000. It has three elements: a share element, a share option element and a cash element. Each executive director participates in this plan. The committee's policy, subject to unforeseen circumstances, is that this should continue until the plan expires or is renewed in 2005. The committee's policy for 2003 is to continue to use only the share element and the share option element. The committee's policy that each executive director should hold shares equivalent to 5 x the director's base salary is reflected in the terms of the plan.

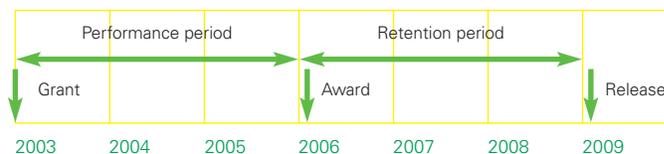
The performance conditions in the share element and share option element of the EDIP were selected to ensure that executive directors' long-term remuneration under the EDIP is appropriately balanced between elements testing BP's performance against that of competitors in the oil industry and elements testing BP's performance against that of the leading global companies.

## 1. Share element

The share element permits the remuneration committee to grant 'performance units' to executive directors, which may result in an award of shares (without payment by the directors) at the end of a three-year performance period if demanding performance conditions are met. The maximum number of shares that may be awarded for each performance unit is two.

Shares awarded are then held in trust for three years before they are released to the individual. This gives the executive directors a six-year incentive structure, and ensures their interests are aligned with those of shareholders.

### Timeline for 2003-2005 EDIP share element



The share element compares BP's performance against the oil and gas sector over three years on a rolling basis. This is assessed in terms of a three-year total shareholder return against the market (SHRAM), return on average capital employed (ROACE) and earnings per share growth, based on pro forma results adjusted for special items (EPS). SHRAM is the primary measure, accounting for nearly two-thirds of the potential total award. All calculations are reviewed by the auditors to ensure that they meet an independent objective standard. The relative position of the company within the comparator group determines the number of shares awarded per performance unit.

For the 2001-2003 plan, BP's three-year SHRAM is measured against the other oil majors: ExxonMobil, Shell, TotalFinaElf and ChevronTexaco. Due to the reduced number of oil majors, for the 2002-2004 and 2003-2005 plans BP's three-year SHRAM is measured against the companies in the FTSE All World Oil & Gas Index. Companies within the index are weighted according to their market capitalization at the beginning of each three-year period in order to give greatest emphasis to oil majors.

The committee reviews and approves annually the performance measures and the comparator companies. The policy for 2003 and for the foreseeable future is to continue with the SHRAM measure adopted by the committee in relation to the 2002-2004 and 2003-2005 plans.

BP's ROACE and EPS for all the plans since April 2001 are, and for the foreseeable future will be, measured against ExxonMobil, Shell, TotalFinaElf and ChevronTexaco.

## 2. Share option element

The share option element of the EDIP is designed to reflect BP's performance relative to a wider selection of global companies. It has a disclosed three-year pre-grant performance requirement that differentiates it from traditional share option schemes. Under this element, options may be granted to executive directors at an exercise price no lower than the market value (as determined in accordance

with the plan rules) of a share at the date the option is granted. Reflecting the pre-grant performance requirement, options vest over three years after grant (one-third each after one, two and three years respectively). They have a life of seven years after grant.

In accordance with the framework approved by shareholders in 2000, it is the committee's policy to continue exercising its judgement to decide the number of options to be granted to each executive director, taking into account BP's total shareholder return (TSR) compared with the TSR for the FTSE Global 100 group of companies over the three years preceding the grant. The committee will not grant options in any year unless the criteria for an award of shares under the share element have been met. These methods of calculation were chosen to enable the committee to take into account not only the TSR position but also the underlying health of the business and the competitive marketplace.

Following grant, the options are not subject to any performance conditions. The remuneration committee favours this approach for two main reasons. First, it has the effect of treating share options as a reward both for past performance (because BP's ranking within a comparator group will have been taken into account in determining the number of shares under option) and as an incentive for future performance (because the participant's gain under the option will depend on share price growth after the grant under the option). Second, BP operates internationally and the application of a performance condition after grant is not a feature of option schemes operated by major international companies based outside the UK.

### 3. Cash element

The cash element allows the remuneration committee to grant cash rather than share-based incentives in exceptional circumstances. This element was not used in 2002, and the committee has no present intention to use it in 2003.

### Other benefits

- Pension – executive directors are eligible to participate in the appropriate pension schemes applying in their home countries as described on page 37.
- Benefits and other share schemes – executive directors are eligible to participate in regular employee benefit plans and in all-employee share schemes and savings plans applying in their home countries. Benefits in kind are not pensionable.
- Resettlement allowance – expatriates may receive a resettlement allowance for a limited period.

### New appointees

Dr Allen, Dr Hayward and Mr Manzoni were appointed executive directors on 1 February 2003, each on a base salary of £400,000 per annum. They are subject to the committee's policy on executive directors' remuneration, as described above. As such, they will be eligible to participate in the annual bonus scheme and EDIP described above on a similar basis to the other executive directors.

## Service contracts

### Policy

The committee's policy on executive directors' service contracts is for them to contain a maximum notice period of one year. To reflect current market practice, Lord Browne has agreed to reduce the notice period in his contract to one year and it has been amended to reflect this. All executive directors' service contracts now either expire this year or can be terminated on one year's notice.

Each service contract expires at the respective normal retirement date of the director but is subject to earlier termination for cause or if notice is given under the contract.

The contracts are designed to allow for flexibility to deal with each case on its own particular merits in accordance with the law and policy as they have developed at the relevant time. With effect from January 2003, the committee will include a provision in new service contracts to allow for severance payments to be phased where appropriate to do so. It will also consider mitigation to reduce compensation to a departing director where appropriate to do so. A large proportion of each executive director's total remuneration is linked to performance and therefore will not be payable to the extent that the relevant targets are not met.

### Specific contracts

Lord Browne's service contract with the company is dated 11 November 1993. It can be terminated by the company or by Lord Browne by one year's notice.

Dr Buchanan's service contract with the company is dated 21 October 1998 and expires at his normal retirement date in June 2003.

Mr Chase's service contract with the company is dated 30 November 1993 and expires at his normal retirement date in May 2003.

Dr Grote's service contract with BP Exploration (Alaska) Inc. is dated 7 August 2000. It can be terminated by that company or by Dr Grote by one year's notice. He is seconded to BP p.l.c. under a secondment agreement that is dated 7 August 2000. At 31 December 2002, this secondment agreement had an unexpired term of five years. The secondment may be terminated by one month's notice by either party and terminates automatically on the termination of Dr Grote's service contract.

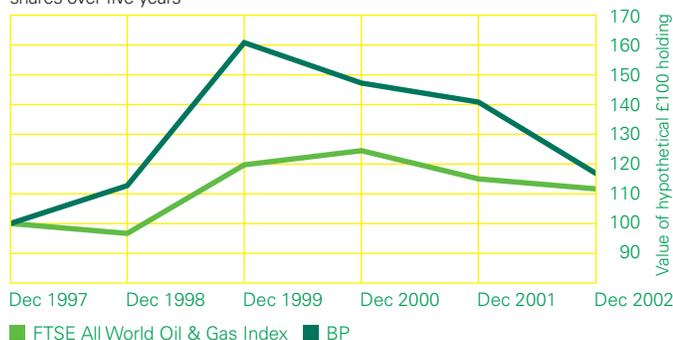
Mr Olver's service contract with the company is dated 31 December 1997. It can be terminated by the company or by Mr Olver by one year's notice. The company may also terminate the contract at any time with immediate effect on payment in lieu of notice equivalent to one year's salary or the amount of salary that would have been paid if the contract had terminated on the expiry of the remainder of the notice period.

There are no other provisions for compensation payable on early termination of the above contracts. In the event of early termination under any of the above contracts by the company other than for cause (or under a specific termination payment provision), the relevant director's then current salary and contractual benefits would be taken into account in calculating any liability of the company. The principal contractual benefits provided in addition to salary are the provision of a car or car allowance, pension and life insurance. Annual bonuses and long-term incentives are non-contractual and are dealt with in accordance with the rules of the relevant schemes.

Details in relation to Mr Ford's contract are included on page 37.

### Historical TSR performance

Growth in the value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years



This graph is included to meet the new requirement to show the growth in the value of a hypothetical £100 holding in BP p.l.c. ordinary shares over five years relative to a broad equity market index. The FTSE All World Oil & Gas Index was considered by the remuneration committee to be the most relevant index for this purpose as it relates directly to BP's sector.

### Information subject to audit

#### Summary of 2002 remuneration

	Annual remuneration			Long Term Performance Plan (LTTP)				Grants under EDIP			
	Salary '000	2002 annual performance bonus '000	Other benefits '000	2002 total '000	2001 total '000	2000-2002 LTTP (awarded in Feb 2003) Expected award <sup>a</sup> (shares)	Value <sup>b</sup> '000	1999-2001 LTTP (awarded in Feb 2002) Actual award (shares)	Value <sup>c</sup> '000	2002-2004 share element (performance units) <sup>d</sup>	Share option element (granted in Feb 2002) (options) <sup>e</sup>
The Lord Browne of Madingley	\$1,926 £1,284	\$2,543 £1,695	\$78 £52	<b>\$4,547</b> £3,031	\$4,373 £3,037	224,000	\$1,324 £883	472,500	\$3,875 £2,691	475,556	1,348,032
R F Chase	\$960 £640	\$1,152 £768	\$47 £32	<b>\$2,159</b> £1,440	\$2,042 £1,418	139,200	\$823 £548	315,000	\$2,583 £1,794	272,031	–
Dr B E Grote	\$713 £475	\$856 £570	\$302 <sup>f</sup> £202	<b>\$1,871</b> £1,247	\$1,864 £1,294	68,000	\$402 £268	175,000	\$1,436 £997	182,613	349,038
R L Olver	\$795 £530	\$954 £636	\$56 £37	<b>\$1,805</b> £1,203	\$1,717 £1,192	117,600	\$695 £463	252,000	\$2,066 £1,435	196,296	370,956
Directors leaving the board in 2002 <sup>g</sup>											
Dr J G S Buchanan	\$715 £477	\$787 £524	\$26 £17	<b>\$1,528</b> £1,018	\$1,656 £1,150	123,200	\$728 £485	280,000	\$2,297 £1,595	221,026	–
W D Ford	\$180 £120	\$180 £120	\$148 <sup>f</sup> £99	<b>\$508</b> £339	\$2,188 £1,519	105,600	\$624 £416	175,000	\$1,436 £997	–	–

The table above represents remuneration received by executive directors in the 2002 financial year, with the exception of the 2002 annual bonus which was earned in 2002 but paid in 2003. Amounts are shown in both US dollars and pounds sterling and are converted at the rate of £1 = \$1.44 for 2001 and £1 = \$1.50 for 2002. Lord Browne, Mr Chase, Mr Olver and Dr Buchanan received their remuneration in pounds sterling; Dr Grote and Mr Ford in US dollars.

<sup>a</sup> Gross award of shares based on a performance assessment by the remuneration committee and on the other terms of the plan. Sufficient shares are sold to pay for tax applicable. Remaining shares are held in trust until 2006 when they are released to the individual.

<sup>b</sup> Based on closing price of BP shares on 11 February 2003 (£3.94/\$5.91 at £1 = \$1.50).

<sup>c</sup> Based on average market price on date of award (£5.695/\$8.20 at £1 = \$1.44).

<sup>d</sup> Performance units granted under the 2002-2004 share element of the EDIP are converted to shares at the end of the performance period. Maximum of two shares per performance unit.

<sup>e</sup> Options granted in February 2002 have a grant price of £5.715 per share. Dr Grote holds options over ADSs; the above numbers and prices reflect calculated equivalents.

<sup>f</sup> Includes resettlement allowances for Dr Grote and Mr Ford of \$300,000 and \$110,000 respectively.

<sup>g</sup> Amounts for Dr Buchanan and Mr Ford reflect the eleven months and three months respectively that they were directors in 2002.

### Salary

In January 2002 base salaries for executive directors were increased by less than 10% per annum. Base salaries have recently been increased by 5% per annum both for Dr Grote on his promotion to chief financial officer and for Mr Olver on his promotion to deputy group chief executive.

### Annual bonus

The annual bonus awards for 2002 are based on a mix of financial targets and leadership objectives established at the beginning of the year. Assessment of all the targets resulted in a target performance of 120 points out of a maximum of 150, which is some 11% lower than the 135 points last year. The resulting bonus awards are shown in the summary table above. All calculations in relation to the annual bonus have been reviewed by the auditors.

## Share options

	Option type	At 1 Jan 2002	Granted	Exercised	At 31 Dec 2002	Option price	Market price at date of exercise	Date from which first exercisable	Expiry date
The Lord Browne of Madingley	SAYE	5,968	-	5,968	-	£2.89	£4.52	1 Sept 2002	28 Feb 2003
	SAYE	-	3,661	-	3,661	£4.52	-	1 Sept 2007	28 Feb 2008
	EDIP	408,522	-	-	408,522	£5.99	-	15 May 2001	15 May 2007
	EDIP	1,269,843	-	-	1,269,843	£5.67	-	19 Feb 2002	19 Feb 2008
	EDIP	-	1,348,032	-	1,348,032	£5.72	-	18 Feb 2003	18 Feb 2009
R F Chase	SAYE	3,388	-	-	3,388	£4.98	-	1 Sept 2005	28 Feb 2006
	EDIP	85,215	-	-	85,215	£5.99	-	15 May 2001	15 May 2007
	EDIP	312,171	-	-	312,171	£5.67	-	19 Feb 2002	19 Feb 2008
Dr B E Grote <sup>a</sup>	SAR	40,000	-	-	40,000	\$13.63	-	23 Mar 1996	23 Mar 2003
	SAR	40,800	-	-	40,800	\$16.63	-	25 Mar 1997	25 Mar 2004
	SAR	35,600	-	-	35,600	\$19.16	-	28 Feb 1998	28 Feb 2005
	SAR	35,200	-	-	35,200	\$25.27	-	6 Mar 1999	6 Mar 2006
	SAR	40,000	-	-	40,000	\$33.34	-	28 Feb 2000	28 Feb 2007
	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	-	19 Feb 2002	19 Feb 2008
	EDIP	-	58,173	-	58,173	\$48.82	-	18 Feb 2003	18 Feb 2009
R L Olver	SAYE	2,386	-	-	2,386	£2.89	-	1 Sept 2002	28 Feb 2003
	SAYE	1,137	-	-	1,137	£5.11	-	1 Sept 2004	28 Feb 2005
	SAYE	-	840	-	840	£4.52	-	1 Sept 2005	28 Feb 2006
	EDIP	71,847	-	-	71,847	£5.99	-	15 May 2001	15 May 2007
	EDIP	260,319	-	-	260,319	£5.67	-	19 Feb 2002	19 Feb 2008
	EDIP	-	370,956	-	370,956	£5.72	-	18 Feb 2003	18 Feb 2009
Directors leaving the board in 2002									
Dr J G S Buchanan <sup>b</sup>	SAYE	1,856	-	-	1,856	£3.71	-	1 Sept 2003	28 Feb 2004
	SAYE	750	-	-	750	£4.49	-	1 Sept 2004	28 Feb 2005
	SAYE	1,320	-	-	1,320	£5.11	-	1 Sept 2006	28 Feb 2007
	EDIP	75,189	-	-	75,189	£5.99	-	15 May 2001	15 May 2007
	EDIP	253,971	-	-	253,971	£5.67	-	19 Feb 2002	19 Feb 2008
W D Ford <sup>a, c</sup>	NRSO	105,866	-	-	105,866	\$20.80	-	22 Mar 1995	22 Mar 2004
	NRSO	119,100	-	-	119,100	\$23.69	-	28 Mar 1996	28 Mar 2005
	NRSO	132,332	-	-	132,332	\$27.68	-	26 Mar 1997	26 Mar 2006
	NRSO	132,332	-	-	132,332	\$34.08	-	25 Mar 1998	25 Mar 2007
	NRSO	132,332	-	-	132,332	\$32.92	-	24 Mar 1999	24 Mar 2008
	BPA	54,712	-	-	54,712	\$53.90	-	15 Mar 2000	14 Mar 2009
	BPA	38,750	-	-	38,750	\$48.94	-	28 Mar 2001	27 Mar 2010
	EDIP	43,506	-	-	43,506	\$49.65	-	19 Feb 2002	19 Feb 2008

The closing market prices of an ordinary share and of an ADS on 31 December 2002 were £4.27 and \$40.65 respectively. During 2002, the highest market prices were £6.25 and \$53.88 respectively, and the lowest market prices were £3.93 and \$36.78 respectively.

EDIP = Executive Directors' Incentive Plan adopted by shareholders in April 2000 as described on pages 32-33. The awards are made taking into consideration the ranking of the company's TSR against the TSR of the FTSE Global 100 group of companies over the three-year period prior to the grant. As noted in last year's report, for directors who retire after 1 January 2002, options that are vested at a director's retirement will now be preserved until the normal lapse date (the seventh anniversary of grant).

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

NRSO = Amoco Non-Restricted Stock Option Plan, which applied to Mr Ford as an employee of Amoco.

SAR = Stock Appreciation Rights under BP America Inc. Share Appreciation Plan.

In keeping with the US market practice, none of the options under the BPA, NRSO and SAR is subject to performance conditions because they were granted under American plans to the relevant individuals and the NRSO options were awarded prior to Amoco's merger with BP.

SAYE = Save As You Earn employee share option scheme. These options are not subject to performance conditions because this is an all-employee share scheme governed by specific tax legislation.

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

<sup>b</sup> On leaving the board of BP p.l.c. on 21 November 2002.

<sup>c</sup> On leaving the board of BP p.l.c. on 31 March 2002.

### Long Term Performance Plans (LTTPs) and share element of EDIP

Under the Long Term Performance Plans and the share element of the EDIP, performance units are granted at the beginning of the period and converted into an award of shares at the end of the three-year period, depending on performance. There is a maximum of two shares per performance unit.

Since the adoption of the EDIP in April 2000, the executive directors have ceased to be eligible for grants under the BP share option plan and the LTTPs. However, they were not required to relinquish rights under those plans that had already been granted prior to April 2000 (including performance units under the LTTPs that have yet to mature into share awards).

The last of these LTTP rights under the 1999-2001 and 2000-2002 plans matured or mature into share awards in February 2002 and 2003 respectively.

For the 2000-2002 LTTP, BP's performance was assessed in terms of SHRAM, ROACE and EPS growth – each relative to that of ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI and Repsol-YPF.

BP's SHRAM came in at sixth place among the comparator group, fourth place on EPS growth and first place on ROACE.

Based on a performance assessment of 80 points out of 200, the remuneration committee expects to make awards of shares to executive directors as highlighted in the 2000-2002 lines of the table below.

The table also sets out information in compliance with new legal requirements introduced under the Directors' Remuneration Report Regulations 2002. For the purpose of these regulations, performance units are scheme interests.

### Long Term Performance Plans (LTTPs) and share element of EDIP

	LTTP/Share element interests						Interests vested in 2002		
	Performance period <sup>a</sup>	Date of grant of performance units	Market price of each share at date of grant of performance units £	Performance units <sup>b</sup>			Number of ordinary shares awarded <sup>c</sup>	Share award date	Market price of each share at share award date £
				At 1 Jan 2002	Granted 2002	At 31 Dec 2002			
The Lord Browne of Madingley	1999-2001	11 Mar 1999	5.11	270,000	–	–	472,500	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>280,000</b>	–	<b>280,000</b>	<b>224,000</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	415,000	–	415,000	–	–	–
	2002-2004	18 Feb 2002	5.73	–	475,556	475,556	–	–	–
R F Chase	1999-2001	11 Mar 1999	5.11	180,000	–	–	315,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>174,000</b>	–	<b>174,000</b>	<b>139,200</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	205,000	–	205,000	–	–	–
	2002-2004	18 Feb 2002	5.73	–	237,037	237,037	–	–	–
	2002-2004	13 Mar 2002	6.17	–	34,994	34,994	–	–	–
Dr B E Grote	1999-2001	11 Mar 1999	5.11	100,000	–	–	175,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>85,000</b>	–	<b>85,000</b>	<b>68,000</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	155,000	–	155,000	–	–	–
	2002-2004	18 Feb 2002	5.73	–	182,613	182,613	–	–	–
R L Olver	1999-2001	11 Mar 1999	5.11	144,000	–	–	252,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>147,000</b>	–	<b>147,000</b>	<b>117,600</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	170,000	–	170,000	–	–	–
	2002-2004	18 Feb 2002	5.73	–	196,296	196,296	–	–	–
Directors leaving the board in 2002									
Dr J G S Buchanan	1998-2000	5 Feb 1998	4.05	159,900 <sup>d</sup>	–	–	–	–	–
	1999-2001	11 Mar 1999	5.11	160,000	–	–	280,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>154,000</b>	–	<b>154,000<sup>e</sup></b>	<b>123,200</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	165,000	–	165,000 <sup>e</sup>	–	–	–
	2002-2004	18 Feb 2002	5.73	–	192,593	192,593 <sup>e</sup>	–	–	–
2002-2004	13 Mar 2002	6.17	–	28,433	28,433 <sup>e</sup>	–	–	–	
W D Ford	1999-2001	11 Mar 1999	5.11	100,000	–	–	175,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>132,000</b>	–	<b>132,000<sup>f</sup></b>	<b>105,600</b>	<b>expected award Feb 2003</b>	
	2001-2003	19 Feb 2001	5.80	170,000	–	170,000 <sup>f</sup>	–	–	–
Former director									
Dr C S Gibson-Smith	1999-2001	11 Mar 1999	5.11	144,000	–	–	252,000	19 Feb 2002	5.70
	<b>2000-2002</b>	<b>23 Feb 2000</b>	<b>4.59</b>	<b>140,000</b>	–	<b>140,000</b>	<b>112,000</b>	<b>expected award Feb 2003</b>	

<sup>a</sup> For performance periods up to 2000-2002, performance units were granted under the LTTPs. Thereafter they were granted under the EDIP as explained on pages 32-33. Each performance period ends on 31 December of the third year.

<sup>b</sup> Represents number of performance units, each having a maximum potential of two shares depending on performance.

<sup>c</sup> Represents awards of shares made or expected to be made at the end of the relevant performance period based on performance achieved under rules of the plan. BP's performance is assessed in terms of a three-year SHRAM against the oil majors. For 1998-2000 this included ExxonMobil, Shell, TotalFinaElf, ChevronTexaco; for 1999-2001 this included ExxonMobil, Shell, TotalFinaElf, ChevronTexaco; and for 2000-2002 this included ExxonMobil, Shell, TotalFinaElf, ChevronTexaco, ENI, Repsol-YPF. For the two latter plans, performance was also assessed in terms of ROACE and EPS growth against the same oil majors.

<sup>d</sup> Dr Buchanan elected to defer to 2004 the determination of whether an award should be made for this period.

<sup>e</sup> On leaving the board of BP p.l.c. on 21 November 2002.

<sup>f</sup> On leaving the board of BP p.l.c. on 31 March 2002.

### Compensation for past directors

Mr Ford's service agreement was with BP Corporation North America Inc. (BPCNA), dated 23 June 2000. Mr Ford was seconded to BP p.l.c. under a secondment agreement dated 23 June 2000. On his resignation from the board of BP p.l.c. with effect from 31 March 2002, his secondment to BP p.l.c. ended and he returned to the USA. His underlying US employment agreement with BPCNA had a two-month notice period and was due to expire on 21 January 2004. His contract was terminated early by BPCNA on 1 June 2002 in

accordance with its terms. The contract terms required payment to him by BPCNA of liquidated damages of \$1,655,555, being equivalent to \$1 million per annum (pro rated for part years) for each year between the date of severance and 21 January 2004. BPCNA also made payments totalling \$129,691 to Mr Ford in June 2002 in accordance with its standard benefits and repatriation programme. Mr Ford remains eligible for a pro rata award under the 2002 annual bonus scheme and for awards under the long-term incentive schemes in accordance with the rules of those schemes.

### Pensions

\$ thousand	Service at 31 Dec 2002	Accrued pension entitlement at 31 Dec 2002	Additional pension earned during the year ended 31 Dec 2002	Transfer value of accrued benefit at 31 Dec 2002 (A)	Transfer value of accrued benefit at 31 Dec 2001 (B)	Amount of A-B less contributions made by the director in 2002
The Lord Browne of Madingley (UK)	36 years	1,284	84	19,143	16,335	2,808
Dr J G S Buchanan (UK)	33 years	520	40	9,586	8,652	934
R F Chase (UK)	38 years	640	50	11,649	10,633	1,016
W D Ford (USA) <sup>a</sup>	31 years	644	140	8,324	5,988	2,336
Dr B E Grote (USA)	23 years	263	181	3,493	1,069	2,424
R L Olver (UK)	29 years	530	40	8,210	6,955	1,255

Conversion rates: 2002 at £1 = \$1.50; 2001 at £1 = \$1.44.

<sup>a</sup> 2002 figures for Mr Ford are stated as at 31 March 2002, the date he left the board of BP p.l.c. He retired in June 2002 and, in accordance with his entitlements under the normal rules of the 'grandfathered' plan, he took a lump-sum distribution in August 2002 of his combined plan benefits totalling \$8,485,733.

### UK directors

UK directors are members of the BP Pension Scheme. The scheme offers Inland Revenue-approved retirement benefits based on final salary. It is the principal section of the BP Pension Fund, the latter being set up under trust deed. Company contributions to the fund are made on the advice of the actuary appointed by the trustee. No company contributions were made during 2002.

Scheme members' core benefits are non-contributory. They include a pension accrual of 1/60th of basic salary for each year of service, subject to a maximum of two-thirds of final basic salary; a lump-sum death-in-service benefit of 3 x salary; and a dependant's benefit of two-thirds of the member's pension. The scheme pension is not integrated with state pension benefits.

Normal retirement age is 60, but scheme members who have 30 or more years' pensionable service at age 55 can elect to retire early without an actuarial reduction being applied to their pension.

Pensions payable from the fund are guaranteed to be increased annually in line with changes in the Retail Prices Index, up to a maximum of 5% a year.

Directors appointed prior to 2003 accrue pension on a non-contributory basis at the enhanced rate of 2/60ths of their final salary for each year of service as executive directors (up to the same two-thirds limit). None of the directors is affected by the pensionable earnings cap.

In accordance with the company's long-standing practice for executive directors who retire from BP on or after age 55 having accrued at least 30 years' service, Mr Chase will receive an ex-gratia lump-sum superannuation payment from the company equal to one year's base salary following his retirement. Lord Browne will remain eligible for consideration for such a payment. In the case of these individuals, all matters relating to such superannuation payments will be considered by the remuneration committee. Any such payments

would be in addition to their pension entitlements referred to above. None of the other executive directors is eligible for consideration for a superannuation payment on retirement, as the remuneration committee decided in 1996 that appointees to the board after that time should cease to be eligible for consideration for such a payment.

### US directors

US directors participate in the BP Retirement Accumulation Plan (US plan), which features a cash balance formula. The current design of the US plan became effective on 1 July 2000. However, certain former employees of Amoco and ARCO have been provided with a minimum (or 'grandfathered') benefit equal to the benefit that would have accrued under the respective predecessor pension plan. Mr Ford's pension benefit was subject to this 'grandfathered' arrangement described above, reflecting his Amoco service and benefits.

Consistent with US tax regulations, pension benefits are provided through a combination of tax-qualified and non-qualified benefit restoration plans, 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 (as specified under the qualified arrangement) multiplied by years of service, with 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 an eligible participant under the supplemental plan, and his pension accrual for 2002 includes the total amount that may become payable under all plans.

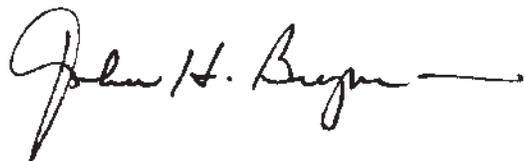
## Part 2 – Non-executive directors’ remuneration

### Dear Shareholder

It is important for BP to attract and retain non-executive talent from around the globe to ensure that our board is able to discharge its stewardship obligations to the highest possible standards, especially as the workload of non-executive directors continues to grow. The recent Higgs Report recognizes that non-executive fees should reflect these greater expectations in the new boardroom environment, both at formal meetings of the board and in the work of its committees, as governance practices evolve. All non-executive members of the BP board serve on at least one of its permanent committees, as described in the corporate governance section on page 28.

The remuneration of non-executive directors was last considered in 2000, with revised fee levels introduced on 1 January 2001. During 2002, the board appointed a committee of independent non-executive directors under my chairmanship, consisting of Dr Julius and Mr Maljers, to review the remuneration of the non-executive directors and make recommendations for future structure and amount. This ad hoc committee is distinct from the remuneration committee, which considers matters relating to the remuneration of the executive directors. The ad hoc committee is not a standing committee of the board and, having undertaken the task assigned to it, it has been dissolved. In the course of its work, the committee received advice and material assistance from Miss Hanratty (company secretary) and Mr Jeremy Booker (vice president corporate governance, company secretary’s office).

The ad hoc committee met on three occasions to consider in detail a range of options for the remuneration of non-executive directors, in the light of developing remuneration practice and the anticipated workload, tasks and liabilities of the non-executive directors. Having considered comparative data and practice, including equivalent daily rates for non-executives in relevant jurisdictions, the committee made a number of recommendations to the board. These recommendations were formally adopted by the board and took effect from 1 July 2002.



### John H Bryan

Chairman, Ad Hoc Committee on Non-Executive Remuneration

11 February 2003

### Policy on non-executive directors’ remuneration

In making recommendations for non-executive directors’ remuneration, the following policies were developed to guide the board in its current and future decision-making.

- 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 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.

### Elements of remuneration

In contrast to the position of executive directors’ pay, in which an increasing element is performance-related, non-executive directors’ pay comprises cash fees, paid monthly, with increments for positions of additional responsibility, reflecting additional workload and consequent potential liability. For all non-executive directors except the chairman, a fixed allowance is paid for transatlantic travel undertaken for the purpose of attending a board meeting. In addition, non-executive directors receive reimbursement of reasonable travel and related business expenses. No share or share option awards are made to any non-executive director in respect of service on the board. Non-executive directors have letters of appointment that recognize that, subject to the Articles of Association, their service is at the discretion of the shareholders. They submit themselves for election at the annual general meeting following their appointment and subsequently at intervals of no more than three years.

### Non-executive directors' annual fee structure

The Articles provide that the remuneration paid to non-executive directors is determined by the board within limits set by shareholders. Fees payable to non-executive directors were reviewed during 2002. New and increased fees based on a comparable structure were approved by the board as from 1 July 2002. All fees are fixed and paid in pounds sterling. For conformity these are also reported in US dollars.

thousand	To 30 June 2002		From 1 July 2002	
	\$ <sup>a</sup>	£	\$ <sup>a</sup>	£
Chairman	420	280	585	390 <sup>b</sup>
Deputy chairman	128	85	128	85 <sup>c</sup>
Board member	68	45	98	65
Committee chairmanship fee	8	5	23	15
Transatlantic attendance allowance <sup>d</sup>	5	3	8	5

<sup>a</sup>Sterling payments converted at the average 2002 exchange rate of £1 = \$1.50.

<sup>b</sup>The chairman is ineligible for committee chairmanship fees and transatlantic attendance allowance but has the use of a fully maintained office and a chauffeured car for company business.

<sup>c</sup>The deputy chairman receives a £20,000 increment on top of the standard board fee. In addition, this is supplemented by committee chairmanship fees and transatlantic attendance allowance. The deputy chairman is currently chairman of the Audit Committee. Prior to 1 July 2002, the deputy chairman received an all-inclusive fee of £85,000 and was ineligible for committee chairmanship fees and transatlantic attendance allowance.

<sup>d</sup>This allowance is payable to non-executive directors undertaking transatlantic travel for the purpose of attending a board meeting or board committee meeting.

### Long-term incentives (residual)

The table in the right-hand column sets out the residual entitlements of non-executive directors who were formerly non-executive directors of Amoco Corporation under the Amoco Non-Employee Directors' Restricted Stock Plan.

### Amoco Non-Employee Directors' Restricted Stock Plan

Non-executive directors of Amoco Corporation were allocated restricted stock in the Amoco Non-Employee Directors' Restricted Stock Plan by way of 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. Under the terms of the plan, the restricted stock will vest upon the retirement of the non-executive director at age 70 or upon earlier retirement at the discretion of the board. Since the merger, no further entitlements have accrued to any director under the plan. These residual interests require disclosure under the Directors' Remuneration Report Regulations 2002 as interests in a long-term incentive scheme:

	Interest in BP ADSs 1 January 2002 and 31 December 2002 <sup>a</sup>	Date on which director reaches age 70 <sup>b</sup>
J H Bryan	5,546	5 October 2006
E B Davis, Jr	4,490	5 August 2014
F A Maljers	2,906	12 August 2003
Dr W E Massey	3,346	5 April 2008
M H Wilson	3,170	4 November 2007

<sup>a</sup>No awards were granted or vested and no awards lapsed during the year.

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

### Superannuation gratuities

In accordance with BP's long-standing practice, non-executive directors who retire from the board after at least six years' service are, at the time of their retirement, eligible for consideration for a superannuation gratuity. The board is authorized to make such payments under the company's Articles. 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. The board did not make any payment to Sir Robert Wilson, the only non-executive director retiring in 2002, in view of his limited length of service.

On the recommendation of the ad hoc committee on non-executive remuneration, during 2002 the board revised its policy with respect to such payments so that (i) non-executive directors appointed to the board after 1 July 2002 would not be eligible for consideration for such a payment, and (ii) non-executive directors in service at 1 July 2002 would remain eligible for consideration for a payment, but service after that date would not be taken into account by the board in considering the amount of any payment.

This directors' remuneration report was approved by the board and signed on its behalf by Miss Hanratty, company secretary, on 11 February 2003.

### Information subject to audit

#### Remuneration of non-executive directors

thousand	2002		\$ <sup>b</sup>	2001 £
	\$ <sup>a</sup>	£		
Current directors				
J H Bryan	120	80	82	57
E B Davis, Jr	120	80	82	57
Dr D S Julius	95	63	6	4
C F Knight	95	63	78	54
F A Maljers	95	63	78	54
Dr W E Massey	135	90	94	65
H M P Miles <sup>c</sup>	95	63	78	54
Sir Robin Nicholson <sup>d</sup>	110	73	83	57
Sir Ian Prosser	147	98	122	85
P D Sutherland	503	335	403	280
M H Wilson	116	77	86	60
Director leaving the board in 2002				
Sir Robert Wilson	27	18	73	51

<sup>a</sup>Sterling payments converted at the average 2002 exchange rate of £1 = \$1.50.

<sup>b</sup>Sterling payments converted at the average 2001 exchange rate of £1 = \$1.44.

<sup>c</sup>Also received £300 in 2001 (\$432 at 2001 rate) and £600 in 2002 (\$900 at 2002 rate) for serving as a director of BP Pension Trustees Limited.

<sup>d</sup>Also received £20,000 each year (\$28,800 at 2001 rate and \$30,000 at 2002 rate) for serving as the board's representative on the Technology Advisory Council.

## Shareholdings and Annual General Meeting

### Substantial shareholdings

At the date of this report, the company has been notified that JPMorgan Chase Bank, as depositary for American Depositary Shares (ADSs), holds interests through its nominee, Guaranty Nominees Limited, in 6,518,514,934 ordinary shares (29.13% of the company's ordinary share capital). Included in this total is part of the holding of the Kuwait Investment Office (KIO). Either directly or through nominees, the KIO holds interests in 715,040,000 ordinary shares (3.20% of the company's ordinary share capital).

At the date of this report, the company has been notified of the following interests in preference shares: Co-operative Insurance Society Limited holds interests in 1,529,538 8% 1st preference shares (21.15% of that class) and 1,789,796 9% 2nd preference shares (32.70% of that class). Prudential plc holds interests in 528,150 8% 1st preference shares (7.30% of that class) and 644,450 9% 2nd preference shares (11.77% of that class). It should be noted that the total preference shares in issue comprise only 0.37% of the company's total issued nominal share capital, the rest being ordinary shares.

### Annual General Meeting

The 2003 annual general meeting will be held on Thursday 24 April 2003 at 11.00 a.m. at the Royal Festival Hall, Belvedere Road, London SE1 8XX, UK. A separate notice convening the meeting is sent to shareholders with this report, together with an explanation of the items of special business to be considered at the meeting.

All resolutions of which notice has been given will be decided on a poll.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution for their reappointment is included in the notice of the annual general meeting.

By order of the board  
Judith C Hanratty  
Secretary  
11 February 2003

## Further information

### Administration

If you have any queries about the administration of shareholdings such as change of address, change of ownership, dividend payments, the dividend reinvestment plan or the ADS direct access plan, please contact the Registrar or ADS Depositary:

#### UK – Registrar's Office

The BP Registrar  
Lloyds TSB Registrars  
The Causeway, Worthing, West Sussex BN99 6DA  
Telephone: +44 (0)121 415 7005  
Freephone in UK: 0800 701107  
Fax: +44 (0)1903 833371

#### USA – ADS Administration

JPMorgan Chase Bank  
PO Box 43013, Providence, RI 02940-3013  
Telephone: +1 781 575 3346  
Toll-free in USA and Canada: +1 877 638 5672

#### Canada – ADS Administration

CIBC Mellon Trust Company, 199 Bay Street  
Commerce Court West, Securities Level, Toronto, Ontario M5L 1G9  
Telephone: +1 416 643 5500  
Toll-free in Canada and the USA: +1 800 387 0825

#### Japan

The Mitsubishi Trust and Banking Corporation  
7-7 Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo 171-8508  
Telephone: +81 3 5391 7029  
Fax: +81 3 5391 1911

### Publications

Copies of *Annual Accounts 2002*, *Form 20-F*, *BP Environmental and Social Review 2002*, *BP Financial and Operating Information 1998-2002*, *BP Statistical Review of World Energy* and other BP publications may be obtained free of charge from the following sources:

#### USA and Canada

Toll-free: +1 800 638 5672  
Fax: +1 630 821 3456  
[shareholderus@bp.com](mailto:shareholderus@bp.com)

### UK and Rest of World

BP Distribution Services  
International Distribution Centre  
Crabtree Road, Thorpe  
Egham, Surrey TW20 8RS, UK  
Telephone: +44 (0)870 241 3269  
Fax: +44 (0)870 240 5753  
[bpdistributionervices@bp.com](mailto:bpdistributionervices@bp.com)

To elect to receive the full Directors' Report and Annual Accounts in place of summary financial statements for all future financial years, please write to the UK Registrar at the address on this page.

To receive your company documents (such as Annual Report and Notice of Meeting) electronically, please register at [www.bp.com/edelivery](http://www.bp.com/edelivery)

### Internet

The BP website is at [www.bp.com](http://www.bp.com)

### Audio cassettes/CDs for visually impaired shareholders

Highlights from *Annual Report 2002* are available on audio cassette and CD. Copies may be obtained free of charge from the sources listed under 'Publications'.

### Acknowledgements

#### Imagery

Most photography by BP Photographic Services  
Photographers: James Bareham, Terry Beasley, Mike Ellis, Dean Freeman, Ben Gibson, Matt Harris, Ian Hunt, Levan Lagazidze, Mark Lever, Morrison Wulffraat, Fritz Timmer  
Other imagery: Getty Images Inc.

### Paper

The paper used for this report meets the strictest environmental standards set by the Nordic Swan Council and is fully recyclable. It is made at a mill accredited to ISO 14001. The pulp used to produce the paper is generated locally and bleached without the use of elemental chlorine.

### Design and production

Designed and typeset by Pauffley, London  
Printed in England by St Ives Burrups Limited  
Printed in the USA by Sandy Alexander

## Board of directors



### Executive directors

**1. The Lord Browne of Madingley, FREng**  
Group Chief Executive  
Lord Browne (54) was appointed an executive director of BP in 1991 and group chief executive in 1995. He is a non-executive director of Goldman Sachs Group and Intel Corporation, and a trustee of the British Museum.

Member of the  
Nomination Committee

**2. R L Olver**  
Deputy Group  
Chief Executive  
Dick Olver (56) was appointed an executive director of BP in 1998, and deputy group chief executive in January 2003. He is a non-executive director of Reuters Group.

**3. Dr D C Allen**  
Group Chief of Staff  
David Allen (48) was appointed an executive director of BP in February 2003.

**4. R F Chase**  
Senior Adviser to  
Group Chief Executive  
Rodney Chase (59) was appointed an executive director of BP in 1992. He is a non-executive director of Computer Sciences Corporation, Diageo and Tesco. He is also a trustee of the Prince of Wales International Business Leaders Forum and a member of the executive board of the World Council for Sustainable Development.

**5. Dr B E Grote**  
Chief Financial Officer  
Byron Grote (54) was appointed an executive director of BP in 2000 and chief financial officer in November 2002.

**6. Dr A B Hayward**  
Chief Executive,  
Exploration and Production  
Tony Hayward (45) was appointed an executive director of BP in February 2003. He is a non-executive director of Corus Group.

**7. J A Manzoni**  
Chief Executive,  
Refining and Marketing  
John Manzoni (43) was appointed an executive director of BP in February 2003.

**8. P D Sutherland, SC**  
Non-Executive Chairman  
Peter Sutherland (56) rejoined BP's board in 1995, having previously been a non-executive director from 1990 to 1993, and was appointed chairman in 1997. He is non-executive chairman of Goldman Sachs International and a non-executive director of Telefonaktiebolaget LM Ericsson, Investor AB and The Royal Bank of Scotland Group.

Chairman of the Chairmen's  
and Nomination Committees

**9. Sir Ian Prosser**  
Non-Executive  
Deputy Chairman  
Sir Ian (59) joined BP's board in 1997 and was appointed non-executive deputy chairman in 1999. He is chairman of Six Continents and a non-executive director of GlaxoSmithKline.

Member of the Chairmen's  
and Remuneration Committees  
and chairman of the Audit  
Committee

**10. J H Bryan**  
John Bryan (66) joined Amoco's board in 1982. He serves on the boards of Bank One Corporation, General Motors

Corporation and Goldman Sachs. He retired as chairman of Sara Lee Corporation in 2001.

Member of the Chairmen's  
and Audit Committees

**11. E B Davis, Jr**  
Erroll B Davis, Jr (58) joined Amoco's board in 1991. He is chairman, president and chief executive officer of Alliant Energy. He is a non-executive director of PPG Industries and chairman of the Board of Trustees of Carnegie Mellon University.

Member of the Chairmen's,  
Audit and Remuneration  
Committees

**12. Dr D S Julius, CBE**  
DeAnne Julius (53) joined BP's board in 2001. From 1997 to 2001 she was a full-time member of the Monetary Policy Committee of the Bank of England. She is a non-executive director of the Court of the Bank of England, Lloyds TSB, Serco and Roche Holding.

Member of the Chairmen's and  
Remuneration Committees

**13. C F Knight**  
Charles Knight (67) joined BP's board in 1987. He is chairman of Emerson Electric and is a non-executive director of Anheuser-Busch, Morgan Stanley Dean Witter, SBC Communications and IBM.

Member of the Chairmen's and  
Remuneration Committees

**14. F A Maljers, KBE**  
Floris Maljers (69) joined Amoco's board in 1994. A member of the supervisory boards of SHV Holding and Vendex NV, he is chairman of the supervisory boards of KLM Royal Dutch Airlines, the Amsterdam Concertgebouw and Rotterdam School of Management, Erasmus University.

Member of the Chairmen's  
and Ethics and Environment  
Assurance Committees

**15. Dr W E Massey**  
Walter Massey (64) rejoined Amoco's board in 1993, having previously been a director from 1983 to 1991. He is president of Morehouse College, a non-executive director of Motorola, Bank of America and McDonald's Corporation

and a member of President Bush's Council of Advisors on Science & Technology.

Member of the Chairmen's  
Committee and chairman of  
the Ethics and Environment  
Assurance Committee

**16. H M P Miles, OBE**  
Michael Miles (66) joined BP's board in 1994. He is chairman of Schroders and of Johnson Matthey.

Member of the Chairmen's,  
Audit and Ethics and Environment  
Assurance Committees

**17. Sir Robin Nicholson, FREng, FRS**  
Sir Robin (68) joined BP's board in 1987. He is a non-executive director of Rolls-Royce.

Member of the Chairmen's  
Committee and chairman of  
the Remuneration Committee

**18. M H Wilson**  
Michael Wilson (65) joined Amoco's board in 1993. He is president and chief executive officer of UBS Global Asset Management (Canada) and a non-executive director of Manufacturers Life Insurance Company and UBS Global Asset Management.

Member of the Chairmen's,  
Audit and Ethics and Environment  
Assurance Committees

### Changes to the board

Mr W D Ford retired as an executive director on 31 March 2002.  
Sir Robert Wilson retired as a non-executive director on 18 April 2002. Prior to his retirement, he was a member of the Chairmen's, Audit and Ethics and Environment Assurance Committees.  
Dr J G S Buchanan retired as an executive director and chief financial officer on 21 November 2002.  
Dr D C Allen was appointed an executive director on 1 February 2003.  
Dr A B Hayward was appointed an executive director on 1 February 2003.  
Mr J A Manzoni was appointed an executive director on 1 February 2003.  
Mr R F Chase will retire as an executive director on 23 April 2003.

### Company secretary

Judith Hanratty, OBE, (59) has been company secretary since 1994. She is a nominated member of the Council of Lloyd's of London and a member of the Lloyd's Franchise Board. She is also a non-executive director of Partnerships UK and Charles Taylor Consulting, and a member of the Competition Commission and the Takeover Panel. A barrister, she is chairman of The Commonwealth Institute and deputy chairman of the College of Law.