

annual report and accounts 2000



## exploration and production

Activities: Present in 25 countries;  
production operations in 21 countries  
Daily production: 1.93 million barrels of crude oil and  
7.6 billion cubic feet of natural gas (60% oil, 40% gas)  
Discoveries: 33 giant finds 1996-2000 (>250mboe)  
Reserves: 15.2 billion barrels of oil equivalent  
(50% oil, 50% gas)  
Reserve replacement ratio: 160%  
Reserve replacement exceeded production in 2000  
for the seventh consecutive year

## gas and power

Activities: Gas sales contracts in 24 countries  
Gas sales volumes: 14.5 billion cubic feet a day  
Power: 1,900MW power generation projects under  
development or construction

## refining and marketing

Refineries (wholly or partly owned): 24  
Refinery throughput: 2.9 million barrels of crude oil a day  
Oil product marketing sales: 3.8 million barrels a day  
Service stations: 29,000

## chemicals

Sites worldwide: 55  
Production: 22.1 million tonnes a year  
Revenues: \$11.2 billion a year

**BP Amoco p.l.c. is the parent company of the BP group of companies.**

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

**The report of the directors on the business of the company and its subsidiary undertakings is on pages 2-28 and 71-85 inclusive. The consolidated group accounts are on pages 30-62 inclusive. The report of the auditors is on page 63. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiary undertakings.**

**The report and accounts are of the financial year ending on 31 December 2000.**

**The registered office of BP Amoco p.l.c. is:  
Britannic House, 1 Finsbury Circus, London EC2M 7BA, UK  
Telephone: +44 (0)20 7496 4000**

**Registered in England and Wales No. 102498**

**Stock exchange symbol 'BP'**

**BP's Annual Report and Accounts 2000 is available in the form of one integrated document as a download from [www.bp.com/downloads/annualreport2000](http://www.bp.com/downloads/annualreport2000)**

**No other material on the BP corporate website, except that found at the cited URL, forms any part of the Annual Report and Accounts 2000.**

## view online

Find regular updates, latest video footage, downloads, investment calculator and much more on our website



Investment calculator



Audio footage



Video footage



Downloads



FAQs



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

## 1 basics

Describing the fundamentals of BP's business, with a letter from the chairman, a look back at 2000's key events and a series of measures reporting both financial and non-financial performance.

- 1 Introduction
- 2 Performance highlights
- 4 The year at a glance
- 6 Chairman's letter

## 8 objectives

Group chief executive Sir John Browne explains the market context for BP's operations and outlines our strategy for 2001 and beyond.

- 8 Group chief executive's review

# welcome

BP today is a diverse enterprise of some 100,000 people working together in more than 100 countries around the world to provide the energy and choices a growing global population needs to develop and prosper in the 21st century.

Every day we serve millions of customers with products intrinsic to their lives – fuel for transport, energy for heat and light, solar power, and petrochemicals for plastics.

At all times we try to look beyond traditional ways of doing business; to find new ways to deliver outstanding performance. The test of our success must always be our ability to generate strongly competitive returns for our shareholders in a sustainable manner and to touch the life of every individual our business reaches in a distinctive and positive way.

This annual report for 2000 sets out our performance against objectives during the past 12 months and explains our plans for the year to come.

## 12 performance

Reporting our performance not only in financial terms but also against our commitments on health, safety, environmental care and social investment.

- 14 Business operating review
- 18 Environmental and social review
- 20 BP worldwide
- 22 Financial review

## 29 accounts

- 30 Accounting policies
- 32 Financial statements
- 35 Notes on accounts
- 63 Directors' responsibilities for the accounts
- 63 Report of the auditors
- 64 Oil and natural gas reserves
- 65 Five-year summary
- 68 Operating statistics
- 69 US accounting principles
- 70 Glossary

## 71 governance & policy

Explains the work of the board of directors and the company's relationship with its shareholders.

- 72 Board of directors
- 76 Corporate governance
- 79 Executive directors' remuneration

## 85 shareholder information

- 85 Shareholdings and annual general meeting
- 86 Information for ordinary or preference shareholders
- 87 Information for ADS holders
- 88 Further information and acknowledgements

# performance highlights

BP's results in 2000 reflect the inclusion of ARCO and Burmah Castrol and the full consolidation of the European refining and marketing joint venture from 14 April, 7 July and 1 August 2000 respectively.

In 2000, we are reporting a new business stream, Gas and Power, which is responsible for our worldwide gas marketing activities and all business development opportunities in natural gas, including gas-fired power stations.

Owing to the significant acquisitions that took place in 2000, in addition to its reported result BP is presenting pro forma results, adjusted for special items, in order to enable shareholders to assess current performance in the context of our past performance and against that of our competitors. 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 the Directors' Report 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 which excludes the fixed asset revaluation adjustment and goodwill consequent upon the ARCO and Burmah Castrol acquisitions. Return, return on average capital employed and the net debt ratio (net debt/net debt plus equity) refer to ratios calculated using these measures. References to 'capital expenditure and acquisitions' and 'acquisitions' exclude the cost of the ARCO acquisition.

## key financials

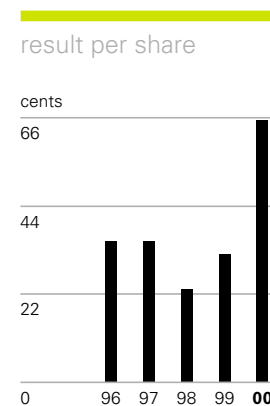
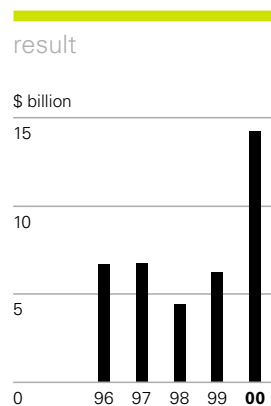
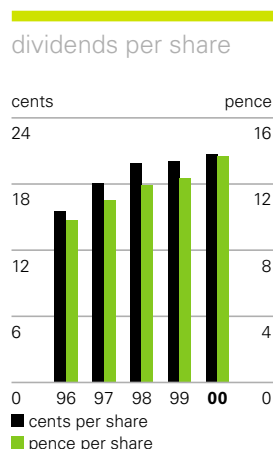
\$ million	2000	1999
Pro forma result adjusted for special items	<b>14,203</b>	6,206
Replacement cost profit before exceptional items	<b>11,214</b>	5,330
Replacement cost profit after exceptional items	<b>11,142</b>	3,280
Historical cost profit after exceptional items	<b>11,870</b>	5,008
Per ordinary share – cents		
Pro forma result adjusted for special items	<b>65.63</b>	32.00
Replacement cost profit before exceptional items	<b>51.82</b>	27.48
Dividends per ordinary share – cents	<b>20.50</b>	20.00
– pence	<b>13.791</b>	12.339
Dividends per ADS – dollars	<b>1.23</b>	1.20

## reconciliation of reported profit/loss to pro forma result adjusted for special items

\$ million	Reported	Acquisition amortization <sup>a</sup>	Special items <sup>b</sup>	2000	1999
				<b>Pro forma result adjusted for special items</b>	
Exploration and Production	14,012	1,174	524	<b>15,710</b>	7,282
Gas and Power	186	–	–	<b>186</b>	211
Refining and Marketing	3,908	440	595	<b>4,943</b>	2,082
Chemicals	760	–	276	<b>1,036</b>	933
Other businesses and corporate	(1,110)	–	488	<b>(622)</b>	(428)
<b>Replacement cost operating profit</b>	<b>17,756</b>	<b>1,614</b>	<b>1,883</b>	<b>21,253</b>	10,080
Interest expense	(1,770)	–	111	<b>(1,659)</b>	(1,292)
Taxation	(4,680)	–	(540)	<b>(5,220)</b>	(2,444)
Minority shareholders' interest	(92)	(79)	–	<b>(171)</b>	(138)
<b>RC profit before exceptional items</b>	<b>11,214</b>	<b>1,535</b>	<b>1,454</b>	<b>14,203</b>	6,206

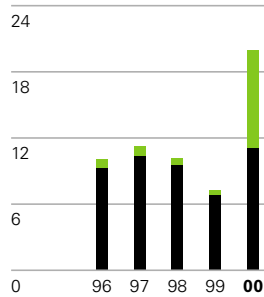
<sup>a</sup> Acquisition amortization for 2000 refers to depreciation relating to the fixed asset revaluation adjustment and amortization of goodwill consequent upon the ARCO and Burmah Castrol acquisitions. There was no acquisition amortization in 1999.

<sup>b</sup> The special items refer to non-recurring charges and credits. The special items in 2000 primarily comprise ARCO, Vastar and Burmah Castrol integration costs, rationalization costs following the merger of BP and Amoco, a provision against the group's chemicals investment in Indonesia, environmental charges and asset write-downs.



## capital expenditure and acquisitions

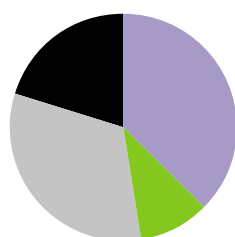
\$ billion



■ capital expenditure  
■ acquisitions

## capital expenditure and acquisitions 2000

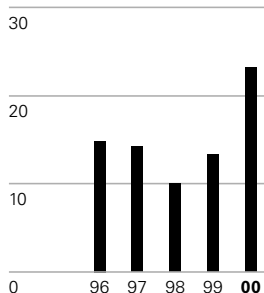
\$ billion



■ UK **37%**  
■ Rest of Europe **10%**  
■ USA **33%**  
■ Rest of World **20%**

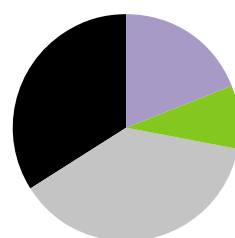
## return on average capital employed

%



96 97 98 99 00

## operating capital employed 2000



■ UK **19%**  
■ Rest of Europe **9%**  
■ USA **38%**  
■ Rest of World **34%**

## environmental emissions

	2000		1999
	BP	Underlying <sup>a</sup>	BP
Greenhouse gas emissions (million tonnes) <sup>b</sup>	<b>80.7</b>	<b>72.2<sup>c</sup></b>	79.8
Hydrocarbon emissions to air ('000 tonnes)	<b>688</b>	<b>636</b>	845
Discharges to water ('000 tonnes)	<b>58</b>	<b>52</b>	46
Number of spills reaching land or water (>1 barrel) <sup>d</sup>	<b>503</b>	<b>413</b>	732

<sup>a</sup> BP operations excluding ARCO and Burmah Castrol.

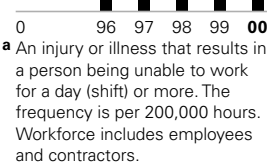
<sup>b</sup> BP share of emissions of carbon dioxide and methane, expressed as an equivalent mass of carbon dioxide.

<sup>c</sup> 9.5% decrease from 1999 comprises 3% in respect of continuing operations and 6.5% due to asset divestment and other changes.

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

## workforce days away from work case frequency<sup>a</sup>

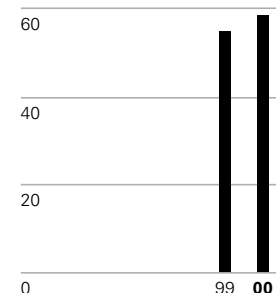
0.50  
0.40  
0.30  
0.20  
0.10



<sup>a</sup> An injury or illness that results in a person being unable to work for a day (shift) or more. The frequency is per 200,000 hours. Workforce includes employees and contractors.

## employee satisfaction index<sup>a</sup>

%



<sup>a</sup> The index is calculated using responses to the People Assurance Survey sent annually to BP staff worldwide, covering leadership, diversity, staff development and recognition.

## community investment

\$ million

	2000	1999
<b>By region</b>		
UK	<b>15.4</b>	10.4
(including UK charities)	<b>4.1</b>	5.3
Rest of Europe	<b>5.3</b>	3.5
USA	<b>46.0</b>	36.4
Rest of World	<b>14.9</b>	17.1
<b>Total</b>	<b>81.6</b>	67.4
<b>By theme</b>		
Community development	<b>28.2</b>	29.5
Education	<b>21.3</b>	14.8
Environment	<b>8.3</b>	4.7
Arts and culture	<b>15.0</b>	11.0
Other	<b>8.8</b>	7.4
<b>Total</b>	<b>81.6</b>	67.4

# the year at a glance

2000 was an exciting year for BP, with the purchase of ARCO and Burmah Castrol, together with activity in all our businesses and functions worldwide.

## 1 Sailing by

The new VLCC, *British Pioneer*, sails down the River Thames in London, England.

## 2 Serving customers

The ARCO acquisition brings coast-to-coast US market access.

## 3 Expansion in Trinidad

\$1 billion is being invested to expand our liquefied natural gas production in Trinidad.

## 4 Asian chemicals

We have commissioned a world-scale acetic acid plant in Malaysia.

## January

The millennium bug fails to bite. A group-wide greenhouse gases emissions trading system begins. *British Pioneer*, the company's first purpose-built VLCC (very large crude carrier) in 25 years, completes her maiden voyage. Chemicals' European customer service centre at Sunbury, England, becomes operational. The North Everest platform in the North Sea receives an award for outstanding safety management.

## February

An alliance is formed with Bovis Lend Lease to build 1,300 new service stations in 15 countries over the next five years. Pipeline construction commences on the Northstar project in the Beaufort Sea, off Alaska. We supply lubricants and fuel to a tractor that breaks the world ploughing record in France. Agreement is reached to proceed with the \$2.5-billion In Salah gas development in Algeria.

## March

A company-wide effort raises funds for victims of the Mozambique floods. *bpamoco.alive* makes its debut on the company's website. A \$1-billion expansion of Trinidad's Atlantic LNG (liquefied natural gas) terminal project wins government approval. Larry Fuller retires as co-chairman.

## April

ARCO joins the group in a \$34-billion deal. Alaskan operations owned by ARCO are sold for around \$7 billion. We sell our common interest in Altura Energy. A new paraxylene plant starts in Geel, Belgium. We become the first

venture, Germany.

We purchase an 18.5% share in *GreenMountain.com*, the leading US consumer marketer of green energy.

## June

Three operational incidents in a month cause problems at



non-Spanish company to win customers in Spain's newly deregulated gas market. BP buys a 2.2% stake in PetroChina for \$578 million.

## May

We sign an understanding with the US Agency for International Development to improve welfare and health in Angola. Agreement in principle is reached to acquire Bayer's 50% share in the Erdölchemie joint

the Grangemouth complex, Scotland. We announce new oil finds offshore Angola. BP and Repsol make a major natural gas find offshore Trinidad. Auckland Lubricants Production Centre in New Zealand achieves 10 years without a day-away-from-work injury.



## July

A new global corporate identity is launched. The acquisition of Burmah Castrol is completed. We take over as single operator at Alaska's Prudhoe Bay field. We agree an innovative 20-year \$2.5-billion LNG sale to the Dominican Republic. At an analysts' briefing group chief executive Sir John Browne outlines new growth targets. Two books are published: the third volume of BP's history, covering 1950-75, and, in the USA, a history of Amoco between 1973 and 1998.

## August

Preliminary agreement is reached with the US Environmental Protection Agency to move beyond currently regulated levels of air emissions at US refineries. Construction of an LNG-receiving

terminal, power plant and regasification facility in northern Spain is sanctioned. We order two new LNG ships worth more than \$300 million. A new computer system is installed on 55,000 workstations across the group.

## September

A company-sponsored yacht, *BP Explorer*, starts the round-the-world BT Global Challenge race. Panels made by BP Solar power the athletes' village at the Sydney Olympics. Oil touches \$37 a barrel – a 10-year high. We buy out the minority interest in Vastar Resources. The Alliance refinery in Louisiana, USA, is sold. BP makes the largest gas find in Caribbean history off Trinidad. Our chemicals business announces expansion plans in China. The Gemlik lubricants plant in Turkey celebrates eight years without a day-away-from-work incident. In Indonesia the PT Peni plant passes 13 million man-hours without a lost-time accident. Three double-hull oil tankers are ordered for \$630 million.

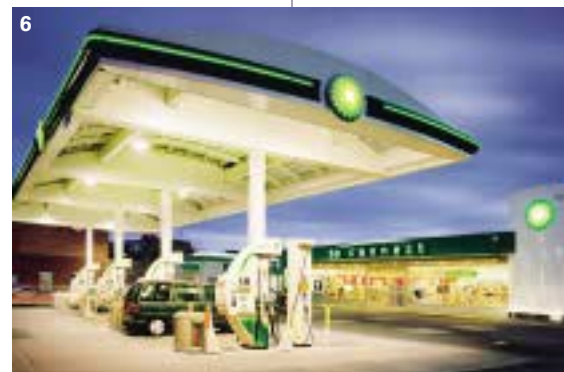
## October

We invest \$416 million in the Sinopec (China Petroleum & Chemical Corporation) share offering. Support is increased for the BP Portrait Award at London's National Portrait Gallery. We commit \$15 million to a Princeton University study of methods to mitigate carbon dioxide emissions. Drilling operations offshore the Faeroes in 2001 are outlined. We announce plans to install a new gas-fired power and steam co-generation plant at the Texas City and Chocolate Bayou refining and chemicals sites in the USA.

## November

A ground-breaking ceremony for the group's largest inland investment in China – a \$408-million PTA plant – is held in Zhuhai. Our first gender issues conference is held in London. A world-scale acetic acid plant is commissioned in Malaysia. ATOFINA and BP agree to dissolve their polypropylene venture, Appryl. The Chairman's Awards competition, which

recognizes outstanding achievements in health, safety and environmental performance, attracts 285 entries. Former South African president Nelson Mandela gives the inaugural speech of a series of BP Annual Lectures at the British Museum in London.



## December

The first BP Connect rebranded retail site in Europe opens in west London. After six years of negotiation, agreements are signed for a \$1.5-billion integrated gas project in Vietnam. A proposed deal with Solvay of Belgium strengthens our polyolefins position. Chemicals unveils a new technology for PTA. By the end of the year, a total of 2.7 million tonnes of greenhouse gases have been traded internally.



- 5 A brand for the future**  
A new corporate identity for the new group.
- 6 Only Connect**  
Customers in London experience our new-style service station.
- 7 Leading lubricants**  
Burmah Castrol joined the group in July.



## dear shareholder

BP has had another very successful year, as you will see when you read this annual report, with a record result and dividend and the accomplishment of highly ambitious targets.

It has also been a memorable year in historic terms. The coming together of BP with ARCO, Vastar and Burmah Castrol is now complete, and has been achieved in a harmonious and positive spirit. The new group is agreed on its common objectives, and each part understands its role in achieving these objectives. As a result, we enter the new millennium as one of the world's truly international companies. We have always been a significant oil company, but now we are in a different league.

This brings new responsibilities as well as opportunities. In welcoming new shareholders to BP, I assure all our investors that the protection and enhancement of long-term shareholder value remains our fundamental objective. Shareholder value is the yardstick against which all our decisions are tested.

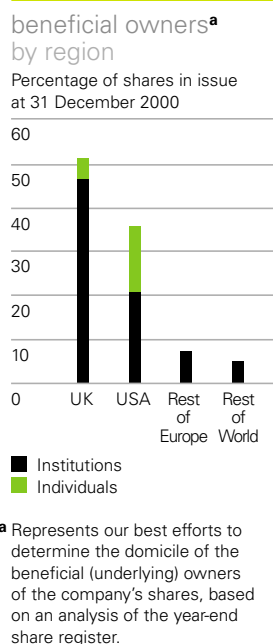
How this is achieved is not just a matter of superior commercial performance. It depends upon a multitude of judgements over a wide area of policy. While such judgements must lie with the group chief executive and his team, they remain subject to the policies agreed by the board that govern the whole of our operations.

The board, in turn, is accountable to you, our shareholders, who are located throughout the world. Indeed, we now have at least as many shareholders outside the United Kingdom as within it. The days have long passed when we could assemble the majority of our shareholders under one roof and in one country. We now have the dual challenge of increasing the value of your investment in BP and of ensuring that we account for our decisions to the totality of our shareholders, wherever they may live.

Equally, our company attracts much greater scrutiny from society as a whole, in recognition of the wider economic, social and political impact of our decisions. In all cases, our policies require that this impact should be beneficial, but how this is achieved can cause disagreement. For example, in order to secure the long-term interests of our shareholders we must sometimes engage in operations over which, at least in the early years of a project or investment, we do not have full control. The obligation to develop our business demands that we do not shirk difficult choices.

There is nothing new about this. What is different is the growing complexity of the decisions that must be taken on your behalf. Our investment judgements must comprise a full understanding of the social and environmental sphere in which they are to be implemented, and over a long period. It is often a considerable time before the benefits of our investments come to fruition. That is why so many of our judgements assume a much longer perspective than some observers of our industry will allow. But this is in the nature of our industry, and cannot be avoided.

One of my roles is to ensure that the executive management of your company has the freedom to compete in a fast-moving world, while at the same time paying full regard to the complexities I have just described.



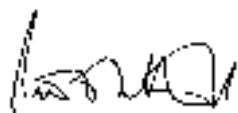


Of course, the people who manage your company remain fundamental to its success, which explains why one of the most important responsibilities of your board, and of the group chief executive, is to ensure that we have in place a top-quality cadre of leaders capable of taking BP into the future. My non-executive directors and I regard this as a fundamental responsibility – to ensure that the quality of our senior executives is of the highest calibre, and that the right structure exists in which to recognize and reward that talent.

Essentially, this can only be done in two ways. The financial rewards BP offers must be highly competitive, but equally driven by performance criteria that are transparent and demanding. Secondly, we must ensure that leadership is given to those with the appetite and capacity to accept it. In BP, these matters are entirely under the management of the board. Ultimately, it is our overriding responsibility to ensure, on your behalf, that BP is a company that attracts the most able and committed people in whatever sphere is vital to it.

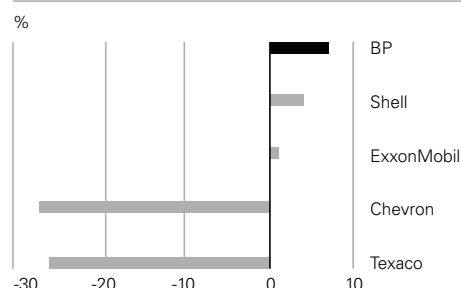
This annual general meeting will see the departure from the board of the Lord Wright of Richmond, a non-executive director of BP for 10 years, Ruth Block, who came to us in 1998, having served as a non-executive director on Amoco's board since 1986, and Dr Chris Gibson-Smith, who has been an executive director since 1997, having joined BP in 1970. They will be greatly missed, and I express our appreciation for their service over so many years. Bryan Sanderson retired in September after nine years as an executive director. We thank him for his contribution to what BP is today. Dr Byron Grote has succeeded him as head of our chemicals operations, and we welcome him to the board.

In conclusion, I turn to our staff. More and more is expected of them, and the pressures under which they work grow in intensity. As always, they have responded magnificently throughout the past year, and remain the foundation of your company's success.



Peter Sutherland  
Chairman  
13 February 2001

shareholder returns relative to the market  
1998–2000



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

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

This methodology is used in the Long Term Performance Plan described on pages 80-81.



# objectives

Group chief executive Sir John Browne explains the market context for our operations and outlines our strategy for 2001 and beyond.

-  Strategy webcasts
-  Objectives downloads
-  [www.bp.com/objectives](http://www.bp.com/objectives)

**2000 was a year of great success for BP.** Record results were delivered, targets were met and a new group was established, bringing together the people and assets of a number of different businesses – including ARCO, Vastar and Burmah Castrol, as well as BP itself. Each element strengthens our portfolio and helps us to fulfil the strategic objectives we have been pursuing for the last five years.

All these steps have created a group that possesses significant strengths, with a global spread of activity in oil, gas and petrochemicals and a team of people, each with a track record of success and personal achievement. Bringing these activities and people together is an important step in itself, but it is only the beginning. The real potential lies in what we can now aim to achieve. →



→ Hydrocarbons are crucial to the economic success of the world. Demand for oil and gas is growing. Renewable energy, from solar power or hydrogen, holds great long-term potential and we continue our research and development work, which is producing excellent results. For the moment, however, there are no viable substitutes for hydrocarbons.

Those companies that can supply the resources the world needs, and do so in ways that meet public concern about the environment, are well placed to deliver exceptional returns to their shareholders. I believe the steps BP has taken over the last three years give us a rare and distinctive opportunity to deliver sustained performance growth.

Integration of the different strands has been completed ahead of schedule. Thanks to that, we have been able to deliver outstanding results.

At \$14,203 million, including contributions from ARCO and Burmah Castrol, our result for the year was a record and represented a return on average capital employed of 23%, up from 13% in 1999. On a reported basis, replacement cost profit before exceptional items was \$11,214 million, compared with \$5,330 million a year ago.

The strong trading environment, together with improvements in underlying performance,

“Successful integration of the new group enabled us to deliver on our targets for performance improvement.”

produced this outstanding result, with each of the businesses contributing to this success, even when – as for chemicals – the environment was not particularly favourable.

Successful integration of the new group enabled us to deliver on our targets for performance improvement. We have already

captured substantial efficiencies, and we expect more to follow in 2001. We have continued to bring the combined business into line with our strategic objectives – focusing investment and disposing of non-core assets. To mark the launch of the new group we have a new brand, which expresses in a simple but exciting form our values and potential.

Having established a new base, we have started to look ahead. In July we set out our initial goals for the new group. Our aim is to deliver growth in our result, with an increase in our result per share, adjusted to mid-cycle business conditions, of around 10% a year from a disciplined increase in capital expenditure and from productivity in all its forms. That growth would be achieved within the rigour of our established financial framework. Mid-cycle conditions are our best estimate of likely average prices and margins over the long term.

We aim to maintain a prudent ratio of net debt to net debt plus equity of around 20-30%. The out-turn at the end of 2000 was 27%.

Our dividend policy is to return to shareholders around 50% of our result adjusted to mid-cycle business conditions. This policy was reflected in the dividend increase during 2000, putting the dividend 52% above its 1995 level.

Capital expenditure for continuing operations, which excludes significant one-off cash investments, was \$11 billion, and is expected to rise in 2001. During the last eight months of the year we repurchased more than 222 million shares at a cost of \$2 billion, in fulfilment of our pledge to return surplus funds to shareholders.

Our strategy is founded on the track record developed through the 1990s. Our intention is to build on an already strong competitive position. We aim to hold significant shares of larger oil and gas fields where our costs can be fully competitive, providing both attractive margins and some protection against price volatility.

Over the last year we made major discoveries in Trinidad, the deepwater of the Gulf of Mexico, USA, and Angola. We added 1.8 billion barrels of oil equivalent through revisions, extensions, discoveries and improved recovery, of which 60% was from discoveries and extensions. We have

## group chief executive's committee

Sir John Browne,  
group chief executive

R F Chase, deputy  
group chief executive

Dr J G S Buchanan,  
chief financial officer

W D Ford, chief executive,  
refining and marketing

Dr C S Gibson-Smith,  
executive director,  
policies and technology

Dr B E Grote,  
chief executive, chemicals

R L Olver, chief executive,  
exploration and production

Dr D C Allen,  
group chief of staff and  
executive vice president

P B P Bevan,  
group general counsel and  
executive vice president

L R Flury, chief executive,  
gas and power, and  
executive vice president

agreed to proceed with the development of four major new deepwater fields in the Gulf of Mexico – King, King's Peak, Nakika and Horn Mountain.

We also aim to be a leading player in the development of natural gas as an energy source around the world. Gas now represents about 40% of our current daily hydrocarbon production.

We continue to upgrade our refinery portfolio, concentrating investment in locations where we can develop uniquely advantaged sites – linking supplies, processing and market demand.

We completed the sale of our Alliance refinery in Louisiana and announced our intention to sell three additional US refineries and our interest in the Singapore refinery. In retailing we aim to use the new brand to develop our offer to customers, including cleaner fuels and non-oil products.

We are continuing to develop our chemicals portfolio, concentrating on areas where we have the strongest competitive advantage, including purified terephthalic acid (PTA), acetic acid and major polymers.

Two key factors run through every element of BP's strategy.

First, we believe in the principle of mutual advantage as the foundation of secure and successful relationships. In China, for instance, where energy demand is growing as the economy expands, we have established partnerships during the last year with both PetroChina and Sinopec – two of Asia's largest oil and natural gas companies. Our ability to work with them offers exciting opportunities for the future – in the natural gas business, in the retail sector and in petrochemicals.

Secondly, the growth potential of our business arises from our ability to apply innovative technology. Technology units are widely embedded within the organization and work to identify opportunities and improve efficiency. Advances in drilling technology are allowing us to explore and develop new fields in water depths of more than 2,100 metres (7,000 feet) in the Gulf of Mexico and Angola. New control systems allow us to integrate and optimize refinery and petrochemicals facilities. Communications technology helps us link the teams in 150 business units worldwide to

share knowledge and learn from each other on a continuous basis.

Safety continues to be a top priority. Last year we recorded our best-ever safety performance, reducing the number of incidents resulting in injuries to our workers. Despite this, there were 23 fatalities in 2000, compared with 30 in the previous year. We remain fully committed to improving our safety performance – next year and every year.

We are also determined to continue to improve our environmental performance. During 2000 we saw a further 3% decrease in emissions towards our greenhouse gas reduction target. In addition, we introduced a number of initiatives to reduce our impact on the natural environment.

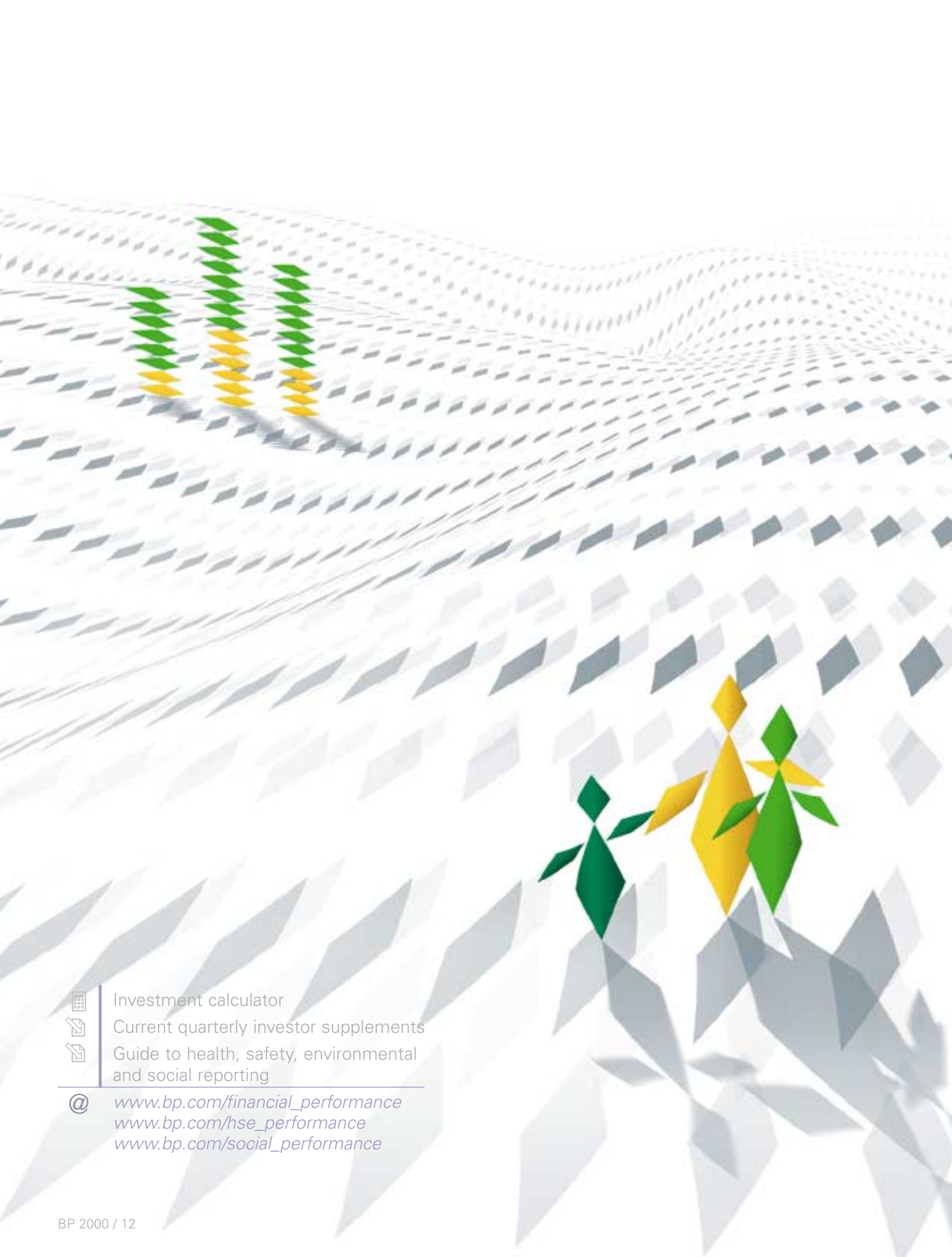
But there is more to do, in order to demonstrate that we can both deliver the energy the world needs without doing damage and also maintain the trust of the communities in which we operate.

2000 was a year of great progress – none of which would have been possible without the efforts of the BP team across the world. Mergers and acquisitions have strengthened that team, and provided a welcome new diversity of talent and skills. This report is a record of the achievement of all the people who work for us, and a tribute to their energy, resilience, imagination and commitment.

Those strengths give me great confidence in the company's future. We achieved a great deal in 2000 but this is only continuing the story. The steps we have taken give us the strength to face volatility, in terms of both oil prices and economic activity, and to excel in an industry where restructuring has intensified competition. Above all they offer us the potential for sustained growth – in production and in returns. That is the agenda for 2001.



Sir John Browne  
Group Chief Executive  
13 February 2001



Investment calculator



Current quarterly investor supplements



Guide to health, safety, environmental and social reporting



[www.bp.com/financial\\_performance](http://www.bp.com/financial_performance)

[www.bp.com/hse\\_performance](http://www.bp.com/hse_performance)

[www.bp.com/social\\_performance](http://www.bp.com/social_performance)

# performance

Putting a year of progress in context for the future.

**The market conditions facing BP over the last year have continued to be volatile.** This has been true of crude oil prices, US natural gas prices and margins in both refining and chemicals. Further uncertainty has emerged in recent months as the US economy has slowed after its sustained period of rapid growth. BP has performed very strongly and we have increased confidence in our ability to grow profitably in the future, even through periods of adverse market conditions.

The immediate future is one of change as most of the markets in which we operate are in a process of adjustment and a period of below-trend world economic growth looks likely. Through this period, and over the longer term, we will continue to operate and plan using conservative assumptions about future market conditions.

BP is planning for profitable growth: in production volumes and in sales, especially in fast-growing areas of the world. Energy growth brings many challenges. It is a challenge in terms of technology and in costs of both production and transportation. Our successes of recent years in reducing costs and introducing innovative technologies, especially in deepwater areas, give us great confidence in our ability to deliver and to lead the industry.

There is a long-term future for hydrocarbons in society. However, carbon emissions are an additional challenge – both for BP as a company and for national economies in aggregate. Our initiatives in clean fuels globally are helping to raise living standards, coupled with cleaner air. As a company we remain committed to reducing our own emissions. Our internal carbon trading scheme is contributing to low-cost carbon emission reduction in our operations around the world. National economies are only just beginning to address the issue of carbon. With our commitment to grow gas volumes disproportionately rapidly, we are making another important contribution. This is the beginning of a long road towards the development and emergence of a low-carbon world, one in which BP intends to be a leading player. →



1



2



3

## business operating review

→ 2000 proved to be a record-breaking start to the new millennium for the company. The strong trading environment, together with improvements in performance, was reinforced for the first time by contributions from ARCO and Burmah Castrol. Exploration and production successes were matched by significant technological innovations. Tightly focused cost-saving initiatives enabled us to deliver on synergies as planned.

Average realized oil prices rose 60% to around \$27 a barrel, while average realized gas prices were around \$3 a barrel, 52% above their 1999 level. Refining margins were robust, particularly in the USA, though marketing margins came under pressure from high product prices. Petrochemicals margins remained close to cyclical lows as high oil and gas prices raised feedstock costs.

The result for the year was \$14,203 million, compared with \$6,206 million in 1999. The result per share was 65.63 cents, compared with 32.00 cents in 1999, an increase of 105%.

At the operating level, the pre-tax business results were as follows:

### business operating results

\$ million	2000	1999
Exploration and Production	<b>15,710</b>	7,282
Gas and Power	<b>186</b>	211
Refining and Marketing	<b>4,943</b>	2,082
Chemicals	<b>1,036</b>	933

Every part of our business contributed to the achievements of 2000.

- **Exploration and production** produced a record result. Hydrocarbon production was also at record levels, with the year up 4%. Higher underlying gas production and the ARCO acquisition more than offset lower oil production caused by the disposal of our common interest in Altura Energy and other non-core properties and the effect of a reduced capital spending programme in 1999. Upstream capital expenditure rose substantially in 2000 and

### operating statistics

	2000		1999	
	BP	Underlying <sup>a</sup>	BP	Underlying <sup>a</sup>
Oil production (thousand b/d)	<b>1,928</b>	<b>1,703</b>	2,061	1,782
Gas production (million cf/d)	<b>7,609</b>	<b>5,996</b>	6,067	5,922
Total production (thousand boe/d)	<b>3,240</b>	<b>2,737</b>	3,107	2,803
Gas sales (million cf/d)	<b>14,471</b>	<b>11,041</b>	8,930	8,930
Refinery throughputs (thousand b/d)	<b>2,916</b>	<b>2,241</b>	2,522	2,272
Marketing sales (thousand b/d)	<b>3,756</b>	<b>3,255</b>	3,186	3,186
Chemicals production (thousand tonnes)	<b>22,065</b>	<b>22,065</b>	21,853	21,853

<sup>a</sup> Excludes the net impact of major acquisitions and divestments.

totalled \$6.4 billion for the year. Reserve replacement exceeded production for the seventh consecutive year, with 1.8 billion barrels of oil equivalent added to proved reserves through revisions, extensions, discoveries and improved recovery. This represents a reserve replacement ratio of 160%. Finding and development costs were \$3.29 per barrel of oil equivalent, against our ceiling of \$3.50 per barrel. Unit lifting costs were reduced by 5% compared with 1999. During the year there were several developments in support of future hydrocarbon volume growth. In the North Sea we announced a \$500-million oil-recovery project at Magnus. In the deepwater Gulf of Mexico, the developments of King, King's Peak, Nakika and Horn Mountain were approved and industrial capacity of around \$3 billion was secured for fabrication and installation of additional developments. In Vietnam key elements of the \$1.5-billion gas project were signed. In Alaska a joint feasibility study for a pipeline to transport gas to the rest of the USA and Canada was agreed.

- **Gas and power** made an improved operating contribution that partly offset increased business development costs. Increased gas sales in North America, the UK and Spain contributed to total sales of 14.5 billion cf/d. We became the first non-Spanish company to win customers in Spain's newly deregulated gas market. Work began on the liquefied natural gas (LNG)





4



5

### 1 Made in Texas

The Chocolate Bayou chemicals plant, Texas, is a major producer of olefins and polymers, used to make modern essentials such as plastics, packaging and automotive parts.

### 2 Out of Africa

As demand for gasoline accelerates in South Africa, BP and Shell's jointly owned Sapref refinery in Durban is increasing production but reducing emissions.

### 3 Gas expansion

The Akita 55 rig drills for natural gas at Grande Prairie in Alberta, Canada. 40% of our global daily hydrocarbon production is now gas, meeting escalating demand, particularly in North America.

### 4 Longer life

A \$500-million oil-recovery project at our Magnus field in the North Sea will help extend its productive life beyond 2015.

### 5 Tomorrow's world

BP and the automobile industry are working together to create and evaluate new and cleaner-burning fuels for the 21st century. Scientists at our Naperville research center, Illinois, monitor emissions from an innovative gas/electric hybrid vehicle.

## main fields in development

		BP % interest
<b>Alaska</b>	Northstar	98
<b>Gulf of Mexico</b>	Crosby	50
	King, King's Peak	100
	Horn Mountain	67
	Nakika	50
<b>Angola</b>	Girassol	17
<b>Azerbaijan</b>	ACG	34
<b>Egypt</b>	Temsah	25
<b>Trinidad</b>	Corallita/Lantana	100

## crude oil production

		BP % interest end-2000	BP share of production 2000	BP share of production 1999
thousand b/d				
<b>Oil and NGL<sup>a</sup></b>				
<b>UK</b>				
Forties		96.1	53	66
Magnus		85.0	47	48
Harding		70.0	57	58
Foinaven		72.0	64	56
Other		Various	313	352
<b>Total UK</b>			534	580
<b>Rest of Europe</b>	Various		90	100
<b>USA</b>				
Prudhoe Bay		26.3	146	202
Kuparuk		39.2	81	90
Alaska other	Various		87	113
Lower 48 onshore	Various		218	260
Gulf of Mexico	Various		197	139
<b>Total USA</b>			729	804
Egypt	Various		108	130
Canada	Various		19	56
Colombia	Various		52	66
Trinidad	100.0		47	49
Venezuela	Various		46	31
Other	Various		118	75
<b>Total Rest of World</b>			390	407
<b>Sub-total</b>			1,743	1,891
<b>Associated undertakings (equity interest)</b>				
Abu Dhabi	Various		127	113
Other	Various		58	57
<b>Total BP<sup>b</sup></b>			1,928	2,061

b/d = barrels a day.

<sup>a</sup> Natural gas liquid.

<sup>b</sup> Includes NGL from downstream processing plants in which an interest is held of 41,000 b/d for 2000 and 54,000 b/d for 1999.

## natural gas production

		BP % interest end-2000	BP share of production 2000	BP share of production 1999
million cf/d				
<b>Natural gas</b>				
<b>UK</b>				
Bruce		37.0	201	175
West Sole		100.0	89	97
Marnock		62.1	148	79
Other	Various		1,214	950
<b>Total UK</b>			1,652	1,301
<b>Rest of Europe</b>	Various		136	164
<b>USA</b>				
San Juan Coal	Various		563	427
Hugoton	Various		170	162
Arkoma	Various		94	111
Tuscaloosa	Various		171	175
Other Lower 48 onshore	Various		1,163	819
Alaska	Various		9	10
Gulf of Mexico	Various		884	571
<b>Total USA</b>			3,054	2,275
<b>Rest of World</b>				
Canada	Various		582	689
Trinidad				
Mahogany	100.0		530	367
Immortelle	100.0		232	207
Other	100.0		123	207
Australia	16.7		205	215
Sharjah				
Sajaa	40.0		145	168
Other	40.0		39	38
Indonesia				
Pagerungan	100.0		199	103
Other	Various		174	-
Other Rest of World	Various		275	69
<b>Total Rest of World</b>			2,504	2,063
<b>Sub-total</b>			7,346	5,803
<b>Associated undertakings (equity interest)</b>				
	Various		263	264
<b>Total BP</b>			7,609	6,067

cf/d = cubic feet a day.



1



2



3

regasification terminal and gas-fired power station at Bilbao, Spain, and we agreed a 20-year \$2.5-billion sale of LNG to power plants in the Dominican Republic. In North America acquisitions improved our wholesale and marketing capabilities. We invested in *GreenMountain.com*, the leading US consumer marketer of green energy. We reached agreement with PetroChina to establish a gas marketing joint venture in eastern China.

- **Refining and marketing** had an outstanding year, with record results and a highly competitive 22% return on fixed assets, calculated after adjusting to a full deferred tax basis. Refining benefited from significantly higher margins and we saw strong growth in convenience sales, coupled with a strong oil trading performance and cost reductions. The acquisition of ARCO gave us coast-to-coast market access in the USA and Burmah Castrol transformed our lubricants presence. Since unveiling our new global brand, sites in the USA and Europe are preparing for conversion during 2001. In emerging markets fuel sales rose by 22% and we opened 75 new retail sites in Latin America, Poland, Russia and Africa. Growth in aviation fuel sales was strong. We purchased ExxonMobil's 30% interest in the European fuels joint venture for \$1.5 billion.

- **Chemicals'** demand was firm in the first half of the year, but then weakened in the final two quarters as the global economy slowed. Annual production rose 1% to 22.1 million tonnes, despite operational difficulties at Grangemouth, Scotland. Several initiatives to promote cost and capital efficiency helped offset pressure on margins that were close to cyclical lows, as high oil and gas prices boosted feedstock costs. The weakness of the euro added pressure on margins in our European operations. Our return on sales was a competitive 8% in 2000, compared with 9% in 1999, reflecting the difficult trading environment. Our PTA business strengthened its global leadership position with the announcement of new plant investments for China and Taiwan and expansions in the USA, Belgium and Malaysia. We announced several related deals with Solvay of Belgium, involving assets with a combined turnover of \$2.6 billion.

Our **solar energy** business increased production and shipments by 31% compared with 1999, selling a total of 42MW of solar panel generating capacity. High-profile projects included the USA's largest solar housing project in Los Angeles and installation of solar panels to power apartments in the athletes' village at the Sydney Olympic Games. We completed the conversion of 200 service stations worldwide to solar power.

Overall, our year was underpinned by **performance gains** in productivity, knowledge sharing and innovation. Synergies from the acquisitions of ARCO and Burmah Castrol contributed significantly to the \$2-billion reduction in the combined cost structure of the enlarged group. Added to the \$2.7 billion delivered in 1999, this is keeping us well on track to meet our overall target for the enlarged group of \$5.8 billion by the end of 2001.

We recorded significant **exploration success**. Progress in the Gulf of Mexico deepwater continued with the discovery of Crazy Horse North which, with the adjacent Crazy Horse, discovered in 1999, has increased estimated recoverable resources in this complex to in excess of 1.5 billion boe gross (BP 75%). In the Gulf of Mexico deepwater, potential resources are now estimated to be more than 3.5 billion barrels (BP share). In Angola we made seven offshore discoveries, including two in the BP-operated Block 18, bringing the total of successes to 23 out of 26 wells drilled since 1996. Discovered resources in Angola now exceed 1 billion barrels (BP share). We made two large gas finds offshore Trinidad, one of them the largest-ever in the Caribbean region.

**Advances in technology** sharpened our performance. Upstream, we applied new fibre-optic sensors in many wells to monitor pumps, pressures and flow rates, so reducing operating costs and boosting production capacities. We added capability to our seismic imaging tools, allowing us to discern the shape of hydrocarbon reservoirs more clearly, and worked with suppliers to develop a high-strength steel to reduce the cost of gas pipelines. In chemicals we introduced new PTA technology that lowers the costs of



4



5

### 1 Taking off

Refuelling operations at Wilson Air Center, Memphis, Tennessee, one of 1,400 airports in more than 90 countries serviced by Air BP. The company now sells almost 8 billion gallons of fuel a year worldwide.

### 2 Deepwater discoveries

The *Ocean Confidence* drilling vessel operates in the Gulf of Mexico, where our deepwater potential resources are estimated to be more than 3.5 billion barrels.

### 3 Sahara seismic survey

A 3-D seismic survey in harsh desert conditions and temperatures of up to 47°C has yielded more than 1,000 sq km of data, enabling gas and condensate reservoirs to be mapped in Algeria's In Amenas region.

### 4 Electrifying deal

500,000 US residential customers benefit from a retail licensing agreement between BP and GreenMountain to produce electricity from a combination of clean-burning natural gas and renewable energy such as wind and solar power.

### 5 Cleaner fuels

The Texas City refinery is spearheading our drive to reduce levels of sulphur in gasoline. It shares its 500-hectare site in south Houston with our Texas City chemicals plant, a world-class producer of chemicals intermediates.

units and reduces most emissions by two-thirds, as well as cost-advantaged proprietary technology for the manufacture of butanediol.

This sustained emphasis on **creativity** produced other firsts. The group became the first oil and gas company to purchase new-build LNG vessels not tied to a single gas source or customer. We were the first to secure rights to manage the air emissions credits of another UK company. We supplied hydrogen fuel for prototypes of new zero-emission fuel-cell vehicles. Downstream we commercialized a novel process to remove sulphur from gasoline and diesel at low cost and with no loss of octane. This is helping to advance the rate at which we introduce new clean fuels. By the end of 2000, cleaner fuels had gone on sale in 56 cities worldwide, against a target of 40.

The spread of **e-business** across the group is starting to produce quality improvements and lower costs. During 2000, we acquired an equity stake in ChemConnect, the world's largest Internet exchange for chemicals and plastics. BP Marine created *ocean.com*, a standalone e-business. We joined several online exchanges, including *Trade-Ranger* and *Intercontinental Exchange*, to hone efficiency, cut the cost of commodity trading and reduce procurement charges in goods and services for the energy industry.

**Capital expenditure** increased from the lower levels of 1999, which reflected curtailed investment at the time of the BP and Amoco merger. Rises in upstream capital expenditure were largely attributable to increases in development drilling in the North American gas business, the Northstar project, Egypt gas development and projects in the Gulf of Mexico deepwater.

Our Bulwer Island refinery in Queensland, Australia, commissioned a new hydrocracker complex three months ahead of schedule. We completed a project at Sines, Portugal, to develop a liquefied petroleum gas storage cavern, and progressed a similar project at Ningbo on the Chinese coast. A major programme of UK investment continued with the successful commissioning of polypropylene and polyethylene units at Grangemouth.

Other **chemicals** activities focused on areas of distinctive advantage. We reached agreement in principle to acquire Bayer's 50% shareholding in the Erdölchemie joint venture in Germany. Our polypropylene joint venture with ATOFINA was dissolved, giving us full control of assets at Grangemouth and a 50% share of production in Lavéra, France. We commissioned a world-scale acetic acid plant in Malaysia and made progress on planning a \$2.5-billion ethylene and derivatives joint venture near Shanghai in China. In November construction began of a \$360-million PTA plant at Zhuhai in southern China, and another PTA plant was announced in Taiwan.

Our **strategic plans** to upgrade the portfolio continued with the acquisition of the minority interest in Vastar and the sale of BP's common interest in Altura Energy. We also agreed with partners to realign our oil and gas interests in Prudhoe Bay, allowing us to optimize operations and strengthen our gas position significantly. Downstream we completed the sale of the Alliance refinery in Louisiana. We announced our intention to sell three additional US refineries and our interest in the Singapore refinery and to sell Burmah Castrol's chemicals assets in 2001.

During 2001 many **new projects** are expected to come on stream, including six major oil and gas fields in the Gulf of Mexico, Alaska, Angola, Egypt and Norway. Deepwater production in the Gulf of Mexico is set to more than double by 2004. More than 300 BP Connect convenience retail sites sporting the new helios brand mark are planned to open worldwide as part of a longer-term reimagining plan. We also plan to have the new brand in place on more than 5,000 sites by the end of 2001. Petrochemicals capacity is to be increased at Grangemouth and Hull in the UK. In Canada, production of linear alpha-olefins is scheduled to begin at a new world-scale facility, while in Alaska we are to start construction of a revolutionary gas-to-liquids test facility at Nikiski.



1



2



3

## environmental and social review

Financial performance must be accompanied by high standards of environmental and social performance. Our new brand symbolizes our commitment to performance in all these dimensions, while our business policies, renewed at the brand launch during the summer, set out our aspirations in detail. They include commitments on ethical conduct, employees, relationships, health, safety and environmental performance. They apply to all BP employees, and every BP business, throughout the world.

### Ethical conduct

We updated our ethical conduct policy during the year to bring greater clarity to our policy expectations in the light of experience. We also revised the underlying Guidelines on Business Conduct to take account of feedback.

Our approach to ethical conduct emphasizes policy understanding, consultation and sound judgement. It is important that employees both understand the policy and feel able to discuss its implementation openly. Workshops are an important route towards developing employee understanding and some 75 events have been held in 2000.

All employees in positions of responsibility personally attest that they and their teams have complied with the ethical conduct policy. Any areas of doubt or non-compliance are highlighted and appropriate actions are developed.

We have introduced an ethical conduct website to aid the attestation process. Employees can also use e-mail or access a confidential telephone hotline to register any ethical concern, or to seek guidance.

We did not make political contributions in the UK in 2000. Group companies outside the UK may have made political contributions in the countries in which they operate – but only if they were lawful, of modest size in local terms, properly recorded in the accounts and approved in advance by senior management.

### Employees

We believe that aligned and committed people help create competitive advantage. Our commitment to employees specifies what each employee may expect to receive from the company, in relation to the principal aspects of the employment relationship.

Line managers remain responsible for ensuring they meet these commitments, and a staff feedback survey measures our progress annually. This year's results (*see employee satisfaction index on page 3*) show that overall the company is moving in the right direction. Staff feel increasingly positive about BP and their opportunities within it. The feedback is used to identify areas where more focus is required, and appropriate action is taken.

To help create further dialogue, people are involved in employee communications forums in our European operations. In all areas, our strategy and business plans are widely shared with employees.

Staff are encouraged to become shareholders through our employee share ownership schemes, and a significant number participate in these programmes.

During the year, we set up two committees made up of senior executives to shape our strategy for improvement in the areas of diversity

### 1 Good neighbours

Volunteers from our operations in Houston give up time to renovate and repaint houses for older residents.

### 2 A better way

We support a mentoring and tutoring project to rehabilitate young offenders in Singapore.

### 3 Back to nature

A major habitat reserve is being created in downtown Calgary, thanks to financial support from BP and hard work by our staff.

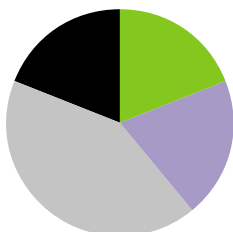
### 4 Worthy winner

An innovative concept for service stations in Madrid, featuring solar power, wind energy and car wash water recycling, together with a tree-planting scheme for customers, was the worthy supreme winner in BP's 2000 Chairman's Awards competition.





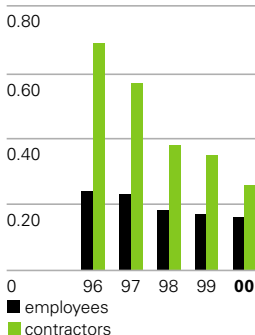
geographical data for location of employees<sup>a</sup> by region %



■ UK 19%  
■ Rest of Europe 20%  
■ USA 42%  
■ Rest of World 19%

<sup>a</sup> Average number of employees in 2000.

days away from work case frequency<sup>a</sup>



<sup>a</sup> An injury or illness that results in a person being unable to work for a day (shift) or more. The frequency is per 200,000 hours.

and staff development. Other initiatives used to support our employee commitments were:

- performance targets and measures for appraisal, development and training
- creation and initial implementation of our diversity strategy
- assessment and development processes for our current leaders and high-potential staff, together with the outline of a new development programme for our 'first-line leaders'
- specially designed programmes for our top leaders at some of the world's leading universities and business schools.

BP's employment policies and practices include specific requirements for compliance with the law and for the selection, training, placement and advancement of employees on the basis of merit. We are committed to supporting job and workplace structures to accommodate the needs of all employees, including disabled employees. BP was a founding member of, and provides financial support to, Employment Opportunities for People with Disabilities in the UK and similar institutions in other parts of the world.

### Relationships

In 2000, we undertook social impact studies in several locations and maintained dialogue with community and other stakeholders. Highlights included a seminar in London on the oil industry for international non-governmental organizations, the launch of the UN Global Compact, for which we have pledged our support, and a new set of voluntary guidelines on the provision of security and protection of human rights, developed with the UK and US governments and human rights organizations. We explored new approaches to social investment in a series of meetings around the world and initiated a global employee community engagement strategy.

### Health, safety and environmental performance (HSE)

Environmental leadership, good HSE performance and the quality of life of our workforce, customers and neighbours are keys to our success, now and for the long term. Our performance continued to improve in 2000 and more progress was made towards our goals of no accidents, no harm to people and no damage to the environment.

The most important HSE commitments for the group in 2000 were to improve our safety performance and reduce our greenhouse gas emissions. We challenged ourselves with firm targets and exceeded our expectations on these two commitments. However, we still have scope to improve our performance and aim to set even tougher goals for the years ahead.

Our safety initiatives are continuing to reduce the risks of harmful incidents, making the workplace safer for everyone who works for us. This is evidenced by achieving the best safety performance in our history, supported by practices such as advanced safety auditing techniques and formal incident investigations to discover the underlying cause and avoid recurrence. The worst incidents result in, or have the potential for, fatalities. Given that any fatal accident is unacceptable to us, we regret to report 23 workforce fatalities during 2000, compared with 30 in the previous year.

During the year we established the world's first global emissions trading system as a step towards meeting our greenhouse gas reduction target. Greenhouse gas allowances of 2.7 million tonnes were traded between our sites and independent specialists audited our emissions. In striving to reduce emissions across BP, several abatement projects have also delivered savings in operational costs.

As part of our contribution to sustainability of the environment, we have worked closely with Fauna and Flora International and others to develop a new approach to biodiversity. Initially we have selected 12 sites around the world to pilot the initiative by developing action plans to protect the variety and richness of species in the local environment.



Video location reports



Detailed downloads



Audio reports



[www.bp.com/location\\_reports](http://www.bp.com/location_reports)

## worldwide

**The performance of our company is built on the efforts and achievements** of many people working in a huge variety of circumstances. Through special studies we aim to offer insight into these realities, providing comprehensive accounts of the operational, environmental and social performance of our businesses in different parts of the world. Each includes an independently researched account of the views of employees, local community representatives and others and is subject to challenge as part of our attestation process. This year we are updating the information on Scotland and Texas, first published in March 2000. New studies from China, South Africa and Australia are being brought on stream. These studies, which are separate from the Annual Report and Accounts 2000, are available on our website [www.bp.com/location\\_reports](http://www.bp.com/location_reports)



**Scotland** BP has had a presence in Scotland for around 80 years. Our North Sea exploration business is managed from Aberdeen and our petrochemicals complex at Grangemouth is one of the largest in Europe.



**Texas** Our operations in Texas and the Gulf of Mexico add up to one of the largest concentrations of group assets in the world. Exploration and production, refining and marketing, gas and power, and chemicals are all represented here.

**Australia** BP Australia sees this study as a first step towards regular in-country reporting of financial, social and environmental performance, backed by an ongoing process of stakeholder engagement.



**China** We believe our operations in China can make a real contribution to development and the alleviation of poverty, as well as achieving exciting business growth.



**South Africa** The transformation of South African society continues apace and we are playing our part. Employment equity and economic empowerment are key preoccupations for the business community.



## financial review

BP's results in 2000 reflect the inclusion of ARCO and Burmah Castrol and the full consolidation of the European refining and marketing joint venture from 14 April, 7 July and 1 August 2000 respectively.

Owing to the significant acquisitions that took place in 2000, in addition to its reported result BP is presenting pro forma results, adjusted for special items, in order to enable shareholders to assess current performance in the context of our past performance and against that of our competitors. 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 this review 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 which excludes the fixed asset revaluation adjustment and goodwill consequent upon the ARCO and Burmah Castrol acquisitions. Return, return on average capital employed and the net debt ratio (net debt/net debt plus equity) refer to ratios calculated using these measures. References to 'capital expenditure and acquisitions' and 'acquisitions' exclude the cost of the ARCO acquisition.

The trading environment was strong in 2000, with high oil and gas prices and robust refining margins being partly offset by pressure on marketing margins from higher product prices and the weaker chemicals environment, owing to high feedstock costs and a weak euro.

The overall trading environment is expected to remain generally positive, notwithstanding less favourable economic conditions than those experienced in 2000. Oil and gas prices are likely to remain volatile, in a trading range below the peaks seen during 2000. Refining margins should continue to be supported by tightness in product stocks in the near term, while marketing margins are likely to reflect competitive pressures after recent falls in the oil price. The chemicals'

### financial highlights

\$ million	2000	1999
Pro forma result adjusted for special items	<b>14,203</b>	6,206
Replacement cost profit before exceptional items	<b>11,214</b>	5,330
Historical cost profit after exceptional items	<b>11,870</b>	5,008
Per ordinary share – cents		
Pro forma result adjusted for special items	<b>65.63</b>	32.00
Replacement cost profit before exceptional items	<b>51.82</b>	27.48
Capital expenditure and acquisitions	<b>20,107</b>	7,345
Dividends per ordinary share – cents	<b>20.50</b>	20.00
– pence	<b>13.791</b>	12.339
Dividends per ADS – dollars	<b>1.23</b>	1.20

### reconciliation of reported profit/loss to pro forma result adjusted for special items

	2000				1999		
	Reported	Acquisition amortization <sup>a</sup>	Special items <sup>b</sup>	Pro forma result adjusted for special items	Reported	Special items <sup>b</sup>	Pro forma result adjusted for special items
Exploration and Production	<b>14,012</b>	<b>1,174</b>	<b>524</b>	<b>15,710</b>	6,983	299	7,282
Gas and Power	<b>186</b>	–	–	<b>186</b>	211	–	211
Refining and Marketing	<b>3,908</b>	<b>440</b>	<b>595</b>	<b>4,943</b>	1,840	242	2,082
Chemicals	<b>760</b>	–	<b>276</b>	<b>1,036</b>	686	247	933
Other businesses and corporate	<b>(1,110)</b>	–	<b>488</b>	<b>(622)</b>	(826)	398	(428)
<b>Replacement cost operating profit</b>	<b>17,756</b>	<b>1,614</b>	<b>1,883</b>	<b>21,253</b>	8,894	1,186	10,080
Interest expense	<b>(1,770)</b>	–	<b>111</b>	<b>(1,659)</b>	(1,316)	24	(1,292)
Taxation	<b>(4,680)</b>	–	<b>(540)</b>	<b>(5,220)</b>	(2,110)	(334)	(2,444)
Minority shareholders' interest	<b>(92)</b>	<b>(79)</b>	–	<b>(171)</b>	(138)	–	(138)
<b>Replacement cost profit before exceptional items</b>	<b>11,214</b>	<b>1,535</b>	<b>1,454</b>	<b>14,203</b>	5,330	876	6,206
<b>Earnings per ordinary share (cents)</b>	<b>51.82</b>			<b>65.63</b>	27.48		32.00

<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. There was no acquisition amortization in 1999.

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



## external environment

	2000	1999
BP average oil realizations (\$/barrel)	<b>26.63</b>	16.74
Brent oil price (\$/barrel)	<b>28.44</b>	17.92
BP average natural gas realizations (\$/thousand cubic feet)	<b>2.91</b>	1.92
Henry Hub gas price (\$/thousand cubic feet)	<b>3.90</b>	2.27
Global indicator refining margin (\$/barrel)	<b>4.22</b>	1.31
Chemicals indicator margin (\$/tonne)	<b>121<sup>a</sup></b>	114

<sup>a</sup> Provisional.

## special items

\$ million	2000	1999
Restructuring, integration and rationalization costs		
BP	<b>624</b>	903
ARCO (including Vastar)	<b>633</b>	–
Burmah Castrol	<b>151</b>	–
	<b>1,408</b>	903
Provision against fixed asset investments	<b>181</b>	–
Asset write-downs	<b>61</b>	223
Litigation	<b>63</b>	60
Environmental charges	<b>170</b>	–
	<b>1,883</b>	1,186
Interest – bond redemption charges	<b>111</b>	24
Total special items before tax	<b>1,994</b>	1,210

Includes special items of \$624 million and \$118 million incurred directly by ARCO and Burmah Castrol respectively.

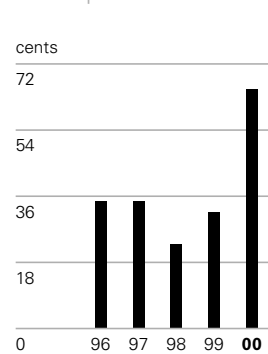
## return on average capital employed

\$ million	2000			
	1Q	2Q	3Q	4Q
Replacement cost profit before exceptional items	2,677	2,791	2,947	2,799
Interest and minority shareholders' interest	364	398	472	628
Acquisition amortization and special items (post tax)	30	861	886	1,180
	<b>3,071</b>	<b>4,050</b>	<b>4,305</b>	<b>4,607</b>
Reported average capital employed	59,571	94,548	96,333	94,402
Acquisition adjustment <sup>a</sup>	–	(18,519)	(22,172)	(21,574)
	<b>59,571</b>	<b>76,029</b>	<b>74,161</b>	<b>72,828</b>
<b>ROACE – replacement cost basis</b>	<b>20%</b>	<b>13%</b>	<b>14%</b>	<b>15%</b>
<b>ROACE – pro forma basis</b>	<b>21%</b>	<b>21%</b>	<b>23%</b>	<b>25%</b>

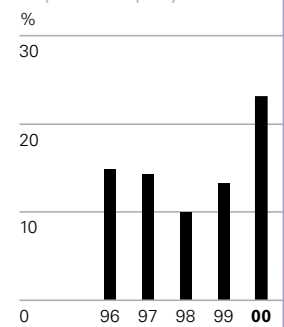
<sup>a</sup> Acquisition adjustment refers to the fixed asset revaluation adjustment and goodwill consequent upon the ARCO and Burmah Castrol acquisitions.

The annual ROACE, based on the average of the four discrete quarterly ROACEs, is 16% on a replacement cost basis and 23% on a pro forma basis.

## result per share



## return on average capital employed



trading environment is likely to come under further pressure from a moderation in economic growth and increasing supply capacity.

BP's record result in 2000 reflects the strong trading environment, together with the benefits of recent integration and restructuring and productivity improvements. Included in the group's result for the year are estimated amounts of \$2,600 million in respect of ARCO, \$200 million in respect of Burmah Castrol and \$180 million in respect of the purchased interest in the European fuels joint venture, representing their respective operating results since their dates of acquisition.

Reductions in the combined cost structure of BP, ARCO and Burmah Castrol are proceeding according to plan, with the achievement of \$2 billion year-on-year reductions in 2000.

The result for the year was \$14,203 million, compared with \$6,206 million in 1999. The result per share was 65.63 cents, compared with 32.00 cents a year ago, an increase of 105%. The replacement cost operating result was \$21,253 million (1999 \$10,080 million). On a reported basis, replacement cost profit before exceptional items was \$11,214 million, compared with \$5,330 million a year ago.

The special items in 2000 primarily comprise ARCO, Vastar and Burmah Castrol integration costs, rationalization costs following the BP and Amoco merger, a provision against the group's chemicals investment in Indonesia, environmental charges and asset write-downs.



1



2

The return on average capital employed (ROACE) was 23%, up 10 percentage points from 1999. Owing to the significant acquisitions that have taken place during the year, the annual ROACE for 2000 has been calculated as the average of the four discrete quarterly ROACEs. The return in 2000 on a replacement cost basis was 16% (1999 12%).

Exceptional items of \$220 million before tax (1999 \$2,280 million loss) related mainly to disposal profits on the sale of the group's common interest in Altura Energy, the sale of the Alliance refinery and the divestment of exploration and production interests in Trinidad, the UK and the USA, partially offset by the loss on sale of certain Venezuelan upstream interests and the subvention of Singapore Aromatics Company bank loans. These disposals were part of the asset divestment programme put in place in 1999 following the BP and Amoco merger.

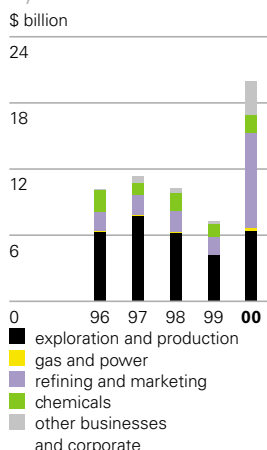
Interest expense was \$1,659 million, compared with \$1,292 million in 1999, after adjusting for special charges of \$111 million and \$24 million respectively, arising from the early redemption of bonds. The increase in group interest expense in 2000 reflected higher debt and interest rates.

Corporate tax expense was \$4,972 million (1999 \$1,880 million), representing an effective tax rate on replacement cost profit before exceptional items of 29%. The effective tax rate on the pro forma result, adjusted for special items, was 27%, compared with 28% a year ago.

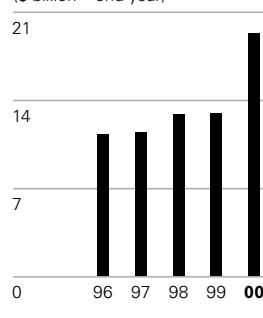
Historical cost profit was \$11,870 million, after the exceptional loss after tax of \$72 million and stock holding gains of \$728 million. The corresponding figures for 1999 were \$5,008 million profit, \$2,050 million loss and \$1,728 million gains respectively.

Capital expenditure and acquisitions amounted to \$20,107 million. Excluding the cost of significant one-off cash investments and expenditure by acquired businesses, capital expenditure was \$8,937 million compared with \$6,945 million in 1999. Capital expenditure in 1999 reflected curtailed investment at the time of the BP and Amoco merger. Capital expenditure in 2001 is likely to be around \$12-13 billion.

### capital expenditure and acquisitions by business



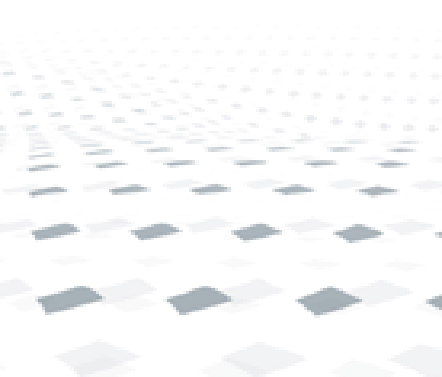
### net debt (\$ billion – end year)



### capital expenditure and acquisitions

\$ million		<b>2000</b>
<b>BP as reported</b>		<b>20,107</b>
Significant one-off cash investments:		
Burmah Castrol issued share capital		4,779
Minority interest in Vastar		1,618
ExxonMobil share of European fuels joint venture		1,479
2.2% interest in PetroChina		578
2.2% interest in Sinopec		416
Exxon's aviation lubricants business		66
		<b>8,936</b>
Continuing operations:		
Expenditure by acquired businesses		2,234
Ongoing expenditure		8,937
<b>Continuing operations</b>		<b>11,171</b>

Net cash inflow for the year was \$3,743 million, compared with an outflow of \$82 million in 1999. This results from an almost doubling of operating cash flow at \$20,416 million, partially offset by higher tax payments and net cash outflows from capital expenditure, acquisitions and disposals. Net cash outflow for capital expenditure and acquisitions, net of disposals, was \$6,207 million (1999 \$5,142 million).



### 1 Flying start

For staff on our offshore drilling platforms, taking the helicopter shuttle to work is a way of life.

### 2 Brand new down under

Customers flock to a reimagined service station in Australia. We plan to open 300 new Connect convenience stores worldwide during 2001.

### 3 Shareholder value

The annual general meeting forms an important part of our continuing dialogue with shareholders.

Disposal proceeds amounted to \$11,362 million, including \$6,803 million from the divestment of ARCO's Alaskan business and certain pipeline interests in the Lower 48. The remaining proceeds of \$4,559 million were primarily from assets disposed of under the asset divestment programme started last year.

The group's net debt, that is debt less cash and liquid resources, was \$19,359 million at the end of 2000, an increase of \$6,366 million over the year. Net debt of \$6,579 million was acquired with ARCO and Burmah Castrol. Following the acquisitions, the group repurchased \$960 million of outstanding debt in order to provide greater financing flexibility for the future. The ratio of net debt to net debt plus equity was 27%, compared with 23% a year ago. We expect to keep this ratio in the range of 20-30%. On a reported basis, the respective percentages were 21% and 23%.

### Dividends

The total dividends announced for 2000 were \$4,625 million, against \$3,884 million in 1999. Dividends per share for 2000 were 20.50 cents, compared with 20.00 cents per share in 1999, an increase of 2.5%. The company intends to continue to pay dividends in the future of around 50% of our result adjusted to mid-cycle business conditions.

The company also 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 Amoco Direct Access Plan for US and Canadian investors also includes a dividend reinvestment feature.

### Share repurchases

After approval at the annual general meeting in April 2000 for the company to repurchase its own shares, a total of 222 million shares were repurchased and cancelled at a cost of \$2 billion. Further repurchases may be made during the first quarter of 2001. The company will seek approval from shareholders at the April 2001 annual general meeting to continue repurchasing shares. The approval will allow shares to be bought back as and when the group's funding position permits.

### Creditor payment policy and practice

Statutory regulations issued under the UK Companies Act 1985 require companies to make a statement of their policy and practice in respect of the payment of trade creditors.

In view of the international nature of the group's operations there is no specific group-wide policy in respect of payments to suppliers. Relationships with suppliers are, however, governed by the group's policy commitment to 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 Amoco 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 2000.

### Financial risk management

The group co-ordinates certain key activities on a global basis in order to optimize its financial position and performance. These include the management of the currency, maturity and interest rate profile of borrowing, cash, other significant financial risks and relationships with banks and other financial institutions. International oil and gas trading and risk management relating to business operations are carried out by the group's oil and gas trading divisions.

BP is exposed to financial risks, including market risk, credit risk and liquidity risk, arising from the group's normal business activities. These risks and the group's approach to dealing with them are discussed below.

### Market risk

Market risks include the possibility that changes in currency exchange rates, interest rates or oil and gas prices will adversely affect the value of the group's financial assets, liabilities or expected future cash flows. Market risks are managed using a range of financial and commodity



1

instruments, including derivatives. We also trade derivatives in conjunction with these risk management activities.

#### Currency exchange rates

Fluctuations in exchange rates can have significant effects on the group's reported profit. The effects of most exchange rate fluctuations are subsumed within business operating results through changing cost competitiveness, lags in market adjustment to movements in rates, and conversion differences accounted for on specific transactions. For this reason the total effect of exchange rate fluctuations is not identifiable separately in the group's reported profit.

The main underlying economic currency of the group's cash flows is the US dollar and the group's borrowings are predominantly in US dollars. Our foreign exchange management policy is to minimize economic and material transactional exposures arising from currency movements against the US dollar. The group co-ordinates the handling of foreign exchange risks centrally, by netting off naturally occurring opposite exposures wherever possible, to reduce the risks, and then dealing with any material residual foreign exchange risks. Significant residual non-dollar exposures are managed using a range of derivatives.

#### Interest rates

The group is exposed to interest rate risk on short- and long-term floating rate instruments and as a result of the refinancing of fixed rate finance debt. Consequently, as well as managing the currency and the maturity of debt, the group manages interest expense through the balance between generally lower-cost floating rate debt, which has inherently higher risk, and generally more expensive, but lower-risk, fixed rate debt. The group is exposed predominantly to US dollar LIBOR (London Inter-Bank Offer Rate) interest rates as borrowings are mainly denominated in, or are swapped into, US dollars.

The group uses derivatives to achieve the required mix between fixed and floating rate debt. During 2000, debt policy was to keep floating rate debt below an upper limit of 65%



2

of total net debt. Actual floating rate debt for the year was in the range of 19-54%. The low percentage in mid-year reflected the temporary high cash balance following the disposal of ARCO's Alaskan business.

#### Oil and gas prices

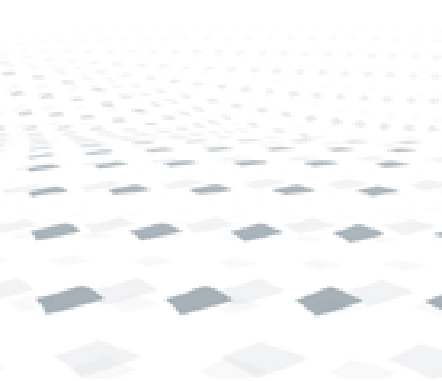
BP's oil trading division uses financial and commodity derivatives as part of the overall optimization of the value of the group's equity oil production and as part of the associated trading of crude oil, products and related instruments. The group also uses financial and commodity derivatives to manage certain of its exposures to price fluctuations on natural gas transactions.

#### Market risk management and trading

In market risk management and trading, only well-understood, conventional derivative instruments are used. These include futures and options traded on regulated exchanges and 'over-the-counter' swaps, options and forward contracts.

Where derivatives constitute a hedge, the group's exposure to market risk created by the derivative is offset by the opposite exposure arising from the asset, liability, cash flow or transaction being hedged. By contrast, where derivatives are held for trading purposes, changes in market risk factors give rise to realized and unrealized gains and losses, which are recognized in the current period.

All financial instrument and derivative activity, whether for risk management or trading, is carried out by specialist teams which have the appropriate skills, experience and supervision. These teams are subject to close financial and management control, meeting generally accepted industry practice and reflecting the principles of the Group of Thirty Global Derivatives Study recommendations. A Group Trading Risk Management Committee was established in 2000, composed of senior executives whose responsibilities include oversight of the quality of internal control in the group's trading divisions. Independent control functions monitor compliance with BP's policies. The control framework includes prescribed



**1 Global market**

Oil and gas traders maximize the value of BP's production in a 24-hour global marketplace.

**2 Trading places**

All our risk management and trading activity is carried out by specialist teams working under close financial and management control.

**3 Expanding capacity**

One of the main control rooms at BP's Grangemouth petrochemicals facility in Scotland, which manufactures more than 1.8 million tonnes of chemicals products each year. A major expansion of the site's capacity is well under way.

trading limits that are reviewed regularly by senior management, daily monitoring of risk exposure using value at risk principles, marking trading exposures to market and reviewing open positions to assess the group's exposure in potentially adverse situations.

Further details of the group's use of derivatives appear in Note 27 on the Accounts, pages 49-53.

**Credit risk**

Credit risk is the potential exposure of the group to loss in the event of non-performance by a counterparty. The credit risk arising from the group's normal commercial operations is controlled by individual operating units within guidelines. In addition, as a result of its use of financial and commodity instruments, including derivatives, to manage market risk, the group has credit exposures through its dealings in the financial and specialized oil and gas markets. The group controls the related credit risk by entering into contracts only with highly credit-rated counterparties and through credit approvals, limits and monitoring procedures, and does not usually require collateral or other security. Counterparty credit validation, independent of the dealers, is undertaken before contractual commitment. The group has not experienced material non-performance by any counterparty.

**Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for the group's business activities may not be available. The group has long-term debt ratings of Aa1 and AA+ assigned respectively by Moody's and Standard and Poor's. The group has access to a wide range of funding at competitive rates through the capital markets and banks. It co-ordinates relationships with banks, borrowing requirements, foreign exchange requirements and cash management centrally. The group believes it has access to sufficient funding and has also undrawn committed borrowing facilities to meet currently foreseeable borrowing requirements. At 31 December 2000, the group had available undrawn committed facilities of \$3.45 billion. These committed facilities, which are mainly with a number of

international banks, expire in 2001. The group expects to renew the facilities on an annual basis.

**Insurance**

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is because external insurance is not considered an economic means of financing losses for the group. Losses will therefore be borne as they arise rather than being spread over time through insurance premia with attendant transaction costs. The position will be reviewed periodically.

**The euro**

BP's commercial and financial processes were successfully adapted to allow its European operations to undertake transactions in the euro and capture competitive advantage offered by the new currency, from 1 January 1999. In common with experience generally across Europe, the actual level of transactions in euros for our businesses continues to be low. The currency of accounting records and the related systems are now being converted to euros. The capability to conduct business in the former national currencies will be retained as long as necessary. The costs associated with the euro programme are estimated at \$100 million, of which some \$60 million had been incurred and expensed by the end of 2000.

**Environmental expenditure**

Operating and capital expenditure on the prevention, control, abatement or elimination of air, water and solid waste pollution is often not incurred as a separately identifiable transaction. Instead, it forms part of a larger transaction which includes, for example, normal maintenance expenditure. The figures for environmental operating and capital expenditure in the table on page 28 are therefore estimates, based on the definitions and guidelines of the American Petroleum Institute.

Environmental operating and capital expenditures were higher in 2000, principally due



1



2

**environmental expenditure**

\$ million	2000	1999
Operating expenditure	<b>653</b>	414
Clean-ups	<b>81</b>	92
Capital expenditure	<b>298</b>	246
New provisions for environmental remediation	<b>228</b>	145
New provisions for decommissioning	<b>139</b>	80

to the inclusion of ARCO and Burmah Castrol. Similar levels of operating and capital expenditures are expected in the foreseeable future. In addition to operating and capital expenditures, we also create provisions for future environmental remediation. Expenditure against such provisions is normally incurred in subsequent periods and is not included in environmental operating expenditure reported for such periods. Included within special items is a charge of \$170 million relating to environmental liabilities at certain US sites. This charge appears within operating expenditure (\$50 million) and new provisions for environmental remediation (\$120 million).

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, their timing coincides with commitment to a

formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions, and also the group's share of the liability. Although the cost of any future remediation could be significant, and may be material to the result of operations in the period in which it is recognized, we do not expect that such costs will have a material effect on the group's financial position or liquidity. We believe our provisions are sufficient for known requirements; and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

In addition, we make provisions over the useful lives of our oil- and gas-producing assets and related pipelines to meet the cost of eventual decommissioning. Provisions for environmental remediation and decommissioning are usually set up on a discounted basis, as required by Financial Reporting Standard No. 12, 'Provisions, Contingent Liabilities and Contingent Assets'. Further details of our environmental and decommissioning provisions appear in Note 26 on the Accounts, on page 48.

**1 Positive action**

Advanced environmental techniques for site restoration will allow us to reinstate and protect the landscape along this pipeline route in the Georgian Caucasus.

**2 A world in bloom**

Every day BP fuels provide energy to deliver perishable products to retailers worldwide.

Accounting policies	30
Group income statement	32
Balance sheets	33
Group cash flow statement	34
Notes on accounts	35
Statement of directors' responsibilities	63
Report of the Auditors	63
Oil and gas reserves	64
Five year summaries	65
Ratios	67
Share price	67
Statistics	68
United States accounting principles	69
Glossary	70

# accounts



Document download library



Latest quarterly results



[www.bp.com/financial\\_performance](http://www.bp.com/financial_performance)

# Accounting policies

## Accounting standards

These accounts are prepared in accordance with applicable UK accounting standards. The group has adopted Financial Reporting Standard No. 15 'Tangible Fixed Assets' and Financial Reporting Standard No. 16 'Current Tax' with effect from 1 January 2000.

## Group consolidation

The group financial statements comprise a consolidation of the accounts of the parent company and its subsidiary undertakings (subsidiaries). The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes.

An associated undertaking (associate) is an entity in which the group has a long-term equity interest and over which it exercises significant influence. The consolidated financial statements include the group proportion of the operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation and net assets of associates (the equity method).

A joint venture is an entity in which the group has a long-term interest and shares control with one or more co-venturers. The consolidated financial statements include the group proportion of turnover, operating profit or loss, exceptional items, stock holding gains or losses, interest expense, taxation, gross assets and gross liabilities of the joint venture (the gross equity method).

Certain of the group's activities are conducted through joint arrangements and are included in the consolidated financial statements in proportion to the group's interest in the income, expenses, assets and liabilities of these joint arrangements.

On the acquisition of a subsidiary, or of an interest in a joint venture or associate, fair values reflecting conditions at the date of acquisition are attributed to the identifiable net assets acquired. When the cost of acquisition exceeds the fair values attributable to the group's share of such net assets the difference is treated as purchased goodwill. This is capitalized and amortized over its estimated useful economic life, limited to a maximum period of 20 years.

## Accounting convention

The accounts are prepared under the historical cost convention. Historical cost accounts show the profits available to shareholders and are the most appropriate basis for presentation of the group's balance sheet. Profit or loss determined under the historical cost convention includes stock holding gains or losses and, as a consequence, does not necessarily reflect underlying trading results.

## Replacement cost

The results of individual businesses and geographical areas are presented on a replacement cost basis. Replacement cost operating results exclude stock holding gains or losses and reflect the average cost of supplies incurred during the year, and thus provide insight into underlying trading results. Stock holding gains or losses represent the difference between the replacement cost of sales and the historical cost of sales calculated using the first-in first-out method.

## Stock valuation

Stocks are valued at cost to the group using the first-in first-out method or at net realizable value, whichever is the lower. Stores are stated at or below cost calculated mainly using the average method.

## Foreign currencies

On consolidation, assets and liabilities of subsidiaries are translated into US dollars at closing rates of exchange. Income and cash flow

statements are translated at average rates of exchange. Exchange differences resulting from the retranslation of net investments in subsidiaries and associates at closing rates, together with differences between income statements translated at average rates and at closing rates, are dealt with in reserves. Exchange gains and losses arising on long-term foreign currency borrowings used to finance the group's foreign currency investments are also dealt with in reserves. All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

## Derivative financial instruments

The group uses derivative financial instruments (derivatives) to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates, and to manage some of its margin exposure from changes in oil and natural gas prices. Derivatives are also traded in conjunction with these risk management activities.

The purpose for which a derivative contract is used is identified at inception. To qualify as a derivative for risk management, the contract must be in accordance with established guidelines which ensure that it is effective in achieving its objective. All contracts not identified at inception as being for the purpose of risk management are designated as being held for trading purposes and accounted for using the fair value method, as are all oil price derivatives.

The group accounts for derivatives using the following methods:

**Fair value method:** derivatives are carried on the balance sheet at fair value ('marked to market') with changes in that value recognized in earnings of the period. This method is used for all derivatives which are held for trading purposes. Interest rate contracts traded by the group include futures, swaps, options and swaptions. Foreign exchange contracts traded include forwards and options. Oil price contracts traded include swaps, options and futures.

**Accrual method:** amounts payable or receivable in respect of derivatives are recognized ratably in earnings over the period of the contracts. This method is used for derivatives held to manage interest rate risk. These are principally swap agreements used to manage the balance between fixed and floating interest rates on long-term finance debt. Other derivatives held for this purpose may include swaptions and futures contracts. Amounts payable or receivable in respect of these derivatives are recognized as adjustments to interest expense over the period of the contracts. Changes in the derivative's fair value are not recognized.

**Deferral method:** gains and losses from derivatives are deferred and recognized in earnings or as adjustments to carrying amounts, as appropriate, when the underlying debt matures or the hedged transaction occurs. This method is used for derivatives used to convert non-US dollar borrowings into US dollars, to hedge significant non-US dollar firm commitments or anticipated transactions, and to manage some of the group's exposure to natural gas price fluctuations. Derivatives used to convert non-US dollar borrowings into US dollars include foreign currency swap agreements and forward contracts. Gains and losses on these derivatives are deferred and recognized on maturity of the underlying debt, together with the matching loss or gain on the debt. Derivatives used to hedge significant non-US dollar transactions include foreign currency forward contracts and options and to hedge natural gas price exposures include swaps, futures and options. Gains and losses on these contracts and option premia paid are also deferred and recognized in the income statement or as adjustments to carrying amounts, as appropriate, when the hedged transaction occurs.

Where derivatives used to manage interest rate risk or to



convert non-US dollar debt or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognized on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognized in the income statement, together with any gain or loss on the terminated item.

#### **Depreciation**

Oil and gas production assets are depreciated using a unit-of-production method based upon estimated proved reserves. Other tangible and intangible assets are depreciated on the straight line method over their estimated useful lives. The average estimated useful lives of refineries are 20 years, chemicals manufacturing plants 20 years and service stations 15 years. Other intangibles are amortized over a maximum period of 20 years.

The group undertakes a review for impairment of a fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realizable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

#### **Exploration expenditure**

Exploration expenditure is accounted for in accordance with the successful efforts method. Exploration and appraisal drilling expenditure is initially capitalized as an intangible fixed asset. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. All exploration expenditure determined as unsuccessful is charged against income. Exploration licence acquisition costs are amortized over the estimated period of exploration. Geological and geophysical exploration costs are charged against income as incurred.

#### **Decommissioning**

Provision for decommissioning is recognized in full at the commencement of oil and natural gas production. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

#### **Petroleum revenue tax**

The charge for petroleum revenue tax is calculated using a unit-of-production method.

#### **Changes in unit-of-production factors**

Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

#### **Environmental liabilities**

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years the amount recognized is the present value of the estimated future expenditure.

#### **Leases**

Assets held under leases which result in group companies receiving substantially all risks and rewards of ownership (finance leases) are capitalized as tangible fixed assets at the estimated present value of underlying lease payments. The corresponding finance lease obligation is included with borrowings. Rentals under operating leases are charged against income as incurred.

#### **Research**

Expenditure on research is written off in the year in which it is incurred.

#### **Interest**

Interest is capitalized gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

#### **Pensions and other post-retirement benefits**

The cost of providing pensions and other post-retirement benefits is charged to income on a systematic basis, with pension surpluses and deficits amortized over the average expected remaining service lives of current employees. The difference between the amounts charged to income and the contributions made to pension plans is included within other provisions or debtors as appropriate. The amounts accrued for other post-retirement benefits and unfunded pension liabilities are included within other provisions.

#### **Deferred taxation**

Deferred taxation is calculated, using the liability method, in respect of timing differences arising primarily from the difference between the accounting and tax treatments of both depreciation and petroleum revenue tax. Provision is made or recovery anticipated where timing differences are expected to reverse in the foreseeable future.

#### **Discounting**

The unwinding of the discount on provisions is included within interest expense. Any change in the amount recognized for environmental and other provisions arising through changes in discount rates is included within interest expense.

#### **Comparative figures**

Certain previous years' figures have been restated to conform with the 2000 presentation.

# Group income statement

		\$ million				
For the year ended 31 December		Note	2000		1999	
			Continuing operations			
			Acquisitions	Total		
<b>Turnover</b>			<b>144,898</b>	<b>16,928</b>	<b>161,826</b>	101,180
Less: Joint ventures			13,339	425	13,764	17,614
<b>Group turnover</b>			<b>131,559</b>	<b>16,503</b>	<b>148,062</b>	83,566
Replacement cost of sales		1	107,155	14,361	121,516	68,615
Production taxes		2	1,936	125	2,061	1,017
<b>Gross profit</b>			<b>22,468</b>	<b>2,017</b>	<b>24,485</b>	13,934
Distribution and administration expenses		3	6,870	1,665	8,535	6,064
Exploration expense			460	139	599	548
			<b>15,138</b>	<b>213</b>	<b>15,351</b>	7,322
Other income		4	531	274	805	414
<b>Group replacement cost operating profit</b>			<b>15,669</b>	<b>487</b>	<b>16,156</b>	7,736
Share of profits of joint ventures		5	688	120	808	555
Share of profits of associated undertakings		5	773	19	792	603
<b>Total replacement cost operating profit</b>			<b>17,130</b>	<b>626</b>	<b>17,756</b>	8,894
Profit (loss) on sale of businesses		6	132	–	132	363
Profit (loss) on sale of fixed assets		6	88	–	88	(700)
Restructuring costs		6	–	–	–	(1,943)
<b>Replacement cost profit before interest and tax</b>			<b>17,350</b>	<b>626</b>	<b>17,976</b>	6,614
Stock holding gains (losses)		5	807	(79)	728	1,728
<b>Historical cost profit before interest and tax</b>			<b>18,157</b>	<b>547</b>	<b>18,704</b>	8,342
Interest expense		7			1,770	1,316
<b>Profit before taxation</b>					<b>16,934</b>	7,026
Taxation		11			4,972	1,880
<b>Profit after taxation</b>					<b>11,962</b>	5,146
Minority shareholders' interest					92	138
<b>Profit for the year</b>					<b>11,870</b>	5,008
Distribution to shareholders		12			4,625	3,884
<b>Retained profit for the year</b>					<b>7,245</b>	1,124
<b>Earnings per ordinary share – cents</b>						
Basic		13			54.85	25.82
Diluted		13			54.48	25.68
<b>Replacement cost results</b>						
<b>Historical cost profit for the year</b>					<b>11,870</b>	5,008
Stock holding (gains) losses					(728)	(1,728)
<b>Replacement cost profit for the year</b>					<b>11,142</b>	3,280
Exceptional items, net of tax		6			72	2,050
<b>Replacement cost profit before exceptional items</b>					<b>11,214</b>	5,330
<b>Earnings per ordinary share – cents</b>						
On replacement cost profit before exceptional items		13			51.82	27.48

## Balance sheets

		\$ million			
At 31 December		Group		Parent	
Note	2000	1999	2000	1999	
<b>Fixed assets</b>					
Intangible assets	18	16,893	3,344	–	–
Tangible assets	19	75,173	52,631	–	–
Investments					
Joint ventures – Gross assets		3,641	9,948		
– Gross liabilities		757	4,744		
– Net investment	20	2,884	5,204	–	–
Associated undertakings	20	5,455	4,334	3	3
Other	20	3,414	571	43,805	8,675
		<b>11,753</b>	10,109	<b>43,808</b>	8,678
<b>Total fixed assets</b>		<b>103,819</b>	66,084	<b>43,808</b>	8,678
<b>Current assets</b>					
Business held for resale		636	–	–	–
Stocks	21	9,234	5,124	–	–
Debtors – amounts falling due:					
Within one year	22	23,808	13,347	3,929	6,588
After more than one year	22	4,610	3,455	19,466	2,645
Investments	23	661	220	–	–
Cash at bank and in hand		1,170	1,331	2	3
		<b>40,119</b>	23,477	<b>23,397</b>	9,236
<b>Creditors – amounts falling due within one year</b>					
Finance debt	24	6,418	4,900	–	–
Other creditors	25	30,729	18,375	2,582	1,076
<b>Net current assets</b>		<b>2,972</b>	202	<b>20,815</b>	8,160
<b>Total assets less current liabilities</b>		<b>106,791</b>	66,286	<b>64,623</b>	16,838
<b>Creditors – amounts falling due after more than one year</b>					
Finance debt	24	14,772	9,644	–	–
Other creditors	25	5,223	2,245	178	62
<b>Provisions for liabilities and charges</b>					
Deferred taxation	11	1,822	1,783	–	–
Other provisions	26	10,973	8,272	197	171
<b>Net assets</b>		<b>74,001</b>	44,342	<b>64,248</b>	16,605
Minority shareholders' interest – equity		585	1,061	–	–
<b>BP shareholders' interest</b>		<b>73,416</b>	43,281	<b>64,248</b>	16,605
Represented by					
<b>Capital and reserves</b>					
Called up share capital	28	5,653	4,892	5,653	4,892
Share premium account	29	3,385	3,354	3,385	3,354
Capital redemption reserve	29	385	330	385	330
Merger reserve	29	26,869	697	26,172	–
Other reserves	29	456	–	456	–
Profit and loss account	29	36,668	34,008	28,197	8,029
	30	<b>73,416</b>	43,281	<b>64,248</b>	16,605

The financial statements on pages 30 to 62 were approved by a duly appointed and authorized committee of the board of directors on 13 February 2001 and were signed on its behalf by:

**Peter Sutherland**, Chairman

**Sir John Browne**, Group Chief Executive

## Group cash flow statement

		\$ million	
<b>For the year ended 31 December</b>	Note	<b>2000</b>	1999
<b>Net cash inflow from operating activities</b>	31	<b>20,416</b>	10,290
<b>Dividends from joint ventures</b>		<b>645</b>	949
<b>Dividends from associated undertakings</b>		<b>394</b>	219
<b>Servicing of finance and returns on investments</b>			
Interest received		<b>444</b>	179
Interest paid		<b>(1,354)</b>	(1,065)
Dividends received		<b>42</b>	34
Dividends paid to minority shareholders		<b>(24)</b>	(151)
<b>Net cash outflow from servicing of finance and returns on investments</b>		<b>(892)</b>	(1,003)
<b>Taxation</b>			
UK corporation tax		<b>(869)</b>	(559)
Overseas tax		<b>(5,329)</b>	(701)
<b>Tax paid</b>		<b>(6,198)</b>	(1,260)
<b>Capital expenditure and financial investment</b>			
Payments for fixed assets		<b>(10,037)</b>	(6,457)
Purchase of shares for employee share schemes		<b>(64)</b>	(77)
Proceeds from the sale of fixed assets	16	<b>3,029</b>	1,149
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(7,072)</b>	(5,385)
<b>Acquisitions and disposals</b>			
Investments in associated undertakings		<b>(985)</b>	(197)
Acquisitions	15	<b>(6,265)</b>	(102)
Net investment in joint ventures		<b>(218)</b>	(750)
Proceeds from the sale of businesses	16	<b>8,333</b>	1,292
<b>Net cash inflow for acquisitions and disposals</b>		<b>865</b>	243
<b>Equity dividends paid</b>		<b>(4,415)</b>	(4,135)
<b>Net cash inflow (outflow)</b>		<b>3,743</b>	(82)
<b>Financing</b>	31	<b>3,413</b>	(954)
<b>Management of liquid resources</b>	31	<b>452</b>	(93)
<b>Increase (decrease) in cash</b>	31	<b>(122)</b>	965
		<b>3,743</b>	(82)

## Statement of total recognized gains and losses

		\$ million	
<b>For the year ended 31 December</b>		<b>2000</b>	1999
<b>Profit for the year</b>		<b>11,870</b>	5,008
Currency translation differences		<b>(2,508)</b>	(921)
<b>Total recognized gains and losses relating to the year</b>		<b>9,362</b>	4,087
Prior year adjustment – change in accounting policy		<b>–</b>	715
<b>Total recognized gains and losses</b>		<b>9,362</b>	4,802

## Notes on accounts

					\$ million	
<b>1 Turnover</b>			<b>2000</b>			1999
Sales and operating revenue			<b>168,709</b>			91,891
Customs duties and sales taxes			<b>20,647</b>			8,325
<b>Group turnover</b>			<b>148,062</b>			83,566
<b>Turnover<sup>a</sup></b>	<b>Total sales</b>	<b>Sales between businesses</b>	<b>Sales to third parties</b>	Total sales	Sales between businesses	Sales to third parties
<b>By business</b>						
Exploration and Production	<b>30,942</b>	<b>16,787</b>	<b>14,155</b>	19,133	10,063	9,070
Gas and Power	<b>16,081</b>	<b>346</b>	<b>15,735</b>	5,323	444	4,879
Refining and Marketing	<b>112,815</b>	<b>5,923</b>	<b>106,892</b>	62,893	2,524	60,369
Chemicals	<b>11,247</b>	<b>216</b>	<b>11,031</b>	9,392	342	9,050
Other businesses and corporate	<b>249</b>	<b>–</b>	<b>249</b>	198	–	198
<b>Group turnover</b>	<b>171,334</b>	<b>23,272</b>	<b>148,062</b>	96,939	13,373	83,566
Share of joint venture sales			<b>13,764</b>			17,614
			<b>161,826</b>			101,180
	<b>Total sales</b>	<b>Sales between areas</b>	<b>Sales to third parties</b>	Total sales	Sales between areas	Sales to third parties
<b>By geographical area</b>						
UK <sup>b</sup>	<b>50,400</b>	<b>15,970</b>	<b>34,430</b>	30,223	4,406	25,817
Rest of Europe	<b>21,553</b>	<b>2,911</b>	<b>18,642</b>	5,973	641	5,332
USA	<b>72,884</b>	<b>2,629</b>	<b>70,255</b>	38,786	1,381	37,405
Rest of World	<b>31,014</b>	<b>6,279</b>	<b>24,735</b>	19,465	4,453	15,012
	<b>175,851</b>	<b>27,789</b>	<b>148,062</b>	94,447	10,881	83,566
<b>Share of joint venture sales</b>						
UK			<b>3,314</b>			3,988
Rest of Europe			<b>12,316</b>			16,114
USA			<b>270</b>			155
Rest of World			<b>686</b>			342
			<b>16,586</b>			20,599
Sales between areas			<b>2,822</b>			2,985
			<b>13,764</b>			17,614

<sup>a</sup> Turnover to third parties is stated by origin which is not materially different from turnover by destination. Transfers between group companies are made at market prices taking into account the volumes involved.

<sup>b</sup> UK area includes the UK-based international activities of Refining and Marketing.

			\$ million	
<b>2 Production taxes</b>			<b>2000</b>	1999
UK petroleum revenue tax			<b>707</b>	237
Overseas production taxes			<b>1,354</b>	780
			<b>2,061</b>	1,017

			\$ million	
<b>3 Distribution and administration expenses</b>			<b>2000</b>	1999
Distribution			<b>6,718</b>	5,031
Administration			<b>1,817</b>	1,033
			<b>8,535</b>	6,064

			\$ million	
<b>4 Other income</b>			<b>2000</b>	1999
Income from other fixed asset investments			<b>202</b>	66
Other interest and miscellaneous income			<b>603</b>	348
			<b>805</b>	414
Income from listed investments included above			<b>8</b>	14

						\$ million	
<b>5 Analysis of replacement cost profit</b>							
<b>Profit</b>	<b>Group replacement cost operating profit<sup>a</sup></b>	<b>Joint ventures</b>	<b>Associated undertakings</b>	<b>Total replacement cost operating profit<sup>a</sup></b>	<b>Exceptional items<sup>b</sup></b>	<b>2000 Replacement cost profit before interest and tax</b>	
<b>By business</b>							
Exploration and Production	13,399	384	229	14,012	119	14,131	
Gas and Power	24	–	162	186	–	186	
Refining and Marketing	3,309	433	166	3,908	99	4,007	
Chemicals	576	(9)	193	760	(212)	548	
Other businesses and corporate	(1,152)	–	42	(1,110)	214	(896)	
	<b>16,156</b>	<b>808</b>	<b>792</b>	<b>17,756</b>	<b>220</b>	<b>17,976</b>	
<b>By geographical area</b>							
UK <sup>c</sup>	3,629	106	38	3,773	12	3,785	
Rest of Europe	1,488	264	261	2,013	(19)	1,994	
USA	7,006	44	246	7,296	459	7,755	
Rest of World	4,033	394	247	4,674	(232)	4,442	
	<b>16,156</b>	<b>808</b>	<b>792</b>	<b>17,756</b>	<b>220</b>	<b>17,976</b>	
<b>By business</b>							
Exploration and Production	6,686	175	122	6,983	(1,111)	5,872	
Gas and Power	32	–	179	211	14	225	
Refining and Marketing	1,337	380	123	1,840	(334)	1,506	
Chemicals	561	–	125	686	(257)	429	
Other businesses and corporate	(880)	–	54	(826)	(592)	(1,418)	
	<b>7,736</b>	<b>555</b>	<b>603</b>	<b>8,894</b>	<b>(2,280)</b>	<b>6,614</b>	
<b>By geographical area</b>							
UK <sup>c</sup>	2,063	(1)	49	2,111	(237)	1,874	
Rest of Europe	548	381	238	1,167	(258)	909	
USA	2,803	13	185	3,001	(983)	2,018	
Rest of World	2,322	162	131	2,615	(802)	1,813	
	<b>7,736</b>	<b>555</b>	<b>603</b>	<b>8,894</b>	<b>(2,280)</b>	<b>6,614</b>	
<b>Stock holding gains (losses)</b>						<b>2000</b>	1999
<b>By business</b>							
Exploration and Production					<b>4</b>	(1)	
Gas and Power					<b>11</b>	–	
Refining and Marketing <sup>d</sup>					<b>620</b>	1,613	
Chemicals					<b>93</b>	116	
					<b>728</b>	1,728	
<b>By geographical area</b>							
UK					<b>103</b>	151	
Rest of Europe					<b>107</b>	494	
USA					<b>387</b>	839	
Rest of World					<b>131</b>	244	
					<b>728</b>	1,728	

<sup>a</sup> Replacement cost operating profit is before stock holding gains and losses and interest expense, which is attributable to the corporate function. Transfers between group companies are made at market prices taking into account the volumes involved.

<sup>b</sup> Exceptional items comprise profit or loss on the sale of businesses and fixed assets and termination of operations and in addition for 1999 include restructuring costs.

<sup>c</sup> UK area includes the UK-based international activities of Refining and Marketing.

<sup>d</sup> Includes \$229 million (\$547 million) stock holding gains in respect of joint ventures and associated undertakings.

## 6 Exceptional items

Exceptional items comprise profit (loss) on sale of businesses and fixed assets and restructuring costs as follows:

	\$ million	
	2000	1999
Profit on sale of businesses		
– Group	341	427
– Joint ventures	–	42
Loss on sale of businesses – Group	(209)	(106)
Profit on sale of fixed assets	132	363
– Group	535	84
– Joint ventures	24	–
Loss on sale of fixed assets – Group	(471)	(784)
Restructuring costs – Group	220	(337)
Restructuring costs – Joint ventures	–	(1,900)
Exceptional items	220	(2,280)
Taxation credit (charge):		
Sale of businesses	(181)	(21)
Sale of fixed assets	(111)	(29)
Restructuring costs	–	280
Exceptional items, net of tax	(72)	(2,050)

**Sale of businesses** The profit on the sale of businesses during 2000 is attributable primarily to the divestment by the group of its common interest in Altura Energy. For 1999 the profit related mainly to the divestment by the group of its Canadian oil properties and certain chemicals businesses. These included the Verdugt acid salts business; the Plaskon electronics materials business located in the USA and Singapore; and the US Fibers and Yarns business. The profit on sale of businesses by joint ventures in 1999 was mainly attributable to the disposal by the BP/Mobil joint venture of its retail network in Hungary.

For 2000 the loss on sale of businesses relates to the subvention of bank loans to its paraxylene joint venture in Singapore. The loss during 1999 arose from the closure of this joint venture.

**Sale of fixed assets** The profit on the sale of fixed assets in 2000 includes the profit from the disposal of the Alliance refinery, located in Belle Chasse, Louisiana, the profit from the divestment of a 10% interest in certain exploration and production interests in Trinidad and the profit from the sale of other exploration and production interests, mainly in the UK and USA. For 1999 the sale of fixed assets included the Federal Trade Commission-mandated sale of distribution terminals and service stations in the USA, the divestment by the group of its interest in an olefins cracker at Wilton in the UK and the sale and leaseback of US railcars.

For 2000 the loss on sale of fixed assets relates principally to the divestment by the group of its interests in the Quiriquire and Guarapiche fields in Venezuela. The major element of the loss in 1999 was the disposal by the group of its interest in the Pedernales oil field in Venezuela.

Additional information on the sale of businesses and fixed assets is given in Note 16 – Disposals.

**Restructuring costs** These costs arose from restructuring activity across the group following the merger of BP and Amoco at the end of 1998 and relate predominantly to the group's US operations. The major elements of the restructuring charges comprise employee severance costs (\$1,212 million) and provisions to cover future rental payments on surplus leasehold office accommodation and other property (\$297 million). During 1999, some 16,000 employees left the group through severance or outsourcing arrangements. Also included in the restructuring charges are office closure costs, contract termination payments and asset write-downs. The cash outflow for these restructuring charges during 1999 was \$976 million and during 2000 was \$446 million.

	\$ million	
	2000	1999
<b>7 Interest expense</b>		
Bank loans and overdrafts	154	119
Other loans	1,221	854
Finance leases	107	75
Capitalized at 7% (6%)	1,482	1,048
Group	1,363	1,005
Joint ventures	78	70
Associated undertakings	140	131
Unwinding of discount on provisions	189	130
Change in discount rate for provisions	–	(20)
Total charged against profit	1,770	1,316

Interest expense includes a charge of \$111 million (\$24 million) relating to early redemption of debt.

	\$ million	
<b>8 Depreciation and amounts provided</b>	<b>2000</b>	1999
Included in the income statement under the following headings:		
<b>Depreciation and amortization of goodwill</b>		
Replacement cost of sales	<b>6,403</b>	4,185
Distribution	<b>707</b>	408
Administration	<b>87</b>	115
Exceptional items	–	258
	<b>7,197</b>	4,966
Depreciation of capitalized leased assets included above	<b>79</b>	70
<b>Amounts provided against fixed asset investments</b>		
Exceptional items	–	84
Replacement cost of sales	<b>252</b>	(1)
	<b>252</b>	83

The charge for depreciation and amortization of goodwill in 2000 includes \$61 million for the write-down of Chemicals and Exploration and Production assets. In addition \$181 million has been provided against the group's chemicals investment in Indonesia as a result of the continuing weak business environment in the region.

The rationalization of office and other facilities in 1999 following the merger of BP and Amoco resulted in the write-off of redundant IT and other office equipment and furnishings. This charge of \$258 million has been included within exceptional items. In addition, for 1999 the charge for depreciation includes \$100 million for the impairment of the Badami field in Alaska and \$123 million for the write-down of various Chemicals and Refining and Marketing assets.

In assessing the value in use of potentially impaired assets, a discount rate of 9% has been used.

	\$ million	
<b>9 Hire charges and expenditure on research</b>	<b>2000</b>	1999
Hire charges under operating leases:		
Tanker charters	<b>361</b>	357
Plant and machinery	<b>471</b>	509
Land and buildings	<b>343</b>	271
	<b>1,175</b>	1,137
Expenditure on research	<b>434</b>	310

	\$ million			
<b>10 Auditors' remuneration</b>		<b>2000</b>		1999
	<b>UK</b>	<b>Total</b>	<b>UK</b>	<b>Total</b>
Audit fees – Ernst & Young				
Group audit	<b>6</b>	<b>15</b>	6	14
Local statutory audit and quarterly review	<b>2</b>	<b>13</b>	1	6
Total group	<b>8</b>	<b>28</b>	7	20
Group audit fees include \$2 million (\$1 million) in respect of the parent company.				
Fees for other services – Ernst & Young				
Acquisitions and disposals	<b>8</b>	<b>9</b>	3	5
Taxation services	<b>2</b>	<b>14</b>	1	6
Assurance services	<b>5</b>	<b>10</b>	4	5
Consultancy	<b>5</b>	<b>18</b>	7	20
	<b>20</b>	<b>51</b>	15	36

Group audit fees for 2000 include \$1 million (\$1 million) for excess of actual over estimated fees for 1999.

Fees to major firms of accountants other than Ernst & Young for non-audit services amounted to \$411 million (\$160 million).



	\$ million	
<b>11 Taxation</b>	<b>2000</b>	1999
<b>United Kingdom corporation tax:</b>		
Current at 30% (30.25%)	<b>1,505</b>	875
Overseas tax relief	<b>(310)</b>	(363)
	<b>1,195</b>	512
Deferred at 30% (30%)	<b>12</b>	91
	<b>1,207</b>	603
<b>Overseas:</b>		
Current	<b>3,704</b>	1,143
Deferred	<b>(124)</b>	30
Joint ventures	–	5
Associated undertakings	<b>185</b>	99
	<b>3,765</b>	1,277
<b>Taxation charge for the year</b>	<b>4,972</b>	1,880

Included in the charge for the year is a charge of \$292 million (\$230 million credit) relating to exceptional items.

	\$ million			
	Provisions		Gross potential liability	
	2000	1999	2000	1999
<b>Provisions for deferred taxation</b>				
<b>Analysis of movements during the year:</b>				
At 1 January	<b>1,783</b>	1,632	<b>7,139</b>	6,618
Exchange adjustments	<b>(139)</b>	30	<b>(262)</b>	(42)
Acquisitions	<b>323</b>	–	<b>1,404</b>	–
Charge (credit) for the year	<b>(112)</b>	121	<b>1,442</b>	563
Deletions/transfers	<b>(33)</b>	–	<b>(39)</b>	–
<b>At 31 December</b>	<b>1,822</b>	1,783	<b>9,684</b>	7,139
of which – United Kingdom	<b>1,141</b>	1,015	<b>1,436</b>	1,482
– Overseas	<b>681</b>	768	<b>8,248</b>	5,657
<b>Analysis of provision:</b>				
Depreciation	<b>2,641</b>	2,567	<b>13,008</b>	10,279
Petroleum revenue tax	<b>(337)</b>	(332)	<b>(337)</b>	(332)
Other timing differences	<b>(482)</b>	(452)	<b>(2,987)</b>	(2,808)
	<b>1,822</b>	1,783	<b>9,684</b>	7,139

If provision for deferred taxation had been made on the basis of the gross potential liability, the taxation charge for the year would have been increased (decreased) as follows:

	\$ million	
	<b>2000</b>	1999
United Kingdom	<b>(122)</b>	(185)
Overseas	<b>1,676</b>	627
	<b>1,554</b>	442

Deferred taxation is not generally provided in respect of liabilities which may arise on the distribution of accumulated reserves of overseas subsidiaries, joint ventures and associates.

	%	
<b>Reconciliation of the UK statutory tax rate to the effective tax rate:</b>	<b>2000</b>	1999
UK statutory tax rate	<b>30</b>	30
Increase (decrease) resulting from:		
Current year timing differences not provided (including current year losses unrelieved/prior year losses utilized)	<b>(5)</b>	(10)
Tax on stock holding gains	<b>1</b>	2
Overseas taxes at higher rates	<b>7</b>	5
Tax credits	<b>(4)</b>	–
Acquisition amortization	<b>3</b>	–
Other	<b>(3)</b>	1
Effective tax rate on replacement cost profit before exceptional items	<b>29</b>	28

## Notes on accounts continued

	pence per share		cents per share		\$ million	
	2000	1999	2000	1999	2000	1999
<b>12 Distribution to shareholders</b>						
Preference dividends (non-equity)					<b>2</b>	2
Dividends per ordinary share: First quarterly	<b>3.220</b>	3.069	<b>5.00</b>	5.00	<b>1,133</b>	970
Second quarterly	<b>3.352</b>	3.112	<b>5.00</b>	5.00	<b>1,128</b>	970
Third quarterly	<b>3.602</b>	3.033	<b>5.25</b>	5.00	<b>1,185</b>	971
Fourth quarterly	<b>3.617</b>	3.125	<b>5.25</b>	5.00	<b>1,177</b>	971
	<b>13.791</b>	12.339	<b>20.50</b>	20.00	<b>4,625</b>	3,884

	cents per share	
	2000	1999
<b>13 Earnings per ordinary share</b>		
Basic earnings per share	<b>54.85</b>	25.82
Diluted earnings per share	<b>54.48</b>	25.68

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 \$11,868 million (\$5,006 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. The number of ordinary shares outstanding for basic and diluted earnings per share may be reconciled as follows:

	shares million	
	2000	1999
Weighted average number of ordinary shares	<b>21,638</b>	19,386
Ordinary shares issuable under employee share schemes	<b>145</b>	111
	<b>21,783</b>	19,497

In addition to basic 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.

	cents per share	
	2000	1999
Profit for the year	<b>54.85</b>	25.82
Stock holding (gains) losses	<b>(3.36)</b>	(8.91)
Replacement cost profit for the year	<b>51.49</b>	16.91
Exceptional items, net of tax	<b>0.33</b>	10.57
Replacement cost profit before exceptional items	<b>51.82</b>	27.48

	\$ million			
	2000		1999	
	Land and buildings	Other	Land and buildings	Other
<b>14 Operating leases</b>				
<b>Annual commitments under operating leases</b>				
Expiring within: 1 year	<b>41</b>	<b>181</b>	19	107
2 to 5 years	<b>54</b>	<b>330</b>	57	372
Thereafter	<b>235</b>	<b>220</b>	163	250
	<b>330</b>	<b>731</b>	239	729
<b>Minimum future lease payments</b>		<b>Total</b>		<b>Total</b>
Payable within: 1 year		<b>1,016</b>		924
2 to 5 years		<b>2,549</b>		2,597
Thereafter		<b>2,324</b>		1,898
		<b>5,889</b>		5,419

## 15 Acquisitions

During the year the company acquired Atlantic Richfield Company (ARCO) and Burmah Castrol plc (Burmah Castrol) and the 18% minority interest in Vastar Resources Inc. (Vastar), a subsidiary of ARCO. The company also purchased most of ExxonMobil's assets used by the fuels refining and marketing operation in Europe and made a number of minor acquisitions. All these business combinations have been accounted for using the acquisition method of accounting. The goodwill arising on the ARCO and Burmah Castrol acquisitions is being amortized over 10 years.

**ARCO acquisition** On 13 April the acquisition of ARCO by BP was cleared by the US Federal Trade Commission and thereby became unconditional. The transaction was closed on 18 April 2000. The last day of trading in ARCO common stock was 17 April 2000. The results of ARCO have been consolidated from 14 April.

ARCO shareholders received for each share of ARCO common stock held as of 17 April 2000, 9.84 BP ordinary shares. Such BP ordinary shares were delivered in the form of BP ADSs or, at the election of a holder of ARCO common stock, BP ordinary shares. For purposes of determining the consideration for the transaction the number of ARCO shares issued and outstanding on 17 April 2000 (324 million shares), together with the estimated number of additional shares which may be issued in respect of outstanding options and contingent stock and on conversion of ARCO preference stock (15 million shares), have been used, which would result in the issue of approximately 3,335 million BP ordinary shares. The total consideration for the acquisition was \$27,506 million, including acquisition expenses of \$79 million. Stamp duty reserve tax of \$295 million paid on the issue of ADSs has been treated as a share issue expense and charged against the Share Premium Account.

The assets and liabilities of ARCO and the fair value adjustments made are set out below:

	\$ million			
	Book value on acquisition	Fair value adjustments		Fair value
		Accounting policy alignment	Revaluations	
Intangible fixed assets	1,358	(20)	1,211	2,549
Tangible fixed assets	12,088	(2,208)	9,949	19,829
Fixed asset investments	2,858	(447)	594	3,005
Net assets of operations held for sale	4,293	–	997	5,290
Current assets (excluding cash)	3,326	297	45	3,668
Cash at bank and in hand	994	–	–	994
Finance debt	(6,431)	–	(365)	(6,796)
Other creditors	(2,539)	(649)	(287)	(3,475)
Deferred taxation	(3,643)	3,320	–	(323)
Other provisions	(2,761)	(104)	(144)	(3,009)
Net assets acquired	9,543	189	12,000	21,732
Minority interests				(1,595)
Goodwill				7,369
Consideration				27,506

### Fair values

The methods and assumptions set out in the following paragraphs were used in estimating the fair value of the assets and liabilities acquired.

**Intangible and tangible fixed assets** The fair value of the tangible and intangible assets has mainly been estimated by determining the net present value of future cash flows.

**Fixed asset investments** The fair value of listed investments is based on quoted market prices.

**Net assets of operations held for sale** The fair value of the net assets of these operations reflects the sales proceeds, less attributable taxation.

**Finance debt** The fair value of ARCO long-term debt, including current maturities, has been estimated based on the quoted market prices for the same or similar issues.

**Other creditors** Accruals for sundry liabilities existing at the date of acquisition.

**Other provisions** Liabilities for pensions and other post-retirement benefits have been estimated by independent actuaries. Provisions for other liabilities have been reassessed at the acquisition date and revalued in line with BP practice.

### Accounting policy alignment

The accounting policy alignment adjustments represent the adjustments necessary to restate the balance sheet of ARCO prepared under US GAAP to conform with BP's accounting policies under UK GAAP. The principal adjustments are set out below.

**Tangible fixed assets** The adjustments mainly reflect restatement of tangible fixed assets to recoverable amount where this is less than carrying value (\$1,388 million), the elimination of deferred tax gross up on business combinations (\$1,131 million), and the capitalization of decommissioning assets (\$176 million).

**Fixed asset investments** Restatement to historical cost rather than current market value.

**Current assets** The basis of stock valuation changed from last-in first-out to first-in first-out.

**Other creditors** Reclassification of corporate taxes payable.

**15 Acquisitions** continued

**Deferred taxation** Restatement of deferred tax liabilities on a restricted liability basis (\$1,338 million) and the elimination of deferred tax gross up on business combinations (\$1,131 million).

**Other provisions** Restatement on a discounted basis of environmental and other provisions and recognition of the full liability for decommissioning on a discounted basis.

The summarized income statement and statement of total recognized gains and losses of ARCO for the period 1 January 2000 to 13 April 2000, being the period from the beginning of ARCO's financial year to the effective date of the acquisition, are shown below. Also shown below is the summarized income statement for the financial year ended 31 December 1999. This information is presented on a US GAAP basis and includes the results of those operations which were sold as required by the US Federal Trade Commission.

	\$ million	
<b>Summarized income statement</b>	<b>Period 1 January to 13 April 2000</b>	
Turnover	<b>4,930</b>	1999 13,055
Profit before interest and taxation	<b>1,056</b>	2,391
Interest	<b>125</b>	398
Profit before taxation	<b>931</b>	1,993
Taxation	<b>291</b>	533
Profit after taxation	<b>640</b>	1,460
Minority shareholders' interest	<b>18</b>	38
Net income	<b>622</b>	1,422

	\$ million	
<b>Statement of total recognized gains and losses</b>	<b>Period 1 January to 13 April 2000</b>	
Net income for the period	<b>622</b>	
Currency translation differences	<b>(5)</b>	
Unrealized gain (loss) on securities	<b>129</b>	
Total recognized gains and losses	<b>746</b>	

For the year ended 31 December 2000 ARCO contributed \$12,162 million to turnover, \$569 million to group replacement cost operating profit and \$518 million to historical cost profit before interest and tax. Within the Exploration and Production segment ARCO represented \$4,458 million of turnover and \$690 million of group replacement cost operating profit. For the USA segment ARCO represented \$9,420 million of turnover and \$52 million of group replacement cost operating profit.

ARCO contributed \$3,523 million to the group's net cash inflow from operating activities, represented \$295 million of net cash outflow from servicing of finance and returns on investments, represented \$2,270 million of tax paid, represented \$404 million of net cash outflow for capital expenditure, contributed \$5,066 million of net cash inflow for acquisitions and disposals and represented \$3,092 million of net cash outflow from financing.

**Other acquisitions** BP completed the purchase of the minority interest in Vastar on 15 September 2000 for a total consideration of \$1,618 million. This was settled in cash and included expenses of \$9 million and \$94 million for the buy-out of employee share options. The identifiable assets and liabilities of Vastar have not been revalued on the acquisition of the minority interest as the difference between the fair values and the carrying amounts of the assets and liabilities is not material.

On 7 July 2000, the company declared its cash offer for Burmah Castrol unconditional. The results of Burmah Castrol have been consolidated from this date. The total consideration was \$4,909 million. Apart from the issue of \$130 million of loan notes the balance of the consideration has been or will be settled in cash and includes expenses of \$16 million.

On dissolution of the pan-European refining and marketing joint venture BP acquired most of the ExxonMobil assets used by the fuels operation for \$1,479 million. This acquisition became effective on 1 August 2000, from which date the operations have been consolidated. The aggregate net assets acquired approximate the consideration paid.

The group undertook a number of other acquisitions in the year for an aggregate consideration of \$100 million. No significant fair value adjustments were made to the acquired assets or liabilities.

In 1999 the group acquired the outstanding 83% of ProGas, a major Canadian natural gas supply aggregator, and 50% of Solarex, a manufacturer and developer of photovoltaic products and systems, it did not already own. Also in 1999 the group purchased APEX, a solar electric company based in Montpellier, France.

## 15 Acquisitions continued

The aggregate assets and liabilities for the Burmah Castrol, ExxonMobil fuels refining and marketing operation and other acquisitions and the fair value adjustments made are set out below.

					\$ million	
				2000	1999	
	Book value on acquisition	Fair value adjustments		Fair value	Fair value	
	Accounting policy alignment	Revaluations				
Intangible fixed assets	19	–	(19)	–	3	
Tangible fixed assets	1,943	(4)	–	1,939	119	
Fixed asset investments	1,080	–	–	1,080	9	
Business held for resale	499	–	137	636	–	
Current assets (excluding cash)	3,091	–	–	3,091	10	
Cash at bank and in hand	796	–	–	796	5	
Finance debt	(1,146)	–	–	(1,146)	(58)	
Other creditors	(3,718)	–	–	(3,718)	(1)	
Provisions for liabilities and charges	(218)	(6)	(21)	(245)	–	
Net assets acquired	2,346	(10)	97	2,433	87	
Minority interests				(245)	–	
Goodwill				4,300	20	
Consideration				6,488	107	

## 16 Disposals

As a condition of the acquisition of Atlantic Richfield Company (ARCO), BP was required to divest ARCO's Alaskan businesses and certain pipeline interests in the Lower 48. These operations were sold for aggregate proceeds of \$6,803 million. No profit or loss arose on these disposals.

Other major disposals during 2000 were the sale of the group's common interest in Altura Energy, the sale of the Alliance refinery, the divestment of exploration and production interests in Trinidad, the UK, USA and Venezuela and the sale of the Southern Company Energy Marketing.

Disposals in 1999 included the sale of the group's Canadian oil properties; the divestment of its interest in the Pedernales oil field in Venezuela; the Federal Trade Commission-mandated sale of distribution terminals and service stations in the USA; and certain chemicals activities. These included the Verdugt acid salts business; its interest in an olefins cracker at Wilton in the UK; the Plaskon electronics materials business located in the USA and Singapore; the US Fibers and Yarns business; and the sale and leaseback of US railcars. In addition, the group incurred a loss on the closure of its paraxylene joint venture in Singapore.

Total proceeds received for disposals represent the following amounts shown in the cash flow statement:

	\$ million	
	2000	1999
Proceeds from the sale of businesses	8,333	1,292
Proceeds from the sale of fixed assets	3,029	1,149
	<b>11,362</b>	<b>2,441</b>

	\$ million	
	2000	1999
The disposals comprise the following:		
Intangible assets	458	199
Tangible assets	3,224	2,340
Fixed assets – investments	673	206
Net assets of operations held for sale	5,290	–
Current assets less current liabilities	919	175
Other	631	(94)
	<b>11,195</b>	<b>2,826</b>
Profit (loss) on sale of businesses	132	321
Profit (loss) on sale of fixed assets	64	(700)
Total consideration	11,391	2,447
Deferred consideration	(102)	(12)
Cash	73	6
Net cash inflow	<b>11,362</b>	<b>2,441</b>

	\$ million			
17 Group balance sheet analysis	Capital expenditure and acquisitions		Operating capital employed	
	2000	1999	2000	1999
<b>By business</b>				
Exploration and Production	6,383	4,194	56,500	36,229
Gas and Power	279	18	1,735	1,093
Refining and Marketing	8,750	1,634	29,066	14,358
Chemicals	1,585	1,215	11,008	10,048
Other businesses and corporate <sup>b</sup>	30,616	284	1,486	1,192
	<b>47,613</b>	<b>7,345</b>	<b>99,795</b>	<b>62,920</b>
<b>By geographical area</b>				
UK <sup>a</sup>	7,438	1,518	20,093	14,298
Rest of Europe	2,041	831	7,087	4,884
USA <sup>b</sup>	34,037	2,963	43,758	27,426
Rest of World	4,097	2,033	28,857	16,312
	<b>47,613</b>	<b>7,345</b>	<b>99,795</b>	<b>62,920</b>
Includes the following amounts for the BP/Mobil joint venture	170	624		
Operating capital employed			99,795	62,920
Liabilities for current and deferred taxation			(4,604)	(4,034)
Capital employed			95,191	58,886
Financed by:				
Finance debt			21,190	14,544
Minority shareholders' interest			585	1,061
BP shareholders' interest			73,416	43,281
			<b>95,191</b>	<b>58,886</b>

<sup>a</sup> UK area includes the UK-based international activities of Refining and Marketing.

<sup>b</sup> Capital expenditure and acquisitions for 2000 includes \$27,506 million for the acquisition of ARCO.

	\$ million			
18 Intangible assets	Exploration expenditure	Goodwill	Other intangibles	Total
<b>Cost</b>				
At 1 January 2000	3,780	151	507	4,438
Exchange adjustments	(62)	(9)	(5)	(76)
Acquisitions	2,549	11,669	–	14,218
Additions	1,295	–	53	1,348
Transfers	(813)	246	216	(351)
Deletions	(643)	(2)	(16)	(661)
<b>At 31 December 2000</b>	<b>6,106</b>	<b>12,055</b>	<b>755</b>	<b>18,916</b>
<b>Depreciation</b>				
At 1 January 2000	728	80	286	1,094
Exchange adjustments	(14)	(5)	(3)	(22)
Charge for the year	264	754	57	1,075
Transfers	(91)	53	117	79
Deletions	(197)	–	(6)	(203)
<b>At 31 December 2000</b>	<b>690</b>	<b>882</b>	<b>451</b>	<b>2,023</b>
<b>Net book amount</b>				
<b>At 31 December 2000</b>	<b>5,416</b>	<b>11,173</b>	<b>304</b>	<b>16,893</b>
At 31 December 1999	3,052	71	221	3,344

\$ million

19 Tangible assets – property, plant and equipment	Exploration and Production	Gas and Power	Refining and Marketing	Chemicals	Other businesses and corporate	Of which: assets under construction	
						Total	
<b>Cost</b>							
At 1 January 2000	83,306	45	19,031	14,047	1,716	118,145	3,029
Exchange adjustments	(2,458)	(2)	(602)	(494)	(48)	(3,604)	(65)
Acquisitions	14,753	152	6,608	16	239	21,768	374
Additions	4,935	309	1,883	1,286	289	8,702	6,207
Transfers	146	(16)	6,854	102	142	7,228	(3,036)
Deletions	(7,657)	–	(2,162)	(59)	(354)	(10,232)	(70)
<b>At 31 December 2000</b>	<b>93,025</b>	<b>488</b>	<b>31,612</b>	<b>14,898</b>	<b>1,984</b>	<b>142,007</b>	<b>6,439</b>
<b>Depreciation</b>							
At 1 January 2000	48,864	13	9,476	6,267	894	65,514	
Exchange adjustments	(1,689)	–	(267)	(213)	(26)	(2,195)	
Charge for the year	4,470	3	1,322	513	78	6,386	
Transfers	91	–	3,928	14	104	4,137	
Deletions	(5,462)	–	(1,316)	(43)	(187)	(7,008)	
<b>At 31 December 2000</b>	<b>46,274</b>	<b>16</b>	<b>13,143</b>	<b>6,538</b>	<b>863</b>	<b>66,834</b>	
<b>Net book amount</b>							
<b>At 31 December 2000</b>	<b>46,751</b>	<b>472</b>	<b>18,469</b>	<b>8,360</b>	<b>1,121</b>	<b>75,173</b>	<b>6,439</b>
At 31 December 1999	34,442	32	9,555	7,780	822	52,631	3,029

Assets held under finance leases, capitalized interest and land at net book amount included above:

\$ million

	Leased assets			Capitalized interest		
	Cost	Depreciation	Net	Cost	Depreciation	Net
<b>At 31 December 2000</b>	<b>1,926</b>	<b>1,076</b>	<b>850</b>	<b>2,705</b>	<b>1,472</b>	<b>1,233</b>
At 31 December 1999	1,741	969	772	2,554	1,321	1,233
	Freehold land			Leasehold land		
				Over 50 years unexpired	Other	
<b>At 31 December 2000</b>	<b>2,012</b>			<b>315</b>	<b>151</b>	
At 31 December 1999	942			47	38	

\$ million

20 Fixed assets – investments	Associated undertakings								Total
	Shares	Loans	Share of retained profit	Joint ventures	Loans	Own shares <sup>a</sup>	Listed investments <sup>b</sup>	Other <sup>c</sup>	
<b>Cost</b>									
At 1 January 2000	2,866	882	863	5,204	96	456	–	51	10,418
Exchange adjustments	(41)	(10)	(58)	(96)	(15)	(34)	(34)	(4)	(292)
Additions and net movements in joint ventures	643	40	161	587	85	64	994	121	2,695
Acquisitions	266	676	–	1,354	317	–	666	806	4,085
Transfers	(68)	(23)	176	(4,165)	55	–	–	130	(3,895)
Deletions	(470)	(37)	13	–	(62)	(126)	(61)	(10)	(753)
<b>At 31 December 2000</b>	<b>3,196</b>	<b>1,528</b>	<b>1,155</b>	<b>2,884</b>	<b>476</b>	<b>360</b>	<b>1,565</b>	<b>1,094</b>	<b>12,258</b>
<b>Amounts provided</b>									
At 1 January 2000	277	–	–	–	31	–	–	1	309
Exchange adjustments	(1)	(5)	–	–	–	–	–	–	(6)
Provided in the year	6	181	–	–	28	–	–	37	252
Transfers	–	30	–	–	–	–	–	–	30
Deletions	(64)	–	–	–	(16)	–	–	–	(80)
<b>At 31 December 2000</b>	<b>218</b>	<b>206</b>	<b>–</b>	<b>–</b>	<b>43</b>	<b>–</b>	<b>–</b>	<b>38</b>	<b>505</b>
<b>Net book amount</b>									
<b>At 31 December 2000</b>	<b>2,978</b>	<b>1,322</b>	<b>1,155</b>	<b>2,884</b>	<b>433</b>	<b>360</b>	<b>1,565</b>	<b>1,056</b>	<b>11,753</b>
At 31 December 1999	2,589	882	863	5,204	65	456	–	50	10,109

## Notes on accounts continued

\$ million					
20 Fixed assets – investments <small>continued</small>	Subsidiary undertakings <sup>d</sup>	Associated undertakings <sup>d</sup>		Own shares <sup>a</sup>	Total
	Shares	Shares	Loans		
<b>Parent</b>					
<b>Cost</b>					
At 1 January 2000	8,224	3	2	456	8,685
Exchange adjustments	–	–	–	(34)	(34)
Additions	37,650	–	–	64	37,714
Deletions	(2,424)	–	–	(126)	(2,550)
<b>At 31 December 2000</b>	<b>43,450</b>	<b>3</b>	<b>2</b>	<b>360</b>	<b>43,815</b>
<b>Amounts provided</b>					
At 1 January 2000	5	–	2	–	7
Provided in the year	–	–	–	–	–
<b>At 31 December 2000</b>	<b>5</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>7</b>
<b>Net book amount</b>					
<b>At 31 December 2000</b>	<b>43,445</b>	<b>3</b>	<b>–</b>	<b>360</b>	<b>43,808</b>
At 31 December 1999	8,219	3	–	456	8,678

<sup>a</sup> Own shares are held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the Employee share schemes (see Note 32) and prior to award under the Long Term Performance Plan (see Note 33). At 31 December 2000 the ESOPs held 45,515,000 (53,989,000) shares for the Employee Share Schemes and 9,507,000 (9,502,000) shares for the Long Term Performance Plan. The market value of these shares at 31 December 2000 was \$443 million (\$640 million).

<sup>b</sup> The market value of listed investments at 31 December 2000 was \$1,393 million.

<sup>c</sup> Other investments are unlisted.

<sup>d</sup> Substantially all the investments in subsidiary and associated undertakings are unlisted.

\$ million		
<b>21 Stocks</b>	<b>2000</b>	1999
Petroleum	<b>6,933</b>	3,517
Chemicals	<b>1,046</b>	828
Other	<b>504</b>	202
	<b>8,483</b>	4,547
Stores	<b>751</b>	577
	<b>9,234</b>	5,124
Replacement cost	<b>9,392</b>	5,165

\$ million								
22 Debtors	Group				Parent			
	Within 1 year	2000 After 1 year	Within 1 year	1999 After 1 year	Within 1 year	2000 After 1 year	Within 1 year	1999 After 1 year
Trade	<b>17,813</b>	–	9,417	–	–	–	–	–
Group undertakings	–	–	–	–	<b>3,720</b>	<b>19,441</b>	6,561	2,622
Joint ventures	<b>582</b>	–	725	–	–	–	–	–
Associated undertakings	<b>98</b>	<b>46</b>	60	45	–	–	–	–
Prepayments and accrued income	<b>2,137</b>	<b>486</b>	1,229	459	–	–	–	–
Taxation recoverable	<b>412</b>	–	263	83	<b>2</b>	–	10	–
Pension prepayment	–	<b>3,609</b>	–	2,541	–	–	–	–
Other	<b>2,766</b>	<b>469</b>	1,653	327	<b>207</b>	<b>25</b>	17	23
	<b>23,808</b>	<b>4,610</b>	13,347	3,455	<b>3,929</b>	<b>19,466</b>	6,588	2,645

\$ million		
<b>23 Current assets – investments</b>	<b>2000</b>	1999
Listed – UK	<b>59</b>	56
– Foreign	<b>220</b>	42
	<b>279</b>	98
Unlisted	<b>382</b>	122
	<b>661</b>	220
Stock exchange value of listed investments	<b>280</b>	99



	\$ million					
24 Finance debt	2000			1999		
	Within 1 year	After 1 year	Total	Within 1 year	After 1 year	Total
Bank loans and overdrafts	895	1,035	1,930	264	726	990
Other loans	5,420	11,916	17,336	4,548	7,181	11,729
Total borrowings	6,315	12,951	19,266	4,812	7,907	12,719
Net obligations under finance leases	103	1,821	1,924	88	1,737	1,825
	6,418	14,772	21,190	4,900	9,644	14,544

Where a borrowing is swapped into another currency, the borrowing is accounted in the swap currency and not in the original currency of denomination. Total borrowings include \$369 million (\$191 million) for the carrying value of currency swaps and forward contracts.

Included within Other loans repayable within one year are US Industrial Revenue/Municipal Bonds of \$1,671 million (\$1,376 million) with maturity periods ranging up to 34 years. They are classified as repayable within one year, as required under UK GAAP, as the bondholders typically have the option to tender these bonds for repayment on interest reset dates. Any bonds that are tendered are usually remarketed and BP has not experienced any significant repurchases. BP considers these bonds to represent long-term funding when assessing the maturity profile of its borrowings.

	\$ million					
Analysis of borrowings by year of repayment	2000			1999		
	Bank loans and overdrafts	Other loans	Total	Bank loans and overdrafts	Other loans	Total
Due after 5 years	284	6,698	6,982	155	3,106	3,261
Due within 5 years	24	1,202	1,226	410	722	1,132
4 years	417	744	1,161	36	377	413
3 years	75	1,187	1,262	87	1,774	1,861
2 years	235	2,085	2,320	38	1,202	1,240
1 year	1,035	11,916	12,951	726	7,181	7,907
	895	5,420	6,315	264	4,548	4,812
	1,930	17,336	19,266	990	11,729	12,719

Amounts included above repayable by instalments part of which falls due after five years from 31 December are as follows:

After 5 years	27	46
Within 5 years	216	91
	243	137

Interest rates on borrowings repayable wholly or partly more than five years from 31 December 2000 range from 4% to 10% with a weighted average of 7%. The weighted average interest rate on finance debt is 7%.

At 31 December 2000 the group had substantial amounts of undrawn borrowing facilities available, including committed facilities of \$3,450 million (\$3,000 million) expiring in 2001. These facilities are with a number of international banks and borrowings under them would be at pre-agreed rates. Certain of these facilities support the group's commercial paper programme.

Analysis of borrowings by currency	2000						1999
	Fixed rate debt			Floating rate debt			
	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Amount \$ million	Weighted average interest rate %	Amount \$ million	Total \$ million	
US dollars	7	9	10,199	6	8,326	18,525	12,444
Sterling	–	–	–	6	449	449	49
Other currencies	8	30	45	10	247	292	226
Total loans			10,244		9,022	19,266	12,719

The group aims for a balance between floating and fixed interest rates and, in 2000, the group's upper limit for the proportion of floating rate debt was 65% of total net debt outstanding. Aside from debt issued in the US municipal bond markets, interest rates on floating rate debt denominated in US dollars are linked principally to LIBOR, while rates on debt in other currencies are based on local market equivalents. The group monitors interest rate risk using a process of sensitivity analysis. Assuming no changes to the borrowings and hedges described above, it is estimated that a change of 1% in the general level of interest rates on 1 January 2001 would change 2001 profit before tax by approximately \$110 million.

	\$ million			
Fair values and carrying amounts of borrowing	2000		1999	
	Fair value	Carrying amount	Fair value	Carrying amount
Short-term borrowings	3,706	3,706	2,433	2,433
Long-term borrowings	15,573	15,299	9,979	10,118
Total borrowings	19,279	19,005	12,412	12,551

**24 Finance debt** continued

The fair value and carrying amounts of borrowings shown on page 47 exclude the effects of currency swaps, interest rate swaps and forward contracts (which are included for presentation in the balance sheet). Long-term borrowings include debt which matures in the year from 31 December 2000, whereas in the balance sheet long-term debt of current maturity is reported under amounts falling due within one year. Long-term borrowings also include US Industrial Revenue/Municipal Bonds classified on the balance sheet as repayable within one year. The carrying amounts of the group's short-term borrowings, which mainly comprise commercial paper, bank loans and overdrafts, approximate their fair value. The fair value of the group's long-term borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses, based on the group's current incremental borrowing rates for similar types and maturities of borrowing.

	\$ million	
<b>Obligations under finance leases</b>	<b>2000</b>	1999
Minimum future lease payments payable within: 1 year	<b>136</b>	103
2 to 5 years	<b>755</b>	725
Thereafter	<b>3,371</b>	3,569
	<b>4,262</b>	4,397
Less finance charges	<b>2,338</b>	2,572
Net obligations	<b>1,924</b>	1,825

	\$ million							
	Group				Parent			
	Within 1 year	2000 After 1 year	Within 1 year	1999 After 1 year	Within 1 year	2000 After 1 year	Within 1 year	1999 After 1 year
Trade	<b>14,363</b>	–	8,203	–	–	–	–	–
Group undertakings	–	–	–	–	<b>1,308</b>	<b>47</b>	12	62
Joint ventures	–	–	278	–	–	–	–	–
Associated undertakings	<b>296</b>	<b>4</b>	199	4	–	–	–	–
Production taxes	<b>347</b>	<b>1,123</b>	417	1,140	–	–	–	–
Taxation on profits	<b>3,192</b>	<b>2</b>	2,558	39	<b>3</b>	–	3	–
Social security	<b>59</b>	–	14	–	<b>15</b>	–	14	–
Accruals and deferred income	<b>6,557</b>	<b>1,876</b>	3,610	618	<b>5</b>	–	1	–
Dividends	<b>1,178</b>	–	971	–	<b>1,178</b>	–	971	–
Other	<b>4,737</b>	<b>2,218</b>	2,125	444	<b>73</b>	<b>131</b>	75	–
	<b>30,729</b>	<b>5,223</b>	18,375	2,245	<b>2,582</b>	<b>178</b>	1,076	62

	\$ million					
	Decom- missioning	Environ- mental	Unfunded pension plans	Other post- retirement benefits	Other	Total
At 1 January 2000	2,785	917	1,595	2,244	731	8,272
Exchange adjustments	(133)	(10)	(108)	–	(37)	(288)
Acquisitions	484	1,222	125	579	844	3,254
New provisions	139	228	174	62	238	841
Unwinding of discount	110	55	–	–	24	189
Utilized/deleted	(384)	(281)	(207)	(159)	(264)	(1,295)
<b>At 31 December 2000</b>	<b>3,001</b>	<b>2,131</b>	<b>1,579</b>	<b>2,726</b>	<b>1,536</b>	<b>10,973</b>

At 31 December 2000 the provision for the costs of decommissioning the group's oil and natural gas production facilities and pipelines at the end of their economic lives was \$3,001 million (\$2,785 million). These costs are expected to be incurred over the next 30 years. The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 3.5% (3.5%).

The provision for environmental liabilities at 31 December 2000 was \$2,131 million (\$917 million). This represents primarily the estimated environmental restoration and remediation costs for closed sites or facilities that have been sold. These costs are expected to be incurred over the next 10 years. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 3.5% (3.5%).

The group also holds provisions for potential future awards under the long-term performance plan, expected rental shortfalls on surplus properties and sundry other liabilities. To the extent that these liabilities are not expected to be settled within the next three years, the provisions are discounted using a real discount rate of 3.5% (3.5%).

Other includes parent company \$197 million (\$171 million).

## 27 Derivatives and other financial instruments

An outline of the group's financial risks and the policies and objectives pursued in relation to these risks is set out in the financial risk management section of the Financial Review on pages 25-27.

In the normal course of business the group is a party to derivative financial instruments (derivatives) with off-balance sheet risk, primarily to manage its exposure to fluctuations in foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt. The group also manages certain of its exposures to movements in oil and natural gas prices. The underlying economic currency of the group's cash flows is mainly the US dollar. Accordingly, most of our borrowings are in US dollars, are hedged with respect to the US dollar or swapped into dollars where this achieves a lower cost of financing. Significant non-dollar cash flow exposures are hedged. Gains and losses arising on these hedges are deferred and recognized in the income statement or as adjustments to carrying amounts, as appropriate, only when the hedged item occurs. In addition, we trade derivatives in conjunction with these risk management activities. The results of trading are recognized in income in the current period.

These derivatives involve, to varying degrees, credit and market risk. With regard to credit risk, the group may be exposed to loss in the event of non-performance by a counterparty. The group controls credit risk by entering into derivative contracts only with highly credit-rated counterparties and through credit approvals, limits and monitoring procedures and does not usually require collateral or other security. The group has not experienced material non-performance by any counterparty.

Market risk is the possibility that a change in interest rates, currency exchange rates or oil and natural gas prices will cause the value of a financial instrument to decrease or its obligations to become more costly to settle. When derivatives are used for the purpose of risk management they do not expose the group to market risk because the exposure to market risk created by the derivative is offset by the opposite exposure arising from the asset, liability, cash flow or transaction being hedged. When derivatives are held for trading purposes, the exposure of the group to market risk is represented by potential changes in their fair (market) values. The measurement of market risk in trading activities is discussed further below.

With the exception of the table of currency exposures shown on page 51, short-term debtors and creditors which arise directly from the group's operations have been excluded from the disclosures contained in this note, as permitted by Financial Reporting Standard No. 13 'Derivatives and Other Financial Instruments: Disclosures'.

### Interest rate risk

The interest rate and currency profile of the financial liabilities of the group, at 31 December, after taking into account the effect of interest rate swaps, currency swaps and forward contracts, is set out below.

Analysis of financial liabilities by currency	2000								
	Fixed rate			Floating rate		Interest free		Total \$ million	
	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Amount \$ million	Weighted average interest rate %	Amount \$ million	Weighted average time until maturity Years	Amount \$ million		
US dollars	7	9	10,506	6	10,674	4	2,155	23,335	
Sterling	–	–	–	6	449	6	147	596	
Other currencies	8	30	45	10	247	2	532	824	
			<b>10,551</b>		<b>11,370</b>		<b>2,834</b>	<b>24,755</b>	
								1999	
US dollars	7	9	6,704	5	7,587	7	912	15,203	
Sterling	–	–	–	6	49	4	217	266	
Other currencies	8	31	46	6	180	5	319	545	
			6,750		7,816		1,448	16,014	
							<b>2000</b>	1999	
Analysis of the above financial liabilities by balance sheet caption:									
Creditors – amounts falling due within one year									
– Finance debt								<b>6,418</b>	4,900
Creditors – amounts falling due after more than one year									
– Finance debt								<b>14,772</b>	9,644
– Other creditors								<b>2,501</b>	1,062
Provisions for liabilities and charges									
– Other provisions								<b>1,064</b>	408
								<b>24,755</b>	16,014

The financial liabilities upon which interest is paid comprise principally borrowings and net obligations under finance leases.

In managing its finance debt, the group aims for a balance between floating and fixed interest rates and, in 2000, the group's upper limit for the proportion of floating rate debt was 65% of total net debt outstanding. Interest rate swaps are used by the group to modify the interest characteristics of its long-term borrowings from a fixed to a floating rate basis or vice versa. The following table indicates the types of swaps used and their weighted average interest rates as at 31 December.

	\$ million except percentages	
<b>27 Derivatives and other financial instruments</b> continued	<b>2000</b>	1999
Receive fixed rate swaps – notional amount	<b>2,310</b>	2,300
Average receive fixed rate	<b>6.4%</b>	6.3%
Average pay floating rate	<b>6.7%</b>	5.9%
Pay fixed rate swaps – notional amount	<b>3,125</b>	3,221
Average pay fixed rate	<b>6.7%</b>	7.1%
Average receive floating rate	<b>6.7%</b>	6.0%

The financial liabilities which are interest-free comprise various accruals, sundry creditors and provisions relating to the group's normal commercial operations with payment dates spread over a number of years.

The following table shows the interest rate and currency profile of the group's material financial assets at 31 December.

<b>Analysis of financial assets by currency</b>	<b>2000</b>							
	Fixed rate			Floating rate		Interest free		Total \$ million
	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Amount \$ million	Weighted average interest rate %	Amount \$ million	Weighted average time until maturity Years	Amount \$ million	
US dollars	4	1	226	5	1,127	2	1,502	2,855
Sterling	8	2	81	5	74	2	803	958
Other currencies	6	1	115	6	593	3	942	1,650
			<b>422</b>		<b>1,794</b>		<b>3,247</b>	<b>5,463</b>

	1999							
US dollars	5	1	12	5	748	3	237	997
Sterling	9	2	55	–	–	1	357	412
Other currencies	6	1	44	3	168	2	371	583
			111		916		965	1,992

	<b>2000</b>	1999
Analysis of the above financial assets by balance sheet caption:		
Fixed assets – investments	<b>3,054</b>	115
Current assets		
– Debtors – amounts falling due after more than one year	<b>578</b>	326
– Investments	<b>661</b>	220
– Cash at bank and in hand	<b>1,170</b>	1,331
	<b>5,463</b>	1,992

The floating rate financial assets earn interest at various rates set principally with respect to LIBOR or the local market equivalent.

Fixed asset investments included in the table above are held for the long term and have no maturity period. They are excluded from the calculation of weighted average time until maturity.

#### Maturity profile of financial liabilities

The profile of the maturity of the financial liabilities included in the group's balance sheet at 31 December is shown in the table below.

	\$ million	
<b>Carrying amount of financial liabilities</b>	<b>2000</b>	1999
Due within: 1 year	<b>6,418</b>	4,900
1 to 2 years	<b>3,834</b>	1,505
2 to 5 years	<b>4,456</b>	3,845
Thereafter	<b>10,047</b>	5,764
	<b>24,755</b>	16,014

## 27 Derivatives and other financial instruments continued

### Foreign exchange rate risk

The table below shows the group's principal currency exposures arising from normal trading activities. These exposures give rise to net currency gains and losses recognized in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the functional currency of the operating unit involved. As at 31 December, these exposures were as shown below.

Functional currency of group operation	\$ million				
	2000				
	Net foreign currency monetary assets/(liabilities)				
	US dollar	Sterling	Euro	Other	Total
US dollar	–	(555)	313	(534)	(776)
Sterling	487	–	498	269	1,254
Other	584	189	(9)	(231)	533
<b>Total</b>	<b>1,071</b>	<b>(366)</b>	<b>802</b>	<b>(496)</b>	<b>1,011</b>
					1999
US dollar	–	747	460	(385)	822
Sterling	141	–	264	(19)	386
Other	205	(114)	1	26	118
<b>Total</b>	<b>346</b>	<b>633</b>	<b>725</b>	<b>(378)</b>	<b>1,326</b>

In accordance with its policy for managing its foreign exchange rate risk, the group enters into various types of foreign exchange contracts, such as currency swaps, forwards and options. The fair values and carrying amounts of these derivatives are shown in the fair value disclosures below.

### Fair values of financial assets and liabilities

The estimated fair value of the group's financial instruments is shown in the table below. The table also shows the 'net carrying amount' of the financial asset or liability. This amount represents the net book value, i.e. market value when acquired or later marked to market. The carrying amounts and fair values of finance debt shown below exclude the effects of interest rate swaps, currency swaps and forward contracts (which are included for presentation in the balance sheet). Current maturities of long-term finance debt are included under long-term borrowings.

	\$ million			
	2000		1999	
	Net fair value asset (liability)	Net carrying amount asset (liability)	Net fair value asset (liability)	Net carrying amount asset (liability)
<b>Primary financial instruments</b>				
Fixed assets – investments	2,882	3,054	115	115
Current assets				
– Debtors – amounts falling due after more than one year	578	578	326	326
– Investments	662	661	221	220
– Cash at bank and in hand	1,170	1,170	1,331	1,331
Finance debt				
– Short-term borrowings	(3,706)	(3,706)	(2,433)	(2,433)
– Long-term borrowings	(15,573)	(15,299)	(9,979)	(10,118)
– Net obligations under finance leases	(1,831)	(1,816)	(1,824)	(1,802)
Creditors – amounts falling due after more than one year – Other creditors	(2,501)	(2,501)	(1,062)	(1,062)
Provisions for liabilities and charges – Other provisions	(1,064)	(1,064)	(408)	(408)
<b>Derivative financial or commodity instruments</b>				
Risk management – interest rate contracts	(49)	–	37	–
– foreign exchange contracts	(338)	(369)	(209)	(191)
– oil price contracts	4	4	–	–
– natural gas price contracts	31	12	2	–
Trading				
– interest rate contracts	–	–	–	–
– foreign exchange contracts	–	–	–	–
– oil price contracts	36	36	(61)	(61)
– natural gas price contracts	24	24	–	–

Interest rate contracts include futures contracts, swap agreements and options. Foreign exchange contracts include forward and futures contracts, swap agreements and options. Oil and natural gas price contracts are those which require settlement in cash and include futures contracts, swap agreements and options and cash-settled commodity instruments (derivative commodity contracts that permit settlement either by delivery of the underlying commodity or in cash) such as forward contracts.

## 27 Derivatives and other financial instruments continued

The following methods and assumptions were used by the group in estimating its fair value disclosures for its financial instruments:

Fixed assets – Investments: The carrying amount reported in the balance sheet for unlisted fixed asset investments approximates their fair value. The fair value of listed fixed asset investments has been determined by reference to market prices.

Current assets – Debtors falling due after more than one year: The fair value of other debtors due after one year is estimated not to be materially different from its carrying value.

Current assets – Investments and cash at bank and in hand: The carrying amount reported in the balance sheet for unlisted current asset investments and cash at bank and in hand approximates their fair value. The fair value of listed current asset investments has been determined by reference to market prices.

Finance debt: The carrying amount of the group's short-term borrowings, which mainly comprise commercial paper, bank loans and overdrafts, approximates their fair value. The fair value of the group's long-term borrowings and finance lease obligations is estimated using quoted prices or, where these are not available, discounted cash flow analyses, based on the group's current incremental borrowing rates for similar types and maturities of borrowing.

Creditors – Amounts falling due after more than one year – Other creditors: These liabilities are predominantly interest-free. In view of the short maturities, the reported carrying amount is estimated to approximate the fair value.

Provisions for liabilities and charges – Other provisions: Where the liability will not be settled for a number of years the amount recognized is the present value of the estimated future expenditure. The carrying amount of provisions for onerous contracts thus approximates the fair value.

Derivative financial or commodity instruments: The fair values of the group's interest rate contracts (swaps) are based on pricing models which take into account relevant market data. Fair values for the group's foreign exchange contracts (forward contracts, swap agreements and options) are based on market prices of comparable instruments. The fair values of the group's oil and natural gas price contracts (futures contracts, swap agreements, options and forward contracts) are based on market prices.

### Risk management

Gains and losses on derivatives used for risk management purposes are deferred and recognized in earnings or as adjustments to carrying amounts, as appropriate, when the underlying debt matures or the hedged transaction occurs. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognized in the income statement, together with any gain or loss on the terminated item. Where such derivatives used for hedging purposes are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognized on a basis which matches the timing and accounting treatment of the underlying hedged item. The unrecognized and carried-forward gains and losses on derivatives used for hedging, and the movements therein, are shown in the following table.

	\$ million					
	Unrecognized			Carried forward in the balance sheet		
	Gains	Losses	Total	Gains	Losses	Total
Gains and losses at 1 January 2000	236	(215)	21	65	(283)	(218)
of which accounted for in income in 2000	54	(60)	(6)	32	(45)	(13)
Gains and losses at 31 December 2000	303	(302)	1	56	(443)	(387)
of which expected to be recognized in income:						
In 2001	216	(140)	76	20	(194)	(174)
In 2002 or later	87	(162)	(75)	36	(249)	(213)
Gains and losses at 1 January 1999	253	(402)	(149)	143	(194)	(51)
of which accounted for in income in 1999	115	(95)	20	58	(66)	(8)

### Trading activities

The group maintains active trading positions in a variety of derivatives. This activity is undertaken in conjunction with risk management activities. Derivatives held for trading purposes are marked to market and any gain or loss recognized in the income statement. For traded derivatives, many positions have been neutralized, with trading initiatives being concluded by taking opposite positions to fix a gain or loss, thereby achieving a zero net market risk.

The following table shows the fair value at the year end and the average net fair value of derivatives and other financial instruments held for trading purposes during the year.

	\$ million					
	Year end fair value asset	Year end fair value liability	2000 Average net fair value asset (liability)	Year end fair value asset	Year end fair value liability	1999 Average net fair value asset (liability)
Interest rate contracts	–	–	–	–	–	–
Foreign exchange contracts	10	(10)	(3)	4	(4)	–
Oil price contracts	159	(123)	4	155	(216)	54
Natural gas price contracts	1,288	(1,264)	15	–	–	–
	1,457	(1,397)	16	159	(220)	54

## 27 Derivatives and other financial instruments continued

The group measures its market risk exposure, i.e. potential gain or loss in fair values, on its trading activity using a value at risk technique. This technique is based on a variance/covariance model and makes a statistical assessment of the market risk arising from possible future changes in market values over a 24-hour period. The calculation of the range of potential changes in fair value takes into account a snapshot of the end-of-day exposures, and the history of one-day price movements over the previous 12 months, together with the correlation of these price movements. The potential movement in fair values is expressed to three standard deviations which is equivalent to a 99.7% confidence level. This means that, in broad terms, one would expect to see an increase or a decrease in fair values greater than the value at risk on only one occasion per year if the portfolio were left unchanged.

The group calculates value at risk on all instruments that are held for trading purposes and that therefore give an exposure to market risk. The value at risk model takes account of derivative financial instruments such as interest rate forward and futures contracts, swap agreements, options and swaptions, foreign exchange forward and futures contracts, swap agreements and options and oil price futures, swap agreements and options. Financial assets and liabilities and physical crude oil and refined products that are treated as trading positions are also included in these calculations. The value at risk calculation for oil price exposure also includes derivative commodity instruments (commodity contracts that permit settlement either by delivery of the underlying commodity or in cash) such as forward contracts.

The following table shows values at risk for trading activities.

					\$ million			
	High	Low	Average	2000 Year end	High	Low	Average	1999 Year end
Interest rate trading	2	–	1	–	1	–	1	–
Foreign exchange trading	15	–	1	1	13	–	3	1
Oil price trading	23	4	13	13	15	5	9	10
Natural gas price trading	16	1	6	13	–	–	–	–

The presentation of trading results shown below includes certain activities of the group's oil trading division which involve the use of derivative financial instruments in conjunction with physical and paper trading of oil. It is considered that a more comprehensive representation of the group's oil trading activities is given by the classification of the gains or losses on such derivatives along with those arising from the physical and paper trades to which they relate.

The following table shows the trading income arising from derivatives and other financial instruments. For oil price contract trading, this also includes income or losses arising on trading of derivative commodity instruments and physical oil trades, representing the net result of the oil-trading portfolio.

	Net gain (loss) \$ million	
	2000	1999
Oil price derivative financial and commodity instruments	77	133
Physical oil trades	434	151
Total oil trading	511	284
Interest rate trading	1	–
Foreign exchange trading	52	23
Natural gas price trading	17	–
	581	307

## 28 Called up share capital

During 2000 the parent company's authorized ordinary share capital was increased from 24 billion to 36 billion shares of 25 cents each amounting to \$9 billion. In addition the company has authorized preference share capital of 12,750,000 shares of £1 each (\$21 million). At the date of completion of the acquisition of ARCO, the parent company issued 3,186,006,476 ordinary shares of 25 cents each and following the acquisition issued a further 42,267,402 ordinary shares in respect of ARCO preference shares surrendered and ARCO employee share options exercised. Further details of movements in share capital are shown in Note 29.

The allotted, called up and fully paid share capital at 31 December was as follows:

	2000		1999	
	Shares	\$ million	Shares	\$ million
<b>Non-equity</b>				
8% cumulative first preference shares of £1 each	7,232,838	12	7,232,838	12
9% cumulative second preference shares of £1 each	5,473,414	9	5,473,414	9
<b>Equity</b>				
Ordinary shares of 25 cents each	22,528,746,861	5,632	19,484,024,424	4,871
		5,653		4,892

Voting on substantive resolutions tabled at a general meeting is on a poll. On a poll, shareholders present in person or by proxy have two votes for every £5 in nominal amount of the first and second preference shares held and one vote for every ordinary share held. On a show of hands vote on other resolutions (procedural matters) at a general meeting, shareholders present in person or by proxy have one vote each.

In the event of the winding up of the company preference shareholders would be entitled to a sum equal to the capital paid up on the preference shares plus an amount in respect of accrued and unpaid dividends and a premium equal to the higher of (i) 10% of the capital paid up on the preference shares and (ii) the excess of the average market price of such shares on the London Stock Exchange during the previous six months over par value.

							\$ million
<b>29 Capital and reserves</b>							
Group	Share capital	Share premium account	Capital redemption reserve	Merger reserve	Other reserves	Profit and loss account	Total
At 1 January 2000	4,892	3,354	330	697	–	34,008	43,281
Employee share schemes	17	250	–	–	–	–	267
Exchange adjustment	–	–	–	–	–	(2,508)	(2,508)
ARCO acquisition	799	–	–	26,172	456	–	27,427
Share buyback	(55)	–	55	–	–	(2,001)	(2,001)
Stamp duty reserve tax	–	(295)	–	–	–	–	(295)
QUEST	–	76	–	–	–	(76)	–
Profit for the year	–	–	–	–	–	11,870	11,870
Dividends	–	–	–	–	–	(4,625)	(4,625)
<b>At 31 December 2000</b>	<b>5,653</b>	<b>3,385</b>	<b>385</b>	<b>26,869</b>	<b>456</b>	<b>36,668</b>	<b>73,416</b>
<b>Parent</b>							
At 1 January 2000	4,892	3,354	330	–	–	8,029	16,605
Employee share schemes	17	250	–	–	–	–	267
ARCO acquisition	799	–	–	26,172	456	–	27,427
Share buyback	(55)	–	55	–	–	(2,001)	(2,001)
Stamp duty reserve tax	–	(295)	–	–	–	–	(295)
QUEST	–	76	–	–	–	(76)	–
Profit for the year	–	–	–	–	–	26,870	26,870
Dividends	–	–	–	–	–	(4,625)	(4,625)
<b>At 31 December 2000</b>	<b>5,653</b>	<b>3,385</b>	<b>385</b>	<b>26,172</b>	<b>456</b>	<b>28,197</b>	<b>64,248</b>

**ARCO acquisition** 3,228,273,878 ordinary shares were issued in connection with the ARCO acquisition.

**Share buyback** The company purchased for cancellation 221,662,972 ordinary shares for a total consideration of \$2,001 million.

**Employee share schemes** During the year 38,111,531 ordinary shares were issued under the employee share schemes. Certain of these shares were issued via a QUEST. See Note 32 for further details.

**Parent company** As a consolidated income statement is presented, a separate income statement for the parent company is not required to be published.

Group reserves include the following amounts, the distribution of which is limited by statutory or other restrictions:

			\$ million
	<b>2000</b>	1999	
Parent company	<b>17,547</b>	16	
Subsidiary undertakings	<b>9,120</b>	5,638	
Associated undertakings	<b>1,042</b>	1,649	
	<b>27,709</b>	7,303	

			\$ million
<b>30 Reconciliation of movements in shareholders' interest</b>			
	Note	<b>2000</b>	1999
<b>Profit for the year</b>		<b>11,870</b>	5,008
Exchange adjustment		<b>(2,508)</b>	(921)
Dividends	12	<b>(4,625)</b>	(3,884)
ARCO acquisition		<b>27,427</b>	–
Stamp duty reserve tax		<b>(295)</b>	–
Share dividend plan		–	311
Shares issued		<b>267</b>	266
Share buyback		<b>(2,001)</b>	–
<b>Net increase in shareholders' interest</b>		<b>30,135</b>	780
Shareholders' interest at 1 January		<b>43,281</b>	42,501
<b>Shareholders' interest at 31 December</b>		<b>73,416</b>	43,281



	\$ million	
31 Group cash flow statement analysis	2000	1999
<b>Reconciliation of historical cost profit before interest and tax to net cash inflow from operating activities</b>		
Historical cost profit before interest and tax	<b>18,704</b>	8,342
Depreciation and amounts provided	<b>7,449</b>	4,965
Exploration expenditure written off	<b>264</b>	304
Share of profits of joint ventures and associated undertakings	<b>(1,853)</b>	(1,704)
Interest and other income	<b>(360)</b>	(217)
(Profit) loss on sale of businesses and fixed assets	<b>(196)</b>	379
Charge for provisions	<b>702</b>	847
Utilization of provisions	<b>(969)</b>	(597)
Increase in stocks	<b>(1,449)</b>	(1,562)
Increase in debtors	<b>(5,587)</b>	(4,013)
Increase in creditors	<b>3,711</b>	3,546
<b>Net cash inflow from operating activities</b>	<b>20,416</b>	10,290

#### Exceptional items

The cash outflow in respect of the restructuring costs charged in 1999 was \$446 million (\$976 million) and is included in the net cash inflow from operating activities.

	\$ million	
Financing	2000	1999
Long-term borrowing	<b>(1,680)</b>	(2,140)
Repayments of long-term borrowing	<b>2,353</b>	2,268
Short-term borrowing	<b>(4,120)</b>	(3,136)
Repayments of short-term borrowing	<b>4,821</b>	2,299
	<b>1,374</b>	(709)
Issue of share capital	<b>(257)</b>	(245)
Share buyback	<b>2,001</b>	–
Stamp duty reserve tax	<b>295</b>	–
<b>Net cash outflow (inflow)</b>	<b>3,413</b>	(954)

#### Management of liquid resources

Liquid resources comprise current asset investments which are principally commercial paper issued by other companies. The net cash outflow from the management of liquid resources was \$452 million (\$93 million inflow).

#### Commercial paper

Net movements in commercial paper are included within short-term borrowings or repayment of short-term borrowings as appropriate.

	\$ million							
Movement in net debt	2000			1999				
	Finance debt	Cash investments	Current asset investments	Net debt	Finance debt	Cash	Current asset investments	Net debt
At 1 January	<b>(14,544)</b>	<b>1,331</b>	<b>220</b>	<b>(12,993)</b>	(13,755)	405	470	(12,880)
Exchange adjustments	<b>96</b>	<b>(39)</b>	<b>(11)</b>	<b>46</b>	(13)	(39)	(7)	(59)
Acquisitions	<b>(8,072)</b>	–	–	<b>(8,072)</b>	–	–	–	–
Net cash flow	<b>1,374</b>	<b>(122)</b>	<b>452</b>	<b>1,704</b>	(709)	965	(93)	163
Other movements	<b>(44)</b>	–	–	<b>(44)</b>	(67)	–	(150)	(217)
<b>At 31 December</b>	<b>(21,190)</b>	<b>1,170</b>	<b>661</b>	<b>(19,359)</b>	(14,544)	1,331	220	(12,993)

### 32 Employee share schemes

BP offers most of its employees the opportunity to acquire a shareholding in the company through savings-related and matching arrangements; the latter may be either participating share schemes or savings plans. BP also uses a long-term performance plan (see Note 33) and the granting of share options as elements of employee remuneration.

Under the BP Group Savings Related Share Option Scheme employees save monthly over a three- or five-year period towards the purchase of shares at a price fixed when the option is granted. The option price is usually set at a 20% discount to the market price at the time of grant. The option must be exercised within six months of maturity of the savings contract otherwise it lapses. The scheme is run in the UK and a number of other countries.

Under the BP Group Participating Share Scheme, BP matches employees' own contribution of shares, up to a predetermined limit, all of which are then held in trust for defined periods before being released to the employee. The scheme is run in the UK and in a number of other countries. A further 20 countries implemented a participating share plan during 2000.

The company sponsors a number of savings plans covering most US employees. Under these plans, employees may contribute up to 18% of their salary subject to certain regulatory limits. The employee receives a dollar-for-dollar company matched contribution for the first 7% of eligible pay contributed to most of these plans on a before-tax or after-tax basis, or a combination of both. Company contributions are initially invested in BP ADS funds, but employees may transfer those amounts and may invest their own contributions in more than 200 investment options. The company's contributions vest over a period of five years. Company contributions to savings plans during the year were \$101 million (\$95 million).

During 2000, BP granted options under the BP Share Option Plan to certain categories of employees. Options were granted to heritage-Amoco employees who, under the terms of the merger agreement between BP and Amoco, must, for 1999 and 2000, be granted options on a similar basis to the arrangements under the Amoco 1991 Incentive Program. Options were also granted to certain heritage-BP US employees. The options were granted at the market price at the date of grant. There are no performance conditions attaching to these grants. The options are exercisable one or two years after the date of grant, and lapse after 10 years.

Also in 2000, options were granted to non-US middle managers. The options were granted at market price at the date of grant and are not exercisable until a performance condition is satisfied. Before any options can be exercised, the total return to shareholders (share price increase with all dividends reinvested) on an investment in BP shares is required to exceed the mean total return to shareholders of a representative group of UK companies by a margin set from time to time. The performance period for each grant will normally be three years. Subject to achievement of the performance conditions, the options are exercisable between the third and tenth anniversaries of the date of grant.

In accordance with their normal timetable, options were granted to ARCO employees in February 2000. All options granted prior to 1 April 1999, the date of the acquisition announcement, became exercisable immediately on completion of the acquisition in April 2000 at the discretion of the employee.

Burmah Castrol employees eligible to receive options in 2000 were granted options under the BP Share Option Plan, with certain rule modifications, after completion of the acquisition. For options granted prior to the acquisition, employees were generally offered the choice of cashing out their existing options or converting them to BP share options.

An Employee Share Ownership Plan (ESOP) was established in 1997 to acquire BP shares to satisfy future requirements of certain employee share schemes. The company provides funding to the ESOP. The assets and liabilities of the ESOP are recognized as assets and liabilities of the company within these accounts. The ESOP has waived its rights to dividends.

During 2000 the ESOP released 9,412,931 shares for the participating share schemes. The cost of shares released for these schemes has been charged in these accounts. At 31 December 2000 the ESOP held 45,515,000 shares (53,989,000 shares).

BP has established a Qualifying Employee Share Ownership Trust (QUEST) for the purposes of share option schemes for employees. During the year, contributions of \$76 million (\$61 million) were made by the company to the QUEST which, together with option-holder contributions, were used by the QUEST to subscribe for new ordinary shares at market price. The company has transferred the cost of this contribution directly to retained profits and the excess of the subscription price over nominal value has increased share premium account.

At 31 December 2000, all the 12,245,011 ordinary shares issued to the QUEST had been transferred to option holders exercising options under the BP Group Savings Related Share Option and Burmah Castrol Sharesave Schemes.

<b>Employee share options granted during the year (options thousands)</b>	<b>2000</b>	1999
Savings related schemes	<b>7,930</b>	8,828
BP Share Option Plan	<b>50,461</b>	41,054
	<b>58,391</b>	49,882

The exercise prices for BP options granted during the year were £4.98/\$7.42 (7,930,099 options) for savings-related and similar schemes and £5.44/\$8.22 (weighted average price) for 50,460,784 options granted under the share option plan.

### 32 Employee share schemes continued

	2000	1999
<b>Shares issued in respect of options exercised during the year (shares thousands)</b>		
Savings related schemes	13,709	12,176
BP, Amoco and Burmah Castrol executive share option plans	23,280	51,472
	<b>36,989</b>	63,648

In addition, 1,123,000 shares (2,514,000 shares) were issued, and 9,413,000 shares (8,779,000 shares) released from the ESOP, for participating share schemes.

### Options outstanding at 31 December

BP options (shares thousands)	342,509	323,161
Exercise period	2001-2010	2000-2009
Price	\$1.92-\$9.97	\$2.09-\$10.10

Details of directors' individual participation in share schemes are given in the report on executive directors' remuneration on pages 79 to 84.

### 33 Long term performance plan

During 2000 the executive directors and senior executives participated in the Long Term Performance Plan (the Plan). This is an incentive scheme under which the company may award shares to participants or fund the purchase of shares for participants if long-term targets are met. Further details of the Plan are given in the report on executive directors' remuneration on pages 79 to 84.

The cost of potential future awards is accrued over the three-year performance periods of each Plan. In any one year, three Plans are in operation. The amount charged in 2000 was \$119 million (\$128 million). The value of awards under the 1997-99 Plan made in 2000 was \$78 million (1996-98 Plan \$52 million).

Employee Share Ownership Plans (ESOPs) have been established to acquire BP shares to satisfy any awards made to participants under the Plan and then to hold them for the participants during the retention period of the Plan. In order to hedge the cost of potential future awards the ESOPs may, from time to time over the performance period of the Plans, purchase BP shares in the open market. The company provides funding to the ESOPs. The assets and liabilities of the ESOPs are recognized as assets and liabilities of the company within these accounts. The ESOPs have waived their rights to dividends.

At 31 December 2000 the ESOPs held 9,507,000 (9,502,000) shares for potential future awards.

	\$ thousand	
	2000	1999
<b>34 Directors' remuneration</b>		
<b>Total for all directors</b>		
Emoluments	14,432	13,309
Compensation for loss of office	680	6,126
Gains made on the exercise of share options	2,812	5,158
Amounts awarded under long-term incentive schemes	15,152	7,594
<b>Highest paid director</b>		
Emoluments	2,762	2,434
Gains made on the exercise of share options	–	4,509
Amount awarded under long-term incentive schemes	3,649	–
Accrued pension at 31 December	820	1,172

**Emoluments** These amounts comprise fees paid to the non-executive chairman and the non-executive directors, and, for executive directors, salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

**Pension contributions** Six executive directors participate in a non-contributory pension scheme established for UK staff by a separate trust fund to which contributions are made by BP based on actuarial advice. There were no contributions to this pension scheme in 2000 or 1999. Three US executive directors participated in the BP Retirement Accumulation Plan.

**Further information** Full details of individual executive directors' remuneration are given in the report on executive directors' remuneration on pages 79 to 84 and of the non-executive chairman and individual non-executive directors in the report on corporate governance on pages 76 to 78.

### 35 Loans to officers

Miss J C Hanratty has a low interest loan of \$43,000 made to her prior to her appointment as Company Secretary on 1 October 1994.

	\$ million	
<b>36 Employee costs and numbers</b>	<b>2000</b>	1999
<b>Employee costs</b>		
Wages and salaries	<b>6,764</b>	5,302
Social security costs	<b>455</b>	359
Pension costs	<b>125</b>	(97)
	<b>7,344</b>	5,564
<b>Number of employees at 31 December</b>	<b>2000</b>	1999
Exploration and Production	<b>16,000</b>	12,500
Gas and Power	<b>1,000</b>	800
Refining and Marketing	<b>67,700</b>	45,250
Chemicals	<b>17,600</b>	18,700
Other businesses and corporate	<b>4,900</b>	3,150
	<b>107,200</b>	80,400

Average number of employees	2000					1999				
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
Exploration and Production	3,250	650	4,700	5,700	14,300	3,500	850	5,100	5,500	14,950
Gas and Power	550	50	200	100	900	450	50	200	100	800
Refining and Marketing	9,600	13,700	26,200	10,900	60,400	9,600	10,050	20,700	8,150	48,500
Chemicals	3,700	4,600	8,100	1,400	17,800	4,100	4,900	9,850	2,000	20,850
Other businesses and corporate	1,100	400	2,400	700	4,600	1,150	350	1,000	500	3,000
	<b>18,200</b>	<b>19,400</b>	<b>41,600</b>	<b>18,800</b>	<b>98,000</b>	18,800	16,200	36,850	16,250	88,100

### 37 Pensions

Most group companies have pension plans, the forms and benefits of which vary with conditions and practices in the countries concerned. Pension benefits may be provided by defined contribution plans, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee; or by defined benefit plans, whereby retirement benefits are based on employee final pensionable salary and length of service. Defined benefit plans may be externally funded or unfunded. The assets of funded plans are generally held in separately administered trusts. Contributions to funded defined benefit plans are based on advice from independent actuaries using actuarial methods, the objective of which is to provide adequate funds to meet pension obligations as they fall due. No contributions were made to the UK pension fund during 2000 and 1999. For unfunded plans, where assets are not held with the specific purpose of matching pension obligations the accrued liability for pension benefits is included within other provisions. The majority of the group's employees are members of defined benefit schemes. The principal plans are reviewed annually by the independent actuaries and subject to a formal actuarial valuation at least every three years.

Pension costs for the principal plans have been derived using the projected unit method and by amortizing surpluses and deficits on a straight line basis over the average expected remaining service lives of the current employees. The main assumptions used in calculating the credit/charge for the principal plans were as follows:

	UK and other European		USA	
	2000	1999	2000	1999
Rate of return on assets	<b>6.5%</b>	6.1%	<b>10.0%</b>	10.0%
Discount rate	<b>6.5%</b>	6.1%	<b>7.5%</b>	6.5%
Future salary increases	<b>4.8%</b>	4.3%	<b>4.0%</b>	4.0%
Future pension increases	<b>2.9%</b>	2.5%	<b>nil</b>	nil
Dividend growth	<b>n/a</b>	n/a	<b>n/a</b>	n/a

n/a = Not applicable.

### 37 Pensions continued

The net (credit) charge to income for pensions is as follows:

	<b>\$ million</b>	
	<b>2000</b>	1999
<b>Principal plans</b>		
Service cost	<b>364</b>	347
Interest on pension liabilities	<b>1,211</b>	999
Expected return on plan assets	<b>(1,625)</b>	(1,273)
Amortization of variances	<b>(197)</b>	(174)
Curtailement and settlement (gains) losses	<b>(119)</b>	(150)
Special termination benefits	<b>233</b>	3
	<b>(133)</b>	(248)
Other defined benefit plans	<b>38</b>	30
Defined contribution plans	<b>220</b>	121
	<b>125</b>	(97)

At 1 January 2000, the date of the latest actuarial valuations or reviews, the market value and actuarial value of assets in the group's major externally funded pension plans in the UK and the USA was \$25,520 million (\$23,209 million) and \$20,474 million (\$19,185 million) respectively. The actuarial value of the assets of these plans represented 130% (125%) of the benefits that had accrued to members of those plans, after allowing for expected future increases in salaries.

At 31 December 2000 the obligation for accrued benefits in respect of the major unfunded schemes in Europe was \$1,438 million (\$1,513 million). Of this amount, \$1,167 million (\$1,234 million) has been provided in these accounts.

### 38 Other post-retirement benefits

Certain group companies in the USA provide post-retirement healthcare and life insurance benefits to their retired employees and dependants. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum period of service. The plans are funded to a limited extent and the accrued net liability for post-retirement benefits is included within other provisions. The cost of providing post-retirement benefits is assessed annually by independent actuaries using the projected unit method.

The assumptions used in calculating the charge for post-retirement benefits are consistent with those shown in Note 37 for US pension plans.

The charge to income for post-retirement benefits is as follows:

	<b>\$ million</b>	
	<b>2000</b>	1999
Service cost	<b>25</b>	34
Interest on post-retirement benefit liabilities	<b>148</b>	113
Expected return on scheme assets	<b>(5)</b>	(4)
Amortization of variances	<b>(66)</b>	(39)
Curtailement	<b>(40)</b>	(62)
	<b>62</b>	42

At 31 December 2000 the independent actuaries have reassessed the obligation for post-retirement benefits at \$2,562 million (\$1,638 million). The provision for post-retirement benefits at 31 December 2000 was \$2,726 million (\$2,244 million).

The discount rate used to assess the obligation at 31 December 2000 was 7.5% (7.5%). The assumed future healthcare cost trend rate for 2001 is 15%, for 2002 is 10% and for 2003 and subsequent years is 5%.

---

### 39 Contingent liabilities

There were contingent liabilities at 31 December 2000 in respect of guarantees and indemnities entered into as part of the ordinary course of the group's business. No material losses are likely to arise from such contingent liabilities.

Approximately 200 lawsuits were filed in State and Federal Courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound in March 1989. Most of those suits named Exxon (now ExxonMobil), Alyeska Pipeline Service Company (Alyeska), which operates the oil terminal at Valdez, and the other oil companies which own Alyeska. Alyeska initially responded to the spill until the response was taken over by Exxon. BP owns a 50% interest in Alyeska through a subsidiary of BP America Inc. and briefly indirectly owned a further 20% interest in Alyeska following BP's combination with ARCO. In April 2000 that 20% interest was sold to Phillips Petroleum Company (Phillips), subject to BP's agreement to indemnify Phillips if certain liabilities exceeded a defined amount. Alyeska and its owners have settled all the claims against them under these lawsuits. Exxon has indicated that it may file a claim for contribution against Alyeska for a portion of the costs and damages which it has incurred. If any claims are asserted by Exxon which affect Alyeska and its owners, BP would defend the claims vigorously.

The group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost is inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in these accounts in accordance with the group's accounting policies. While the amounts of future costs could be significant and could be material to the group's results of operations in the period in which they are recognized, BP does not expect these costs to have a material effect on the group's financial position or liquidity.

The parent company has issued guarantees under which amounts outstanding at 31 December 2000 were \$14,133 million (\$12,765 million), including \$14,076 million (\$12,708 million) in respect of borrowings by its subsidiary undertakings.

---

### 40 Capital commitments

Authorized future capital expenditure by group companies for which contracts had been placed at 31 December, 2000 amounted to \$4,141 million (\$2,544 million).

---

### 41 Joint ventures and associated undertakings

The significant joint ventures of the BP group at 31 December 2000 are shown in Note 42.

The pan-European refining and marketing joint venture with ExxonMobil was dissolved on 1 August 2000. Within the BP/Mobil joint venture, BP operated and had a 70% interest in the fuels refining and marketing operation and had a 49% interest in the lubricants business. On dissolution, BP acquired most of the ExxonMobil assets used by the fuels refining and marketing operation.

During the year the BP group sold crude oil and products totalling \$2,933 million (\$3,398 million) to the BP/Mobil joint venture and purchased crude oil and products totalling \$1,762 million (\$1,791 million).

At 31 December 1999 the group share of joint ventures fixed assets was \$5,366 million, current assets \$4,582 million, liabilities due within one year \$4,172 million and liabilities due after one year \$572 million.

Significant associated undertakings of the BP group at 31 December 2000 are shown in Note 42.

During the year the BP group purchased crude oil from two associated undertakings, Abu Dhabi Marine Areas and Abu Dhabi Petroleum to the value of \$1,619 million (\$935 million). At 31 December 2000 \$137 million (\$119 million) was payable in respect of these purchases.

During the year the BP group sold chemical feedstocks totalling \$718 million (\$460 million) to Erdölchemie, an associated undertaking, and bought petrochemicals to the value of \$114 million (\$77 million). At 31 December 2000 the outstanding balance receivable from Erdölchemie was \$nil (\$1 million).

## 42 Subsidiary and associated undertakings and joint ventures

The more important subsidiary and associated undertakings and joint ventures of the group at 31 December 2000 and the group percentage of equity capital or joint venture interest (to nearest whole number) are set out below. The principal country of operation is generally indicated by the company's country of incorporation or by its name. Those held directly by the parent company are marked with an asterisk (\*), the percentage owned being that of the group unless otherwise indicated. A complete list of investments in subsidiary and associated undertakings and joint ventures will be attached to the parent company's annual return made to the Registrar of Companies. Advantage has been taken of the exemption conferred by regulation 7 of The Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirements to deliver to the Registrar of Companies and publish the annual accounts of the BP/Mobil joint ventures and CaTo Finance V Limited Partnership.

Subsidiary undertakings	Country of incorporation	Principal activities	Subsidiary undertakings	Country of incorporation	Principal activities
<b>International</b>			<b>Africa</b>		
BP Chemicals Investments	100 England	Chemicals	BP Southern Africa	100 South Africa	Refining and marketing
BP Exploration Co	100 Scotland	Exploration and production	<b>Far East</b>		
BP International	100 England	Integrated oil operations	<b>Indonesia</b>		
BP Oil International	100 England	Integrated oil operations	Atlantic Richfield Bali North	100 Indonesia	Exploration and production
*BP Shipping	100 England	Shipping	<b>Singapore</b>		
Burmah Castrol	100 England	Lubricants	*BP Singapore Pte	100 Singapore	Refining and marketing
<b>Europe</b>			<b>Australasia</b>		
<b>UK</b>			<b>Australia</b>		
BP Amoco Capital	100 England	Finance	BP Australia	100 Australia	Integrated oil operations
BP Chemicals	100 England	Chemicals	BP Developments Australia	100 Australia	Exploration and production
BP Oil UK	100 England	Refining and marketing	BP Finance Australia	100 Australia	Finance
*Britoil (parent 15%)	100 Scotland	Exploration and production	<b>New Zealand</b>		
Jupiter Insurance	100 Guernsey	Insurance	BP Oil New Zealand	100 New Zealand	Marketing
<b>France</b>			<b>Western Hemisphere</b>		
BP France	100 France	Refining and marketing and chemicals	<b>Canada</b>		
<b>Germany</b>			Amoco Canada Petroleum Company		
Deutsche BP	100 Germany	Refining and marketing and chemicals	100 Canada		Exploration and production
<b>Netherlands</b>			<b>Trinidad</b>		
BP Capital BV	100 Netherlands	Finance	Amoco Energy Company of Trinidad and Tobago		
BP Nederland	100 Netherlands	Refining and marketing	90 USA		Exploration and production
<b>Norway</b>			Amoco Trinidad (LNG) B.V.		
BP Amoco Norway	100 Norway	Exploration and production	100 Netherlands		Exploration and production
<b>Spain</b>			<b>USA</b>		
BP España	100 Spain	Refining and marketing	Atlantic Richfield Co	} 100 USA	} Exploration and production, gas and power, refining and marketing, pipelines and chemicals
<b>Middle East</b>			*BP America		
Amoco Egypt Gas	100 USA	Exploration and production	BP Amoco Company		
Amoco Egypt Oil	100 USA	Exploration and production	BP Amoco Corporation		
			Standard Oil Co.		
			Vastar Resources Inc.	100 USA	Exploration and production
<b>Associated undertakings</b>			<b>Principal activities</b>		
<b>Abu Dhabi</b>					
Abu Dhabi Marine Areas	33	England	Crude oil production		
Abu Dhabi Petroleum Co.	24	England	Crude oil production		
<b>Germany</b>					
Erdölchemie	50	Germany	Chemicals		
Ruhrgas AG	25	Germany	Gas distribution		
<b>Russia</b>					
Rusia	25	Russia	Exploration and production		
Sidanco <sup>a</sup>	10	Russia	Integrated oil operations		
<b>Taiwan</b>					
China American Petrochemical Co.	50	Taiwan	Chemicals		
<sup>a</sup> 20% voting interest.					
<b>Joint ventures</b>			<b>Principal activities</b>		
CaTo Finance Partnership	50	UK	Finance		
Empresa Petrolera Chaco	30	Bolivia	Exploration and production		
Lukarco	46	Kazakhstan	Exploration and production, pipelines		
Malaysia – Thailand					
Joint Development Area	25	Thailand	Exploration and production		
Pan American Energy	60	Argentina	Exploration and production		
Unimar Company Texas (Partnership)	50	Indonesia	Exploration and production		

\$ million

**43 Oil and natural gas exploration and production activities<sup>a</sup>**

	UK	Rest of Europe	USA	Rest of World	2000 Total	UK	Rest of Europe	USA	Rest of World	1999 Total
<b>Capitalized costs at 31 December</b>										
Gross capitalized costs										
Proved properties	24,319	2,683	38,494	19,607	<b>85,103</b>	22,874	2,738	35,826	14,166	75,604
Unproved properties	482	73	1,754	3,449	<b>5,758</b>	412	79	741	2,067	3,299
	24,801	2,756	40,248	23,056	<b>90,861</b>	23,286	2,817	36,567	16,233	78,903
Accumulated depreciation	13,182	1,797	18,204	8,933	<b>42,116</b>	13,160	1,890	20,751	8,279	44,080
Net capitalized costs	11,619	959	22,044	14,123	<b>48,745</b>	10,126	927	15,816	7,954	34,823

The group's share of associated undertakings' and joint ventures' net capitalized costs at 31 December 2000 was \$3,354 million (\$1,442 million).

<b>Costs incurred for the year ended 31 December</b>	UK	Rest of Europe	USA	Rest of World	2000 Total	UK	Rest of Europe	USA	Rest of World	1999 Total
<b>Costs incurred for the year ended 31 December</b>										
Acquisition of properties										
Proved	2,954	–	9,152	2,647	<b>14,753</b>	–	–	396	–	396
Unproved	161	–	508	1,880	<b>2,549</b>	–	–	23	130	153
	3,115	–	9,660	4,527	<b>17,302</b>	–	–	419	130	549
Exploration and appraisal costs <sup>b</sup>	86	67	676	466	<b>1,295</b>	83	39	287	439	848
Development costs	808	153	2,328	1,274	<b>4,563</b>	676	71	1,212	956	2,915
Total costs	4,009	220	12,664	6,267	<b>23,160</b>	759	110	1,918	1,525	4,312

The group's share of associated undertakings' and joint ventures' costs incurred in 2000 was \$1,490 million (\$49 million).

<b>Results of operations for the year ended 31 December</b>	UK	Rest of Europe	USA	Rest of World	2000 Total	UK	Rest of Europe	USA	Rest of World	1999 Total
<b>Results of operations for the year ended 31 December</b>										
Turnover <sup>c</sup>										
Third parties	3,538	926	4,242	2,446	<b>11,152</b>	2,258	644	4,738	2,216	9,856
Sales between businesses	3,191	138	6,755	5,593	<b>15,677</b>	2,251	108	1,283	2,938	6,580
	6,729	1,064	10,997	8,039	<b>26,829</b>	4,509	752	6,021	5,154	16,436
Exploration expenditure	36	42	257	264	<b>599</b>	51	20	172	305	548
Production costs	772	86	1,311	786	<b>2,955</b>	734	98	1,387	756	2,975
Production taxes	641	6	437	911	<b>1,995</b>	167	2	283	495	947
Other costs (income) <sup>d</sup>	74	6	1,624	1,889	<b>3,593</b>	157	16	1,231	1,143	2,547
Depreciation	1,453	98	2,406	748	<b>4,705</b>	1,306	138	1,113	651	3,208
	2,976	238	6,035	4,598	<b>13,847</b>	2,415	274	4,186	3,350	10,225
Profit before taxation <sup>e</sup>	3,753	826	4,962	3,441	<b>12,982</b>	2,094	478	1,835	1,804	6,211
Allocable taxes	1,127	516	1,042	1,018	<b>3,703</b>	643	312	483	497	1,935
Results of operations	2,626	310	3,920	2,423	<b>9,279</b>	1,451	166	1,352	1,307	4,276

The group's share of associated undertakings' and joint ventures' results of operations in 2000 was a profit of \$293 million (profit \$204 million) after deducting a tax charge of \$97 million (\$6 million tax credit).

<sup>a</sup> This note relates to the requirements contained within the UK Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. Mid-stream activities of natural gas gathering and distribution and the operation of the main pipelines and tankers are excluded. The main mid-stream activities are the Alaskan transportation facilities, the Forties Pipeline system and the Central Area Transmission System. The group's share of associated undertakings and joint venture activities are excluded from the tables and included in the footnotes with the exception of the Abu Dhabi operations which are included in the income and expenditure items above. Profits (losses) on sale of businesses and fixed assets relating to the oil and natural gas exploration and production activities, which have been accounted as exceptional items, are also excluded.

<sup>b</sup> Exploration and appraisal drilling expenditure and licence acquisition costs are initially capitalized within intangible fixed assets in accordance with BP group accounting policy.

<sup>c</sup> Turnover represents sales of production excluding royalty oil where royalty is payable in kind.

<sup>d</sup> Includes cost of royalty oil not taken in kind, property taxes and other government take.

<sup>e</sup> The exploration and production total replacement cost operating profit comprises:

	2000	1999
Exploration and production activities		
– Group (as above)	<b>12,982</b>	6,211
– Associated undertakings and joint ventures	<b>390</b>	198
Mid-stream activities	<b>640</b>	574
Total replacement cost operating profit	<b>14,012</b>	6,983



## Statement of directors' responsibilities in respect of the accounts

---

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required:

- to select suitable accounting policies and then apply them consistently
- to make judgements and estimates that are reasonable and prudent
- to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- to prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors confirm that they have complied with these requirements, and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

## Report of the auditors

---

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

We have audited the accounts on pages 30 to 62, which have been prepared under the historical cost convention and the accounting policies set out on pages 30 and 31.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report as described above, including responsibility for preparing the accounts in accordance with applicable UK law and accounting standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement made on page 78 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### **Ernst & Young**

Registered Auditor  
London  
13 February 2001

## Supplementary information on oil and natural gas quantities

Movements in estimated net proved reserves	2000									
	Crude oil <sup>a</sup> millions of barrels					Natural gas <sup>a</sup> billions of cubic feet				
	UK	Rest of Europe	USA	Rest of World	Total	UK	Rest of Europe	USA	Rest of World	Total
<b>Subsidiary undertakings</b>										
At 1 January 2000										
Developed	1,158	190	2,930	550	<b>4,828</b>	3,354	282	10,439	6,423	<b>20,498</b>
Undeveloped	183	95	932	497	<b>1,707</b>	919	63	1,552	10,770	<b>13,304</b>
	<b>1,341</b>	<b>285</b>	<b>3,862</b>	<b>1,047</b>	<b>6,535</b>	<b>4,273</b>	<b>345</b>	<b>11,991</b>	<b>17,193</b>	<b>33,802</b>
Changes attributable to:										
Revisions of previous estimates	17	50	40	5	<b>112</b>	(17)	23	150	331	<b>487</b>
Purchases of reserves-in-place	146	–	554	441	<b>1,141</b>	1,099	–	3,034	2,313	<b>6,446</b>
Extensions, discoveries and other additions	1	–	255	201	<b>457</b>	253	–	923	2,343	<b>3,519</b>
Improved recovery	131	71	105	22	<b>329</b>	29	28	980	91	<b>1,128</b>
Production	(195)	(33)	(251)	(143)	<b>(622)</b>	(605)	(50)	(1,174) <sup>b</sup>	(916)	<b>(2,745)</b>
Sales of reserves-in-place	(49)	–	(1,372)	(23)	<b>(1,444)</b>	(76)	–	(1,393)	(68)	<b>(1,537)</b>
	<b>51</b>	<b>88</b>	<b>(669)</b>	<b>503</b>	<b>(27)</b>	<b>683</b>	<b>1</b>	<b>2,520</b>	<b>4,094</b>	<b>7,298</b>
<b>At 31 December 2000</b>										
Developed	1,138	213	2,150	817	<b>4,318</b>	3,898	275	12,111	7,985	<b>24,269</b>
Undeveloped	254	160	1,043	733	<b>2,190</b>	1,058	71	2,400	13,302	<b>16,831</b>
	<b>1,392</b>	<b>373</b>	<b>3,193</b>	<b>1,550</b>	<b>6,508</b>	<b>4,956</b>	<b>346</b>	<b>14,511</b>	<b>21,287</b>	<b>41,100</b>
<b>Associated undertakings</b>										
BP share										
At 1 January 2000					<b>1,037</b>					<b>1,724</b>
Net revisions and other additions					<b>93</b>					<b>427</b>
Purchases of reserves-in-place					<b>73</b>					<b>763</b>
Production					<b>(68)</b>					<b>(96)</b>
<b>At 31 December 2000</b>					<b>1,135</b>					<b>2,818</b>
<b>Total group and BP share of associated undertakings</b>					<b>7,643</b>					<b>43,918</b>

<sup>a</sup> Crude oil includes natural gas liquid and condensate. Net proved reserves of crude oil and natural gas exclude production royalties due to others.

<sup>b</sup> Includes 55 billion cubic feet of natural gas consumed in Alaskan operations.

## Summarized group income statements

	1996	1997	1998	1999	\$ million 2000
<b>Turnover</b>	102,064	108,564	83,732	101,180	<b>161,826</b>
Less: joint ventures	–	16,804	15,428	17,614	<b>13,764</b>
<b>Group turnover</b>	102,064	91,760	68,304	83,566	<b>148,062</b>
<b>Replacement cost operating profit</b>					
Exploration and Production	7,602	7,287	3,081	6,983	<b>14,012</b>
Gas and Power	161	98	150	211	<b>186</b>
Refining and Marketing	1,708	2,292	2,564	1,840	<b>3,908</b>
Chemicals	1,654	1,530	1,100	686	<b>760</b>
Other businesses and corporate	(491)	(524)	(374)	(826)	<b>(1,110)</b>
<b>Total replacement cost operating profit</b>	10,634	10,683	6,521	8,894	<b>17,756</b>
Exceptional items	(462)	128	850	(2,280)	<b>220</b>
<b>Replacement cost profit before interest and tax</b>	10,172	10,811	7,371	6,614	<b>17,976</b>
Stock holding gains (losses)	1,172	(939)	(1,391)	1,728	<b>728</b>
<b>Historical cost profit before interest and tax</b>	11,344	9,872	5,980	8,342	<b>18,704</b>
Interest expense	1,131	1,035	1,177	1,316	<b>1,770</b>
<b>Profit before taxation</b>	10,213	8,837	4,803	7,026	<b>16,934</b>
Taxation	2,783	3,013	1,520	1,880	<b>4,972</b>
<b>Profit after taxation</b>	7,430	5,824	3,283	5,146	<b>11,962</b>
Minority shareholders' interest (MSI)	13	151	63	138	<b>92</b>
<b>Profit for the year</b>	7,417	5,673	3,220	5,008	<b>11,870</b>
Distribution to shareholders	3,007	3,452	4,121	3,884	<b>4,625</b>
<b>Retained profit (deficit) for the year</b>	4,410	2,221	(901)	1,124	<b>7,245</b>
<b>Earnings per ordinary share – cents</b>					
Basic	38.79	29.56	16.77	25.82	<b>54.85</b>
Diluted	38.63	29.41	16.70	25.68	<b>54.48</b>
<b>Dividends per ordinary share – cents</b>	15.50	18.00	19.75	20.00	<b>20.50</b>
<b>Replacement cost results</b>					
<b>Historical cost profit</b>	7,417	5,673	3,220	5,008	<b>11,870</b>
Stock holding (gains) losses	(1,172)	939	1,391	(1,728)	<b>(728)</b>
<b>Replacement cost profit for the year</b>	6,245	6,612	4,611	3,280	<b>11,142</b>
Exceptional items, net of tax and MSI	414	10	(652)	2,050	<b>72</b>
<b>Replacement cost profit before exceptional items</b>	6,659	6,622	3,959	5,330	<b>11,214</b>
<b>Earnings per ordinary share – cents</b>					
On replacement cost profit before exceptional items	34.82	34.51	20.62	27.48	<b>51.82</b>
<b>US dollar/sterling exchange rates</b>					
Average exchange rate for the year	1.56	1.64	1.66	1.62	<b>1.51</b>
Year end exchange rate	1.69	1.66	1.67	1.62	<b>1.49</b>

## Summarized group balance sheets

	\$ million				
	1996	1997	1998	1999	2000
Fixed assets	61,937	65,553	67,689	66,084	<b>103,819</b>
Stocks and debtors	25,134	19,304	16,351	21,926	<b>38,288</b>
Cash and liquid resources	1,580	1,422	875	1,551	<b>1,831</b>
<b>Total assets</b>	<b>88,651</b>	<b>86,279</b>	<b>84,915</b>	<b>89,561</b>	<b>143,938</b>
Creditors and provisions excluding finance debt	33,360	29,799	27,587	30,675	<b>48,747</b>
<b>Capital employed</b>	<b>55,291</b>	<b>56,480</b>	<b>57,328</b>	<b>58,886</b>	<b>95,191</b>
Financed by:					
Finance debt	12,848	12,877	13,755	14,544	<b>21,190</b>
Minority shareholders' interest	313	1,100	1,072	1,061	<b>585</b>
<b>BP shareholders' interest</b>	<b>42,130</b>	<b>42,503</b>	<b>42,501</b>	<b>43,281</b>	<b>73,416</b>
	55,291	56,480	57,328	58,886	<b>95,191</b>

## Summarized group cash flow statements

	\$ million				
	1996	1997	1998	1999	2000
Net cash inflow from operating activities	13,679	15,558	9,586	10,290	<b>20,416</b>
Dividends from joint ventures	–	190	544	949	<b>645</b>
Dividends from associated undertakings	476	551	422	219	<b>394</b>
Net cash outflow from servicing of finance and returns on investments	(880)	(655)	(825)	(1,003)	<b>(892)</b>
Tax paid	(2,431)	(2,273)	(1,705)	(1,260)	<b>(6,198)</b>
Net cash outflow for capital expenditure and financial investment	(7,965)	(7,432)	(7,298)	(5,385)	<b>(7,072)</b>
Net cash inflow (outflow) for acquisitions and disposals	(91)	(2,624)	778	243	<b>865</b>
Equity dividends paid	(2,411)	(2,437)	(2,408)	(4,135)	<b>(4,415)</b>
<b>Net cash inflow (outflow)</b>	<b>377</b>	<b>878</b>	<b>(906)</b>	<b>(82)</b>	<b>3,743</b>
Financing	828	1,012	(377)	(954)	<b>3,413</b>
Management of liquid resources	(147)	(167)	(596)	(93)	<b>452</b>
Increase (decrease) in cash	(304)	33	67	965	<b>(122)</b>
	377	878	(906)	(82)	<b>3,743</b>

## Capital expenditure and acquisitions

	\$ million				
<b>By business</b>	1996	1997	1998	1999	<b>2000</b>
Exploration and Production	6,363	7,827	6,223	4,194	<b>6,383</b>
Gas and Power	70	52	95	18	<b>279</b>
Refining and Marketing	1,731	1,824	1,937	1,634	<b>8,750</b>
Chemicals	1,964	1,145	1,606	1,215	<b>1,585</b>
Other businesses and corporate <sup>a</sup>	160	572	501	284	<b>30,616</b>
	10,288	11,420	10,362	7,345	<b>47,613</b>
<b>By geographical area</b>					
UK <sup>b</sup>	2,280	2,413	2,463	1,518	<b>7,438</b>
Rest of Europe	1,121	1,243	1,248	831	<b>2,041</b>
USA <sup>a</sup>	4,005	3,315	3,720	2,963	<b>34,037</b>
Rest of World	2,882	4,449	2,931	2,033	<b>4,097</b>
	10,288	11,420	10,362	7,345	<b>47,613</b>

<sup>a</sup>2000 includes \$27,506 million for the acquisition of ARCO.

<sup>b</sup>UK area includes the UK-based international activities of Refining and Marketing.

## Ratios

	%				
<b>Return on average capital employed</b>	1996	1997	1998	1999	<b>2000</b>
– replacement cost profit before exceptional items	14.7	14.0	9.1	11.7	<b>15.7</b>
– historical cost profit after exceptional items	16.2	12.3	7.8	11.1	<b>16.6</b>
(Based on profit after taxation before deducting interest expense)					
<b>Return on average BP shareholders' interest</b>					
– replacement cost profit before exceptional items	16.9	15.6	9.3	12.4	<b>17.7</b>
– historical cost profit after exceptional items	18.8	13.4	7.6	11.7	<b>18.9</b>
(Based on profit after taxation and minority shareholders' interest)					
<b>Payout ratio</b>					
– replacement cost profit before exceptional items	45.2	52.1	104.1	72.9	<b>41.2</b>
– historical cost profit after exceptional items	40.5	60.8	128.0	77.6	<b>39.0</b>
(Dividend: profit)					
<b>Debt to debt-plus-equity ratio</b>	23.2	22.8	24.0	24.7	<b>22.3</b>
(Finance debt: finance debt plus BP and minority shareholders' interest)					
<b>Debt to equity ratio</b>	30.3	29.5	31.6	32.8	<b>28.6</b>
(Finance debt: BP and minority shareholders' interest)					
<b>Net debt to net debt-plus-equity ratio</b>	21.0	20.8	22.8	22.7	<b>20.7</b>
<b>Net debt to equity ratio</b>	26.5	26.3	29.6	29.3	<b>26.2</b>
(Net debt equals finance debt less cash and liquid resources)					

## Share price

	Pence per 25 cent ordinary share				
	1996	1997	1998	1999	<b>2000</b>
High	350	478	484	643	<b>671</b>
Daily average	300	393	430	552	<b>579</b>
Low	257	331	368	411	<b>445</b>
End year	350	400	449	622	<b>540</b>

## Statistics

<b>Crude oil and natural gas production (net of royalties)</b>	1996	1997	1998	1999	<b>2000</b>
UK	458	437	518	580	<b>534</b>
USA	859	869	841	804	<b>729</b>
Other	586	624	690	677	<b>665</b>
<b>Crude oil production (thousand barrels per day)</b>	<b>1,903</b>	<b>1,930</b>	<b>2,049</b>	<b>2,061</b>	<b>1,928</b>
UK	1,335	1,423	1,258	1,301	<b>1,652</b>
USA	2,650	2,513	2,401	2,369	<b>3,054</b>
Other	1,932	1,922	2,149	2,397	<b>2,903</b>
<b>Natural gas production (million cubic feet per day)</b>	<b>5,917</b>	<b>5,858</b>	<b>5,808</b>	<b>6,067</b>	<b>7,609</b>
<b>Total production (thousand barrels oil equivalent per day)</b>	<b>2,924</b>	<b>2,940</b>	<b>3,050</b>	<b>3,107</b>	<b>3,240</b>
<b>Group refinery throughputs<sup>a</sup> (thousand barrels per day)</b>	<b>2,804</b>	<b>2,855<sup>b</sup></b>	<b>2,698<sup>b</sup></b>	<b>2,522<sup>b</sup></b>	<b>2,916<sup>b</sup></b>
For BP by others	8	12	13	19	<b>12</b>
<b>Total</b>	<b>2,812</b>	<b>2,867</b>	<b>2,711</b>	<b>2,541</b>	<b>2,928</b>

<sup>a</sup> Includes crude oil and other feedstock input to BP's crude distillation units both for BP and third parties.

<sup>b</sup> Includes BP share of the BP/Mobil joint venture.

	thousand barrels per day				
<b>Crude oil and refined petroleum product sales</b>					
Crude oil	4,589	4,433	4,588	4,984	<b>5,984</b>
Refined petroleum products	4,454	4,674 <sup>c</sup>	4,802 <sup>c</sup>	5,002 <sup>c</sup>	<b>5,859<sup>c</sup></b>
<b>Total oil sales</b>	<b>9,043</b>	<b>9,107</b>	<b>9,390</b>	<b>9,986</b>	<b>11,843</b>

<sup>c</sup> Includes BP share of the BP/Mobil joint venture.

	millions of barrels at 31 December				
<b>Estimated net proved reserves of crude oil<sup>d</sup></b>					
Developed	4,696	4,975	5,318	4,828	<b>4,318</b>
Undeveloped	2,629	2,637	1,986	1,707	<b>2,190</b>
Group companies	7,325	7,612	7,304	6,535	<b>6,508</b>
<b>Associated undertakings (BP share)</b>	<b>984</b>	<b>1,110</b>	<b>1,128</b>	<b>1,037</b>	<b>1,135</b>

	billions of cubic feet at 31 December				
<b>Estimated net proved reserves of natural gas<sup>d</sup></b>					
Developed	20,717	19,429	19,551	20,498	<b>24,269</b>
Undeveloped	9,632	10,945	11,450	13,304	<b>16,831</b>
Group companies	30,349	30,374	31,001	33,802	<b>41,100</b>
<b>Associated undertakings (BP share)</b>	<b>–</b>	<b>1,748</b>	<b>1,766</b>	<b>1,724</b>	<b>2,818</b>

<sup>d</sup> Net proved reserves of crude oil and natural gas exclude production royalties due to others.

<b>Average realizations</b>						
BP average crude oil and natural gas liquid realizations	\$/bbl	19.5	18.3	12.1	16.7	<b>26.6</b>
Brent oil price	\$/bbl	20.7	19.1	12.8	17.9	<b>28.4</b>
Henry Hub gas price	\$/mcf	2.6	2.6	2.2	2.3	<b>3.9</b>

A further analysis not forming part of the Accounts is contained in *BP Financial and Operating Information 1996-2000*.

## 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	
	2000	1999
<b>Profit for the year</b>	<b>11,870</b>	5,008
Adjustments:		
Depreciation charge <sup>a</sup>	<b>(772)</b>	(81)
Decommissioning and environmental expense	<b>(338)</b>	(165)
Onerous property leases	<b>(42)</b>	133
Interest expense	<b>189</b>	110
Sale and leaseback of fixed assets	–	(37)
Deferred taxation <sup>a</sup>	<b>(619)</b>	(378)
Other	<b>58</b>	6
<b>Profit for the year as adjusted</b>	<b>10,346</b>	4,596
<b>Per ordinary share – cents</b>		
Basic	<b>47.81</b>	23.70
Diluted	<b>47.50</b>	23.56
<b>Per American depositary share<sup>b</sup> – cents</b>		
Basic	<b>286.86</b>	142.20
Diluted	<b>285.00</b>	141.36

	\$ million	
	2000	1999
<b>BP shareholders' interest</b>	<b>73,416</b>	43,281
Adjustments:		
Fixed assets <sup>a</sup>	<b>9,479</b>	1,237
Ordinary shares held for future awards to employees	<b>(360)</b>	(456)
Sale and leaseback of Chicago office building	<b>(413)</b>	(413)
Decommissioning and environmental provisions	<b>(921)</b>	(499)
Onerous property leases	<b>105</b>	139
Deferred taxation <sup>a</sup>	<b>(16,097)</b>	(6,082)
Fourth quarterly dividend	<b>1,178</b>	972
Pension liability adjustment	<b>(145)</b>	(144)
Other	<b>(128)</b>	(197)
<b>BP shareholders' interest as adjusted</b>	<b>66,114</b>	37,838


<sup>a</sup> Under UK GAAP, provision for deferred taxation is made where timing differences are expected to reverse in the foreseeable future. Under US GAAP, deferred taxation is provided on a full liability basis on all temporary differences as defined in US Statement of Financial Accounting Standard No. 109. As required by this standard assets and liabilities of acquired businesses have been adjusted from a net-of-tax to a pre-tax basis.

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

## Glossary

Term used in BP Annual Report and Accounts	US equivalent or definition
Accounts	Financial statements
Acquisition accounting	Purchase accounting
Associated undertakings	Equity affiliates
Called up share capital	Ordinary shares, capital stock or common stock issued and fully paid
Capital allowances	Tax depreciation
Capital redemption reserve	Other additional capital
Cash at bank	Cash
Creditors	Accounts payable and accrued liabilities
Creditors: amounts falling due within one year	Current liabilities
Creditors: amounts falling due after more than one year	Long-term liabilities
Debtors: amounts falling due after more than one year	Other non-current assets
Decommissioning	Dismantlement, restoration and abandonment
Employee share schemes	Employee stock benefit plans
Employment costs	Payroll costs
Finance lease	Capital lease
Financial year	Fiscal year
Fixed asset investment	Non-current investments
Freehold	Ownership with absolute rights in perpetuity
Hire charges	Rent
Interest payable	Interest expense
Interest receivable	Interest income
Merger accounting	Pooling of interests accounting
Net asset value	Book value
Other debtors	Other current assets
Own shares	Treasury stock
Profit	Income or earnings
Profit and loss account (statement)	Income statement
Profit and loss account (under 'capital and reserves' in balance sheet)	Retained earnings
Profit for year	Net income
Profit on sale of fixed assets or business	Gain on disposal of properties or long-term investments
Provision for doubtful debts	Allowance for doubtful accounts
Provisions	Non-current liabilities other than debt and specific accounts payable
Redundancy charges	Severance costs
Reserves	Retained earnings
Scrip dividend	Stock dividend
Shareholders' funds	Shareholders' equity
Share premium account	Amounts subscribed for share capital in excess of nominal value
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Trade debtors	Accounts receivable (net)
Turnover	Sales and other operating revenue





board of directors	72
corporate governance	76
board report on executive directors' remuneration	79
shareholdings and annual general meeting	85
information for ordinary or preference shareholders	86
information for ADS holders	87

# governance & policy

Explains the work of the board of directors  
and the company's relationship with its shareholders.



e-voting



Business policies download



[www.bp.com/governance\\_and\\_policy](http://www.bp.com/governance_and_policy)

## board of directors



### **R S Block**

#### **Non-Executive Director**

Ruth Block (70) joined Amoco's board in 1986. She retired as executive vice president and chief insurance officer of The Equitable in 1987. She is a non-executive director of Ecolab and 35 Alliance Capital Mutual Funds.

Member of the Chairman's Committee and Ethics and Environment Assurance Committee and during 2000 was a member of the Remuneration Committee



### **Sir John Browne, FREng**

#### **Group Chief Executive**

Sir John (52) 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, a trustee of the British Museum and a member of the supervisory board of DaimlerChrysler. He is also vice president and a member of the board of the Prince of Wales Business Leaders Forum.

Member of the Nomination Committee



### **J H Bryan**

#### **Non-Executive Director**

John Bryan (64) joined Amoco's board in 1982. He is chairman of Sara Lee Corporation and a non-executive director of Bank One Corporation, General Motors Corporation and Goldman Sachs Group.

Member of the Chairman's Committee and Audit Committee



### **Dr J G S Buchanan**

#### **Chief Financial Officer**

John Buchanan (57) was appointed an executive director of BP in 1996. He is a non-executive director of Boots and a member of the UK Accounting Standards Board.



### **R F Chase**

#### **Deputy Group Chief Executive**

Rodney Chase (57) was appointed an executive director of BP in 1992. He is a non-executive director of Diageo and the BOC Group.



### **E B Davis, Jr**

#### **Non-Executive Director**

Erroll B Davis, Jr (56) 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 a member of the American Society of Corporate Executives, Association of Edison Illuminating Companies, the Wisconsin Association of Manufacturers and Commerce, the Edison Electric Institute and the Electric Power Research Institute. He is also chairman of the board of trustees of Carnegie Mellon University.

Member of the Chairman's Committee, Audit Committee and Remuneration Committee



**R J Ferris**

**Non-Executive Director**

Richard Ferris (64) joined Amoco's board in 1981. He is a non-executive director of The Procter & Gamble Company.

Member of the Chairman's Committee and Remuneration Committee



**W D Ford**

**Chief Executive, Refining and Marketing**

Doug Ford (57) was appointed an executive director of BP in January 2000. Before the merger of BP and Amoco he had been an executive vice president of Amoco since 1993. He is a non-executive director of USG Corporation.



**Dr C S Gibson-Smith**

**Executive Director, Policies and Technology**

Chris Gibson-Smith (55) was appointed an executive director of BP in 1997. He is a non-executive director of Lloyds TSB.



**Dr B E Grote**

**Chief Executive, Chemicals**

Byron Grote (52) was appointed an executive director of BP in August 2000. From 1998 until May 2000 he was vice-chairman of the UK government's Public Services Productivity Panel.



**C F Knight**

**Non-Executive Director**

Charles Knight (65) 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 Chairman's Committee and Remuneration Committee



**F A Maljers**

**Non-Executive Director**

Floris Maljers (67) joined Amoco's board in 1994. He is a member of the supervisory boards of SHV Holding and Vendex N.V. He is chairman of the supervisory boards of KLM Royal Dutch Airlines, the Amsterdam Concertgebouw N.V. and Rotterdam School of Management, Erasmus University.

Member of the Chairman's Committee and Ethics and Environment Assurance Committee



**Dr W E Massey**

**Non-Executive Director**

Walter Massey (62) rejoined Amoco's board in 1993, having previously been a director from 1983 to 1991. He is president of Morehouse College and is a non-executive director of Motorola, Bank of America, McDonald's Corporation, the Mellon Foundation and the Commonwealth Fund.

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



**H M P Miles, OBE**

**Non-Executive Director**

Michael Miles (64) joined BP's board in 1994. He is chairman of Johnson Matthey and a non-executive director of ING Baring Holdings and Balfour Beatty.

Member of the Chairman's Committee, Audit Committee and Ethics and Environment Assurance Committee



**Sir Robin Nicholson, F Eng, FRS**

**Non-Executive Director**

Sir Robin (66) joined BP's board in 1987. He is a non-executive director of Rolls-Royce. He served as a member of the UK government's Council for Science and Technology from its inception in 1993 until 2000.

Member of the Chairman's Committee and from January 2001 of the Remuneration Committee, of which he will be chairman from May 2001 on the retirement of the Lord Wright of Richmond



**R L Olver**

**Chief Executive, Exploration and Production**

Dick Olver (54) was appointed an executive director of BP in 1998. He is a non-executive director of Reuters Group.



**Sir Ian Prosser**

**Non-Executive Deputy Chairman**

Sir Ian (57) joined BP's board in 1997. He is chairman of Bass, a non-executive director of GlaxoSmithKline and a vice president of the council of the Brewers and Licensed Retailers Association.

Member of the Chairman's Committee and Remuneration Committee and chairman of the Audit Committee



**P D Sutherland, SC**

**Non-Executive Chairman**

Peter Sutherland (54) rejoined BP's board in 1995, having previously been a non-executive director from 1990 to 1993. He was appointed chairman of BP in 1997. He is chairman and managing director of Goldman Sachs International and a non-executive director of Telefonaktiebolaget LM Ericsson, Investor AB and The Royal Bank of Scotland.

Chairman of the Chairman's Committee and chairman of the Nomination Committee



**M H Wilson**

**Non-Executive Director**

Michael Wilson (63) joined Amoco's board in 1993. He is chairman and chief executive officer of RT Capital Management and a non-executive director of Manufacturers Life Insurance Company.

Member of the Chairman's Committee and Audit Committee



**Sir Robert Wilson, KCMG**

**Non-Executive Director**

Sir Robert (57) joined BP's board in 1998. He is chairman of Rio Tinto and a non-executive director of Diageo.

Member of the Chairman's Committee, Audit Committee and Ethics and Environment Assurance Committee



**The Lord Wright of Richmond, GCMG**

**Non-Executive Director**

Lord Wright (69) joined BP's board in 1991, having been permanent under-secretary and head of the UK Diplomatic Service. He was a non-executive director of De La Rue until July 2000.

Member of the Chairman's Committee and chairman of the Remuneration Committee and during 2000 was a member of the Ethics and Environment Assurance Committee

**Changes to the board**

Mr H L Fuller retired as executive co-chairman on 31 March 2000.

Dr B E Grote was appointed an executive director with effect from 3 August 2000.

Mr B K Sanderson retired as an executive director on 30 September 2000.

Mrs R S Block will retire as a non-executive director on 19 April 2001.

Dr C S Gibson-Smith will retire as an executive director on 19 April 2001.

The Lord Wright of Richmond will retire as a non-executive director on 30 April 2001.

**Company secretary**

Judith Hanratty (57) has been company secretary since 1994. She is a member of the Competition Commission, the Takeover Panel, the Council of Lloyd's of London and of the Lloyd's Market Board. A barrister, she is also a governor of the College of Law.

## corporate governance

The board adopted in 1997 a set of governance policies that cover its relationship with shareholders, the conduct by the board of its own 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 in a number of ways the dual role played under the unitary board system by the group chief executive and executive directors, as both members of the board and leaders of the executive management.

For example, they require a majority of the board to be composed of non-executive directors. Moreover, they delegate all aspects of the relationship between the board and the group chief executive to the non-executive directors. For the same reason, the policies require the chairman and deputy chairman to be non-executive directors. Following the retirement of co-chairman Mr Fuller on 31 March 2000, the office of chairman has been held by a non-executive director, Mr Sutherland. Sir Ian Prosser is deputy chairman and holds the role of senior independent non-executive director 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 stress 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. They recognize that the board is accountable to shareholders for the performance and activities of the group (including 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, political, social and other matters that may influence or affect the interests of its shareholders. To ensure that shareholders have the regular opportunity to reassess their choice of directors, directors are required to retire every three years and stand for re-election.

The formal channels of communication by which the board accounts to shareholders for the overall performance of the company's business activity are the annual report and accounts, the form 20-F report filed with the US Securities and Exchange Commission and the quarterly announcements made through the stock exchanges on which the shares are listed.

In addition, at the annual general meeting of shareholders an extensive presentation is given about the business, its performance and future prospects. At that meeting there is the opportunity for shareholders to ask questions or give their views to directors. With approximately 1.1 million shareholders, however, many of whom are resident outside the UK, opportunities for dialogue with the board at annual general meetings are limited.

All proxy votes at shareholder meetings are counted because votes on all matters except procedural ones are taken by way of a poll. The chairmen of the Remuneration and Nomination Committees (and all other committee chairmen except the Audit Committee chairman) were present at the 2000 annual general meeting to answer questions.

Mailing of the notice of the 2000 annual general meeting and related papers to shareholders was completed on the 20th working day before the meeting.

Presentations are made to representatives of the investment community at appropriate intervals in both the UK and the USA and are simultaneously made available to shareholders by live broadcast over the Internet or open conference call. The constructive use of technology for communication with shareholders is continually evaluated and implemented as appropriate.

### 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. It therefore reserves to itself the making of broad policy decisions, delegating the more detailed considerations involved in meeting its stated requirements either to its 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. On internal control, for example, the board is responsible for establishing general policy and for monitoring whether the group chief executive carries it out.

The relationship between the board and the group chief executive is critical to the board's work. The policy allocates the tasks of monitoring executive actions and assessing reward to the following committees:

- **Chairman's Committee** (chairman and all non-executive directors) – organization and succession planning and overall performance assessment
- **Audit Committee** (six non-executive directors) – monitoring all reporting, accounting, control and the financial aspects of the executive management's activities
- **Ethics and Environment Assurance Committee** (five non-executive directors) – monitoring the non-financial aspects of the executive management's activities
- **Remuneration Committee** (six non-executive directors) – determining performance contracts and targets and the structure of the rewards for the group chief executive and the executive directors.

In addition, there is a Nomination Committee, which comprises the non-executive chairman, the group chief executive and three non-executive directors.

The qualification for membership of the board 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.

Under the articles of association, all directors are subject to election by shareholders at the first opportunity after their appointment and to re-election thereafter at intervals of no more than three years. Names submitted to shareholders for election in 2000 were accompanied by biographical details.

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's work is designed to maximize the expected value of the shareholders' interest in the group, 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 its policy by the group chief executive.

The group chief executive explains how he intends to deliver the required outcome in medium-term and annual plans, the latter of which includes 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. The board reviews this report at each 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 underperforming business activities and actions that breach the executive limitations policy. This dialogue is meant to be a key feature of the relationship and an important aspect of board work. The chairman has responsibility on behalf of the board between meetings 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 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.

### Remuneration of executive directors

A separate report is given on pages 79 to 84 setting out the reward policy established by the Remuneration Committee and the details of the remuneration for each of the executive directors during the year.

### Remuneration of non-executive directors

The articles of association provide that the remuneration paid to non-executive directors shall be determined by the board within the limits set by the shareholders. Non-executive directors do not have service contracts with the company.

During 2000 the non-executive chairman of BP received a fee of \$242,000 (£160,000). The non-executive directors of BP received an annual fee of \$60,000 (£40,000) plus an allowance of \$5,000 (£3,000) for each occasion on which a director travels across the Atlantic for a board meeting or committee meeting. During 2000 the board met eight times, five times in the UK, twice in the USA and once in France. Committee meetings are held in conjunction with board meetings whenever feasible. Details of individual fees and allowances are set out in the table below.

remuneration of non-executive directors		
\$ thousand	2000 <sup>a</sup>	1999 <sup>b</sup>
<b>Current directors</b>		
R S Block	74	89
J H Bryan	88	84
E B Davis, Jr	88	89
R J Ferris	79	84
C F Knight	83	79
F A Maljers	65	70
Dr W E Massey	83	89
H M P Miles	69	79
Sir Robin Nicholson	69 <sup>c</sup>	79 <sup>d</sup>
Sir Ian Prosser	121	122
P D Sutherland	242 <sup>e</sup>	259 <sup>f</sup>
M H Wilson	88	94
Sir Robert Wilson	69	79
The Lord Wright of Richmond	69 <sup>g</sup>	75 <sup>h</sup>
	1,287	1,371

<sup>a</sup> Sterling payments converted at the average 2000 exchange rate of £1 = \$1.51.

<sup>b</sup> Sterling payments converted at the average 1999 exchange rate of £1 = \$1.62.

<sup>c</sup> Also received \$30,200 (£20,000 converted at the average 2000 exchange rate of £1 = \$1.51) for serving on the Technology Advisory Council.

<sup>d</sup> Also received \$32,400 (£20,000 converted at the average 1999 exchange rate of £1 = \$1.62) for serving on the Technology Advisory Council.

<sup>e</sup> Also received other benefits of \$2,292 (£1,518 converted at the average 2000 exchange rate of £1 = \$1.51).

<sup>f</sup> Also received other remuneration and benefits of \$9,849 (£6,080 converted at the average 1999 exchange rate of £1 = \$1.62).

<sup>g</sup> Also received \$1,812 (£1,200 converted at the average 2000 exchange rate of £1 = \$1.51) for serving as a director of BP Pensions Trustees Limited.

<sup>h</sup> Also received \$1,458 (£900 converted at the average 1999 exchange rate of £1 = \$1.62) for serving as a director of BP Pensions Trustees Limited.

non-executive directors' interests  
in BP ordinary shares or calculated equivalents

	At 31 Dec 00	At 1 Jan 00	Change in directors' interests from 31 Dec 00-13 Feb 01
R S Block	83,536 <sup>a</sup>	82,396 <sup>a</sup>	–
J H Bryan	98,760 <sup>a</sup>	98,760 <sup>a</sup>	–
E B Davis, Jr	61,762 <sup>a</sup>	60,972 <sup>a</sup>	–
R J Ferris	260,808 <sup>a</sup>	260,808 <sup>a</sup>	–
C F Knight	29,458 <sup>a</sup>	28,790 <sup>a</sup>	–
F A Maljers	33,492 <sup>a</sup>	33,492 <sup>a</sup>	–
Dr W E Massey	46,665 <sup>a</sup>	46,062 <sup>a</sup>	–
H M P Miles	9,445	9,391	–
Sir Robin Nicholson	3,548	3,469	–
Sir Ian Prosser	826	826	–
P D Sutherland	6,853	6,784	44
M H Wilson	43,200 <sup>a</sup>	43,200 <sup>a</sup>	–
Sir Robert Wilson	5,478	5,478	–
The Lord Wright of Richmond	3,996	3,996	–

<sup>a</sup> 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.

**Compliance with Code Provisions of Section 1 of the Combined Code**

BP complied throughout 2000 with the Code provisions of Section 1 of the Combined Code on Corporate Governance of the FSA Listing Rules except A.1.6 (director training), A.5.1 (appointments to the board) and C.2.3 (attendance of committee chairmen at AGM).

The appointments during 2000 of Mr Ford and Dr Grote were the first occasions that these individuals were appointed to the board of a UK listed company. No specific training was given to them because of their considerable international business experience.

Not all the members of the Nomination Committee are identified in this report. Three of the committee's 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 reduce the occurrence of conflicts of interest in the committee's work.

The chairman of the Audit Committee could not be present at the 2000 AGM owing to illness.

The Board Governance Policies include a process for the board to review regularly the effectiveness of the systems of internal control as required by Code provision D.2.1. As part of this process, executive management presented a report to the November meetings of the Audit Committee, Ethics and Environment Assurance Committee and the board about their system of internal control during 2000. The report identified and evaluated seven significant risk categories, summarized the state of internal control and described the executive management's assurance process.

The report also described enhancements implemented by executive management to their internal control systems during 2000. The committees and board reviewed this report. 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).



## board report on executive directors' remuneration

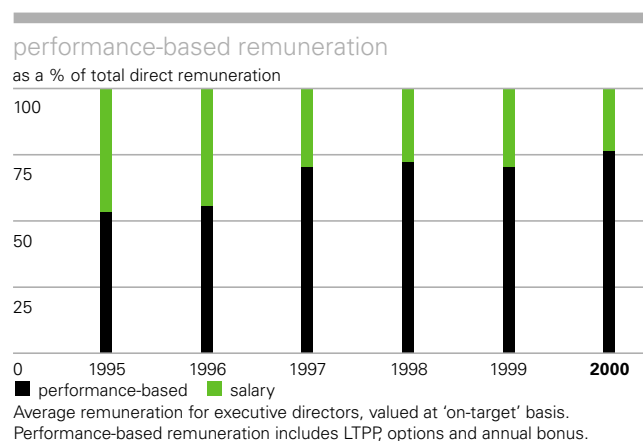
The Remuneration Committee's role is to determine the terms of engagement and remuneration of the executive directors.

### Reward philosophy

The remuneration of executive directors in BP is based on the following guiding principles:

- Total rewards will be set at levels to attract, motivate and retain high-calibre and high-potential staff within a competitive global market
- Total potential rewards will be earned through achievement of demanding performance targets based on measures which will represent the best interests of shareholders in the short, medium and long term
- Incentive plans, performance targets and conditions will be structured to be robust through all stages of the business cycle
- Overall levels of reward for meeting business targets will be competitive within a global market, while outstanding rewards will only be earned for delivering world-class results
- Remuneration policies and incentive plans will be designed to meet the highest standards of international practice.

Executive directors' remuneration has become increasingly performance-based over the last five years (see chart below).



## elements of remuneration

### Performance-based components – long-term

The Executive Directors' Long Term Incentive Plan (EDLTIP) was adopted by shareholders at the AGM in April 2000 to provide long-term incentives specifically for the executive directors.

The Plan has three elements:

**Share element** The share element focuses on BP's performance against oil majors over a period of three years. The specific performance measures and comparator companies are reviewed and approved annually by the Remuneration Committee.

Performance units will be granted at the beginning of the period and converted to an award of shares at the end of the period based on performance against oil majors. The performance conditions and performance periods are similar to the Long Term Performance Plan (LTPP). The first grant under the EDLTIP will be made in 2001.

The maximum award can be made only when performance has been ahead of the peer group on all measures. No award is made if performance is below median.

After the award is made, shares are held in trust for three years before they are released to the individual.

**Share option element** The option element is reflective of BP's performance relative to a wide selection of global majors. The Remuneration Committee will take into account the ranking of the company's total shareholder return (TSR) against the TSR of the FTSE Global 100 group of companies over the three-year period preceding the date of grant. There are no further performance conditions on vesting.

**Cash element** The Remuneration Committee may, in special circumstances, grant cash-based rather than share-based incentives. This element was not used in 2000.

### Performance-based components – short-term

**Annual bonus** Bonus targets are a mix of demanding financial targets and leadership objectives relating to such areas as safety, environment, people and organization.

The specific measures as well as the level of bonus eligibility are reviewed and set annually by the Remuneration Committee.

### Fixed components

**Salary** Fixed sum, payable monthly in cash. Salaries are reviewed periodically in line with global markets. The appropriate survey groups are defined and analysed by a leading remuneration consultancy.

**Pension** Executive directors are eligible to participate in the appropriate pension schemes applicable in their home countries.

**Benefits and other share schemes** Executive directors are eligible to participate in regular employee benefit plans applicable in their home countries, including health and life insurance. They are also eligible to participate in all-employee share schemes and savings plans applicable in their home countries.

**Resettlement allowance** Expatriates may receive a resettlement allowance for a limited period.

2000 remuneration for executive directors

summary of 2000 remuneration

	Performance units granted under 2000-2002 LTPP <sup>a</sup>	Shares awarded under 1997-1999 LTPP <sup>b</sup>	Share option grants <sup>c</sup>	2000 annual performance bonus \$ thousand	Salary \$ thousand	Benefits and other emoluments \$ thousand	2000 total \$ thousand	1999 total \$ thousand
Sir John Browne	280,000	527,600	408,522	1,396	1,231	135	2,762	2,351
Dr J G S Buchanan	154,000	323,400	75,189	771	680	76	1,527	1,400
R F Chase	174,000	329,800	85,215	873	770	80	1,723	1,552
W D Ford	132,000	–	232,500	703	620	546 <sup>d</sup>	1,869	–
Dr C S Gibson-Smith	140,000	285,800	68,505	702	619	108	1,429	1,231
Dr B E Grote <sup>e</sup>	–	–	–	255	225	171 <sup>d</sup>	651	–
R L Olver	147,000	285,500	71,847	736	649	66	1,451	1,251
<b>Directors leaving the board in 2000</b>								
H L Fuller	–	–	1,633,620	–	168	176	344	2,434
B K Sanderson	–	329,800	–	578	510	947 <sup>f</sup>	2,035	1,433

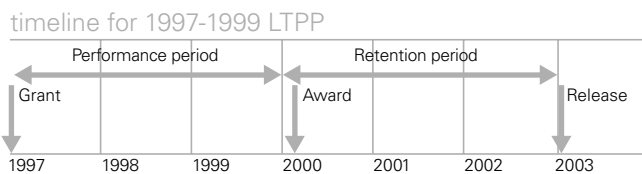
The table above represents remuneration received by executive directors in the 2000 financial year, with the exception of the 2000 annual bonus which was earned in 2000 but paid in 2001. A conversion rate of £1 = \$1.51 has been used for 2000, £1 = \$1.62 for 1999.

- <sup>a</sup> Performance units granted under the 2000-2002 LTPP are converted to shares at the end of the performance period. Maximum of two shares per performance unit.
- <sup>b</sup> Gross award of shares. Sufficient shares are sold to pay for tax applicable. Remaining shares are held in trust until 2003 when they are released to the individual.
- <sup>c</sup> Options granted in May 2000 have a grant price of £5.99.
- <sup>d</sup> Includes resettlement allowance for Mr Ford and Dr Grote of \$540,000 and \$171,000 respectively.
- <sup>e</sup> Includes remuneration received since appointment as executive director on 3 August 2000.
- <sup>f</sup> Includes ex gratia payment of \$679,500 and payment for unused leave of \$169,875.

Executive directors' long-term incentives

Long Term Performance Plan (LTPP) and share element

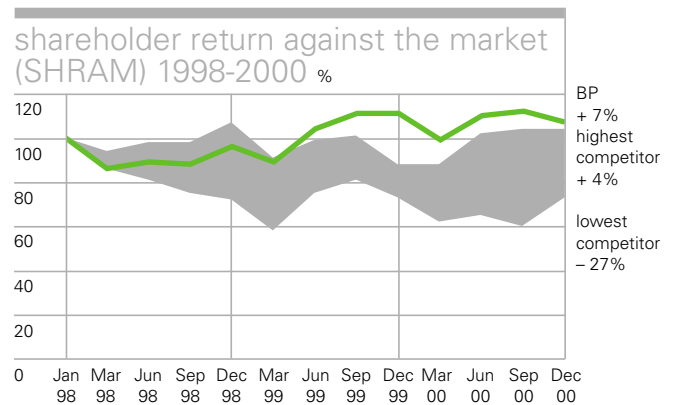
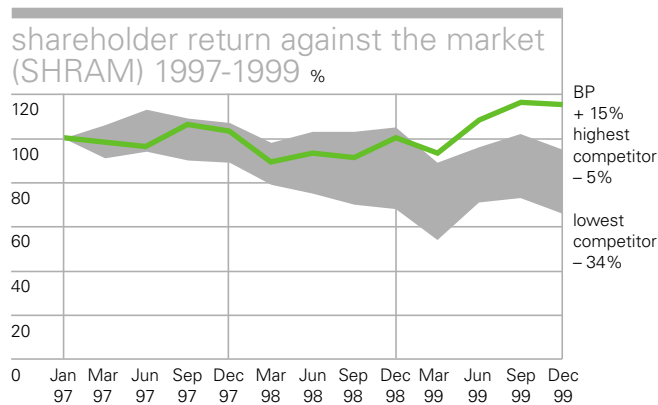
The 2000 award relates to the 1997-1999 LTPP. Performance units were granted in 1997 and the award is made after the three-year performance period. The shares then have a minimum three years' retention in trust and no shares will be released until the director has a personal holding of BP shares equivalent to 5 x base salary.



Long Term Performance Plans (LTPP)

Performance period of Plan	1997-1999		1998-2000		1999-2001	2000-2002
Year of award	2000		2001		2002	2003
Performance measures <sup>a</sup>	SHRAM		SHRAM		SHRAM, EPS and ROACE	SHRAM, EPS and ROACE
	Actual award (shares)	(value) <sup>b</sup> \$'000	Expected award <sup>c</sup> (shares)	(value) <sup>d</sup> \$'000	Maximum award (shares)	Maximum award (shares)
<b>Current executive directors</b>						
Sir John Browne	527,600	3,649	532,600	4,556	540,000	560,000
Dr J G S Buchanan	323,400	2,237	319,800	2,736	320,000	308,000
R F Chase	329,800	2,281	339,000	2,900	360,000	348,000
W D Ford <sup>e</sup>	–	–	–	–	–	264,000
Dr C S Gibson-Smith	285,800	1,977	297,400	2,544	288,000	280,000
Dr B E Grote <sup>e</sup>	–	–	–	–	–	–
R L Olver	285,800	1,977	297,400	2,544	288,000	294,000
<b>Former executive directors</b>						
H L Fuller	–	–	–	–	270,000	–
B K Sanderson	329,800	2,281	339,000	2,900	320,000	–
K R Seal	54,200	375	–	–	–	–
Dr R W H Stomberg	54,200	375	–	–	–	–

- <sup>a</sup> Shareholder return against the market (SHRAM), earnings per share (EPS), return on average capital employed (ROACE).
- <sup>b</sup> Based on average market price on date of award (£4.58/\$6.92 at £1 = \$1.51).
- <sup>c</sup> Remuneration Committee's current expectations based on assessed performance and the other terms of the Plan.
- <sup>d</sup> Based on mid-market price of BP shares on 13 February 2001 (£5.90/\$8.56 at £1 = \$1.45).
- <sup>e</sup> This reflects Plans since their appointment as executive directors in 2000.



BP's performance is assessed in terms of three-year shareholder return against the market (SHRAM) in relation to the following companies: Chevron, ENI, ExxonMobil, Repsol YPF, Royal Dutch Shell group, Texaco and TotalFinaElf.

BP came first in the 1997-1999 Plan, and the Remuneration Committee made the maximum award of shares to executive directors.

Based on an initial assessment of performance, the Remuneration Committee expects to make a maximum award for the 1998-2000 Plan.

Since 1999, the Remuneration Committee has also considered profitability and growth targets, i.e. earnings per share (EPS) and return on average capital employed (ROACE), in assessing performance. In order to assess current performance on a consistent basis with past performance and a basis comparable with major competitors, EPS and ROACE have been calculated in 2000 on a pro forma basis, adjusted for special items.

Maximum potential awards to executive directors under the 1999-2001 and 2000-2002 Plans (for which awards would be made in 2002 and 2003) are set out on page 80.

#### Share option element and other option schemes

Option grants in 2000 were made taking into consideration the ranking of the company's total shareholder return (TSR) against the TSR of the FTSE Global 100 group of companies over the three-year period from 1 January 1997.

Options granted vest over three years (one-third each after one, two and three years respectively) and have a life of seven years after grant. Grants to Mr Fuller and Mr Ford were made according to the terms of the BP and Amoco merger agreement and under the BP share option plan which has minor differences in rules.

#### share options<sup>a</sup>

	At 1 Jan 00 or on appointment	Granted	Exercised	At 31 Dec 00	Average option price £ <sup>b</sup>	Dates from which exercisable	Expiry dates
Sir John Browne	–	408,522	–	408,522	5.99	15 May 01	15 May 07
Dr J G S Buchanan	–	75,189	–	75,189	5.99	15 May 01	15 May 07
R F Chase	–	85,215	–	85,215	5.99	15 May 01	15 May 07
W D Ford	4,536,444	232,500 <sup>c</sup>	476,400 <sup>d</sup>	4,292,544	3.46	22 Mar 95- 28 Mar 02	24 Mar 04- 27 Mar 10
Dr C S Gibson-Smith	–	68,505	–	68,505	5.99	15 May 01	15 May 07
Dr B E Grote <sup>e</sup>	138,024 <sup>f</sup>	–	–	138,024	5.65	15 Mar 00- 28 Mar 02	14 Mar 09- 27 Mar 10
R L Olver	–	71,847	–	71,847	5.99	15 May 01	15 May 07
<b>Director leaving the board in 2000</b>	At 1 Jan 00	Granted	Exercised	On retirement			
H L Fuller	15,062,244	1,633,620 <sup>c</sup>	–	16,695,864			

<sup>a</sup> All options in the above table are denoted in BP ordinary shares. Mr Ford and Dr Grote hold ADSs; the above numbers and prices reflect calculated equivalents.

<sup>b</sup> These are the weighted average prices applicable to all shares under option at the end of the year. Full details of directors' shareholdings and options are available for inspection in the company's register of directors' interests.

<sup>c</sup> Mr Fuller's and Mr Ford's 2000 option grants were governed by the terms of the BP and Amoco merger agreement and were granted at equivalent of £5.40 at £1 = \$1.51.

<sup>d</sup> Exercised as 79,400 ADSs at \$21.70 (market price at date of exercise \$56).

<sup>e</sup> In addition to the above, Dr Grote holds 191,600 SARs at an average grant price of \$21.55. The relevant market price for these at 31 December 2000 was \$47.87.

<sup>f</sup> On appointment on 3 August 2000.

## directors' SAYE share options

	At 1 Jan 00	Granted	Exercised	At 31 Dec 00	Average option price £ <sup>a</sup>	Date from which exercisable	Expiry date
Sir John Browne	5,968	–	–	5,968	2.89	1 Sep 02	28 Feb 03
Dr J G S Buchanan	7,728	–	2,142 <sup>b</sup>	5,586	3.50	1 Sep 01	28 Feb 05
R F Chase	9,324	3,388	9,324 <sup>c</sup>	3,388	4.98	1 Sep 05	28 Feb 06
Dr C S Gibson-Smith	2,154	–	–	2,154	4.49	1 Sep 04	28 Feb 05
R L Olver	6,856	–	–	6,856	2.60	1 Sep 01	28 Feb 03
<b>Director leaving the board in 2000</b>	At 1 Jan 00	Granted	Exercised	On retirement 30 Sep 00			
B K Sanderson	4,250	–	1,864 <sup>d</sup>	2,386			

<sup>a</sup> These are the weighted average prices applicable to all shares under option at the end of the year. Full details of directors' shareholdings and options are available for inspection in the company's register of directors' interests.

<sup>b</sup> Exercised at £1.61 (market price at date of exercise £4.66).

<sup>c</sup> Exercised at £1.85 (market price at date of exercise £6.55).

<sup>d</sup> Exercised at £1.85 (market price at date of exercise £6.47).

### Annual bonus for 2000

Executive directors were eligible for an annual bonus, with a target of 70% of base salary and a stretch level of 105% of salary for substantially exceeding targets. Outstanding performance may be recognized by bonus payments in excess of the stretch level at the discretion of the Remuneration Committee. Executive directors' bonus awards for 2000 were based on a mix of financial targets and leadership objectives established at the start of the year. Each of the financial targets and leadership objectives was assessed and 162 points were achieved compared to a target level of performance of 100 points.

### Results significantly exceeded target

The company achieved continued industry leadership in ROACE and led the oil super-majors on EPS growth. It reduced by \$2 billion the combined cost structure of the enlarged group. Excellent progress was made on leadership objectives. Targets on safety, environment, restructuring, reserves, discoveries, capital savings, people, regional governance and brand were all achieved and, in several cases, exceeded.

Based on the above performance, the committee expects to award bonuses as indicated in the table opposite totalling \$6 million for the executive directors as a group for 2000.

### Salary

There were no increases in base salaries for the current executive directors during 2000.

	2000 <sup>a</sup>	1999 <sup>b</sup>
<b>Bonus rating</b>	<b>162</b>	<b>148</b>
	<b>\$ thousand</b>	<b>\$ thousand</b>
Sir John Browne	<b>1,396</b>	1,137
Dr J G S Buchanan	<b>771</b>	673
R F Chase	<b>873</b>	754
W D Ford	<b>703</b>	–
Dr C S Gibson-Smith	<b>702</b>	590
Dr B E Grote	<b>255<sup>c</sup></b>	–
R L Olver	<b>736</b>	596
<b>Former executive directors</b>		
B K Sanderson	<b>578</b>	685

<sup>a</sup> 2000 bonus received in 2001 at an exchange rate of £1 = \$1.51.

<sup>b</sup> 1999 bonus received in 2000 at an exchange rate of £1 = \$1.62.

<sup>c</sup> From date of appointment on 3 August 2000.

## pension entitlement – UK directors

\$ thousand<sup>a</sup>

	Years of service at 31 Dec 00	Accrued entitlement at 31 Dec 00	Changes in pension earned during the year ended 31 Dec 00 <sup>b</sup>	Changes in pension earned during the year ended 31 Dec 99 <sup>b</sup>
Sir John Browne	34	820	(15)	252
Dr J G S Buchanan	31	439	15	118
R F Chase	36	513	(9)	128
Dr C S Gibson-Smith	30	387	14	95
R L Olver	27	409	14	115
B K Sanderson	36 <sup>c</sup>	453 <sup>c</sup>	(6) <sup>c</sup>	63

<sup>a</sup> An exchange rate of £1 = \$1.51 has been used for 2000, £1 = \$1.62 for 1999.

<sup>b</sup> Excludes the impact of inflation.

<sup>c</sup> Figures shown at date pensionable service ceased (30 September 2000).

## pension entitlement – US directors

\$ thousand

	Years of service at 31 Dec 00	Accrued entitlement at 31 Dec 00	Additional pension earned during the year ended 31 Dec 00	Additional pension earned during the year ended 31 Dec 99
H L Fuller	39	1,203 <sup>a</sup>	31	26
W D Ford	30	376 <sup>b</sup>	67 <sup>b</sup>	36
Dr B E Grote	21	69	10	11

<sup>a</sup> Mr Fuller resigned on 31 March 2000 and took a lump-sum distribution of his combined qualified and non-qualified plan benefits totalling \$13,627,975.

<sup>b</sup> Includes a temporary annuity payable until age 62 of \$6,869.

## Pensions

Pension and other benefits have regard to competitor practice in the home country of each senior executive.

UK directors are eligible to join the BP Pension Scheme, which offers Inland Revenue-approved retirement benefits based on final salary. The Scheme is the principal section of the BP Pension Fund, the latter being set up under trust deed. Contributions to the Fund are made on the advice of the actuary appointed by the Trustee. No company contributions in respect of the BP Pension Scheme were made in 2000.

Scheme members' core benefits, which are non-contributory, comprise a pension accrual rate of 1/60th of basic salary for each year of service, up to a limit of two-thirds of final basic salary; a lump-sum death-in-service benefit of three times salary; and a dependants' benefit of two-thirds of actual or prospective pension. The link between the Scheme pension and the basic state pension ceased for all members on 1 May 2000.

Directors who are members of the Scheme accrue pension at the enhanced rate of 2/60ths of their final basic salary for each year of service as executive directors (up to the same two-thirds limit) on a non-contributory basis.

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

Pensions payable from the Fund are guaranteed to increase in line with annual movements in the Retail Price Index, to a maximum of 5% a year.

None of the executive directors is affected by the 'pensions earnings cap'.

All current US directors participate in the BP Retirement Accumulation Plan. Under this retirement plan, the amount of the annuity which they are eligible to receive on a single-life basis is determined under a cash balance formula. This plan was created in 2000 and supersedes earlier group pension and cash balance plans. However, those employees who satisfied certain age and service conditions at the date of transition to the BP Retirement Accumulation Plan were provided with a minimum benefit equal to those which they would have earned under the previous pension arrangements. These 'grandfathering' arrangements apply to Mr Ford and Mr Fuller. Their figures have been disclosed on this basis. In line with US tax regulations, benefits are provided as appropriate through a combination of tax qualified and restoration/non-qualified plans.

Under the 'grandfathering' arrangement, the annuity benefit formula (including a percentage of US Social Security benefits) is calculated at 1.67% x years of participation x average annual earnings. Such earnings for plan purposes are determined by taking separately the three highest consecutive calendar years' earnings from salary and the three highest consecutive calendar years' bonus awards during the 10 years preceding retirement.

The maximum annuity is 60% of such average earnings. Normal pensionable age is 65. There is no actuarial reduction to the pension which becomes payable between age 60 and 65, but a reduction of 5% a year is applied if paid between age 50 and 59.

Dr Grote is not subject to 'grandfathering'. His benefit is therefore determined by the cash balance formula whereby each year of service accrues a credit in a current account based on a sliding age and service scale (minimum 4%, maximum 11% of eligible pay). The account balance earns interest on a monthly basis. Prior service has been converted into an opening account balance and is included in Dr Grote's projected pension figures.

### Executive directors' shareholdings

#### executive directors' interests in BP ordinary shares or calculated equivalents

	At 31 Dec 00	At 1 Jan 00 or on appointment	Change in directors' interests from 31 Dec 00 - 13 Feb 01
<b>Current directors</b>			
Sir John Browne	1,069,445 <sup>a</sup>	959,842	–
Dr J G S Buchanan	721,312	513,490	–
R F Chase	709,325	568,630	–
W D Ford	311,358 <sup>b</sup>	284,772 <sup>b</sup>	–
Dr C S Gibson-Smith	491,395	312,189	–
Dr B E Grote	431,598 <sup>b</sup>	428,250 <sup>b,c</sup>	–
R L Olver	421,910	255,590	–
<b>Directors leaving the board in 2000</b>			
	On retirement	At 1 Jan 00	
H L Fuller	1,307,295 <sup>b,d</sup>	1,307,295	
B K Sanderson	720,858 <sup>e</sup>	518,814	

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

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

<sup>c</sup> On appointment on 3 August 2000.

<sup>d</sup> On retirement on 31 March 2000.

<sup>e</sup> On retirement on 30 September 2000.

In disclosing the above interests to the company under the Companies Act 1985, directors did not distinguish their beneficial and non-beneficial interests. All executive directors are deemed to have an interest in such shares of the company held from time to time by BP QUEST Company Limited to facilitate the operation of the company's SAYE option scheme.

### Service contracts

All UK executive directors appointed since 1996 hold a contract of service which includes a one-year period of notice. Sir John Browne and Mr Chase were appointed prior to 1996 and have contracts with a two-year notice period. The board does not consider it in shareholders' interests to renegotiate these contracts.

Mr Ford's current secondment commenced on 1 January 2000 and can be terminated on one month's notice. His underlying US employment agreement with BP Amoco Corporation has a two-month notice period. If his contract is terminated by the company without cause, it is required to pay him \$1 million per annum (pro-rated for part years) for each year between the date of severance and 21 January 2004. As an expatriate, Mr Ford also receives a resettlement allowance for the first three years of his secondment.

Dr Grote's current UK secondment to BP began on 3 August 2000 and can be terminated on one month's notice. His underlying US employment agreement with BP Exploration (Alaska) Inc. has a one-year notice period. As an expatriate, Dr Grote receives a resettlement allowance for the first three years of his secondment.

### Reward policy for 2001

During the latter part of 2000, the Remuneration Committee reviewed the remuneration of all existing executive directors relative to a global set of comparator companies. Independent consultants, who are not employed elsewhere in the company, assisted in this work. As a result of this review the committee has agreed that:

- the overall existing framework of total direct compensation is appropriate for 2001
- the limits for both the share element and the share option element of the Executive Director Long Term Incentive Plan (EDLTIP) that were agreed with shareholders are sufficient to meet the guiding principles of the reward philosophy
- the performance conditions applied to the share element of the EDLTIP commencing 2001 will remain the same as those under the LTPP for the period starting 2000. The committee will be reviewing the performance conditions for future plans during 2001
- the committee expects to grant share options under the EDLTIP using as a primary measure the company's performance relative to the FTSE Global 100 group of companies over the past three years
- annual bonus targets will be set at 100% of salary for all executive directors except Sir John Browne who will have a target of 110%. The maximum bonus eligibility given outstanding performance will be 150% for all executive directors
- base salaries, which have not been increased since 1999, will be increased in line with global comparator companies.

### The Remuneration Committee

#### Membership

Membership of the committee is shown on pages 72-75. The committee members have no personal financial interests, other than as shareholders, in the matters to be decided.

The committee is serviced independently of the executive management and actively solicits professional advice from independent outside consultants.

#### Compliance

The constitution and operation of the committee are in compliance with the 'Principles of Good Governance and Code of Best Practice' set out by the Listing Rules of the Financial Services Authority (FSA).

Ernst & Young have confirmed that the scope of their report on the accounts covers the disclosures contained in this report that are specified for audit by the FSA.

## shareholdings and annual general meeting

### register of members holding BP ordinary shares as at 31 December 2000

Range of holdings	Number of shareholders	Percentage of total shareholders	Percentage of total share capital
1 – 100	42,817	11.70	0.01
101 – 200	14,927	4.08	0.01
201 – 1,000	142,095	38.83	0.31
1,001 – 10,000	148,302	40.53	2.03
10,001 – 100,000	15,283	4.18	1.39
100,001 – 1,000,000	1,547	0.42	2.49
Over 1,000,000 <sup>a,b</sup>	934	0.26	93.76
	365,905	100.00	100.00

<sup>a</sup> Includes 7,393,665,874 shares held by Guaranty Nominees Limited (5,432,644,552 of which are held in bearer form), underlying the ADSs, a breakdown of which is shown in the table below. Of these, 45,055,223 shares are held in respect of 13,087 holders of unexchanged ARCO shares.

<sup>b</sup> Also includes 11,499,048 shares, held in bearer form, in respect of 5,145 holders of unexchanged Amoco shares.

### register of holders of American Depositary Shares<sup>a</sup> as at 31 December 2000

Range of holdings	Number of ADS holders	Percentage of total ADS holders	Percentage of total ADSs
1 – 100	19,913	11.79	0.02
101 – 200	10,828	6.41	0.03
201 – 1,000	37,120	21.98	0.30
1,001 – 10,000	75,321	44.59	3.86
10,001 – 100,000	24,609	14.57	8.94
100,001 – 1,000,000	1,079	0.64	2.70
Over 1,000,000 <sup>b</sup>	29	0.02	84.15
	168,899	100.00	100.00

<sup>a</sup> One ADS represents six ordinary shares.

<sup>b</sup> One of the holders of ADSs represents some 536,000 underlying holders.

At 31 December 2000 there were also 2,051 preference shareholders.

### Substantial shareholdings

At the date of this report, the company has been notified that Morgan Guaranty Trust Company of New York, as depositary for American Depositary Shares (ADSs), holds interests through its nominee, Guaranty Nominees Limited, in 7,323,155,362 ordinary shares (32.51% of the company's ordinary share capital). Included in this total is part of the holding of the Kuwait Investment Office (KIO) and Barclays Global Investors (UK) Limited. Either directly or through nominees, the KIO holds interests in 717,254,000 ordinary shares (3.18% of the company's ordinary share capital). Either directly or through nominees, Barclays Global Investors holds 680,253,712 ordinary shares (3.02% of the company's ordinary share capital).

### Annual General Meeting

The 2001 annual general meeting will be held on Thursday 19 April 2001 at 11.00 a.m. at the Royal Festival Hall, Belvedere Road, London SE1 8XX, UK. The notice convening the meeting is sent to shareholders separately with this report, together with an explanation of the items of special business to be considered at the meeting.

All substantive resolutions will be decided on a poll. Voting on a show of hands is reserved solely for procedural matters to assist the efficient running of the meeting.

Ernst & Young have expressed their willingness to continue in office as auditors and their reappointment will be proposed at the annual general meeting.

By order of the board  
Judith C Hanratty  
Secretary  
13 February 2001

## information for ordinary or preference shareholders

### Share price information

BP ordinary shares are traded on stock exchanges in the UK, France, Germany, Switzerland and Japan. BP is listed on these stock exchanges under the symbol 'BP'. Details of trading activity and share price information are published in the share tables of most daily newspapers and on BP's website at [www.bp.com/investors](http://www.bp.com/investors)

#### ordinary share market price range

pence	2000		1999	
	High	Low	High	Low
1st Quarter	<b>622.50</b>	<b>444.50</b>	539.50	411.00
2nd Quarter	<b>649.00</b>	<b>506.00</b>	595.50	504.75
3rd Quarter	<b>671.00</b>	<b>564.50</b>	642.50	532.50
4th Quarter	<b>646.50</b>	<b>517.50</b>	643.50	538.00

### Dividend information

#### cash dividends in pence per ordinary share

Period <sup>a</sup>	1Q	2Q	3Q	4Q	Total
1996	2.125	2.500	2.500	2.625	9.750
1997	2.625	2.750	2.750	2.875	11.000
1998	2.875	3.000	3.000	3.059	11.934
1999	3.069	3.112	3.033	3.125	12.339
2000	3.220	3.352	3.602	3.617	13.791

Foreign exchange rates may affect the sterling dividend amount paid. However, when setting the dividend the directors are mindful of dividend fluctuation in sterling terms.

The figures in these tables have been adjusted to reflect the subdivision of ordinary share capital on 4 October 1999.

#### proposed key dates for dividends

Period <sup>a</sup>	4Q 2000	1Q 2001	2Q 2001	3Q 2001
Announcement	13 Feb 01	8 May 01	7 Aug 01	6 Nov 01
Ex-dividend	21 Feb 01	16 May 01	15 Aug 01	14 Nov 01
Record or qualifying <sup>b</sup>	23 Feb 01	18 May 01	17 Aug 01	16 Nov 01
Payment	19 Mar 01	11 Jun 01	10 Sep 01	10 Dec 01

<sup>a</sup> Dividend payments are identified by reference to the quarterly earnings to which they relate.

<sup>b</sup> This is also the date by which holders of ordinary shares must notify the BP Registrar of any change in dividend election between cash and reinvestment.

Dividends on first and second preference shares are paid on 31 January and 31 July of each year.

### Taxation

This section is intended only for individual shareholders who are subject to UK taxation, and does not take into account overseas taxation.

As a result of changes announced by the Chancellor of the Exchequer, from 6 April 1999 the tax credit on dividends was reduced from 20% to 10% of the gross amount. Lower and basic rate taxpayers will continue to have no further tax liability.

Non-taxpayers are no longer able to reclaim the tax credit on cash dividends paid on or after 6 April 1999. Higher rate tax on dividend income has been reduced to 32.5% of the gross amount. Higher-rate taxpayers will have to pay the extra 22.5% when settling overall tax bills for the year.

### Burmah Castrol shareholders

BP and its affiliates now own all the shares in Burmah Castrol, and the consideration due to former Burmah Castrol shareholders who have not yet responded to the recommended cash offer or requested payment is being held in trust for them. Former Burmah Castrol shareholders who have not yet requested payment of the consideration due to them should make written application, accompanied by relevant share certificates, to the BP Registrar (*see page 88 for contact details*). Dividends paid to Burmah Castrol shareholders during 2000 were as follows:

#### dividends paid to Burmah Castrol shareholders

Financial year	Type of dividend payment	Amount of dividend	Date of payment
1999	Interim	15.4p	14 Jan 2000
1999	Final	31.9p	7 July 2000



## information for ADS holders

### Share price information

BP ADSs are traded in North America on the New York, Chicago, Pacific and Toronto stock exchanges. BP is listed on these stock exchanges under the symbol 'BP'. One ADS represents six ordinary shares.

Details of trading activity and share price information are published in the share tables of most daily newspapers and on BP's website at [www.bp.com/investors](http://www.bp.com/investors)

#### ADS market price range

US\$	2000		1999	
	High	Low	High	Low
1st Quarter	<b>60.63</b>	<b>43.13</b>	52.66	40.19
2nd Quarter	<b>59.31</b>	<b>46.98</b>	57.69	47.00
3rd Quarter	<b>58.38</b>	<b>50.50</b>	61.16	52.50
4th Quarter	<b>57.31</b>	<b>45.13</b>	62.63	51.38

#### cash dividends in US dollars per ADS

Period <sup>a</sup>	1Q	2Q	3Q	4Q	Total
1996	0.203	0.246	0.262	0.273	0.984
1997	0.271	0.286	0.294	0.299	1.150
1998	0.305	0.311	0.319	0.300	1.235
1999	0.300	0.300	0.300	0.300	1.200
2000	0.300	0.300	0.315	0.315	1.230

#### cash dividends in Canadian dollars per ADS

Period <sup>a</sup>	1Q	2Q	3Q	4Q	Total
1996	0.277	0.338	0.350	0.369	1.334
1997	0.374	0.394	0.412	0.429	1.609
1998	0.437	0.470	0.491	0.449	1.847
1999	0.438	0.451	0.438	0.436	1.763
2000	0.447	0.448	0.482	0.479	1.856

The figures in these tables have been adjusted to reflect the subdivision of ordinary share capital on 4 October 1999.

#### proposed key dates for dividends

Period <sup>a</sup>	4Q 2000	1Q 2001	2Q 2001	3Q 2001
Announcement	13 Feb 01	8 May 01	7 Aug 01	6 Nov 01
Ex-dividend <sup>b</sup>	21 Feb 01	16 May 01	15 Aug 01	14 Nov 01
Record or qualifying	23 Feb 01	18 May 01	17 Aug 01	16 Nov 01
Payment	19 Mar 01	11 Jun 01	10 Sep 01	10 Dec 01

<sup>a</sup> Dividend payments are identified by reference to the quarterly earnings to which they relate.

<sup>b</sup> This is also the date by which holders of ADSs must notify Morgan Guaranty of any change in dividend election between cash and reinvestment.

### Taxation

Most US ADS holders were deemed, by virtue of the United States-United Kingdom Treaty, to have received a UK tax credit equal to one-ninth of the announced dividend. However, this UK tax credit was exactly offset by an amount deemed by the Treaty to be a UK withholding tax. The net result for US holders was a dividend payment equal to the announced dividend.

The IRS has confirmed that, in the case of qualifying US ADS holders, subject to certain limitations, the deemed UK withholding tax under the Treaty will be treated as a foreign income tax that is eligible for credit against the holder's federal income tax. The holder must, however, elect to claim this Treaty benefit.

In order to ensure entitlement to claim the UK withholding taxes as a foreign tax credit against an ADS holder's US tax liability, the holder should follow the procedures for electing the tax credit outlined in the Internal Revenue Service's Revenue Procedure 2000-13. The revenue procedure generally provides that an ADS holder may make this election by so indicating on line 5 of IRS Form 8833 and filing the completed Form 8833 with the holder's federal income tax return for the year in question. ADS holders are encouraged to consult with their tax advisers regarding this and any other taxation issue related to their ADSs.

ADS holders who are ineligible for the foreign tax credit or who do not elect to claim the credit should report as ordinary dividends only the net dividend amount actually received during the year.

### Atlantic Richfield Oil Company (ARCO)

The combination between BP and ARCO became effective on 18 April 2000, following clearance from the US Federal Trade Commission. The number of shares held by BP shareholders remained unchanged as a result of the combination.

Prior to the combination, holders of common stock in ARCO would have received the following dividend:

#### dividend paid to ARCO shareholders

Period	Record date	US\$	Date of payment
1Q 2000	25 Feb 2000	0.7125	15 Mar 2000

### Information for unexchanged Amoco or Atlantic Richfield Company (ARCO) common shareholders

Any Amoco or ARCO shareholders who have not yet exchanged their holdings into the form of BP ADSs should immediately contact the Exchange Agent at Morgan Guaranty Trust Company of New York, Corporate Reorganization, PO Box 842007, Boston, MA 02284-2007, USA (telephone toll-free +1 877 272 4321).

Until their Amoco or ARCO shares have been exchanged, former Amoco and ARCO shareholders do not have the right to receive dividends, vote or receive reports from the company. Under US regulations, any accrued dividend income is taxable and will continue to be reported for the year in which the dividend is payable.

## 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 Depository:

#### 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

Morgan Guaranty Trust Company of New York  
PO Box 842006, Boston, MA 02284-2006  
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: +1 800 387 0825

#### Japan

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

### Other queries

Any other queries can be addressed to offices in the following countries:

#### UK

BP Shareholder Services  
Britannic House, 1 Finsbury Circus, London EC2M 7BA  
Telephone: +44 (0)20 7496 5200 Fax: +44 (0)20 7496 5702  
Switchboard: +44 (0)20 7496 4000  
E-mail: [shareholderuk@bp.com](mailto:shareholderuk@bp.com)

#### USA

BP Shareholder Services  
PO Box 87703, Chicago, IL 60680-0703  
Switchboard: +1 312 856 6111  
Toll-free in USA and Canada: +1 800 638 5672  
Fax: +1 312 856 4883  
E-mail: [shareholderus@bp.com](mailto:shareholderus@bp.com)

---

## other published information

### Publications

Copies of reports filed by the company with the US Securities and Exchange Commission, together with a range of other publications, such as *BP Business Policies*, *BP Environmental and Social Review*, *BP Financial and Operating Information 1996-2000* and *BP Statistical Review of World Energy*, can be obtained in the USA and Canada from BP Shareholder Services in Chicago (*address above*) and in the rest of the world from the following address:

BP Distribution Services  
Suite 2, Lansdowne Place  
17 Holderhurst Road, Bournemouth, Dorset BH8 8EW, UK  
Telephone: +44 (0)870 241 3269  
Fax: +44 (0)1202 299893  
E-mail: [bp-bpds@ed-youth.com](mailto:bp-bpds@ed-youth.com)

### Internet

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

### Cassettes for visually impaired shareholders

Highlights from the BP Annual Report are available on audio cassette. Copies can be obtained, free of charge, in the USA and Canada from BP Shareholder Services, Chicago, and in the rest of the world from BP Distribution Services, UK.

### Registered Office

Britannic House, 1 Finsbury Circus, London EC2M 7BA, UK  
Registered in England and Wales No. 102498

---

## Acknowledgements

### Imagery

Most photography by BP Photographic Services  
Photographers: Charles Archambault, Gary Banks, James Bareham, Arnhel de Serra, Mike Ellis, Andy Johnstone, Mustapha Kebir, Bill Kingdon, Larry Lee, Morrison Wulffraat, Javier Nambela, David Osborn, Caroline Penn, Richard Price, John Sundlof  
Other photography: Lloyd's List, Tony Stone Images  
Illustrations: Peter Crowther  
Data for employee satisfaction index on page 3 supplied by Sirota Consulting Corp.

### Paper

The paper used for this report meets the strictest environmental standards set by the Nordic Swan Council and is fully recyclable. The pulp used to produce the paper is generated locally, fully sustainable and bleached without the use of elemental chlorine.

### Design and production

Designed by Pauffley, London  
Typeset by Generator Limited, London  
Printed in England by Burrups Limited, St Ives plc  
Printed in the USA by Sandy Alexander



