

Nomination and governance committee



The committee dedicated a significant amount of time to its role in 2019 and this will continue as BP implements its new purpose, ambition and aims.”

Helge Lund
Committee chair

Chairman’s introduction

The committee dedicated a significant amount of time to its role in 2019, a year which was vitally important for BP and the future direction of the company. This will continue as BP implements its new purpose, ambition and aims.

During the year the committee led the search for a new CEO to succeed Bob Dudley. This involved agreeing the leadership credentials and desired experiences for the executive role. External headhunters were engaged to support the process and to identify candidates with the required skills, experience and diversity credentials. After a thorough and transparent process, Bernard Looney was identified as the best suited candidate and his appointment was announced in October 2019.

The committee’s focus on executive succession planning continued, and BP announced Murray Auchincloss as Brian Gilvary’s successor as CFO in January 2020.

Finally, a review was undertaken by the committee of the new leadership team which was announced in February 2020.

As part of the selection and appointment process for each of these roles, candidates completed extensive leadership assessment testing and were asked to give insight to their aims for BP’s future.

During the year the committee also undertook a review of the executive succession pipeline, considering the process, emerging talent and leadership role key-person-risks. As part of this review, the committee took into account the importance of diverse talent pipelines and the current and future skill sets required to help the company achieve its strategy

The committee discussed the implications of the UK Corporate Governance Code 2018 and how to maintain the highest standards of governance.

Lastly, the committee considered the findings of the 2018 board evaluation and made proposals to the board on new ways of working. Together with the results from the 2019 board review, these changes are being incorporated into a new corporate governance framework.

Helge Lund
Committee chair

Role of the committee

The committee seeks to ensure an orderly succession of candidates for directors, the company secretary and senior executives and oversees corporate governance matters for the group.

Key responsibilities

- Identify, evaluate and recommend candidates for appointment or reappointment as directors.
- Review the outside directorships/commitments of the Non-Executive Directors (NEDs).
- Review the mix of knowledge, skills, experience and diversity of the board for the orderly succession of directors.
- Identify, evaluate and recommend candidates for appointment as company secretary.
- Review developments in law, regulation and best practice relating to corporate governance and make recommendations to the board on appropriate action, including on Environmental, Social and Governance matters.

Membership

Helge Lund	Member since July 2018 and chairman since September 2018
Alan Boeckmann	Member (resigned April 2019)
Sir Ian Davis	Member
Nils Andersen	Member (resigned March 2020)
Brendan Nelson	Member
Paula Reynolds	Member
Sir John Sawers	Member

Meetings and attendance

The committee met six times in 2019. All members attended each meeting with the exception of Nils Andersen who missed two meetings owing to prior commitments.

Activities during the year

2019 saw the workload and required time commitment of committee members increase significantly as the committee continued to monitor the composition and skills of the board, with foresight across the three succession planning horizons, as part of the process of developing a reinvented BP.

During the year, it supported the board in the selection of the new CEO, which was announced in October 2019, and the new CFO, which was announced in January 2020. Regular updates were provided to the chairman’s committee to ensure that all NEDs were kept informed of the pending changes to BP’s executive leadership. The committee also reviewed the wider executive team’s succession planning, considered the implications of the new UK Corporate Governance Code 2018 and made recommendations to the board following the results of the external board evaluation in 2018. We will continue to focus on ensuring that the board’s composition is strong and diverse and to promote best practice governance in the boardroom and throughout the company.

Audit committee



The committee robustly challenges reports...enabling it to determine whether BP's financial reporting is fair, balanced and understandable."

Brendan Nelson
Committee chair

Chairman's introduction

During 2019, in keeping with the new UK Corporate Governance Code 2018, the committee continued its focus on monitoring the integrity of the group's financial reporting and risk management systems. Each quarter the committee robustly challenges the reports from management and the external auditor highlighting significant accounting issues and judgements, enabling it to determine whether BP's financial reporting is 'fair, balanced and understandable'. Throughout the year, the committee reviewed the group's principal and emerging risks, including scenarios which could impact the company's long-term viability which also helped to inform the committee's debates on what would constitute significant failings and weaknesses in our system of internal control.

In 2019 the committee focused on the effectiveness of a number of group functions including integrated supply and trading, treasury, tax, information technology and security. We also received presentations regarding, and reviewed performance of, both the Upstream and Downstream segments and regularly considered climate change risk affecting the whole business. These reviews helped inform the committee of the work and future plans of those functions and businesses and enabled the committee to understand the key risks and challenges (and associated mitigations and lessons learned) faced by each of them. In addition, the committee carried out reviews into the group risks of financial liquidity, cyber security and compliance with business regulations.

There were no changes to the committee membership during the year and the skills and experience of our committee members remain strong, enabling the committee to continue to perform effectively.

Brendan Nelson
Committee chair

Role of the committee

The committee monitors the effectiveness of the group's financial reporting, systems of internal control and risk management and the integrity of the group's external and internal audit processes.

Key responsibilities

- Monitoring and obtaining assurance that the process to identify, manage and mitigate principal and emerging financial risks are appropriately addressed by the chief executive officer and that the system of internal control is designed and implemented effectively in support of the limits imposed by the board ('executive limitations'), as set out in the BP board governance principles.
- Reviewing financial statements and other financial disclosures and monitoring compliance with relevant legal and listing requirements.
- Reviewing the effectiveness of the group audit function, BP's internal financial controls and systems of internal control and risk management.
- Overseeing the appointment, remuneration, independence and performance of the external auditor and the integrity of the audit process as a whole, including the engagement of the external auditor to supply non-audit services to BP.
- Reviewing the systems in place to enable those who work for BP to raise concerns about possible improprieties in financial reporting or other issues and for those matters to be investigated.

Membership

Brendan Nelson	Member since November 2010 and chair since April 2011
Dame Alison Carnwath	Member
Pamela Daley	Member
Paula Reynolds	Member

Brendan Nelson is chair of the audit committee. He was formerly vice chairman of KPMG and president of the Institute of Chartered Accountants of Scotland. Currently he is chairman of the group audit committee of NatWest Markets plc and a member of the Financial Reporting Review Panel. The board is satisfied that he is the audit committee member with recent and relevant financial experience as outlined in the UK Corporate Governance Code and competence in accounting and auditing as required by the FCA's Corporate Governance Rules in DTR7. It considers that the committee as a whole has an appropriate and experienced blend of commercial, financial and audit expertise to assess the issues it is required to address, as well as competence in the oil and gas sector. The board also determined that the audit committee meets the independence criteria provisions of Rule 10A-3 of the US Securities Exchange Act of 1934 and that Brendan may be regarded as an audit committee financial expert as defined in Item 16A of Form 20-F.

Meetings and attendance

There were eight committee meetings in 2019. All members attended each meeting with the exception of Pamela Daley who was absent from the September meeting owing to prior commitments. Regular attendees at the meetings include the chief financial officer, group controller, chief accounting officer, group head of audit, group general counsel and external auditor.

Activities during the year

How the committee reviewed financial disclosure

The committee reviewed the quarterly, half-year and annual financial statements with management, focusing on the:

- Integrity of the group's financial reporting process.
- Clarity of disclosure.
- Compliance with relevant legal and financial reporting standards.
- Application of accounting policies and judgements.

As part of its review, the committee received quarterly updates from management and the external auditor in relation to accounting judgements and estimates including those relating to the Gulf of Mexico oil spill, recoverability of asset carrying values and other matters. The committee keeps under review the frequency of results reporting during the year.

The committee reviewed the assessment and reporting of longer-term viability, systems of risk management and internal control, including the reporting and categorization of risk across the group and the examination of what might constitute a significant failing or weakness in the system of internal control. It also examined the group's modelling for stress testing different financial and operational events, and considered whether the period covered by the company's viability statement was appropriate.

The committee considered the *BP Annual Report and Form 20-F 2018* and assessed whether the report was fair, balanced and understandable and provided the information necessary for shareholders to assess the group's position and performance, business model and strategy. In making this assessment, the committee examined disclosures during the year, discussed the requirement with senior management, confirmed that representations to the external auditors had been evidenced and reviewed reports relating to internal control over financial reporting. The committee made a recommendation to the board, which in turn reviewed the report as a whole, confirmed the assessment and approved the report's publication.

Other disclosures reviewed included:

- Oil and gas reserves.
- Pensions and post-retirement benefits assumptions.
- Risk factors.
- Legal liabilities.
- Tax strategy.
- Going concern.
- IFRS 16 (lease accounting).

How risks were reviewed

The principal risks allocated to the audit committee for monitoring in 2019 included those associated with:

Trading activities: including risks arising from shortcomings or failures in systems, risk management methodology, internal control processes or employees.

In reviewing this risk, the committee focused on external market developments and how BP's trading function had responded to a rapidly changing environment, including modernizing its control environment policies to strengthen its compliance and control culture. The committee further considered updates in the integrated supply and trading function's risk management programme, including compliance with regulatory developments, activities in response to cyber threats, and efficiencies derived from more collaborative ways of working across group functions and businesses and the use of digital technologies.

Compliance with business and regulations: including ethical misconduct or breaches of applicable laws or regulations that could damage BP's reputation, adversely affect operational results and/or shareholder value and potentially affect BP's licence to operate.

The committee reviewed the group's programme of controls and contingencies for managing this risk, including enhanced approaches to monitor the risk in light of business evolution (such as an increase in venturing), as well as other internal and external trends. The committee also reviewed key areas of BP's legal function that advise on compliance matters.

Cyber security risk: including inappropriate access to or misuse of information and systems and disruption of business activity.

The committee reviewed ongoing developments in the cyber security landscape, including events in the oil and gas industry and within BP itself. The review focused on a strengthened approach in order to manage the ever increasing threat of cyber risk and maintain cyber security, as the focus on a digital transformation across BP continues.

Financial liquidity: including the risk associated with external market conditions, supply and demand and prices achieved for BP's products which could impact financial performance.

The committee reviewed the key assumptions, and underlying judgements, used to manage the group's liquidity, and capital investments (including appraisal, effectiveness and efficiency).

How other reviews were undertaken

Other reviews undertaken in 2019 by the committee included the following, and in each case where the committee received segment and function reviews, each reported on strategy, performance, capability and risk management as well as on their first, second and third lines of defence policies as appropriate:

- Non-operated joint venture: including management of exposure to financial, reputational and regulatory risks.
 - Upstream: including strategy, business model, financial performance and risk management.
 - Downstream: including strategy, performance, capability and risk management.
 - Tax: including strategy, performance, key drivers of the group's effective tax rate, the global indirect tax environment, the tax modernization programme and the evolving approach to management of key risks.
 - Other businesses and corporate: including overview of the businesses and functional activities, financial performance and financial control framework.
 - Treasury: including performance, capability, and risk management.
 - Integrated supply and trading: including strategy, performance, capability and risk management.
 - Capability and succession in BP's finance function, including the group's finance summary of change programme.
 - Effectiveness of investment: annual review of performance of projects with sanctioned capital over a certain threshold.
 - Assessment of financial metrics for executive remuneration: consideration of financial performance for the group's 2019 annual cash bonus scorecard and performance share plan, including adjustments to plan conditions and non-operating items.
 - Internal controls: assessments of management's plans to remediate the external auditor's findings.
 - Information technology and security: including an update on the transformation of the function to enable the digitization and modernization of the firm at pace.
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How internal control and risk management was assessed

Group audit

The committee received quarterly reports on the findings of group audit in 2019, including their assessment of issues raised in previous years, especially those relating to IT access controls. The committee met

privately with the group head of audit and key members of his leadership team. The committee monitored and reviewed the effectiveness of internal audit and considered whether it had the appropriate level of independence and its importance in assessing the company culture.

Training

The committee considered market updates and developments throughout the year including the CMA statutory audit market study, the Brydon Review and the Kingman Review. It received technical updates from the chief accounting officer on developments in financial reporting and accounting policy, in particular an update on IFRS 16 'Leases' and the stakeholder engagement disclosures required under The Companies (Miscellaneous Reporting) Regulations 2018 for the 2019 accounting year, and amendments to IFRS 9 'Financial Instruments' for interest rate benchmark reform from the start of 2020.

GBS and integrated supply and trading visit

In March the committee visited BP's global business services (GBS) centre in Kuala Lumpur. During the visit they met with the head of country and his leadership team who presented GBS strategy to 2025 enabling modernization of BP through accelerated standardization, digital solutions and process transformation – underpinned by a global functional operating model. They also met with the Procurement and HR services teams including an interactive session with local business resource colleagues.

In March the committee also visited BP's integrated supply and trading (IST) function in Singapore, meeting with senior leaders to discuss the role of this function in BP, review of the risks and controls processes and a floor walk through key functions and the trading desks. See page 89 for more information on these visits by the committee.

In October, the committee held its meeting at BP's IST function in London and conducted its annual tour, which covered global oil strategy, integrated gas and power, associated key risks and risk and compliance management and how the function was responding to a fast evolving market by using digital tools to drive efficiencies. The following trading desks were visited by the committee: treasury trading, global environmental products and integrated gas and power.

External audit

How the committee assessed audit risk

The external auditor set out its audit strategy for 2019, identifying significant audit risks to be addressed during the course of the audit. These included:

- Focus on the consistency of management's judgements and estimates within BP's strategy in the context of climate change.
- Responding to the risk of material misstatements in the group, by way of substantive testing and the use of detailed data analytics.
- The risk of impairment of upstream oil and gas property, plant and equipment, and exploration and appraisal assets.
- Accounting for structured commodity transactions in the integrated supply and trading function.
- Valuation of level 3 financial instruments held by the integrated supply and trading function.
- Management override of controls.

The committee received updates during the year on the audit process, including how the auditor had challenged the group's assumptions on these issues.

How the committee assessed audit fees

The audit committee reviews the fee structure, resourcing and terms of engagement for the external auditor annually; in addition it reviews the non-audit services that the auditor provides to the group on a quarterly basis.

Fees paid to the external auditor for the year were \$49 million (2018 \$42 million), of which 2% was for non-audit assurance work (see Financial statements – Note 36). The audit committee is satisfied that this level of fee is appropriate in respect of the audit services provided and that an effective audit can be conducted for this fee. Non-audit or non-audit related assurance fees were \$1 million (2018 \$2 million). Non-audit or non-audit related services consisted of other assurance services.

How the committee assessed audit effectiveness

Management undertook a survey which comprised questions across five main criteria to measure the auditor's performance:

- Robustness of the audit process.
- Independence and objectivity.
- Quality of delivery.
- Quality of people and service.
- Value added advice.

The results of the survey indicated that the external auditor's performance was broadly comparable with the previous year. Areas with high scores and favourable comments included quality of accounting and auditing judgement and robust stance on issues. Areas for improvement were identified but none impacted on the effectiveness of the audit, mostly in recognition of it having been Deloitte's first year in role. The results of the survey were discussed with Deloitte for consideration in their 2019 audit approach.

The committee held private meetings with the external auditor during the year and the committee chair met separately with the external auditor and group head of audit at least quarterly.

The effectiveness of the external auditor is evaluated by the audit committee. The committee assessed the auditor's approach to providing audit services. On the basis of such assessment, the committee concluded that the audit team was providing the required quality in relation to the provision of the services. The audit team had shown the necessary commitment and ability to provide the services together with a demonstrable depth of knowledge, robustness, independence and objectivity as well as an appreciation of complex issues. The team had posed constructive challenge to management where appropriate.

The committee specifically considered the findings of the FRC's Audit Quality Review team's review of Deloitte's 2018 audit. The committee noted the single observation raised and Deloitte's proposed response thereto. Overall the committee noted the review did not raise any concerns in respect of audit quality.

How the auditor reappointment and independence was assessed

The committee considers the reappointment of the external auditor each year before making a recommendation to the board. The committee assesses the independence of the external auditor on an ongoing basis and the external auditor is required to rotate the lead audit partner every five years and other senior audit staff every five to seven years. No partners or senior staff associated with the BP audit may transfer to the group.

How the committee had oversight of non-audit services

The audit committee is responsible for BP's policy on non-audit services and the approval of non-audit services. Audit objectivity and independence is safeguarded through the prohibition of non-audit tax services and the limitation of audit-related work which falls within defined categories. BP's policy on non-audit services states that the auditor may not perform non-audit services that are prohibited by the SEC, Public Company Accounting Oversight Board (PCAOB), International Auditing and Assurance Standards Board (IAASB) and the UK Financial Reporting Council (FRC).

The audit committee approves the terms of all audit services as well as permitted audit-related and non-audit services in advance. The external auditor is considered for permitted non-audit services only when its expertise and experience of BP is important.

Approvals for individual engagements of pre-approved permitted services below certain thresholds are delegated to the group controller or the chief financial officer. Any proposed service not included in the permitted services categories must be approved in advance either by the audit committee chairman or the audit committee before engagement commences. The audit committee, chief financial officer and group controller monitor overall compliance with BP's policy on audit-related and non-audit services, including whether the necessary pre-approvals have been obtained. The categories of permitted and pre-approved services are outlined in Principal accountant's fees and services on page 322.

How accounting judgements and estimates were considered and addressed

Key judgements and estimates in financial reporting	Audit committee activity	Conclusions/outcomes
<p>Exploration and appraisal intangible assets</p> <p>BP uses technical and commercial judgements when accounting for oil and gas exploration, appraisal and development expenditure and in determining the group's estimated oil and gas reserves.</p> <p>Judgement is required to determine whether it is appropriate to continue to carry intangible assets related to exploration costs on the balance sheet.</p>	<ul style="list-style-type: none"> Reviewed exploration write-offs as part of the group's quarterly due diligence process. Received the output of management's annual intangible asset certification process used to ensure accounting criteria to continue to carry the exploration intangible balance are met. Received briefings on the status of upstream intangible assets, including the status of items on the intangible assets 'watch-list'. 	<ul style="list-style-type: none"> Exploration write-offs totalling \$0.6 billion were recognized during the year. Exploration intangibles totalled \$14.1 billion at 31 December 2019. BP believes it is appropriate to continue to capitalize the costs relating to intangible assets, on the 'watch-list'.
<p>Recoverability of asset carrying values</p> <p>Determination as to whether and how much an asset, cash generating unit (CGU) or group of CGUs containing goodwill is impaired involves management judgement and estimates on uncertain matters such as future commodity prices, discount rates, production profiles, reserves and the impact of inflation on operating expenses.</p> <p>Reserves estimates based on management's assumptions for future commodity prices have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements.</p>	<ul style="list-style-type: none"> Held an in-depth review of BP's policy and guidelines for compliance with oil and gas reserves disclosure regulation, including the group's reserves governance framework and controls. Reviewed the group's oil and gas price assumptions. Reviewed the group's discount rates for impairment testing purposes. Upstream impairment charges, reversals and 'watch-list' items were reviewed as part of the quarterly due diligence process. 	<ul style="list-style-type: none"> The group's long-term price assumption for Brent oil★, was reduced by \$5 from 2018 assumptions and was unchanged for Henry Hub★ gas. The period over which the group's price assumptions transition from recent market prices to the long-term assumption was unchanged at five years for Brent oil and increased from 5 to 12 years for Henry Hub gas from 2018. A sensitivity analysis estimating the effect of reductions in the price assumptions has been disclosed in Note 1. The methodology for determining the group's discount rates used for impairment testing was enhanced, resulting in country-specific rates being applied. Impairments of \$6.6 billion were recorded in the year, net of impairment reversals, primarily relating to decisions to dispose of certain assets.
<p>Investment in Rosneft</p> <p>Judgement is required in assessing the level of control or influence over another entity in which the group holds an interest.</p> <p>BP uses the equity method of accounting for its investment in Rosneft and BP's share of Rosneft's oil and natural gas reserves is included in the group's estimated net proved reserves of equity-accounted entities.</p> <p>The equity-accounting treatment of BP's 19.75% interest in Rosneft continues to be dependent on the judgement that BP has significant influence over Rosneft.</p>	<ul style="list-style-type: none"> Reviewed the judgement on whether the group continues to have significant influence over Rosneft, including following Bob Dudley stepping down from his role as BP group chief executive. Considered IFRS guidance on evidence of participation in policy-making processes. Received reports from management which assessed the extent of significant influence, including BP's participation in decision-making. 	<ul style="list-style-type: none"> BP has retained significant influence over Rosneft throughout 2019 as defined by IFRS.

Key judgements and estimates in financial reporting



Audit committee activity



Conclusions/outcomes

Derivative financial instruments

For its level 3 derivative financial instruments, BP estimates their fair values using internal models due to the absence of quoted market pricing or other observable, market-corroborated data. Judgement may be required to determine whether contracts to buy or sell commodities meet the definition of a derivative, in particular longer-term LNG★ contracts.

- Received a briefing on the group's trading risks and reviewed the system of risk management and controls in place.
- The committee annually reviews the control process and risks relating to the trading business.

- BP considers that longer-term contracts to buy or sell LNG do not meet the definition of a derivative under IFRS. BP has assets and liabilities of \$5.5 and \$4.4 billion respectively, recognized on the balance sheet for level 3 derivative financial instruments at 31 December 2019, mainly relating to the activities of the integrated supply and trading function (IST).
- BP's use of internal models to value certain of these contracts has been disclosed in Note 30.

Provisions

BP's most significant provisions relate to decommissioning, environmental remediation and litigation.

The group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. Most of these decommissioning events are many years in the future and the exact requirements that will have to be met when a removal event occurs are uncertain. Assumptions are made by BP in relation to settlement dates, technology, legal requirements and discount rates. The timing and amounts of future cash flows are subject to significant uncertainty and estimation is required in determining the amounts of provisions to be recognized.

- Received briefings on decommissioning, environmental, asbestos and litigation provisions, including those related to the Gulf of Mexico oil spill. These included the requirements, governance and controls for the development and approval of cost estimates and provisions in the financial statements.
- Reviewed the group's discount rates for calculating provisions.

- Decommissioning provisions of \$15.1 billion were recognized on the balance sheet at 31 December 2019.
- The discount rate used by BP to determine the balance sheet obligation at the end of 2019 was a nominal rate of 2.5% – based on long-dated US government bonds – a reduction of 0.5% from 2018.
- The impact of applying the revised rate has been disclosed.

Pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves making estimates when measuring the group's pension plan surpluses and deficits. These estimates require assumptions to be made about uncertain events, including discount rates, inflation and life expectancy.

- Reviewed the group's assumptions used to determine the projected benefit obligation at the year end, including the discount rate, rate of inflation, salary growth and mortality levels.

- The method for determining the group's assumptions remained largely unchanged from 2018. The values of these assumptions and a sensitivity analysis of the impact of possible changes on the benefit expense and obligation are provided in Note 24.
- At 31 December 2019, surpluses of \$7.1 billion and deficits of \$8.6 billion were recognized on the balance sheet in relation to pensions and other post-retirement benefits.

Safety, environment and security assurance committee (SESAC)



The committee has continued to focus on working with executive management to drive safe and reliable operations.”

Melody Meyer
Committee chair

Chairman’s introduction

At the end of 2019 I took the role of chair for the committee. Alan Boeckmann retired from the board in April 2019 and Nils Andersen replaced him as the committee chair. In November last year, Nils announced his intention to step down from the board in March 2020 and I replaced Nils as SESAC chair with immediate effect.

During 2019 the committee has continued to focus on working with executive management to drive safe and reliable operations. As part of the committee’s review of the executives’ management of the highest priority non-financial group risks assigned to SESAC we provide constructive challenge and oversight. The risks under our remit remained the same as for 2018: marine, wells, pipelines, explosion or release at facilities, major security incidents and cyber security in the process control network. The committee receives reports on each of these risks and monitors their management and mitigation.

In 2019 the committee reviewed the *BP Sustainability Report 2018*. It also reviewed work practices in BP in relation to and following publication of the company’s Modern Slavery Act (MSA) statement in 2019. The committee will continue to review progress in developing and embedding practices to mitigate the risk of modern slavery and related human rights.

In March, members of the committee visited the shipping function as one of the new LNG vessels went into service from the building yard in Busan, South Korea. This afforded the committee time with the crew on board the vessel, employees in the office and with contractors in the shipyard. See page 89 for more details. The level of access into the operations on such visits gives the directors first-hand, direct insight. This framework provides an opportunity for meaningful and open dialogue with the local site teams, allowing the committee to better fulfil its obligations.

Melody Meyer
Committee chair

Committee overview

Role of the committee

The role of the SESAC is to look at the processes adopted by BP’s executive management to identify and mitigate significant non-financial risk. This includes monitoring the management of personal and process safety risk, security and environment risks and receiving assurance that processes to identify and mitigate such non-financial risks are appropriate in their design and effective in their implementation.

Key responsibilities

The committee receives specific reports from the business segments and functions, which include, but are not limited to, the safety and operational risk function, shipping, group audit and group security. The SESAC can access any other independent advice and counsel it requires on an unrestricted basis. The SESAC and audit committee worked together, through their chairs and secretaries, to ensure that agendas did not overlap or omit coverage of any key risks during the year.

Meetings and attendance

There were six committee meetings in 2019. All directors attended every meeting for which they were eligible.

In addition to the committee members, all SESAC meetings were attended by the group chief executive, the executive vice president for safety and operational risk (S&OR) and the head of group audit or his delegate. The external auditor has access to the chair and secretary to the committee as required. The group general counsel also attended some of the meetings. At the conclusion of each meeting the committee scheduled private sessions for the committee members only, without the presence of executive management, to discuss any issues arising and the quality of the meeting. The group chief executive receives invitations to join the private meetings on an ad hoc basis and at least once a year the head of group audit is invited to a private meeting with the committee.

Membership

Melody Meyer	Member since May 2017 and chair since November 2019
Nils Andersen	Member (resigned March 2020)
Alan Boeckmann	Member (retired April 2019)
Admiral Frank Bowman	Member (retired May 2019)
Professor Dame Ann Dowling	Member
Sir John Sawers	Member

Activities during the year

System of internal control and risk management

The review of operational risk and performance forms a large part of the committee's agenda. Group audit provided quarterly reports on its assurance work and its annual review of the system of internal control and risk management.

The committee also received regular reports from the group chief executive and vice president for S&OR on operational risk, including regular reports prepared on the group's health, safety, security and environmental performance and operational integrity. These included meeting-by-meeting measures of personal and process safety, environmental and regulatory compliance, security and cyber risk analysis, as well as quarterly reports from group audit. In addition, the group auditor regularly met in private with the chairman and other members of the committee over the course of the year. During the year the committee received separate reports on the company's management of risks relating to:

- Marine.
- Wells.
- Pipelines.
- Explosion or release at our facilities.
- Major security incidents.
- Cyber security (process control networks).

The committee reviewed these risks and their management and mitigation in depth with relevant executive management. The committee reviewed the 2019 forward programme for the group audit function.

Site visits

In March members of the committee made a physical visit to the shipping function for the first time. While the committee has regular access to senior leaders in the function, attempting to visit the vessels needed careful planning. With the launch of six new LNG vessels between October 2018 and April 2019, the committee took the opportunity to visit, and arrived as the fifth LNG vessel was in its period of 'shakedown' – a period post-launch and pre-service, when checks are made onboard the ship. The visit, hosted by the chief operating officer of shipping, was made to The British Mentor while it was at sea, just off the coast of South Korea. Committee members went on board and were met by the ship's crew, undertook a thorough tour, and later met with various seafarers, without the captain present, to get a sense of the culture on board. The committee also spent time at the office and held an informal town hall and lunch to hear from employees. The following day the committee was also able to visit the shipyard which had built the LNG vessels, and meet with management. The committee members were able to take a tour of a LNG vessel in the building phase and see the technology used in the construction of the vessel at various stages of completion. The committee spent time with the shipyard owners, important stakeholders in the programme of delivery. In respect of the visit, committee members and other directors received briefings on operations, the status of conformance with BP's operating management system, key business and operational risks and risk management and mitigation. Committee members reported back in detail about the visit to the committee and subsequently to the board. See page 89 for further details.

The board also undertook a site visit. This was not a SESAC site visit but, nevertheless, safety and non-financial risk matters were covered during the visit to Clair Ridge in May 2019.

Corporate reporting

The committee oversaw the *BP Sustainability Report 2018*. The committee reviewed the content and worked with the external auditor with respect to its assurance of the report.

Geopolitical committee



The committee continued to address key geopolitical matters and their potential impact on BP.”

Sir John Sawers
Committee chair

Chairman’s introduction

The work of the geopolitical committee in 2019 continued to address key geopolitical matters and their potential impact on BP and how these evolved during the year. As chair of this committee I also attended all of the international advisory board (IAB) meetings in 2019. Now that the IAB has been disbanded, this committee will look to take some of the IAB’s remit and we will report next year on how that evolves. In May 2019, Admiral Frank Bowman stood down from the committee. Nils Andersen left the committee upon his resignation from the board in March 2020. I would like to thank Frank and Nils, both of whose contributions were much valued. Other board members joined our meetings from time to time.

Sir John Sawers
Committee chair

Activities during the year

The committee discussed BP’s involvement in the key countries where it has existing investments or is considering investment. These included the EU, Mexico, Brazil, Algeria, Libya, Egypt, Iraq, Oman and The Gambia.

The committee also discussed the potential impact of Brexit on BP, and the negotiations between the UK and the EU on their future relationship.

It reviewed the geopolitical background to BP’s global investments, the global politics of climate change, the geopolitics of gas, Russian energy exports, OPEC, the USA-China trade war, and developments in the Persian Gulf.

Role of the committee

The committee monitors the company’s identification and management of geopolitical risk.

Key responsibilities

- Monitor the company’s identification and management of major and correlated geopolitical risk and consider reputational as well as financial consequences.
- Review BP’s activities in the context of political and economic developments on a regional basis and advise the board on these elements in its consideration of BP’s strategy and the annual plan.
- Major geopolitical risks are those brought about by social, economic or political events that occur in countries where BP has material investments.
- Correlated geopolitical risks are those brought about by social, economic or political events that occur in countries where BP may or may not have a presence but that can lead to global political instability.

Membership

Sir John Sawers	Member since September 2015 and chair since April 2016
Nils Andersen	Member (resigned March 2020)
Admiral Frank Bowman	Member (resigned May 2019)
Sir Ian Davis	Member
Melody Meyer	Member

Meetings and attendance

The chairman and group chief executive regularly attend committee meetings. The chief executive of Alternative Energy and executive vice president, regions and the head of government and political affairs attend meetings as required. The committee met four times during the year. All directors attended each meeting that they were eligible to attend, with the exception of Nils Andersen who missed one meeting due to a prior commitment.

Chairman's committee



The committee spent significant time discussing the development and progression of BP's purpose, expanding upon what the purpose actually means for the company and how it impacts BP's stakeholders."

Helge Lund
Committee chair

Role of the committee

To provide a forum for matters to be discussed by the non-executive directors.

Key responsibilities

- Evaluate the performance and the effectiveness of the chief executive officer.
- Review the structure and effectiveness of the business organization.
- Review the systems for senior executive development and determine succession plans for the chief executive officer, executive directors and other senior members of executive management.
- Determine any other matter that is appropriate to be considered by non-executive directors.
- Opine on any matter referred to it by the chairman of any committees comprised solely of non-executive directors.

Membership

The committee is made up solely of non-executive directors, each of whom is appointed to the committee upon their appointment to the board.

Meetings and attendance

The committee met seven times in 2019. Nils Andersen, Pamela Daley and Professor Dame Ann Dowling each missed one meeting during the year, all other directors attended every meeting for which they were eligible.

Chairman's introduction

The chairman's committee worked closely with the nomination and governance committee on the selection process of the new group CEO and CFO, receiving regular updates and providing feedback on the succession planning. The committee also spent significant time discussing the development and progression of BP's purpose, expanding upon what the purpose actually means for the company and how it impacts BP's stakeholders. We discussed the updated UK Corporate Governance Code 2018 and the implications for the business. In May 2019, Alan Boeckmann and Frank Bowman stood down from the board and the chairman's committee. I would like to pay tribute to their exceptional service and thank them for their dedication to the committee and BP as a whole.

Helge Lund
Committee chair

Activities during the year

- Evaluated the performance of the group chief executive.
- Reviewed the composition of and the succession plans for the executive team.
- Discussed the company's purpose and what it meant for the business.
- Considered updates to the UK Corporate Governance Code 2018.

Directors' remuneration report



Through a vibrant exchange of views, we believe the committee will be wiser."

Paula Rosput Reynolds
Committee chair

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Dear shareholder,

This is my second letter to you as chair of the remuneration committee. It comes at the end of a period during which we have engaged with many of you on our new remuneration policy. I have been fortunate to get to know a number of you individually, and as a committee we have deeply appreciated the spirit of collaboration evident throughout our dialogue on remuneration matters.

It also comes at a time when, as a global community, we are navigating uncharted territory because of the global onset of coronavirus (COVID-19). None of us yet know quite how broad its impact will be, nor how deeply it will be felt. What we do know is that our industry is seeing a significant demand and supply-side shock, with consequent share price volatility. The board and I will remain close as the situation develops, and we will respond with consideration of the facts. Clearly, the remuneration targets we have set for the year will need to be adjusted to the circumstances as they unfold. I can also confirm that the remuneration committee will monitor business conditions and exercise judgement in applying discretion relating to 2020 remuneration. We will proceed with great care in determining the timing and magnitude of equity awards. At year-end, when we assess performance, we will be thoughtful in the interpretation of results, balanced with the shareholder experience. I do believe that the 2020 policy as drafted provides us with maximum flexibility in applying discretion – which the times call upon us to exercise.

Turning to our 2019 report, we cover three areas. First the remuneration outcomes over 2019 and the 2017-19 performance shares cycle are presented, along with a discussion about the relationship between company performance, earned rewards and the shareholder experience. Second, the largely regulatory driven reporting of stewardship and related matters is shown. Third, the 2020 directors' remuneration policy, which will be the subject of a binding vote at our annual general meeting in May.

With the number of statutory requirements increasing, this report continues to grow. For those of you needing a quick overview, I recommend our summary pages on 104 and 110 which reflect outcomes for 2019 and the 2020 policy respectively.

Results, progress and incentive outcomes

2019 has been another year of challenges and accomplishments in our operating and financial performance, and concludes a three-year cycle which has seen significant strategic progress. From a shareholder perspective, robust operating cash flow gave headroom for distributions of \$8.3 billion through dividends, together with \$1.5 billion of share buybacks. Although recent share price performance has been disappointing for BP and global share markets generally, the year nonetheless concludes a three-year cycle that has delivered a 29% total return.

From our analysis of annual performance outcomes, the committee determined that the 2019 bonus should be 67.5% of maximum, rather than the purely formulaic 71.5% derived from the performance scorecard. This was to reflect our judgment that strong cash receipts at year-end would potentially impact receipts in 2020, hence the reduction in the formulaic result.

The committee also determined that the performance share outcome should be 71.2% of maximum. We took the financial measures as reported but used our discretion in determining the quality of the strategic progress. We determined that, over the three-year performance cycle that ended in 2019, significant strategic progress was made towards a lower carbon future. But our message, too, with scoring of strategic progress, is that there is the need for greater pace and accomplishment in the years ahead.

To this point, as we look forward, the committee is faced with measuring strategic progress through a different lens. As our recently appointed BP leadership realigns strategy to reduce the carbon footprint of our business with greater urgency, the committee must strike the balance between rewarding progress in energy transition matters and rewarding delivery of our commitment to strong financial performance and safe operations. As we progress the energy transition, we will be faced with establishing new goals for which benchmark measures may not be readily and immediately available. You will read herein, even the question of the peer group to be used to measure relative total shareholder returns (rTSR) is greatly complicated by the question of whose performance should be tracked in the energy transition.

Remuneration committee

Role of the committee

The role of the committee is to determine and recommend to the board the remuneration policy for the chairman and executive directors. In determining the policy, the committee takes into account various factors, including structuring the policy to promote the long-term success of the company and linking reward to business performance. The committee recognizes the remuneration principles applicable to all employees below board level.

Key responsibilities

- Recommend to the board the remuneration principles and policy for the chairman and the executive directors while considering policies for employees below the board and the executive team.
- Determine the terms of engagement, remuneration, benefits and termination of employment for the chairman and the executive directors, executive team and the company secretary in accordance with the policy.
- Prepare the annual remuneration report to shareholders to show how the policy has been implemented.

- Approve the principles of any equity plan that requires shareholder approval.
- Ensure termination terms and payments to executive directors and the executive team are fair.
- Receive and consider regular updates on workforce views and engagement initiatives related to remuneration, insight from data sources on pay ratio, gender pay gap and other workforce remuneration outcomes as appropriate.
- Maintain appropriate dialogue with shareholders on remuneration matters.

Membership

Paula Rosput Reynolds	Member since September 2017 and chair since May 2018
Nils Andersen	Member (resigned March 2020)
Pamela Daley	Member
Sir Ian Davis	Member
Melody Meyer	Member
Brendan Nelson	Member

Meetings and attendance

The chairman and the group chief executive attend meetings of the committee except for matters relating to their own remuneration. The group chief executive is consulted on the remuneration of the chief financial officer, the executive team and more broadly on remuneration across the wider employee population. Both the group chief executive and chief financial officer are consulted on matters relating to the group's performance.

The group human resources director attends meetings and other executives may attend where necessary. The committee consults other board committees on the group's performance and on issues relating to the exercise of judgement or discretion as necessary.

The committee met nine times during the year. All directors attended each meeting that they were eligible to attend, except Nils Andersen who was not able to attend two meetings. Pamela Daley and Sir Ian Davis each missed one committee meeting.

We understand that these are matters of great importance to our shareholders. Therefore we will work closely with the incoming leadership team to assure that goal-setting, in particular for progress against the carbon agenda, remains ambitious while also delivering pay outcomes that align with your own experience. We intend to confer with shareholders later in 2020 to establish goals once the details of our energy transition efforts have been provided.

Single figure results for executive directors

2019 single figures of total remuneration for Bob Dudley and Brian Gilvary are \$13.23 million and £6.56 million respectively, as reported on page 108. These outcomes represent a 13% decrease for Bob, and a 20% decrease for Brian, reflecting reductions in the performance shares outcome, and in particular lower share price growth over the three-year cycle. As noted above, the committee applied the well-established formulas where relevant and, in conjunction with strategic progress, carefully reviewed the contributions of the executives. The impact of weaker share price performance on realized value is consistent with the experience of shareholders and thus we deem these outcomes reasonable.

For an overview of our executive remuneration structure, please refer to the "at a glance" table on page 103.

Succession arrangements

2019 also marked a point of succession, as our group chief executive Bob Dudley announced his intention to retire from BP, to be succeeded by Bernard Looney.

Bob has now stepped down from the BP board, and ceases employment from 31 March. As we announced in October 2019, he has waived his entitlement to notice pay for the unserved part of his notice period, and to any bonus for any part of 2020. By any measure, Bob has been an exemplar of corporate service; he leaves BP as a 'good leaver' under the terms of our executive director incentive plan, and therefore his interests under various deferred share awards are preserved and will vest in line with scheduled vesting dates and decisions, subject only to the committee retaining its discretion in the administration of the underpin on safety.

For our new chief executive officer, Bernard Looney, pay will be governed by the 2020 remuneration policy. The committee disclosed in October 2019 that it had set Bernard's salary at £1.3 million (approximately 9% below Bob Dudley's salary) as of 5 February 2020, with a reduced cash allowance retirement benefit of 15% of salary, which puts his allowance in line with the majority of our wider workforce. Bernard retains a deferred pension benefit from service prior to April 2011, and certain deferred share awards from service prior to 2020.

Earlier this year we made similar announcements regarding the retirement of Brian Gilvary and the appointment of his successor, Murray Auchincloss, with effect from 1 July 2020. Further detail is provided on page 103 for the new executives.

Our 2020 policy renewal

During 2019 we have been grateful for the time and attention our major shareholders gave us as we consulted on requirements for the new 2020 policy. In particular, 30 of our largest shareholders joined us in September for a novel session focused on expressing unconstrained views on remuneration arrangements. Together with subsequent discussions and correspondence, the key issues emerging for consideration have been:

- Clear end-to-end alignment from strategy, through measurable performance indicators and reward outcomes, to shareholder experience.
- Balance our contribution to the energy transition with delivering shareholder returns. The committee was encouraged to use appropriate discretion, given the complexity of the environment in the energy transition.
- Assure that strategic moves align to long-term sustainability, relative to a wider peer group.
- Use meaningful and transparent measures to reflect our progress in the energy transition and reductions to our carbon impact.

With all of this in mind, we have established a policy proposal which we believe reflects our strategic imperatives and allows for competitive remuneration outcomes aligned to the shareholder experience. The proposal makes modest but appropriate adjustments to our 2017 framework which, to our mind, is well understood and has delivered appropriate results for both shareholders and executive directors. We studied many far-reaching alternatives in concluding our final proposal but typically found other approaches carried too much complexity, an amplified concern given the transition our industry faces.

The key changes we are making include a reduced emphasis on relative total shareholder return, but measuring our returns against a more diverse group of companies; a sharpened focus on energy transition measures throughout the structure; tighter limits on pension benefits; and a reduction in the number of measures that will be considered for the annual bonus plan.

Other matters

Our committee activity in 2019 was extensive. It included a review of the principles of remuneration to support our updated policy (page 119) and engagement with shareholders and shareholder representatives. We also spent considerable time on remuneration matters related to the succession of the group chief executive and the various leadership changes that followed, in line with our increasing accountability for setting senior executive pay.

As UK remuneration committees now have the regulatory obligation to review remuneration of the wider workforce, our committee has sought to understand how pay practices vary across the globe and to examine issues of fundamental fairness. We examined pay outcomes by gender and other criteria. We have also considered how the committee can effectively add value to our stewardship of the wider workforce and our 2020 plans will include some additional engagement in this area.

The committee reviewed the breadth of historical pension arrangements across the spectrum of our employees in 2019. As an outcome, BP made changes that have brought pensions for executive directors and the wider workforce into alignment.

Our committee appreciated the time and thoughtful input shareholders and their representatives have given to the refreshment of the remuneration policy. Through a vibrant exchange of views, we believe the committee will be wiser as it considers executive pay against the backdrop of a challenging environment. We respectfully ask for your endorsement of the committee's 2019 remuneration decisions and your approval of the proposed 2020 policy framework.

Paula Rosput Reynolds

Chair of the remuneration committee

18 March 2020

In this Directors' remuneration report RC profit (loss), underlying RC profit, return on average capital employed and operating cash flow (excluding Gulf of Mexico oil spill payments) are non-GAAP measures. These measures and upstream plant reliability, refining availability, major projects and underlying production and reserves replacement ratio are defined in the Glossary on page 335.