

BP board performance report

Letter from the chairman

I am once again pleased to introduce our board performance report. The report reviews the work of the board and its committees as my tenure as chairman moves to a close. Over the past 12 years, both the calibre of individuals who have served on the board and our system of governance has stood us in good stead. The strong set of principles on which we base our governance framework, which include clarity of roles, separation of powers, independence and appropriate skills, remain valid today.

I have been encouraged from discussions with shareholders over time that our approach to governance and the dialogue which we continue to have with them is welcomed. This is important to us and no more so than during the testing times in which we operate.

Recent events and the current economic climate have inevitably triggered further debate about governance. This I welcome. The framework of governance does need to be kept under review and, where necessary, challenged by investors, regulators and companies themselves to ensure that the system is delivering.

Under such a review I believe that BP's governance approach can show its strength. It requires active engagement on behalf of the company and investors alike. I do not believe that our comply or explain system is broken and it is important for us that the principles-based system continues.

Peter Sutherland

Chairman
 24 February 2009

Board governance principles

The board governance principles ('principles') are designed to enable the board and the executive management to operate within a clear framework. The principles describe the role of the board, its processes, its relationship with executive management and the main tasks and requirements of the board committees. The principles are available at www.bp.com/corporategovernance.

In carrying out its work, the board focuses on key tasks, which include the active review of the long-term strategy and the annual plan, monitoring the decisions and actions of the group chief executive, the performance of BP, the succession of executive management and the oversight of risk.

The principles outline how the board delegates its authority for executive management of the company to the group chief executive, subject to monitoring by the board and a clearly defined set of limitations. These 'executive limitations' require that any executive action taken in the course of business takes specific issues into consideration, including health, safety and the environment, any reputational impact on BP, risk and the framework for internal control.

Operating the principles

The group chief executive through the annual plan describes to the board how the strategy is to be delivered, together with an assessment of the group's risks. During the year, the board monitors progress and keeps the strategy under review.

The group chief executive is obliged to review and discuss with the board all strategic projects or developments and all material matters currently or prospectively affecting the company and its performance.

The principles are kept under review by the board to ensure they remain relevant and up to date.

Board activities in 2008

As outlined above, the board focuses on key areas in carrying out its work. Forward agendas are set to determine a high level work programme for the board based on its core tasks (including dealing with strategy and monitoring) but additional items are added throughout the

year depending on the exigencies of the business as they arise. During the year the board was involved in the following activities:

Strategy and Risk

The board undertook extensive discussions on strategic options for the group, including the future business and competitive environment, technology developments, pricing and demand models and portfolio options. The identification and management of group risks were reviewed by the board, together with how these risks and their mitigation were embedded in the group's annual plan.

Review of capital expenditure and post investment review

While the audit committee reviewed project delivery performance, the board undertook an annual review of the group's project sanctioning process and delegation of authority. The process and criteria for each stage of a project was discussed, together with examples of projects with different lead times and complexities.

Business review

Business reviews were held with both segments (Exploration and Production and Refining and Marketing) and the finance and information technology and services (IT&S) functions.

Global economic environment and energy markets

The board actively monitored developments in the global energy markets and economic environment. Issues considered included the supply/demand balance, the relationship between oil prices, energy consumption and GDP growth and turbulence in the financial markets.

Other areas

Other areas discussed by the board included interactions with BP's partners in TNK-BP, the results of a group-wide employee satisfaction survey and the findings of a report on BP's reputation in the UK and US. The board also received a presentation from the independent expert appointed to provide an objective assessment of BP's progress in implementing the recommendations of the BP US Refineries Independent Safety Review Panel (the Panel).

The board is supported in its tasks by the company secretary, who reports to the chairman and has no executive functions. His remuneration is determined by the remuneration committee.

Board meetings and attendance

The board met nine times during 2008, of which one meeting was a two-day strategy session and another meeting was a one-day strategy session.

	Board meetings eligible to attend	Board meetings attended
P D Sutherland	9	9
Sir Ian Prosser	9	9
A Burgmans	9	9
C B Carroll	9	9
Sir William Castell	9	9
G David	7	7
E B Davis, Jr	9	8
D J Flint	9	7
Dr D S Julius	9	9
Sir Tom McKillop	9	9
Dr W E Massey	4	4
Dr D C Allen	3	3
I C Conn	9	9
Dr B E Grote	9	9
Dr A B Hayward	9	9
A G Inglis	9	9

The chairman and senior independent director

The principles require that neither the chairman nor deputy chairman be employed as an executive of the group. During 2008, these posts were held by Peter Sutherland and Sir Ian Prosser respectively.

The chairman provides leadership of the board, acts as facilitator for meetings and ensures that the governance framework of the board is maintained and operated. The chairman also leads board performance appraisals. He represents the views of the board to shareholders on key issues, in particular those relating to governance and succession planning and informs the board of shareholder views.

Between board meetings, the chairman has responsibility for ensuring the integrity and effectiveness of the relationship with executive management. This requires his interaction with the group chief executive, as well as his contact with other board members, senior management and stakeholders.

The deputy chairman acts for the chairman in his absence or at his request. The deputy chairman also serves as the board's senior independent director and is available to shareholders where there are issues that cannot be addressed through normal channels.

The chairman and all the non-executive directors meet periodically without the presence of executive management as the chairman's committee. The performance of the chairman is evaluated each year, with the evaluation discussion taking place when the chairman is not present. The principles require that the board develop and maintain a plan for the succession of both the chairman and deputy chairman.

Board composition

The principles require that over half the board, excluding the chairman, comprise independent non-executive directors and that the number of directors to not normally exceed 16. The board is composed of the chairman, nine non-executive and four executive directors.

The board considers that it is of an appropriate size to govern BP, with its directors possessing the relevant backgrounds and mix of experience, knowledge and skills to maximize its effectiveness.

Board renewal and skills

The board remains actively engaged in orderly succession planning for both executive and non-executive directors and is assisted in this task by the nomination committee. The committee keeps under review the composition, skills and diversity of the board to ensure that it remains appropriate to the tasks and work it undertakes. The nomination committee believes a breadth of skills is required for the board to meet the demands of a business with global operations. These skills include deep operational, engineering, safety and financial expertise, experience of leading industrial, capital intensive or 'long lead time' businesses and insight into key emerging markets and technology development.

The board: terms of appointment

The chairman and non-executive directors of BP serve on the basis of letters of appointment. Executive directors of BP have service contracts with the company. Details of all payments to directors are described in the directors' remuneration report.

The service contracts of executive directors are expressed to expire at a normal retirement age of 60 (subject to age discrimination), while non-executive directors ordinarily retire at the AGM following their 70th birthday.

In accordance with BP's Articles of Association, directors are granted an indemnity from the company in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the company maintained a directors' and officers' liability insurance policy throughout 2008. During the year, a review of the terms and nature of the policy was undertaken and has been renewed for 2009. Although their defence costs may be met, neither the company's indemnity nor insurance provides cover in the event that the director is proved to have acted

fraudulently or dishonestly. Following recent changes to company law, the company is also permitted to advance costs to directors for their defence in investigations or legal actions.

Director elections

New board directors are subject to election by shareholders at the first AGM following their appointment. All existing directors stand for re-election each year – a practice the company has followed since 2004. All directors proposed to shareholders for election are accompanied by a biography and a description of the skills and experience that the company feels are relevant.

Voting levels at the 2008 AGM demonstrated continued support for all board directors.

Board independence

Non-executive directors are required by the principles to be independent in character and free from any business or other relationship that could materially interfere with the exercise of their judgement. The board has determined that the non-executive directors who served during 2008 fulfilled this requirement and were independent.

BP believes that tenure of board members should be determined on the basis of contribution and continued evidence of the exercise of independent judgement. As all directors are proposed for annual re-election by shareholders, the board considers that arbitrary term limits on a director's service are not appropriate.

Sir Ian Prosser joined the board in 1997. It is the view of the board that he remains firmly independent. His experience and long-term perspective on BP's business have provided and continue to provide a valuable contribution to the board and the audit committee, which he chairs. As deputy chairman and senior independent director, Sir Ian is leading the board's search for the successor to the current chairman. He has been asked by the board to remain in post until April 2010 in order that he may conclude both the chairman's succession process and the identification and appointment by the new chairman of a senior independent director.

Mr Davis joined the board on the completion of the Amoco merger in December 1998. The board believes Mr Davis continues to demonstrate his independence. He is an active participant at the board and sits on the audit and remuneration committees, and the high level of his independence is demonstrated by his engagement in these forums.

The board has satisfied itself that there is no compromise to the independence of those directors who serve together as directors on the boards of outside entities (or who have other appointments in outside entities).

From 1 October 2008, there has been a requirement that directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Directors of public companies may authorize conflicts and potential conflicts, where appropriate, if a company's articles of association permit and shareholders have approved appropriate amendments.

Procedures have been put in place for the disclosure by directors of any such conflicts and also for the consideration and authorization of these conflicts by the board. These procedures allow for the imposition of limits or conditions by the board when authorizing any conflict, if they think this is appropriate. These procedures were duly followed to approve appropriate conflicts immediately prior to the enactment of the conflict provisions in October 2008, and are now included as a regular standing item for consideration by the board at its meetings.

Serving as a director

Induction

The induction of new board members is the responsibility of the chairman, who is assisted by the company secretary in this task. All new directors receive a full induction programme, including a 'core' element covering the principles and the legal and regulatory duties of directors. Non-executive directors receive further induction content devised according to their own interests and needs, together with the requirements of the committees on which they will serve. This would include meetings and briefings on the operations and activities of the group, the strategy and the annual plan and the company's financial performance. The induction programme is targeted for completion within the first nine to 12 months of non-executive directors taking office, while the executive director programme is arranged in the course of their business activities.

Training and site visits

Directors and committee members receive briefings on BP's business, its markets, operating environment and other key issues during their tenure as directors to ensure they have the necessary skill and knowledge to perform their duties effectively. Board members are also kept updated on legal and regulatory developments that may impact their duties and obligations as directors of a listed company.

In the past two years, the board and its committees have sought greater opportunity to meet at BP's operating sites. This has enabled board members to see a selection of BP's businesses e.g. the Texas City refinery, gas production in Colorado, exploration and production activities in Azerbaijan and the alternative energy solar facility in Maryland. These site visits have given directors the opportunity to meet both operational staff and government and community leaders in the parts of the world where BP operates. All non-executive directors are required to participate in at least one site visit per year.

Outside appointments

BP recognizes that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the individual and the group. Executive directors are permitted to take up one external board appointment, subject to the agreement of the chairman and reported to the BP board. Fees received for these external appointments may be retained by the executive director and are reported in the directors' remuneration report.

Non-executive directors may serve on a number of outside boards, provided they continue to demonstrate the requisite commitment to discharge their duties to BP effectively. The nomination committee keeps under review the nature of directors' other interests to ensure that the efficacy of the board is not compromised and may make recommendations to the board if it concludes that a director's other commitments are inconsistent with those required by BP.

Board evaluation

The principles stipulate that the performance and effectiveness of the board, including the work of its committees, should be evaluated annually. In 2008, this evaluation was undertaken internally with the use of a questionnaire. The questionnaire focused on areas including the conduct of meetings, activities of the board versus committees, monitoring and information and board support and built on the review of board operations and governance that had taken place in 2007. The main outcome of the evaluation was a requirement for a more systematic approach to ensure that the skills of the directors met the changing demands of the business and the environment in which it operates.

Engagement with shareholders

The board is accountable to shareholders for the performance and activities of the BP group and engages in regular dialogue to understand their views and preferences. However, the board also recognizes that, in conducting its business, BP should be responsive to other relevant constituencies.

During the year, the chairman and deputy chairman met with institutional shareholders to discuss issues relating to the board, governance, strategy and performance. The remuneration committee chairman met with larger shareholders to discuss executive director remuneration.

The group chief executive, other executive directors and senior management, company secretary's office, investor relations and other teams within BP also engage with a range of shareholders on wider issues relating to the group, including in particular its safety, operational and financial performance. Presentations given by the group to the investment community are available to download from the 'Investors' section of BP's website, as are speeches on topics of broad interest to shareholders made by the group chief executive and other senior members of the management team.

AGM

BP's AGM enables shareholders to ask questions and hear the resulting discussion about the company's performance and the directors' stewardship of the company. Votes on all matters (except procedural issues) are taken by a poll at the AGM, meaning that every vote cast – whether by proxy or in person at the meeting – is counted.

The chairman, board committee chairmen and other directors were present during the 2008 AGM and met shareholders on an informal basis after the main business of the meeting. In 2008, voting levels at the AGM increased to 64%, compared with 61% in 2007. Last year was also the first time that the AGM was webcast. This will be repeated for the company's forthcoming meeting. The webcast, speeches and presentations given at the AGM are available to download from the BP website after the event, together with the outcome of voting on the resolutions.

Board committees

The principles allocate the tasks of monitoring executive actions and assessing performance to certain board committees. These tasks prescribe the authority and role of the board committees.

Reports for each of the main board committees follow. In common with the board, each committee has access to independent advice and counsel as required and each is supported by the company secretary's office, which is independent of the executive management of the group. The main tasks and requirements of each of the board's committees are set out in the principles, available at www.bp.com/corporategovernance.

Audit committee report

Membership

The audit committee comprises four independent non-executive directors who have been selected to provide a wide range of financial, international and commercial expertise appropriate to fulfil the committee's duties.

During the year, Sir Ian Prosser (chairman), Douglas Flint and Erroll Davis, Jr were members of the audit committee. Sir William Castell retired from the committee in April 2008 and George David joined in May 2008. The secretary to the committee is David Pearl, deputy company secretary of BP.

The board considers that Douglas Flint possesses the financial and audit committee experience, as defined by the Combined Code guidance and the SEC, and has nominated him as the audit committee's financial expert.

Attendance

The audit committee met 13 times during 2008.

	Audit committee meetings eligible to attend	Audit committee meetings attended
Sir Ian Prosser (chairman)	13	13
E B Davis, Jr	13	10
D J Flint	13	13
G David	6	6
Sir William Castell (former member)	7	7

In addition to the above members, the committee invites the lead partner of the external auditors (Ernst & Young), the group chief financial officer, the general auditor (head of internal audit), the chief accounting officer and the deputy chief financial officer to attend each meeting. Other senior management attend on request to enable the committee to discharge its duties. The committee also holds private sessions during the year without the presence of executive management.

Role and authority of the audit committee

The audit committee assists the board in carrying out its responsibilities in relation to financial risk, internal controls, financial and regulatory reporting requirements and the broader observance of the 'executive limitations' relating to financial matters.

The main tasks and requirements for the audit committee are set out in the principles. The audit committee believes that these meet each of the tasks and activities outlined by the Combined Code as falling within the remit of an audit committee.

Information

The committee receives information and reports from internal and external sources, including a wide cross-section of BP's business and financial control management, with the attendance of additional Ernst & Young staff if appropriate to a particular business or functional review.

The audit committee is able to access independent advice and counsel when needed, on an unrestricted basis. Further support is provided to the committee by the company secretary's office and during 2008 external specialist legal and regulatory advice was provided by Sullivan & Cromwell LLP.

The wider board is kept informed of the activities of the committee, and any issues that have arisen, through the regular update given by the audit committee chair after each meeting.

Training and induction

BP provides an induction programme for new committee members and ongoing training to assist them in carrying out their duties. Elements of the induction programme include familiarization with the tasks and requirements of the audit committee, an overview of the key financial and operational aspects of the businesses and an introduction to the group's system of internal control. During the year, George David participated in the audit committee induction, including private sessions with the lead external audit partner and the general auditor.

In 2008, the training programme for the audit committee included briefings on developments in financial reporting and financial standards, a site visit to BP's UK trading operations and an externally facilitated session on tax risk management.

Committee activities in 2008

The chart at the end of this section shows how the audit committee allocated its agenda time in 2008.

Financial reporting

During the year, the committee reviewed all financial reports, including the Annual Report and Accounts and Annual Report on Form 20-F, before recommending their publication to the board.

Monitoring risk in the business

In 2008, the audit committee reviewed reports on risks, controls and assurance for the BP business segments (Exploration and Production, Refining and Marketing), together with alternative energy, information technology and services, the proposed reorganization of the group finance function and BP's trading function. The committee also reviewed BP's long-term contractual commitments and the provisions made for environmental remediation and decommissioning.

Internal controls

A joint meeting with the safety, ethics and environment assurance committee was held to review the general auditor's report on internal controls and risk management. A further joint meeting was held in early 2009 to assist the board in its assessment of the effectiveness of internal controls and risk management in 2008.

The committee discussed key regulatory issues during the year as part of its standing agenda items, including the quarterly internal audit findings report and a review of the company's evaluation of its internal controls systems as part of the requirement of Section 404 of the Sarbanes-Oxley Act. The effectiveness of BP's enterprise level controls was examined through the annual assessment undertaken by the internal audit function.

External auditors

The lead audit partner from Ernst & Young attends all meetings of the audit committee at the request of the committee chairman. Other external audit staff are invited to attend meetings where their expertise is relevant to the agenda item, for example during business or technical reviews.

The committee held two private meetings during the year with the external auditors without the presence of BP management, in order to discuss issues or concerns from either the committee or the auditors.

Performance of the external auditors is evaluated by the audit committee each year, with particular scrutiny of their independence, objectivity and viability. Independence is maintained through the limiting of non-audit services to tax and audit-related work that fall within defined categories. This work is pre-approved by the audit committee and all non-audit services are monitored quarterly.

Fees paid to the external auditors for the year (see *Financial statements – Note 18 on page 134*) were \$67 million, of which 14% was for non-audit work. The fees and services provided by Ernst & Young for both audit and non-audit work have decreased in comparison to the previous year due to improved audit efficiency, ongoing systems improvements and BP's new business structure.

During the year, a new lead partner from Ernst & Young replaced the existing partner who had completed five years' service on the BP audit in early 2008. Under BP policy and pursuant to external regulation, a new lead audit partner is appointed every five years and other senior audit staff are rotated every seven years. No partners or senior staff from Ernst & Young who are connected with the BP audit may transfer to the group.

The audit committee has considered both the proposed fee structure and the audit engagement terms for 2009 and has recommended to the board that the reappointment of the external auditors be proposed to shareholders at the 2009 AGM.

Internal audit

The general auditor attends each committee meeting at the invitation of the audit committee chairman. With the retirement of the general auditor in early 2008, a new general auditor was appointed following an externally facilitated recruitment process.

During the year, the audit committee evaluated the performance of the internal audit function and agreed to the proposed programme of work for the year (being satisfied that it appropriately responded to the key risks facing the company and that the function had adequate staff and resources to complete its work).

In 2008, the committee met once with the general auditor in a private session without the presence of executive management. In addition, the general auditor met with the chairman of the committee from time to time between meetings.

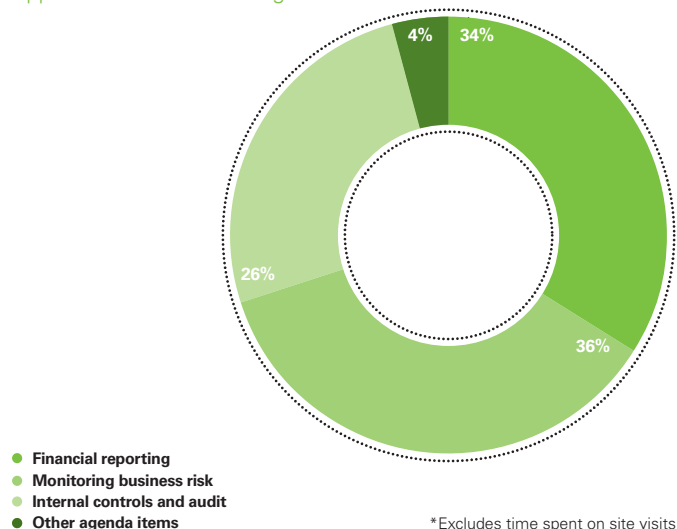
Fraud and employee concerns on financial matters

The audit committee received an annual certification report from the group compliance and ethics function, together with quarterly reports that highlighted financial issues raised through OpenTalk, the group-wide employee concerns programme.

The committee further received quarterly updates from internal audit on instances of actual or potential fraud.

Audit committee activities

Approximate allocation of agenda time in 2008*



Committee performance evaluation

The committee conducts a yearly evaluation of its performance through one-to-one interviews or questionnaires. The results are collated and reported by the committee secretary. Actions taken in 2008 as a result of the end 2007 evaluation included participation in an externally facilitated training session and improved tracking of outstanding issues. In addition, the committee considers performance during its private sessions throughout the year.

The 2008 evaluation was conducted through individual interviews and the outcomes discussed by the committee in January 2009. The forward agenda for the year ahead was set following this review, and consideration was given to building on the training provided to members through site visits.

The audit committee plans to meet 13 times during 2009.

Safety, ethics and environment assurance committee report

Membership

The committee consists solely of independent non-executive directors who have been selected to provide a wide range of operational and international expertise appropriate to fulfil the committee's duties.

Members of the safety, ethics and environment assurance committee (SEEAC) during 2008 were Antony Burgmans, Sir William Castell and Sir Tom McKillop. Dr Massey retired as chairman of SEEAC in April 2008 and Sir William Castell became the committee chairman from that date. Cynthia Carroll joined the committee in June 2008. Support was provided by the committee secretary, David Pearl (deputy company secretary).

Attendance

SEEAC met eight times during 2008.

	SEEAC meetings eligible to attend	SEEAC meetings attended
Sir William Castell (chairman)	8	8
A Burgmans	8	8
C B Carroll	3	2
Sir Tom McKillop	8	8
Dr W E Massey (former member)	4	4

In addition to the above members, each SEEAC meeting is attended by the lead partner of the external auditors (Ernst & Young) and the BP general auditor (head of internal audit) on the invitation of the committee chairman. The group chief executive also attends committee meetings as the executive liaison with SEEAC: Dr Hayward attended all eight meetings of the committee in 2008. The committee holds private sessions without executive management in attendance at the end of each meeting.

Role and authority of the committee

The main tasks and requirements for SEEAC are set out in the principles and include among others:

- Monitoring and obtaining assurance on behalf of the board that the management or mitigation of significant BP risks of a non-financial nature is appropriately addressed by the group chief executive.
- Reviewing material to be placed before shareholders that addresses environmental, safety and ethical performance and make recommendations to the board about their adoption and publication.
- Reviewing reports on the group's compliance with its code of conduct and on the employee concerns programme (OpenTalk) as it relates to non-financial issues.

Information

The committee receives information and reports from the safety and operations function, internal and external sources, including internal audit and the group compliance and ethics function. Staff from Ernst & Young attend if appropriate to a particular business or activity review.

Like BP's other board committees, SEEAC can access independent advice and counsel if it requires, on an unrestricted basis. The wider board is kept informed of the activities of the committee and any issues that have arisen through the regular update given by the SEEAC chair after each meeting.

Training and induction

Members of the committee receive ongoing training to assist them in carrying out their duties and an induction programme was provided for Mrs Carroll on joining the committee.

To develop a deeper understanding of BP's business and operations, Sir William Castell undertook a number of private briefings and several site visits on becoming SEEAC chairman. These visits included the Texas City refinery, where progress in implementing the recommendations of the Panel was observed and to the North Sea ETAP platforms where safety, operational and environmental management on an offshore production facility were reviewed.

Committee activities in 2008

The chart at the end of this section shows how SEEAC allocated its agenda time in 2008.

Safety and operations

The group operations risk committee (GORC) was formed at the end of 2006 and is an executive level committee, chaired by the group chief executive. The GORC made regular reports to SEEAC during the year, including progress on the group-wide implementation of the operating management system (OMS) and BP's six-point plan, the development and utilization of the process safety index and statistics relating to the group's safety and operational performance.

L Duane Wilson was appointed by the board in 2007 as an independent expert to provide an objective assessment of BP's progress in implementing the Panel recommendations, aimed at improving process safety performance at BP's five US refineries. Mr Wilson, who was a member of the Panel, reports to the chairman of SEEAC and is independently funded through the company secretary's office.

Mr Wilson attended six meetings of the committee during 2008 and a private meeting with the committee during the year without the presence of executive management. Topics discussed included a presentation on his detailed work plan and progress updates. In May 2008, Mr Wilson published his first annual report where he assessed BP's progress against the 10 Panel recommendations. The report noted that while significant progress had been made, areas for improvement still remained. Further information on the report is available on BP's website.

Regional reviews and site visits

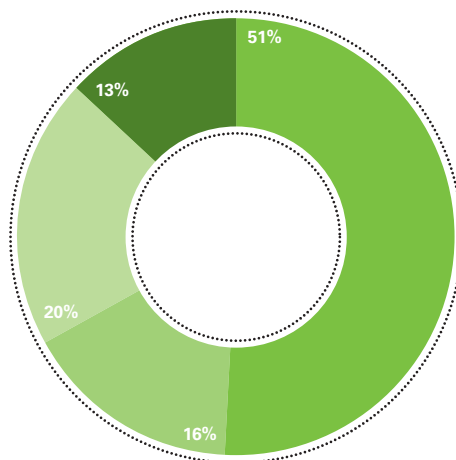
During the year, the committee reviewed reports on Alaska, the BTC pipeline, shipping and TNK-BP. The committee visited BP's refinery operations in Rotterdam, and coal bed methane operations in Durango, Colorado. In addition, some members visited the BP solar manufacturing facilities in Maryland and the group's operations in Azerbaijan.

Other topics

Other topics reviewed by the committee during the year included business continuity and crisis management, environmental requirements for new projects, results from a survey on safety culture in BP's US refineries and a report from the US ombudsman on concerns raised by employees in Alaska. The committee also received and discussed quarterly reports from the general auditor and the group compliance and ethics officer.

SEEAC 2008 Activities

Approximate allocation of agenda time*



- Safety and operations
- Regional and functional reports
- Internal audit and compliance and ethics
- Other topics

*Excludes time spent on site visits

Performance evaluation and forward agenda

The committee undertakes an annual review of its performance and process. In 2008, the review involved interviews with each committee member, with the results discussed at the committee's November meeting. Conclusions from the evaluation included noting the helpful insight gained from site visits and the value to the committee of the knowledge and expertise of the independent expert in respect of safety in the US refineries. The committee also reviewed its forward agenda for 2009.

SEEAC plans to meet seven times during 2009.

Remuneration committee report

Membership

The committee consists solely of non-executive directors who are considered by the board to be independent.

Members of the remuneration committee during the year were Dr DeAnne Julius (chairman), Erroll Davis, Jr, Sir Tom McKillop and Sir Ian Prosser. The chairman of the board also attends meetings of the committee.

Attendance

The committee met six times during 2008.

	Remuneration committee meetings eligible to attend	Remuneration committee meetings attended
Dr D S Julius (chairman)	6	6
E B Davis, Jr	6	5
Sir Tom McKillop	6	6
Sir Ian Prosser	6	6
P D Sutherland	6	6

Role and authority of the committee

The committee determines, on behalf of the board, the terms of engagement and remuneration of the group chief executive, the chairman and executive directors and reports on those to shareholders. The committee is independently advised.

Further details on the committee's role, authority and activities during the year are set out in the directors' remuneration report, which is the subject of a vote by shareholders at the 2009 AGM.

The remuneration committee plans to meet five times in 2009.

Chairman's committee report

Membership

The committee consists of the chairman and all non-executive directors.

Attendance

The committee met four times during 2008.

	Chairman's committee meetings eligible to attend	Chairman's committee meetings attended
P D Sutherland (chairman)	4	4
Sir Ian Prosser	4	4
A Burgmans	4	4
C B Carroll	4	3
Sir William Castell	4	4
G David	2	2
E B Davis, Jr	4	4
D J Flint	4	4
Dr D S Julius	4	4
Sir Tom McKillop	4	4
Dr W E Massey (former member)	2	2

Role and authority of the committee

The main tasks and requirements for the committee are set out in the principles and are:

- Evaluating the performance and effectiveness of the group chief executive;
- Reviewing the structure and effectiveness of the business organization of BP;
- Reviewing the systems for senior executive development and determining the succession plan for the group chief executive, executive directors and other senior members of executive management;
- Determining any other matter that is appropriate to be considered by all of the non-executive directors;
- Opining on any matter referred to it by the chairman of any committee comprised solely of non-executive directors.

Committee activities

The chairman's committee considered aspects of a number of strategic issues including the relationship with the company's partners in TNK-BP. The committee has reviewed with Dr Hayward the short- and long-term challenges facing the group. Dr Hayward has kept the committee briefed on the implementation of the forward agenda and its implications for the evolution of the executive team and succession within the leadership cadre. The committee has also reviewed the steps taken by Dr Hayward to refine the corporate culture and the values within BP. There have been active discussions around the 'tone from the top'.

The committee has reviewed the performance of the chairman and Dr Hayward.

The chairman's committee plans to meet four times in 2009.

Nomination committee report

Membership

The committee's members nominally consist of the chairman and the chairs of SEEAC, audit and remuneration committees.

Members of the nomination committee during the year were Peter Sutherland (chairman), Dr DeAnne Julius, Sir Ian Prosser and Dr Walter Massey. Dr Massey remained a member of the nomination committee during the year after his retirement from the board to assist in the search for a successor to BP's chairman. Sir William Castell has now joined the committee.

Attendance

The committee met six times during 2008.

	Nomination committee meetings eligible to attend	Nomination committee meetings attended
P D Sutherland (chairman)	6	6
Dr D S Julius	6	6
Dr W E Massey	6	6
Sir Ian Prosser	6	6

Role and authority of the committee

The main tasks and requirements for the committee are set out in the principles and are:

- Identifying, evaluating and recommending candidates for appointment or reappointment as directors.
- Identifying, evaluating and recommending candidates for appointment as company secretary.
- Keeping under review the mix of knowledge, skills and experience of the board to ensure the orderly succession of directors.
- Reviewing the outside directorship/commitments of the non-executive directors.

Committee activities

During 2008 the primary work of the committee has been the continuation of the process to select a successor to Mr Sutherland who is to stand down as chairman.

For this purpose, Sir Ian Prosser, as Senior Independent Director, has chaired the committee. The committee has been assisted in this task by Dr Anna Mann of MWM Consulting LLP. The committee has adopted a robust process. Key strategic issues facing BP for the coming years were identified through discussions with individual board members. From these discussions a role description was developed. This formed the basis of a worldwide search from which in excess of 30 candidates emerged. This broad group has been refined and the process is continuing. The board has been regularly briefed on the work of the committee.

As part of the chairman selection process, potential candidates for non-executive directors roles have been revealed. The committee will continue actively to keep the skills of the board under review and pursue its refreshment.

Combined Code compliance

BP complied throughout 2008 with the provisions of the Combined Code Principles of Good Governance and Code of Best Practice, except in the following aspects:

- A.4.4 Letters of appointment do not set out fixed time commitments since the schedule of board and committee meetings is subject to change according to the exigencies of the business. All directors are expected to demonstrate their commitment to the work of the board on an ongoing basis. This is reviewed by the nomination committee in recommending candidates for annual re-election.
- B.2.2 The remuneration of the chairman is reviewed by the remuneration committee, which makes a recommendation to the board as a whole for final approval, within the limits set by shareholders. This approach represents a change in policy from previous years where the chairman's remuneration was set by the board without specific reference to the remuneration committee.

Internal control review

In discharging its responsibility for the company's system of internal control the board, through its governance principles, requires the group chief executive to operate with a comprehensive system of controls and internal audit to identify and manage the risks that are material to BP. The governance principles were reviewed and confirmed by the board this year and are consistent with the requirements of the Combined Code including principle C.2.

The board has established a process by which the effectiveness of this system of internal control is reviewed as required by provision C.2.1 of the Combined Code. This process enabled the board and its committees to consider the system of internal control being operated for managing significant risks, including social, environmental, safety and ethical risks, throughout the year. The process did not extend to joint ventures or associates.

As part of this process, the board and the audit and safety, ethics and environment assurance committees requested, received and reviewed reports from executive management, including management of the business segments and functions, at their regular meetings.

In considering the system, the board noted that such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

During the year, the board through its committees regularly reviewed with the general auditor and executive management processes whereby risks are identified, evaluated and managed. These processes were in place for the year under review, remain current at the date of this report and accord with the guidance on the Combined Code provided by the Financial Reporting Council. In November, the board considered the group's significant risks within the context of the annual plan presented by the group chief executive.

A joint meeting of the audit and safety, ethics and environment assurance committees in January 2009 reviewed reports from the general auditor as part of the board's annual review of the system of internal control. The reports described the significant risks identified across the group within the categories of strategic, operational and compliance and control and considered the control environment that responds to such risks. The reports also highlighted the results of audit work conducted during the year and the remedial actions taken by executive management in response to significant failings and weaknesses identified.

During the year, these committees engaged with executive management, the general auditor and other monitoring and assurance

providers (such as the group compliance and ethics officer and the external auditor) on a regular basis to monitor the management of risks. Significant incidents that occurred and management's response to them were considered by the appropriate committee and reported to the board.

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 'Internal Control Revised Guidance for Directors' in the Combined Code (Turnbull).

The board is satisfied that, where significant failings or weaknesses in internal controls were identified during the year, appropriate remedial actions were taken or are being taken.

Directors' interests

			Change from
	At 31 Dec 2008	At 1 Jan 2008	31 Dec 2008 to 18 Feb 2009
Current directors			
A Burgmans	10,000	10,000	–
C B Carroll	–	–	–
Sir William Castell	82,500	50,000	–
I C Conn	240,789 ^a	229,969 ^a	39,148
G David	9,000 ^b	– ^c	–
E B Davis, Jr	73,185 ^b	70,602 ^b	–
D J Flint	15,000	15,000	–
Dr B E Grote	1,214,330 ^d	1,193,137 ^d	47,334
Dr A B Hayward	488,459	482,398	39,148
A G Inglis	226,175 ^e	224,006 ^e	29,249
Dr D S Julius	15,000	15,000	–
Sir Tom McKillop	20,000	20,000	–
Sir Ian Prosser	16,301	16,301	–
P D Sutherland	30,906	30,906	–
Directors leaving the board in 2008			
	At resignation/retirement	At 1 Jan 2008	
Dr D C Allen (retired 31 March 2008)	597,568 ^f	597,568 ^f	
Dr W E Massey (retired 17 April 2008)	49,722 ^b	49,722 ^b	

^aIncludes 44,158 shares held as ADSs at 31 December 2008 and 41,692 shares held as ADSs at 1 January 2008.

^bHeld as ADSs.

^cOn appointment at 11 February 2008.

^dHeld as ADSs, except for 94 shares held as ordinary shares.

^eIncludes 34,962 shares held as ADSs.

^fIncludes 25,368 shares held as ADSs.

The above figures indicate and include all the beneficial and non-beneficial interests of each director of the company in shares of the company (or calculated equivalents) that have been disclosed to the company under the Disclosure and Transparency Rules and Companies Acts 1985 or 2006 (as the case may be) as at the applicable dates. The above figures do not include share options granted or interests in performance shares that have yet to vest. Details of these are set out in full in the directors' remuneration report on pages 83 and 84.

Executive directors are also deemed to have an interest in such shares of the company held from time to time by the BP Employee Share Ownership Plan (No.2) to facilitate the operation of the company's option schemes.

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