

**BP plc**

London Stock Exchange: BP

Industry: Integrated Oil

Meeting Date: April 16, 2009

Record Date: April 14, 2009

**Lead Analyst**

Reuben Edelson, redelson@glasslewis.com

**2009 ANNUAL GENERAL MEETING**

<b>Proposal</b>	<b>Issue</b>	<b>Board</b>	<b>GL&amp;Co.</b>
1.00	Accounts and Reports	For	For
2.00	Directors' Remuneration Report	For	Against
3.00	Elect Antony Burgmans	For	For
4.00	Elect Cynthia Carroll	For	For
5.00	Elect Sir William Castell	For	For
6.00	Elect Iain Conn	For	For
7.00	Elect George David	For	For
8.00	Elect Erroll Davis, Jr.	For	For
9.00	Elect Robert Dudley	For	For
10.00	Elect Douglas Flint	For	For
11.00	Elect Byron Grote	For	For
12.00	Elect Anthony Hayward	For	For
13.00	Elect Andrew Inglis	For	For
14.00	Elect DeAnne Julius	For	Against
15.00	Elect Sir Tom McKillop	For	Against
16.00	Elect Sir Ian Prosser	For	For
17.00	Elect Peter Sutherland	For	For
18.00	Appointment of Auditor and Authority to Set Fees	For	For
19.00	Authority to Repurchase Shares	For	For
20.00	Authority to Issue Shares w/ Preemptive Rights	For	For
21.00	Authority to Issue Shares w/o Preemptive Rights	For	For
22.00	Amendments to Articles Regarding General Meeting Notice Period	For	Against

**NOTE**

Update. April 1, 2009. Sir Tom McKillop has announced his decision not to stand for reelection as a non-executive director at the 2009 Annual General Meeting. We had recommended that shareholders vote AGAINST nominee McKillop. Please see page 18 for our original analysis.

Except as noted, £1.00 = US\$1.4615 (exchange rate as of December 31, 2008)

# Company Profile

## ADDRESS / STOCK

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Phone: +44 20 7496 4000  
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Quote Symbol: BP  
Exchange: London Stock Exchange  
SEDOL: 0798059  
ISIN: GB0007980591  
Benchmark Index: FTSE ALL SHARE

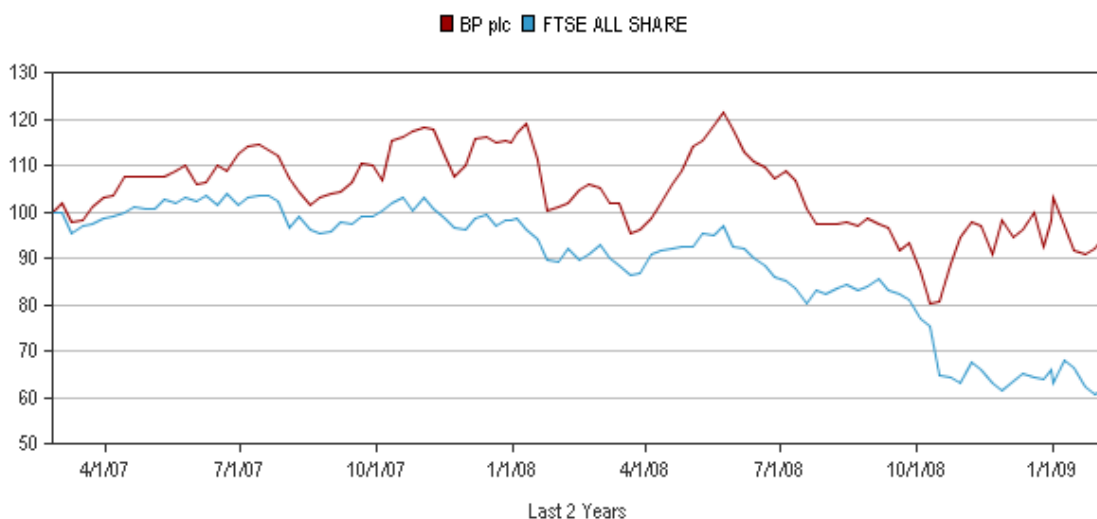
Industry: Integrated Oil  
Employees: 92,000

Auditor: Ernst & Young

## COMPANY DESCRIPTION

BP plc (BP). The Group's principal activities are carried out through its Refining and Marketing, Gas, Power and Renewables, Exploration and Production, and Other Businesses and Corporate divisions. Refining and Marketing focuses on oil supply and trading as well as refining and petrochemicals manufacturing and marketing. Gas, Power & Renewables activities include marketing and trading of natural gas, natural gas liquids, new market development, liquefied natural gas and solar and renewables. Exploration and Production activities include oil and natural gas exploration and field development and production, together with pipeline transportation and natural gas processing. Other Businesses and Corporate focuses on greenhouse gas emissions and oil spills.

## INDEXED STOCK PRICE



Source: Thomson Financial and Glass, Lewis & Co., LLC

## MARKET INFORMATION / STATISTICS

Currency:	GBP
Price Close (as of 03/20/09):	463.50
52 Week High:	657.25
52 Week Low:	370.00
No. of Shares Outstanding:	18,737m
Market Capitalization:	86,888m
Enterprise Value:	98,711m

## INCOME STATEMENT (LTM)

As of Sep 2008	(millions - GBP except per share data)
Revenue:	196,057
Net Income:	10,795
EPS:	0.61

## MARKET PERFORMANCE

1 Year Stock Performance:	-6.55%
3 Year Stock Performance:	-29.51%
5 Year Stock Performance:	5.34%

## BALANCE SHEET

As of Sep 2008	(millions - GBP)
Total Assets:	156,343.03
Total Liabilities:	93,248.37
Total Common Equity:	62,528.17

## Voting Results from Last Annual Meeting (April 17, 2008)

No.	Proposal	For/Discretionary	Against	Withheld/Abstain	GLC Rec
1.00	Accounts and Reports	99.29%	0.33%	0.39%	For
2.00	Directors' Remuneration Report	63.96%	8.98%	27.06%	Against
3.00	Re-elect Antony Burgmans	99.14%	0.79%	0.07%	For
4.00	Elect Cynthia Carroll	99.14%	0.79%	0.07%	For
5.00	Re-elect Sir William Castell	49.98%	49.98%	0.04%	For
6.00	Re-elect Iain Conn	99.04%	0.87%	0.09%	For
7.00	Elect George David	99.13%	0.80%	0.07%	For
8.00	Re-elect Erroll Davis Jr.	95.71%	1.02%	3.28%	For
9.00	Re-elect Douglas Flint	99.14%	0.79%	0.07%	For
10.00	Re-elect Byron Grote	99.04%	0.87%	0.08%	For
11.00	Re-elect Anthony Hayward	99.05%	0.87%	0.08%	For
12.00	Re-elect Andrew Inglis	99.06%	0.86%	0.08%	For
13.00	Re-elect DeAnne Julius	95.14%	1.45%	3.41%	Withhold
14.00	Re-elect Sir Tom McKillop	95.71%	1.06%	3.23%	For
15.00	Re-elect Sir Ian Prosser	95.68%	1.09%	3.23%	For
16.00	Re-elect Peter Sutherland	97.89%	1.99%	0.12%	For
17.00	Appointment of Auditor and Authority to Set Fees	98.72%	0.74%	0.53%	For
18.00	Adoption of New Articles	98.98%	0.52%	0.50%	For
19.00	Authority to Repurchase Shares	99.14%	0.55%	0.31%	For
20.00	Authority to Issue Shares w/ Preemptive Rights	98.04%	1.55%	0.41%	For
21.00	Authority to Issue Shares w/o Preemptive Rights	97.94%	1.57%	0.49%	For

# Compensation Details

Glass Lewis' view on executive remuneration is based on the premise that management's primary duty is to maximise shareholder value and corporate performance. In our opinion, executive remuneration packages should align management's interests with those of shareholders. Further, Glass Lewis believes non-executive directors should be properly compensated for the time and effort spent serving on the board and its committees. The following is a summary of remuneration at the Company as compared to the averages of firms with similar market capitalisations. For further scrutiny of the Company's pay practices, please see our analysis of the remuneration report.

## For Fiscal Year 2008

### NON-EXECUTIVE DIRECTORS

NED Fees	BP	Avg. for FTSE Top 20
Chairman	£600,000	£506,329
Average Fees for other NEDs	£105,667	£86,865
Aggregate Fees for other NEDs	£1,051,000	

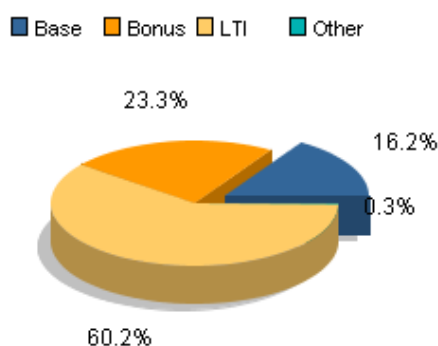
Notes: Average NED fees include only those directors who served a full year.

### CHIEF EXECUTIVE REMUNERATION

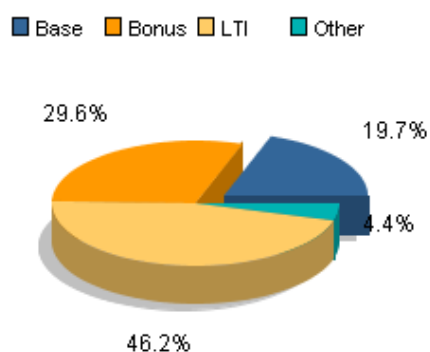
	BP	Avg. for FTSE Top 20
Base Salary	£998,000	£1,006,808
Annual Bonus	£1,496,000	£1,620,533
Equity Based Award Grants	£5,310,183	£4,341,245
Other / Benefits	£15,000	£172,548
Total Remuneration	£7,819,183	£7,141,134

Notes: The chief executive also received £336,000 during the year in relation to awards granted in 2006. Please see Proposal 2 for further analysis.

#### Company's CEO



#### Avg. Market Cap Peer CEO



Shareholders will receive and consider the Company's financial statements and directors' and auditor's reports for the fiscal year ended December 31, 2008. Shareholders are voting to approve receipt of the statements and reports, not to approve their substance and content.

### **Glass Lewis' Analysis**

We believe that all of the necessary financial statements and reports are present in the Company's annual report. We note that in the opinion of Ernst & Young, the Company's independent auditor, the financial statements and the directors' remuneration report have been properly prepared in accordance with International Financial Reporting Standards, Article 4 of the IAS Regulation and the Companies Act of 1985.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

This proposal seeks shareholder approval of the directors' remuneration report for the fiscal year ended December 31, 2008. Listed UK companies, excepting those listed on the AIM, are required to prepare a directors' remuneration report and present it for shareholder approval. The report sets out the board's compensation policy for its employees, executives and directors.

In general, Glass Lewis' analysis is centred on four major aspects of a company's remuneration: (i) disclosure of policies; (ii) overall compensation structure; (iii) performance-based incentive schemes; and (iv) the quantum amounts paid to executives as well as non-executive directors ("NEDs").

We note that for the past fiscal year, compensation for the Company's executive directors comprised:

- (i) base salary;
- (ii) annual cash bonus;
- (iii) long-term incentives;
- (iv) pension contributions; and
- (v) other benefits.

## EXECUTIVE DIRECTORS

Name	Job Title	Base Salary	Bonus Payments*		Total**
			Actual	Maximum	
Byron Grote	CFO	£1,340,000	130%	150%	£3,090,000
Anthony Hayward	Group Chief Executive	£998,000	150%	150%	£2,509,000
Andrew Ingless	CEO, Exploration & Production	£670,000	175%	150%	£2,055,000

\*Expressed as percentages of base salary. \*\*Excludes long-term incentives.

Half of the annual bonuses in the past fiscal year was based on financial and operating results, including earnings before interests, taxes, depreciation and amortization ("EBITDA"), cash costs, cash flow, return on average capital employed ("ROACE") and capital expenditure. The remaining portions were weighted as to 25% on safety performance, 25% on people (behaviour, culture and values) and 20% on individual business results.

For 2009, the chief executive and CFO will have 70% of their bonuses based on group performance against key metrics, 15% based on safety performance and 15% on people. For divisional executive directors, half of their bonuses will be based on the same metrics as those used for the top executives, with the other half based on the performance of respective businesses.

For fiscal year 2008, the total remuneration of the Company's chief executive, excluding long-term incentives, grew by 17% from the previous fiscal year. Please see page 6 of the Proxy Paper for information on the chief executive's long-term incentive grant for the year and other compensation details of directors, including comparisons with the Company's market peers.

We note that the remuneration committee has reported that it has frozen executive base salaries for the 2009 fiscal year in light of the current economic conditions. However, salaries were reviewed

mid-year in 2008, resulting in a 10% salary increase for Mr. Hayward and 6% increases for Messrs. Conn, Grote and Ingless.

### ***Executive Director Incentive Plan ("EDIP")***

Participants	Executive directors
Awards	Performance shares
Administrator	Remuneration committee
Performance Conditions	<p>Vesting of an award will be equally based on total shareholder return ("TSR") and a balanced scorecard of underlying performance. The "balanced scorecard" performance will be assessed on three key strategic priorities, represented by hydrocarbon production growth, improvement in earnings per barrel and group increase in underlying net income. The methodology used will rank each of the five companies in the peer group on each of the measures. The three underlying measures will be averaged to form the balanced scorecard component.</p> <p>The Company's performance will be compared on an interpolated basis relative to the performance of the other five. For performance between second and third or first and second, the result will be interpolated based on the Company's performance relative to the firm ranked directly above and below it. Performance shares will vest at 100%, 70% and 35% for performance equivalent to first, second and third rank respectively, while no shares will vest for fourth or fifth place.</p> <p><i>Peer group:</i> ExxonMobil, Shell, Total, Chevron and ConocoPhillips</p>
Retesting	The plan allows for a form of re-testing that permits the administrator to adjust the vesting level if it deems the quantitative approach to not be reflective of the true underlying health and performance of the Company's business relative to its peers.
Vesting Terms	Awards may only vest following the three-year performance period, after which there is a three-year compulsory retention period.
Individual Limits	Participants are eligible for awards up to a maximum nominal value of 550% of base salary.
Plan Limits	None specified
Notes	<p>Shares will normally only vest at the end of the retention period if the executive directors have held a target personal shareholding of 500% of base salary during this time. Upon vesting, additional shares are awarded to represent the value of the reinvested dividends.</p> <p>In previous years, TSR was the sole metric in the EDIP. The inclusion of the additional performance metrics applies to awards granted in fiscal year 2009.</p>

### **Glass Lewis' Analysis**

Glass Lewis believes executive compensation should generally consist of short-term and long-term equity-based incentives that link an employee's pay to a Company's performance, thereby aligning their interests with those of shareholders. Further, we believe NEDs should receive reasonable compensation for their time and effort. However, we note that excessive director compensation represents a financial cost to the Company and may, in the case of NED pay, threaten to compromise director objectivity and independence.

UK firms are required to fully disclose and explain all aspects of its executives' and directors' compensation so shareholders can analyse how its policies compare with similar firms. In this case, the Company's remuneration report provides adequate disclosure of policies and structure. However, Glass Lewis has identified certain aspects of the Company's remuneration which should be brought to shareholders' attention when contemplating support of this proposal. Please see our analysis of these issues below.

### **General Policy**

*Alteration of Performance Conditions.* The remuneration committee determined to override the performance conditions attached to past awards made under the EDIP. Given current market conditions, we understand that performance targets may need to be reevaluated in some cases to effectively create incentives for executive management. We are concerned, however, that the performance target in question is relative and as such, any external factors that could be called into question are shared equally amongst the entire peer group. In this case, the board has attributed its bottom-ranking performance in regards to TSR to fluctuations in the US/UK exchange rate and general market turbulence, and it has thus decided to also take into account a measurement of the Company's underlying business performance in relation to its peer group in order to determine the amount of shares that would vest under the 2006-2008 award.

The committee concluded that the results of the single TSR metric was not a fair reflection of the Company's relative underlying performance, and after thorough consideration of additional conditions -- including financial results, operating and other non-financial measures -- the committee decided that 15% of the shares awarded for the 2006-2008 period should vest. Glass Lewis has continually reminded shareholders of the inherent problems associated with single metric incentive plans, which provide for a narrow focus on only certain aspects of performance. We find it troubling that the individuals who design such plans first fail to see such problems with single metric schemes, and then decide that awards should vest despite bottom-ranking performance in the sole measurement. While we understand the difficulty in measuring performance in such a limited peer group, we note that the Company ranked fifth in its peer group, and that no awards under the EDIP are intended to vest for anything less than third place results. Further only two of the company's peers are US companies, weakening the Company's exchange rate fluctuation justification.

*Annual Bonus Exceeds Limit.* For fiscal year 2008, Andrew Ingless, the Company's chief executive of exploration and production, received an annual bonus that significantly exceeded the Company's disclosed limit for such compensation, as shown above. We question the meaning of incentive-based limits when executives can apparently earn amounts that far exceed those limits. Ultimately, shareholders deserve to know that annual bonuses for executives will stay within an acceptable and disclosed range. Furthermore, the members of the remuneration committee acknowledge this as well, stating that although they retain the discretion in exceptional circumstances to adjust bonuses "moderately above the maximum level... any significant exercise of discretion will be explained". Given the remuneration committee's complete omission of an explanation regarding the "exceptional circumstance" in this particular instance, we believe that, absent any truly unique and thoroughly disclosed situations, the board should keep annual bonuses within their stated limits going forward.

### **Equity-Based Schemes**

#### *Executive Directors' Incentive Plan ("EDIP")*

*Tractable Performance Metrics.* We are concerned that award grants made under this plan could be based on inappropriate conditions that may be easily manipulated by management. Specifically, the Company's description of the quantitative measurement of the EDIP's balanced scorecard

performance metric is not clearly defined, especially with regard to the method of comparing results on an interpolated basis. If the Company intends to continue using this hurdle without providing more clear disclosure on the exact method of calculating its results, undeserved rewards may be granted or, alternatively, well deserved rewards withheld. The Company should fully and clearly disclose its methods for determining its performance metrics so as to ensure that all awards are granted and vest in a fair and objective manner.

*Retesting.* Glass Lewis fully supports the best practice standard that there should be no retesting of performance hurdles if the hurdles are not achieved in the specified performance period. We are particularly concerned that the committee has reserved the right to retroactively adjust performance hurdles, as it has done exactly this with respect to awards made for the 2006-2008 period, as described above.

*Plan Limits Not Disclosed.* To our knowledge, the Company has not provided an assurance that it will limit equity-based awards to 10% of the Company's issued share capital over a 10-year rolling period, consistent best practice in the UK. We urge the Company to set and disclose such a policy, so as to assure shareholders that dilution will remain within a reasonable range.

### ***Quantum***

*Annual Bonuses.* In fiscal 2008, each of the Company's executive directors received bonus awards equivalent to 130% to 150% of base salary, which is the maximum payment that may be made for substantially exceeding performance targets. However, we note that full year profits were up only 1.5% from 2007, despite an extended period of record oil prices. Moreover, profits for 2007 were unexpectedly down 22% from the prior year. Contrary to these results, in both 2007 and 2008, executive directors received bonuses that would normally indicate that performance targets were substantially surpassed. As such, we question the appropriateness of these substantial bonuses during years of questionable performance.

*Transaction/Retention bonuses.* In fiscal 2008, restricted share awards were made to Iain Conn, chief executive of refining and marketing, and Andrew Ingless, chief executive of production and marketing as part of a £1.5 million (US\$2,192,250) special retention award that was granted to each director in 2008 after neither executive was selected to replace Lord Browne as chief executive in May 2007. These special awards were the main driver behind 36% of shareholders' failure to support the remuneration report at the 2008 AGM (Lauren Mills. "£1.5m bonuses fuel BP investor revolt." *Daily Mail Daily Mail (London)*. April 18, 2008).

We also note that David Allen, an executive director and special advisor, left the Company at the end of March 2008, and was entitled to one year's salary [£510,000 (US\$745,365)] as compensation in accordance with his contract, as well as a pro-rata bonus for 2008 and continued full participation in the 2006-2008 and 2007-2009 EDIP award grants.

Glass Lewis is generally skeptical of any type of extra awards given for actions that we view as intrinsic to an executive's duties. Given the increasing level of shareholder dissent that has been raised over the past two years in response to excessive payments and bonuses that are not linked to increased performance, as well as in the current economic climate, we do not believe that these awards are in the best interest of shareholders. We strongly urge the Company to restrain from making such bonus payments in the future.

## Summary

Glass Lewis has severe reservations about supporting the remuneration report at this time. As noted above, we are highly concerned that the remuneration committee elected to retroactively adjust the performance conditions of awards made under the 2006-2008 EDIP, despite the Company being the bottom performer in its peer group. While we applaud the Company's efforts to address concerns that awards made under the EDIP were previously subject to a single TSR performance metric by incorporating additional metrics, we are gravely disappointed that it has breached the trust of its shareholders by altering the vesting provisions of past awards. We also remain very concerned that although the remuneration committee has updated its EDIP award conditions to include a complex quantitative assessment of performance, it has specifically retained the discretion to once again adjust these metrics in the future should it feel that the Company's "true underlying health and performance" is not represented by the previously set standards. Further, the remuneration committee has not disclosed the details of the matrix that will determine the level of awards that vest pursuant to the "balanced scorecard" it intends to use. Given the remuneration committee's demonstrated history of making inappropriate "discretionary" decisions, we do not believe that shareholders should support these practices.

Accordingly, we must recommend that shareholders vote **AGAINST** this proposal.

## BOARD OF DIRECTORS

Name	Up	Age	GLC Classification	Committees			Term Start	Term End	Years on Board	Attended at least 75% of Meetings
				Audit	Rem	Nom				
Antony Burgmans	✓	62	Independent				2004	2009	5	Yes
Cynthia B. Carroll	✓	52	Independent				2007	2009	2	Yes
Sir William Castell	✓	61	Independent			✓	2006	2009	3	Yes
Iain C. Conn	✓	46	Insider <sup>1</sup>				2004	2009	5	Yes
George David	✓	66	Independent	✓			2008	2009	1	Yes
Erroll B. Davis, Jr.	✓	64	Independent <sup>2</sup>	✓	✓		1998	2009	11	Yes
Robert Dudley	✓	53	Insider <sup>3</sup>				-	-	-	N/A
Douglas J. Flint	✓	53	Independent	✓			2005	2009	4	Yes
Byron E. Grote	✓	60	Insider <sup>4</sup>				2000	2009	9	Yes
Anthony B. Hayward	✓	51	Insider <sup>5</sup>				2003	2009	6	Yes
Andrew G. Inglis	✓	49	Insider <sup>6</sup>				2007	2009	2	Yes
DeAnne S. Julius	✓	59	Independent		C	✓	2001	2009	8	Yes
Tom McKillop	✓	65	Independent		✓		2004	2009	5	Yes
Sir Ian Prosser	✓	65	Independent <sup>7</sup>	C	✓	✓	1997	2009	12	Yes
Peter D. Sutherland	✓	62	Affiliated <sup>8</sup>			C	1995	2009	14	Yes
% Independent			60%	100%	100%	75%				

C = Chair

1. Chief executive of refining and marketing.
2. Has served as a director for more than nine years; however, is considered independent by the board.
3. Managing director, the Americas and Asia.
4. CFO.
5. Group chief executive.
6. Chief executive of exploration and production.
7. Deputy chairman and senior independent director. Has served as a director for more than nine years; however, is considered independent by the board.
8. Chairman.

Fifteen candidates are standing for election as directors. The Combined Code recommends that all directors be submitted for re-election at regular intervals of no more than three years. In addition, directors appointed subsequent to the last annual meeting of shareholders must stand for election at the Company's next annual meeting.

Nominee Dudley is standing for election following his appointment since last year's annual meeting. In accordance with Company policy, all other directors retire by rotation at this year's annual meeting and, being eligible, offer themselves for re-election.

Companies listed on the London Stock Exchange are encouraged through a "comply or explain" requirement to abide by the Combined Code on Corporate Governance (the "Combined Code" or the "Code"), which states, among other things, that at least half the board, excluding the chairman, should comprise independent non-executive directors. The chairman, in turn, should be independent

prior to appointment to the board and the roles of chairman and chief executive should not be exercised by the same individual. Because the chairman is no longer considered independent once appointed to this position, UK companies should also name a senior independent director to ensure proper oversight. Finally, the Code recommends companies maintain standing audit, nominations and remuneration committees that abide by specific independence requirements.

We believe shareholders should be mindful of the following issues:

### ***TNK-BP***

The Company spent much of 2008 embroiled in bitter and public disagreements over TNK-BP, Russia's third largest oil company, which accounts for roughly a quarter of the Company's oil production. TNK-BP is jointly owned by the Company and a group of Russian investors, and the Russians have accused TNK-BP's management of favouring the interests of the Company and treating it as a subsidiary. Robert Dudley, who was at the helm of TNK-BP during the power struggle, was forced to flee Russia to an undisclosed location in central Europe, following a series of incidents which the Company characterized as an "orchestrated campaign of harassment." The alleged harassment, which was purportedly carried out at the behest of the Russian investors, included police raids, back-tax demands, shareholder lawsuits and visa refusals for top executives, including the chief executive (Danny Fortson. "BP yields in its Russian Battle Royal". *The Sunday Times* (London) September 5, 2008).

In October 2008, the Company announced that an accord had been reached amongst all parties involved in the dispute. Although many analysts had feared that the Company would be forced to sell its stake in TNK-BP, it managed to maintain its interests. The Company did, however, concede to the Russian's demands, including the removal of Robert Dudley as head of the joint business and the appointment of three additional independent directors to the board. Also, the Company's proposed replacement for Mr. Dudley must be agreed upon unanimously by TNK-BP's board. One prerequisite for the candidate, who has yet to be appointed, is that he must speak Russian and have Russian business experience. One TNK-BP executive noted that high amongst the concessions in the agreement was the acknowledgment "that [TNK-BP] is a Russian corporate citizen, which operates first and foremost in the interests of the country where it is domiciled." Mr. Dudley has since been nominated to the Company's board as an executive director with responsibilities over Asia and the Americas. A listing of approximately 20% of TNK-BP's shares is expected to occur in London or Moscow sometime after 2010 ("TNK-BP shareholders achieve final settlement of all disputes". *Russia & CIS Oil and Gas Weekly*. October 8, 2008).

### ***Legal Issues***

#### *Aftermath of Texas City Refinery Explosion Lawsuits*

The Company has set aside US\$2.1 billion to settle claims for a deadly explosion at its Texas City, Texas refinery in 2005, as noted in our 2008 Proxy Paper. The 2005 explosion killed 15 workers, injured more than 170 others, and has generated more than 4,000 lawsuits against the Company. All suits have now been settled, with the exception of a few dismissed claims that are currently being appealed.

BP Products North America (“BP Products”), a subsidiary of the Company, has entered into an agreement with the US Department of Justice (“DoJ”) as part of its plea deal to settle criminal charges that it violated the Clean Air Act in the refinery explosion incident. BP Products has pled guilty to the charges, and will be subject to a US\$50 million fine and a three year probationary period. The penalty is the largest criminal fine ever levied for a violation of the Clean Air Act. Although the settlement was widely criticised as too lenient, the court approved the deal after holding additional hearings over several months in order to determine whether the agreement was fair (Juan A. Lozano. “Judge approves plea deal in BP plant blast.” *Associated Press*. March 12, 2009).

In February 2009, BP Products entered into a separate settlement with the DoJ and Environmental Protection Agency (“EPA”) to resolve wider federal inquiries into pollution at the Texas City refinery. The settlement includes a US\$180 million fine, part of which will fund the installation of new and improved equipment to reduce emissions of benzene and other volatile compounds. The plea deal remains subject to approval by the court (Matthew Tresaugue. “BP will pay \$180 million for violations.” *The Houston Chronicle*. February 20, 2009).

### *Alaskan Legal Issues*

During the past year, BP Exploration (Alaska) Inc. (“BPXA”), a subsidiary of the Company, has continued to work to resolve several legal disputes related to its Prudhoe Bay oilfield in the state of Alaska. After the state of Alaska announced its plans to sue BPXA in the fall of 2008 for lost royalty and tax revenue related to a partial shutdown of the site following oil spills in 2006, as noted in the 2008 Proxy Paper, the Company reported that it had cooperated with state civil investigations. We note that no lawsuits have been filed thus far, and we will continue to monitor the situation for further developments.

BXPA is currently under a three year probation in the state as part of a criminal plea agreement made with the DoJ in November 2007 for violating the Federal Water Pollution Control Act during the 2006 oil leaks. The probationary period may be terminated if BXPA meets benchmarks that were set in relation to transit line replacement, safety upgrades and integrity management program improvements (2008 Annual Report). A US\$20 million fine attached to this plea deal was criticized by a retired EPA agent, who has officially called for an investigation of the “unprecedented” agreement after the EPA calculated actual damages from US\$58 million to US\$672 million (Joel Connelly. “Big oil gets help leaving footprints in Alaska.” *The Seattle Post-Intelligencer*. November 21, 2008).

### *Other Legal Issues*

As noted in the 2008 Proxy Paper, the Company has reached a US\$303 million settlement on assorted criminal charges in the US related to an alleged long-running price-fixing scheme conducted by a team of the Company's commodity traders in Houston. In January 2009, BP America, a subsidiary, agreed to pay an additional US\$52 million to settle a lawsuit brought by direct purchasers of the product that were affected (“Houston BP unit to pay in propane settlement.” *Bloomberg News*. January 9, 2009). The Company has also been named as part of a US\$181 million lawsuit brought by Vespin Investments, a client based in Zimbabwe, for wrongfully withholding over 20,000 kg of gas for almost two years (“BP Faces \$181 Million Lawsuit.” *The Herald* (Harare). December 11, 2008).

While shareholders should be somewhat concerned with the aforementioned lawsuits and others to which the Company finds itself party, we believe that such events are common to the industry in which the Company operates and are not sufficient cause for shareholders to vote against any director at this year's annual general meeting.

### ***Carbon Sequestration Plans Abandoned***

The Company recently announced that it would abandon previously planned programs to explore wind-based and other alternative fuel technologies in the UK. Plans to enter a UK government contest to build a demonstration carbon capture and storage facility were canceled after the Company was unable to find partners for the project. Environmental groups protested in response to the news and criticized the Company for failing to live up to its motto of moving "beyond petroleum" (Robin Pagnamenta. "Setback for Government's green agenda as BP quits key projects." *The Times* (London). November 8, 2008).

### ***Board Issues***

Although chairman Peter Sutherland had previously planned to retire at the 2009 AGM, the search for his replacement has proven to be a troubled and protracted ordeal. The Company was originally set to recruit Rio Tinto's chairman, Paul Skinner; however, Mr. Skinner withdrew his name in order to temporarily stay on at the struggling mining company. Although British American Tobacco chairman Jan Du Plessis was recently named as Mr. Skinner's successor, it currently appears unlikely that Mr. Skinner remains an option as a replacement for Mr. Sutherland (Mathieu Robbins. "Rio hires new chairman to take up fight for Chinalco agreement; Jan Du Plessis faces battle to convince shareholders and regulators". *The Independent* (London). March 18, 2009).

The leading candidate for the Company's chairmanship is now reported to be Niall Ferguson, former CEO and chairman of Unilever and current deputy director of Thomson Reuters. Rolls-Royce CEO Sir John Rose and BT chairman Michael Rake are also reportedly under consideration. The board is reportedly seeking a 10-year commitment from its next chairman, which may be one reason the search has taken longer than expected (Margareta Pagano. "Fitzgerald in line for BP top job." *Sunday Tribune* (Ireland). March 1, 2009). Mr. Sutherland is seeking re-election at the upcoming AGM and has indicated that he will stay on as chairman until at least April 2009.

We recommend voting against the following directors for the following issues:

Nominee **JULIUS** served as chairman of the remuneration committee in fiscal year 2008, during which time the committee breached the trust of shareholders when it elected to override the vesting provisions in the Executive Directors' Incentive Plan for the 2006-2008 performance period. A portion of awards were permitted to vest despite the Company's bottom-ranking performance in its peer group. Please refer to the analysis in Proposal 2 for further discussion of this and other concerns regarding the Company's remuneration practices. The members of the remuneration committee have the responsibility of reviewing all aspects of the compensation program for the Company's executive officers. It appears to us that members of this committee have not fulfilled their duties.

## *Sir Tom McKillop*

We believe that the continued presence of nominee **MCKILLOP** on the Company's remuneration committee, and indeed on the board, presents a material risk to shareholders. Lord Myners, City Minister for Her Majesty's Treasury, is reportedly considering pursuing Mr. McKillop and the former chairman of Royal Bank of Scotland's ("RBS") remuneration committee with legal action in connection with the controversial severance deal that was negotiated for RBS chief executive Sir Fred Goodwin after the bank reported a 2008 loss of £24.1 billion (US\$35.2 billion), the biggest in UK corporate history. Mr. McKillop served as chairman of RBS before and during its near-collapse and was also a member of its remuneration committee. Lord Myners and others have accused the pair of not acting in the best interests of the bank, claiming that they "bent over backwards" to help Sir Fred walk away with an annual pension of £700,000 (US\$1,023,050) per year despite RBS' collapse (Robert Winnett. "Ministers 'to Sue' RBS Directors over Sir Fred Goodwin's Pension" [Telegraph.co.uk](http://Telegraph.co.uk). March 18, 2009). Rather than dismissing Sir Fred, which would have resulted in a pension of just £416,000 (US\$607,984), the board struck a deal with the executive allowing him to draw his full entitlement 10 years early.

While the circumstances surrounding the deal continue to emerge, we believe that it is clear that Sir Fred was granted a golden parachute while shareholder value plummeted and taxpayers were forced to save the bank. In light of such events, we believe that shareholders would be best served by the removal of Mr. McKillop from the Company's remuneration committee and the board, as there are substantial questions surrounding his judgment on executive remuneration policies (Phillip Aldrick. "McKillop faces UKFI lawsuit over Goodwin pension" *The Daily Telegraph* (London). March 4, 2009).

Given the allegations against Mr. McKillop and his past conduct at RBS, we question the judgment of the nominations committee and their decision to renominate Mr. McKillop to the board. It is a peculiar choice at best given Mr. McKillop's chairmanship of RBS in the years leading up to its collapse and his close relationship with Mr. Sutherland, who also chairs the Company's nominations committee. We note that Messrs. McKillop and Sutherland have served concurrently as chairman of the boards and members of the remuneration committees of RBS and the Company.

The decision to re-nominate Mr. McKillop has done little to instill confidence in investors in independent board oversight. As such, we are certainly of the view that shareholders would be best served from his replacement by a more suitable and untainted candidate. Finally, we also believe that shareholders should also hold Mr. McKillop accountable for our concerns regarding the Company's remuneration report.

We do not believe there are substantial issues for shareholder concern as to any other nominee.

Accordingly, we recommend that shareholders vote:

**AGAINST:** Julius; McKillop

**FOR:** All other nominees

## Proposal 4.00: Elect Cynthia Carroll

FOR

Please refer to the analysis in Proposal 3.

## Proposal 5.00: Elect Sir William Castell

FOR

Please refer to the analysis in Proposal 3.

## Proposal 6.00: Elect Iain Conn

FOR

Please refer to the analysis in Proposal 3.

## Proposal 7.00: Elect George David

FOR

Please refer to the analysis in Proposal 3.

## Proposal 8.00: Elect Erroll Davis, Jr.

FOR

Please refer to the analysis in Proposal 3.

## Proposal 9.00: Elect Robert Dudley

FOR

Please refer to the analysis in Proposal 3.

## Proposal 10.00: Elect Douglas Flint

FOR

Please refer to the analysis in Proposal 3.

## Proposal 11.00: Elect Byron Grote

FOR

Please refer to the analysis in Proposal 3.

## Proposal 12.00: Elect Anthony Hayward

FOR

Please refer to the analysis in Proposal 3.

## Proposal 13.00: Elect Andrew Inglis

FOR

Please refer to the analysis in Proposal 3.

## Proposal 14.00: Elect DeAnne Julius

**AGAINST**

Please refer to the analysis in Proposal 3.

## Proposal 15.00: Elect Sir Tom McKillop

**AGAINST**

Please refer to the analysis in Proposal 3.

## Proposal 16.00: Elect Sir Ian Prosser

FOR

Please refer to the analysis in Proposal 3.

## Proposal 17.00: Elect Peter Sutherland

FOR

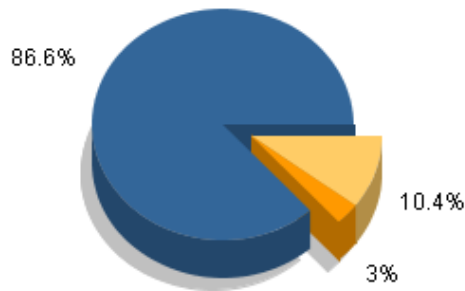
Please refer to the analysis in Proposal 3.

# Proposal 18.00: Appointment of Auditor and Authority to Set Fees

**FOR**

## BP plc Auditor Fees

Audit/Audit Related   Tax  
All Other



this proposal.

This proposal seeks shareholder approval to ratify the appointment of Ernst & Young as the Company's independent auditor, and to authorise the board to set the auditor's fees for the next fiscal year.

During the last fiscal year, the Company paid Ernst & Young audit fees of US\$44,000,000, audit-related fees of US\$14,000,000 and tax fees of US\$2,000,000. All other fees totaled US\$7,000,000.

### Glass Lewis' Analysis

We believe that the fees paid for non-audit-related services are reasonable and that the Company has a track record of disclosing the appropriate information about these services in its filings.

Accordingly, we recommend that shareholders vote **FOR**

This proposal seeks shareholder approval to authorise the Company to repurchase its own shares.

The authority to repurchase shares will be subject to the following conditions:

- (i) the number of ordinary shares purchased will not exceed 1.8 billion, representing 10% of the Company's issued share capital;
- (ii) the maximum purchase price will be an amount equal to 105% of the average of the middle-market quotations for an ordinary share according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the purchase contract is made;
- (iii) the minimum purchase price will be US\$0.25 per share; and
- (iv) the authority will expire on July 15, 2010 or, if earlier, at the conclusion of the 2010 annual general meeting.

The UK Listing Authority permits a company to repurchase up to 15% of its issued share capital and to deal with such shares, including selling them, subject to certain limitations, for cash, transferring them for use in employee stock plans or canceling them.

We note that the Company purchased 269.8 million of its own shares during fiscal year 2008, representing 1.4% of the issued share capital, for an aggregate consideration of US\$2.9 billion. The board states that the Company would only repurchase its shares if, in the board's opinion, the expected effect would result in an increase in earnings per share and would benefit shareholders generally.

### **Glass Lewis' Analysis**

As a general rule, we believe that buyback programs and associated share cancellation programs are in shareholders' best interests, so long as the Company is left with a sufficiently strong balance sheet in light of its capital requirements. Typically, a repurchase is used to return surplus capital to shareholders, increase earnings per share, or provide shares for equity compensation plans.

We believe that the terms under which the Company is considering a repurchase of its shares are reasonable.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 20.00: Authority to Issue Shares w/ Preemptive Rights

**FOR**

This proposal seeks shareholder approval to authorise the board to issue shares having a maximum nominal value of US\$1,561,000,000. If approved, the authority will expire on July 15, 2010 or, if earlier, at the conclusion of the 2010 annual general meeting.

### **Glass Lewis' Analysis**

Under the proposal, the board's authority to issue shares will be limited to a nominal value of US\$1,561,000,000, which represents 33% of the Company's issued ordinary share capital. This limit meets the guidelines issued by the Association of British Insurers and other UK investor bodies.

We believe that this authority will benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities. We find the terms of the proposal to be reasonable.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 21.00: Authority to Issue Shares w/o Preemptive Rights

FOR

This proposal seeks shareholder approval to authorise the board to issue shares having a maximum nominal value of US\$234,000,000 without first offering the securities to existing shareholders on a pro rata basis. If approved, the authority will expire on July 15, 2010 or, if earlier, at the conclusion of the 2010 annual general meeting.

### Glass Lewis' Analysis

Under the proposal, the board's authority to issue shares without preemptive rights will be limited to a nominal value of US\$234,000,000, which represents 5% of the Company's issued ordinary share capital. This limit meets the guidelines issued by the Association of British Insurers and other UK investor bodies.

We believe that this authority will benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities. We also note that the dilution to current shareholders will be capped at 5%, which we consider reasonable.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 22.00: Amendments to Articles Regarding General Meeting Notice Period

**AGAINST**

This proposal seeks shareholder approval to reduce the notice period for a general meeting, also commonly known as a special or extraordinary meeting, from 21 days to 14 days. This amendment to the Company's articles of association is allowed under both the Companies Act 2006 (the "Act") and also the EU Shareholder Rights Directive, which will come into effect in August 2009.

We note that the notice period for an annual general meeting will remain unchanged.

### **Glass Lewis' Analysis**

Glass Lewis generally supports changes made to the articles of association that do not act contrary to shareholders' interest.

However, in this case, we are concerned with the effect of reducing the notice period for a general meeting from 21 to 14 days, as we believe the amendment may limit the ability of some shareholders, particularly those located overseas, from participating at a meeting in a fully-informed manner. While this shortened notice period is also permitted by the EU Shareholders Rights Directive, provided a company conforms to specific electronic voting and communication requirements, we continue to believe 14 days is simply insufficient time for shareholders to receive a ballot, weigh the issues and vote. Further, issues raised at general meetings are by their nature often more complex than routine annual general meeting proposals, thereby requiring a deeper and more time-consuming level of review.

In this case, we note that the Company has adopted electronic disclosure and voting provisions for shareholder meetings, mitigating to some extent the negative aspects of a shortened notice period. However, we still believe that a shortened notice period does not provide shareholders with sufficient time to adequately review proposals being presented at a general meeting, and thus we are inclined to oppose any reduction in the notice period.

Accordingly, we recommend voting **AGAINST** this proposal.

## Disclosure

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