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**From:** Palin, Todd M [PalinTM@BP.com]  
**Sent:** Wednesday, August 29, 2007 4:22 AM  
**To:** fek9wnr@yahoo.com  
**Subject:** FW: Variable Pay Plan Payout for Alaska  
**Attachments:** FY VPP Update Letter.doc; 2003 VPP slide pack.ppt

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**From:** Trimmer, Glenn F  
**Sent:** Tuesday, August 28, 2007 3:51 AM  
**To:** Palin, Todd M  
**Subject:** FW: Variable Pay Plan Payout for Alaska

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**From:** Marshall, Steve (Alaska)  
**Sent:** Thursday, February 19, 2004 4:33 PM  
**To:** G AK BPXA Staff  
**Subject:** Variable Pay Plan Payout for Alaska

### Variable Pay Plan (VPP) - 2003 Results

I am pleased to report to you the 2003 VPP results for Alaska. The attached note and slide pack provide the details for our final score and payout, which will be administered in mid-March. Our 2003 performance was excellent - thank you for your efforts. Most notably, we achieved an improvement in our safety performance with fewer recordables, Days Away from Work Cases, and vehicle accidents compared to 2002. All areas of the business contributed to the delivery of our Plan targets through operating efficiency, reservoir management, wellwork and drilling results, and satellite field development.

Our BU score of 140 points (base performance contract delivery = 100 points, stretch delivery = 150 points) was awarded based on our fantastic results. Congratulations! The E&P Segment score was 127.5, and these two scores provide the basis for determining the funding level and team payout for Alaska.

Thank you again for your achievements in 2003 and for your continued focus on safety performance in 2004.

Steve

<<FY VPP Update Letter.doc>> <<2003 VPP slide pack.ppt>>

ROSTON 00788

10/14/2009

## 2003 Business Performance and Variable Pay Plan – Update from Steve Marshall

### Alaska BU 2003 Results

I am pleased to be able to report to you the final 2003 results from our Alaska business and their impact on the Variable Pay Plan. Firstly, thank you for your hard work and dedication to excellence in 2003. Your efforts helped us achieve strong performance results in all areas against Plan – a performance viewed as one of the strongest in the E&P Segment. Our six key results are summarized below:

Performance Delivery	Measure	FY 2003 Plan	FY 2003 Actual
<b>Safety</b>	DAFWCF	0.08	
	RIF	0.65	
<b>Production</b>	Production (mboed)	323.3	329.6
<b>Costs</b>	Lifting costs (\$mm)	333.8	351.3
	Total Cash Costs (\$mm)	781.4	753.0
	Capital (\$mm)	790.7	691.0

**Safety performance** is our top priority, and I am very pleased with the progress we have made. Our Recordable Injury Frequency (RIF) rate recordable injury frequency improved 40% relative to 2002 (77 vs. 140 injuries), and our Days Away from Work Case (DAFWC) frequency rate improved 29% (8 vs. 12). This means 67 fewer people were injured working in our operations. We also beat our targets for number and frequency of vehicle accidents, and we reduced our High Potential/Major Incidents by 55% relative to 2002, from 11 to 5. Safety Inputs (ASA's, Safety Observations, Training and Action Item Closure) for Alaska are Best-in-Class for the E&P Segment worldwide! Over 75,000 observations were conducted in 2003, and high quality safety inputs by you and our contractors will help us move closer to the Incident Free Culture that we all desire. Thank you for your continued focus on creating a safe workplace environment. We need to maintain this progress through 2004.

The safety immersion program which began in 3Q 2003 with Lifting Operations is continuing in 1Q 2004 with Driving, followed by Energy Isolation later in the year. These three activities are the most frequent cause of injuries and fatalities in BP operations worldwide. Continued high levels of safety observations, whether through the behavioral programs on the Slope or the new STOP program in Anchorage, will help us further improve our safety performance in 2004 and close the gap between Alaska and the rest of BP Group.

**Production** in 2003 exceeded Plan across the North Slope. We finished the year 6 mboed above Plan, after adjusting for the increased Northstar royalty payments due to high oil price (-3.9 mbd). Northstar royalty payments will not impact VPP payout. Congratulations and thanks to all who contributed to this excellent result! The production delivery would not have been possible without safe execution of maintenance

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and construction activities, new well and wellwork planning, and excellent teamwork. A few highlights:

- Drilling performance across the Alaska BU is recognized by both the worldwide drilling community and senior management as a model for delivery across BP. Drilling efficiency and new well delivery exceeded our Plan target.
- Wellwork delivery and wellwork efficiency also exceeded Plan, including the delivery of excellent results from the \$10m of additional funding received from the Segment Executive Team (SET) in 2Q.
- Northstar operating efficiency improved from 75% in 2002 to 86.5% in 2003. Base reservoir performance as well as strong new well performance will contribute to extending the plateau production for this field.

**Cost** performance in 2003 continued to support the efforts being made toward delivering a long-term competitive business in Alaska. Office overhead costs, field contractor costs, and Alyeska's costs all showed improvements over 2002.

**Capital expenditure** was \$140m below Plan, due to a combination of savings and deferrals. Over a third of the \$651m spend was for the new tankers, the first of which is scheduled to be delivered in 2004. Drilling spend was also about a third of the capital spend, and our drilling program also delivered significant savings. This lower cost for developing new barrels is key to keeping our business competitive.

### *Overall Scorecard and Performance Score*

At the end of each quarter in 2003, the SET reviewed our BU performance against our in-year and long-term Plan targets for purposes of our Variable Pay Plan (VPP). As a reminder, a score of 100 represents Plan delivery, and a score of 150 represents delivery of stretch targets. The Alaska BU received a final 2003 score 140, compared to 140 in 3Q, 125 in 2Q, and 115 in 1Q. There were no E&P businesses with a higher result. This is a superb outcome, of which we should all be proud.

The second component of VPP is the score for the E&P Segment worldwide. Based on year-end results, the E&P Segment scored 127.5. This means that the Alaska VPP is funded at 135.8 points (results weighted 2/3 BU and 1/3 Segment). As a reminder, each individual's target bonus opportunity (TBO) has both a team and individual component, with the exception of hourly individuals who are 100% team based. The TBO depends upon individual level, and the following table summarizes the funding and team element payout (2/3 of funding) which these excellent results will generate. Individual amounts will be determined by Team Leaders based on performance.

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Payout will be made in mid-March. For more details of 2003 VPP for Alaska, please refer to the enclosed slide packet.

Level	Target Funding	Max Funding	2003 VPP Funding	2003 VPP Team Element for Alaska	Individual Payout Range
E	25%	45%	39.2%	26.1%	0-26%
F	20%	35%	30.7%	20.4%	0-21%
G	15%	27%	23.6%	15.7%	0-16%
H	12%	22%	19.1%	12.7%	0-12%
I	10%	18%	15.7%	10.4%	0-10%
J	9%	15%	13.3%	8.8%	0-9%
K	7%	13%	11.3%	7.5%	0-7%
Hourly	7%	13%	11.3%	11.3%	n/a
Hourly (PACE contract)*	n/a	n/a	9.3%	9.3%	n/a

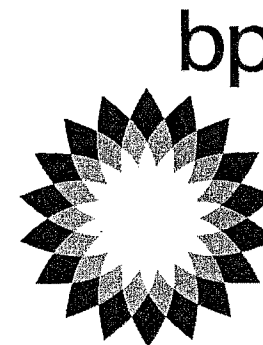
\* Represented employees are awarded VPP in accordance with the contractual agreement

Once again, I want to thank you for your hard work and support in delivering these very strong results. Every part of the business has contributed to 2003 success and deserves credit for an outstanding year. Safety remains our biggest challenge as we work toward achieving our goal of an Incident Free Culture. This past year we demonstrated our capability to deliver great improvements in safety. I ask for your support in continuing that performance in 2004.

**Steve Marshall**

*19<sup>th</sup> February 2004*

**ROSTON 00791**



# BP Alaska – 2003 Performance and Variable Pay Plan (VPP)

February 2004

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# A Reminder of VPP and How It Works...



- Replaces Teamshare, PIP, IPB schemes
- Funding level depends on overall business performance
  - 2/3 BU performance
  - 1/3 Exploration & Production Segment performance
- Individual VPP opportunity
  - 2/3 team element
  - 1/3 based on individual performance
  - Hourly staff is 100% team-based
- Individual element, where applicable, is determined based on Line Manager's assessment of your performance
- Team and individual element opportunities are greater at higher Levels, in line with North America labor market

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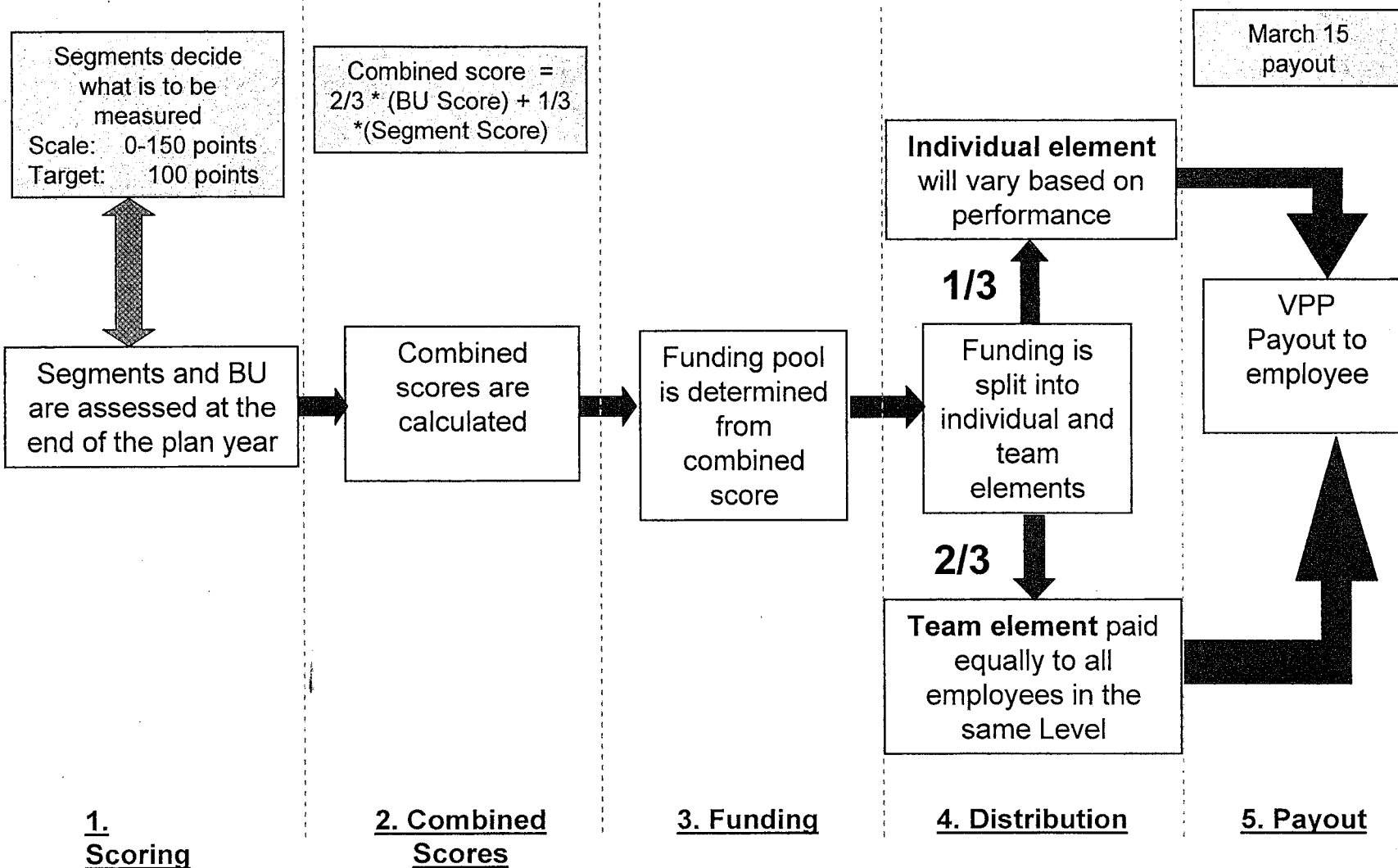
# VPP Link to BU Performance

- Delivery of Plan targets = Target funding of BU element (100 points)
- Delivery of Stretch targets = Maximum funding of BU element (150 points)
- Based on “balanced scorecard” approach
- Failure to fully report an HSE incident may result in the elimination of the HSE payout

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# How does it work: 5-Step Process



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# Alaska Delivery - Safety



Safety Output	2003 Actuals	2003 Target
DAFWC	8	<6
DAFWF		0.15
Recordables	77	<37
RIF	1.47	0.65
Vehicle Accidents	17	<23
Vehicle Accident Frequency	0.51	0.72

0.08

- Significant reduction in vehicle accidents in 2003
- 29% reduction in DAFWCF and 40% reduction in RIF relative to 2002

***High quality observations have led to the improvement in injury frequency. Further improvement is required to meet our targets.***

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# Alaska Delivery - Production



<i>mboed</i>	2003 Actual	2003 Plan
Alaska BU	329.6	323.3

- Northstar Operations Efficiency exceeded Plan target
- Drilling and wellwork efficiency above North America average
- Good base reservoir performance and satellite waterflood response
- Strong recovery from production upsets in 1Q 2003

***2003 Alaska production delivery exceeded  
Plan due to great contributions from all fields!***

*Note: production numbers exclude price impact of Northstar Royalty*

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# Alaska Delivery - Costs

<i>\$ million</i>	2003 Actuals	2003 Plan
Cash Costs	753	781
Non-Cash Costs	598	590
Total Costs	1351	1371

- Reduced Anchorage office costs and improved efficiency on North Slope
- Underlying cost improvements in Alyeska costs and contractor costs

***Improvements in all areas of the business helped us meet our cost targets...***

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# Alaska Delivery - Capital



<i>\$ million</i>	2003 Actual	2003 Plan
Capital Expenditure	651	791

- Significant portion (\$236 million) is for new tankers
- Quality of our drilling spend (\$235 million) is critical to our production target

***and we achieved our production targets using less capital!***

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# 2003 E&P Segment Successes



- We concluded our transaction to purchase 50% of TNK-BP, the third largest oil producer in Russia, a country which is the world's most significant hydrocarbon producer both today and for tomorrow.
- We more than replaced our production with new proven reserves at an organic rate of 122%. This was the 11th year in a row in which we more than replaced our production, giving us the material for future growth.
- We participated in discoveries in: Egypt (Saqqara), Angola (in Blocks 15 and 31) and the deepwater Gulf of Mexico (Tubular Bells, Puma).
- All projects in our new E&P profit centers are on track. For example, production has started in Angola at Jasmim and Xikomba; in Trinidad at Atlantic LNG Train 3; and in the Gulf of Mexico at Nakika.
- Full year production, at over 3.6mmb/d, was in line with the capacity indicator range we gave a year ago.

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# Alaska VPP Score



- Alaska SPU score at year-end = 140
- E&P Segment score = 127.5
- VPP funding is 135.8 points (target = 100 points and maximum = 150 points), i.e.  $\frac{2}{3} \times 140 + \frac{1}{3} \times 127.5$
- Feedback and 2004 opportunities:
  - Continued improvement around DAFWCF and RIF
  - Maintain current production performance
  - Continue transformation agenda across Alaska business

***Great performance in 2003 from all areas of the business!***

# What does this mean for me?



2/3 BU and 1/3 E&P Segment

BU Score  
E&P Segment Score  
Weighted Score

140 points  
127.5 points  
135.8 points

Weighted average score  
determines funding level

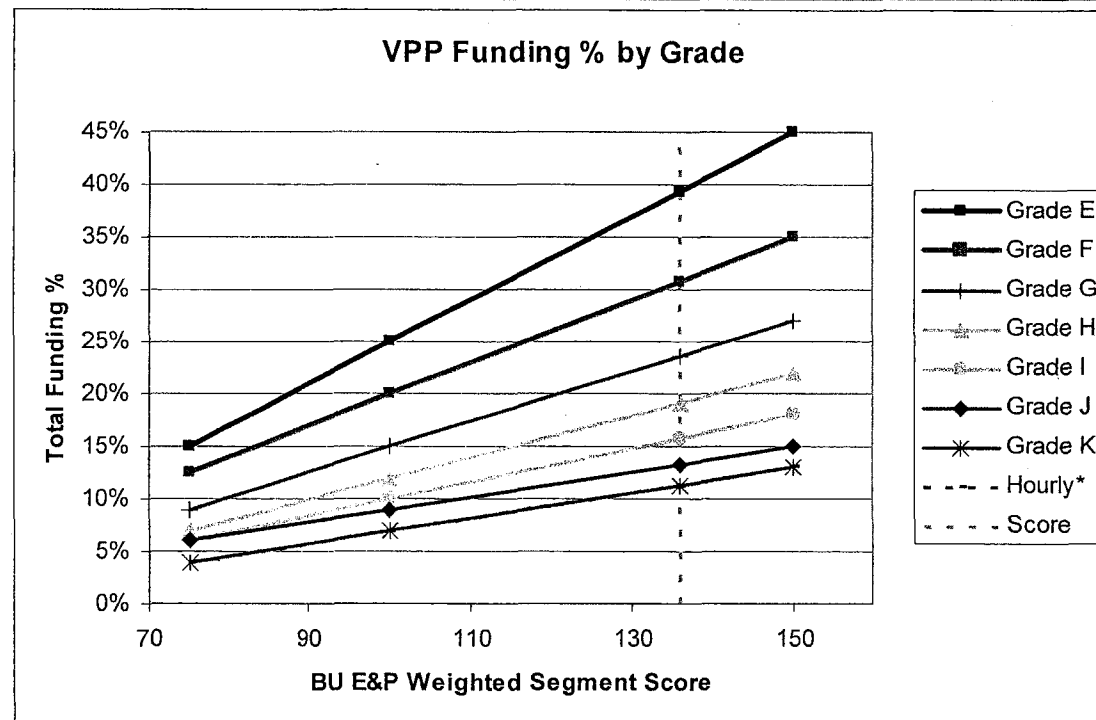
Level	Funding (%)			VPP Payout	
	100 Points Target	150 Points Maximum	135.8 Points FY Score	Team Element	Individual Element
E	25.0%	45.0%	39.2%	26.1%	0 - 26%
F	20.0%	35.0%	30.7%	20.4%	0 - 21%
G	15.0%	27.0%	23.6%	15.7%	0 - 16%
H	12.0%	22.0%	19.1%	12.7%	0 - 12%
I	10.0%	18.0%	15.7%	10.4%	0 - 10%
J	9.0%	15.0%	13.3%	8.8%	0 - 9%
K	7.0%	13.0%	11.3%	7.5%	0 - 7%
MH	7.0%	13.0%	11.3%	11.3%	0%

Funding for individual  
element is half the  
funding for team  
element – but payout  
range is the same  
regardless of funding  
level

For represented staff, BP will administer VPP in accordance with the contractual agreement (9.3%)

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# VPP calculation



**Funding basis** =  $\frac{2}{3}$  (BU score) +  $\frac{1}{3}$  (E&P Segment score) =  $\frac{2}{3}*(140) + \frac{1}{3}*(127.5) = 135.8$

**Funding % range** was set by BP Group at beginning of 2003 as a straight line between a score of 75 and 150. **Funding %** for each Grade is determined by intersection of our 135.8 score and the funding % range.

**Team Element** =  $\frac{2}{3}*(\text{Funding \%})$ . See previous slide for the breakout by Grade.

**Individual Element** will vary by individual as determined by your performance assessment/team leader, with the exception of hourly staff, whose payout is 100% team-based.

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# What happens next?

- VPP paid on March 15
- 2004 Annual Plans agreed with SPUs
- 2004 VPP program announced in March

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