Corporate governance continued

People and governance committee

The committee focused on identifying candidates who would enhance the strategic discussion in the boardroom and add to the diversity, skills and experience required as bp transitions to an IEC.

Helge Lund
Committee chair

Committee overview

Role of the committee
The people and governance committee (previously called the nomination and governance committee, until 31 December 2020) 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.
- Identify, evaluate and recommend candidates for appointment as company secretary.
- Review the mix of knowledge, skills, experience and diversity of the board for the orderly succession of directors.
- Review the outside directorships/commitments of the non-executive directors (NEDs).
- 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.

Meetings and attendance
The committee met seven times in 2020. All members attended each meeting with the exception of Brendan Nelson who missed one meeting owing to a prior commitment.

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>Term Details</th>
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<tbody>
<tr>
<td>Helge Lund</td>
<td>Member since July 2018 and chair since September 2018</td>
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<tr>
<td>Sir Ian Davis</td>
<td>Member (resigned December 2020)</td>
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<td>Nils Andersen</td>
<td>Member (resigned March 2020)</td>
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<td>Brendan Nelson</td>
<td>Member</td>
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<tr>
<td>Paula Reynolds</td>
<td>Member</td>
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<td>Sir John Sawers</td>
<td>Member</td>
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Chair’s introduction
I am pleased to present my report as chair of the people and governance committee.

During 2020, the committee reviewed the composition of the board and, with the new purpose and strategy in mind, focused on identifying candidates who would enhance the strategic discussion in the boardroom and add to the diversity, skills and experience required as bp transitions to an Integrated Energy Company.

We discussed and guided the development of the new board governance framework to satisfy ourselves that bp continues to maintain the highest standards of governance and we reviewed bp’s workforce engagement mechanism options in order to make a clear recommendation to the board. As part of the governance review, the committee was renamed as the people and governance committee with effect from 1 January 2021 to reflect its wider remit in covering workforce engagement, wellbeing and talent management.

Looking to 2021, the committee agenda has been restructured to cover four matters: talent and capability, diversity and inclusion, engagement and culture and governance. Under that umbrella, we will oversee workforce engagement, engage an external provider for board effectiveness and continue to look at succession, leadership, talent, diversity and culture matters.

Helge Lund
Committee chair
Activities during the year
Reflecting its role in respect of board succession planning, early in 2020, the committee’s priority was to identify new non-executive directors to succeed two of the longer-serving members of the board – Sir Ian Davis and Brendan Nelson. Candidates were sought with the technical and professional skills to take on certain committee responsibilities, including in particular the chairmanship of the audit committee, plus also candidates who would be able to support the chair of the board as the senior independent director.

These characteristics were broadened so as to identify candidates who would also enhance the strategic discussion in the boardroom. External headhunters were engaged to support the process and identify candidates. These headhunters had no other connection to the company or its directors during the year.

The search process led to the appointment of Tushar Morzaria in September 2020 and, from among the existing board members, Paula Reynolds as the senior independent director. Each of these appointments was considered to fulfil the search criteria, including the succession of the audit committee chairmanship.

The committee also agreed new search categories for other NED candidates, broadly covering the areas of digital/technology and energy, reflecting the strategic shift of bp to become an Integrated Energy Company and the dependency on digital as an enabler to transform companies. Karen Richardson and Johannes Teyssen together bring extensive financial, technological, transformation and energy industry experience to the board.

Planning for new board members to help ensure a strong focus on strategic execution, safety and sustainability and connectivity to bp’s core businesses and markets continues.

Committee meetings in 2020 included updates and discussions on the redesign of bp’s corporate governance framework, more details of which are set out on page 88.

The committee received regular updates and challenged management on the reinvent bp proposals including the scale of the redundancies, the methodology associated with the selection process and details of the process controls and management of change to satisfy itself that safety would be maintained and a respectful process completed.

The committee heard detailed considerations on the workforce engagement mechanism options and discussed the benefits and issues of each option presented in order to make a recommendation to the board for 2021.

Skills matrix

<table>
<thead>
<tr>
<th>Non-executive directors</th>
<th>Energy markets</th>
<th>Operational excellence and risk management</th>
<th>Global business leadership and governance</th>
<th>People leadership and organizational transformation</th>
<th>Technology, digital and innovation</th>
<th>Society, politics and geopolitics</th>
<th>Finance, risk, trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pamela Daley</td>
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<td>Ann Dowling</td>
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<tr>
<td>Helge Lund</td>
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<td>Melody Meyer</td>
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<td>Tushar Morzaria</td>
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<td>Brendan Nelson</td>
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<td>Paula Reynolds</td>
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<tr>
<td>Karen Richardson</td>
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<td>Sir John Sawers</td>
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<td>Johannes Teyssen</td>
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Audit committee

Committee overview

Role of the committee
The committee monitors the effectiveness of the group’s financial reporting (including reporting on the financial aspects of climate matters), systems of internal control and risk management and the integrity of the group’s external and internal audit processes.

Key responsibilities during 2020
- Monitoring and obtaining assurance that the process to identify, manage and mitigate principal and emerging financial risks are appropriately addressed by the CEO and that the system of internal control is designed and implemented effectively in support of the limits imposed by the board (‘executive limitations’).
- 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 effectiveness of the internal audit function, bp’s internal financial controls and systems of internal control and risk management.
- Reviewing financial statements and other financial disclosures and monitoring compliance with relevant legal and listing requirements.
- 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.

Meetings and attendance
There were 10 committee meetings in 2020. All members attended each meeting with the exception of Pamela Daley who was absent from the March meeting owing to prior commitments. Regular attendees at the meetings include the chief financial officer, SVP accounting reporting control, SVP internal audit, EVP legal and external auditor.

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>Membership Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brendan Nelson</td>
<td>Member since November 2010 and chair since April 2011</td>
</tr>
<tr>
<td>Dame Alison Carnwath</td>
<td>Member (resigned from the board in January 2021)</td>
</tr>
<tr>
<td>Pamela Daley</td>
<td>Member</td>
</tr>
<tr>
<td>Paula Reynolds</td>
<td>Member</td>
</tr>
<tr>
<td>Tushar Morzaria</td>
<td>Member since September 2020 (chair-designate)</td>
</tr>
</tbody>
</table>

Brendan Nelson is chair of the audit committee. See page 76 for his biography. 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 DTR 7. 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.
Chair’s introduction

I am pleased to introduce the report on the audit committee’s activities during the year. During the year, the committee has continued to assist the board in fulfilling its oversight responsibilities, by monitoring the integrity of the group’s financial reporting and risk management systems, and also by challenging management and external auditors across a number of key areas of focus, including key accounting judgements and control issues.

In addition to the routine committee agenda for the year, the committee was particularly focused on the impacts of bp’s reorganization and the COVID-19 pandemic on financial performance, the financial control environment and resilience.

I welcome the addition of Tushar Morzaria to the committee from September 2020. His broad financial experience is immensely beneficial to the committee and bp. Following year end, Dame Alison Carnwath stepped down from the committee and the board. I would like to thank her for her diligent contribution to the committee over the years.

This is my last report as chair of the audit committee. I would like to thank my board and committee colleagues, as well as management, for the open, challenging and constructive nature of discussions we have conducted during my tenure. As I hand over the committee chair to Tushar in May 2021, I remain confident that bp is well-positioned for continued resilience and success.

Brendan Nelson
Committee chair

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 regular updates from management and the external auditor in relation to accounting judgements and estimates, including those relating to recoverability of asset carrying values. The committee keeps under review the frequency of results reporting during the year.

In considering the bp Annual Report and Form 20-F, the committee assessed whether the report was fair, balanced and understandable and whether it 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, who in turn reviewed the report as a whole, confirmed the assessment and approved the report’s publication.

How accounting judgements and estimates were considered and addressed

The committee was briefed on a quarterly basis in 2020 on the group’s key accounting judgements and estimates. The primary areas of judgement and estimation which were considered by the committee are set out below. These areas were discussed with management and the external auditor throughout the year and during the preparation of these financial statements. The committee is satisfied that the financial statements appropriately address the key accounting judgements and estimates both in respect of the amounts reported and disclosures made.

During the year, the committee also considered and approved a change to bp’s accounting policy relating to physically settled commodity contracts, with effect from 1 January 2021.

The committee’s process for considering key accounting judgements and estimates included an assessment of matters at various stages during the year. This primarily included the key accounting judgements and estimates set out on pages 98 and 99. The committee also considered and addressed key accounting estimates and judgements relating to provisions, pensions and other post-retirement benefits, and supplier financing arrangements via briefings and review of the group’s assumptions. See Notes 23, 24 and 29 respectively for further information.
How risks were reviewed
The principal risks allocated to the audit committee for monitoring in 2020 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 enhancing its control environment policies to strengthen its compliance and control culture. The committee further considered updates in the trading and shipping 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. The committee also considered the impact of COVID-19 on operations and the control environment associated with trading activities, with particular reference to operational considerations associated with increased remote working.

**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 on 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.

**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 2020 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:

- Information technology and services: including the functions performance, strategy and optimization of core services to enable the digitization and modernization of bp at pace.
- bp ventures and Launchpad: including the purpose, capabilities, operating model, governance and performance of these entities.
- Reinvent bp programme: including a review of programme milestones and risks, as well as business continuity and management of change.
- 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. The committee also reviewed bp’s tax transparency report.
- Internal audit functional review: including a five-year plan for the function in a reinvented bp.
- Trading and shipping: including strategy, performance, capability and risk management.
- Effectiveness of investment: annual review of performance of projects with sanctioned capital over a certain threshold.
- Internal controls: assessments of management’s plans to remediate the external auditor’s control findings.

How internal control and risk management was assessed
Internal audit
The committee received quarterly reports on the findings of internal audit in 2020, including their assessment of issues raised in previous years, especially those relating to IT access controls. The committee also received a report from internal audit on their annual review of the system of internal control and risk management. The committee met privately with the SVP, internal audit and key members of his leadership team. The committee continued to monitor and review the effectiveness and capabilities of internal audit during the year. During the year, the committee received a report on the findings of an assessment conducted by internal audit of its conformance with the Internal Audit Code of Practice which was published in January 2020. The committee noted that internal audit conforms with the vast majority of recommendations set out in the code. Actions to achieve full conformance with the code were also noted.

Training and briefings
The committee considered market updates and developments throughout the year. This included technical accounting updates from the SVP, accounting reporting control on developments in financial reporting and accounting policy, as well as on accounting and disclosure changes that would be introduced as a result of the reorganization of the group. The committee also received briefings on specific topics, including non-operated joint ventures, and data analytics used by the external auditor.

Site visit during the year
In October 2020, the committee conducted a virtual visit of the trading & shipping function, including virtual presentations from the trading floor, covering low carbon trading, global power and global crude. Key areas of discussion during this site visit included the impacts of oil price volatility, COVID-19 and the reinvent bp programme on the business and its operations during 2020.
FRC thematic review
The bp Annual Report and Form 20-F 2019 was included in the FRC’s sample for its limited scope thematic review on reporting on the impact of climate change. bp subsequently received a letter request for information from the FRC’s Corporate Reporting Review team. The audit committee considered the letter and bp’s detailed response thereto, which enabled the FRC to close its enquiries. The committee notes the further enhancements made to disclosures in relation to climate change and the energy transition in this annual report.

An FRC review provides no assurance that bp’s Annual Report 2019 was correct in all material respects. The FRC’s role was not to verify the information provided but to consider compliance with reporting requirements. Its letters are written on the basis that the FRC (which includes the FRC’s officers, employees and agents) accepts no liability for reliance on them by bp or any third party, including but not limited to investors and shareholders.

External audit
How the committee assessed audit risk
The external auditor set out its audit plan for 2020, identifying significant audit risks to be addressed during the course of the audit. These included:
- Impairment of upstream oil and gas property, plant and equipment.
- Impairment of exploration and appraisal assets.
- Accounting for structured commodity transactions.
- Valuation of level 3 instruments in trading and shipping revenue recognition.
- 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 $54 million (2019 $49 million), of which 1.9% was for non-audit and other assurance services (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 (2019 $1 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 the following:
(i) The main criteria to measure the auditor’s performance were:
- Robustness of the audit process
- Independence and objectivity
- Quality of delivery
- Quality of people and service

(ii) bp’s commitment to the audit; and

(iii) Aligned audit approach – which sought to measure progress against the commitments from the audit tender.

Year on year, the overall score from the survey increased by +3%. Improvements were seen across audit effectiveness and service quality, including a number of areas of focus that had been identified in the previous survey.

The committee also 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.

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 SVP accounting reporting control 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 chair or the audit committee before engagement commences.

The audit committee, chief financial officer and SVC accounting reporting control 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 327.
Examples of how accounting judgements and estimates were considered and addressed

<table>
<thead>
<tr>
<th>Key judgements and estimates in financial report</th>
<th>Audit committee activity</th>
<th>Conclusions/outcomes</th>
</tr>
</thead>
</table>
| **Exploration and appraisal intangible assets** | - Judgemental aspects of oil and gas accounting are reviewed routinely in bp’s quarterly due diligence process.  
- Received the output of management’s annual intangible asset certification process used to verify that accounting criteria to continue to carry the exploration intangible balance are met. | - Significant exploration write-offs were recognized during the year (as disclosed in Note 8).  
- Exploration intangibles totalled $4.1 billion at 31 December 2020. |
| **Recoverability of asset carrying values** | - Reviewed 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. | - The group’s price assumption for Brent oil and for Henry Hub gas were revised downward and the period covered extended to 2050 as set out on page 28 and Note 1.  
- Sensitivity analyses estimating the effect of changes in revenue and discount rate assumptions have been disclosed in Note 1.  
- Significant impairments were recorded in the year as a result of the lower price assumptions as disclosed in Note 4.  
- Headroom on goodwill balances was reduced (see Note 14 for further information). |
| **Impact of climate change and the energy transition** | - Reviewed management’s best estimate of oil and natural gas price assumptions for value-in-use impairment testing.  
- Reviewed management’s assessment of recoverability of exploration intangibles.  
- Received briefings on decommissioning provisions. | - Management’s revised best estimate of oil and natural gas prices are broadly in line with a range of transition paths consistent with the goals of the Paris climate change agreement.  
- Exploration write-offs were recognized as a result of revised expectations to extract value from certain exploration prospects (see Note 8 for further information).  
- Reasonable changes in the expected timing of decommissioning do not have a significant impact on the associated provisions. |

bp uses technical and commercial judgements when accounting for oil and gas exploration, appraisal and development expenditure. Judgement is required to determine whether it is appropriate to continue to carry intangible assets related to exploration costs on the balance sheet.

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.

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.

Climate change and the transition to a lower carbon economy may have significant impacts on the currently reported amounts of the group’s assets and liabilities and on similar assets and liabilities that may be recognized in the future.
Key judgements and estimates in financial report

Impact of COVID-19

The following areas involving judgement and estimates were identified as most relevant with regard to the impact of the COVID-19 pandemic and current economic environment: going concern, discount rate assumptions, oil and natural gas price assumptions, pensions and other post retirement benefits, impairment of financial assets measured at amortized cost and income taxes.

Investment in Rosneft

Judgement is required in assessing the level of control or influence over another entity in which the group holds an interest. 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.

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.

Derivatives

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 LNG★ contracts.

Audit committee activity

- Received briefings on COVID-19 impacts as part of the quarterly due diligence process.
- Reviewed liquidity forecast assessments performed to support the going concern assertion.
- Reviewed discount rates used for impairment testing and provisions.
- Reviewed management’s best estimate of oil and natural gas price assumptions for value-in-use impairment testing.

- Received the judgement on whether the group continues to have significant influence over Rosneft.
- 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.

- Received regular reports on derivative accounting judgements.
- Received a briefing on the group’s trading risks and reviewed the system of risk management and controls in place.
- Reviewed the control process and risks relating to the trading business.

Conclusions/outcomes

- bp continues to be resilient despite current economic conditions. The committee is satisfied with management’s assessment that the group will continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.
- Material impairment charges and exploration write-offs were recognized in the Upstream segment as a consequence of price assumption changes. See Note 1 for further information.

- bp’s CEO, Bernard Looney, was appointed to the Rosneft board of directors in June 2020.
- bp has retained significant influence over Rosneft throughout 2020 as defined by IFRS. See Note 1 for further information.

- bp considers that contracts to buy or sell LNG do not meet the definition of a derivative under IFRS. bp has assets and liabilities of $6.4 and $5.3 billion respectively, recognized on the balance sheet for level 3 derivative financial instruments at 31 December 2020 mainly relating to the activities of the trading and shipping function.
- bp’s use of internal models to value certain of these contracts has been disclosed in Note 30.
Safety and sustainability committee

Committee overview

Role of the committee
The role of the safety and sustainability committee (SASC) (previously called the safety, environment and security assurance committee, until 31 December 2020) 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 during 2020
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, internal audit and group security. The SASC can access any other independent advice and counsel it requires on an unrestricted basis. The SASC 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 2020. All directors attended every meeting for which they were eligible. In addition to the committee members, all SASC meetings were attended by the CEO, the SVP for safety and operational risk (S&OR) and the SVP internal audit and/or his delegate. The EVP legal 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 CEO receives invitations to join the private meetings on an ad hoc basis and at least once a year the SVP internal audit is invited to a private meeting with the committee.

Membership
<table>
<thead>
<tr>
<th>Member</th>
<th>Role</th>
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<tbody>
<tr>
<td>Melody Meyer</td>
<td>Member since May 2017 and chair since November 2019</td>
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<td>Nils Andersen</td>
<td>Member (resigned March 2020)</td>
</tr>
<tr>
<td>Professor Dame Ann Dowling</td>
<td>Member</td>
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<tr>
<td>Sir John Sawers</td>
<td>Member</td>
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Chair’s introduction
I am pleased to present my second report as chair of the SASC. During 2020, the committee continued to work with the bp leadership team to promote safe and reliable operations within the organization.

Operational risk management remained a key area of focus during 2020, against the challenging backdrop of the COVID-19 pandemic with the result that bp maintained a good safety record during the year despite these challenges. The committee (together with other non-executive directors) conducted a virtual visit of bpx energy Permian assets in December 2020. We were very impressed with the safety culture and performance demonstrated by the bpx energy colleagues with whom we interacted during this virtual visit, and we look forward to being able to conduct a physical visit in due course.

As part of the review by the board of its governance framework, the committee was renamed as the safety and sustainability committee with effect from 1 January 2021. The committee’s remit has also been expanded to include monitoring the effectiveness of the implementation of bp’s sustainability frame. This is an important step in light of bp’s new purpose and ambition and I look forward to continuing to work with the bp leadership team in furtherance of the new purpose, underpinned by safety and sustainability.

Nils Andersen stepped down from the committee and the board in March 2020. I would like to thank him for his valuable contribution and commitment to the committee and I welcome Johannes Teyssen as a new member of the committee from the beginning of 2021.

Melody Meyer
Committee chair
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. Internal 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 CEO and SVP 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 internal audit. In addition, the SVP, internal audit regularly met in private with the chair and other members of the committee over the course of the year. During the year the committee received separate reports on bp’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 2020 forward programme for the internal audit function. The committee supported the remuneration committee in relation to remuneration policy.

Virtual site visit
In December 2020 the members of the committee (together with the non-executive directors of the board) made a virtual visit to the bpx energy Permian site. Discussions during this visit covered a broad range of bpx energy health, safety and environment matters and provided an opportunity for effective virtual engagement with bpx energy staff.

Corporate reporting
The committee oversaw the bp Sustainability Report 2019. The committee reviewed the content and worked with the external auditor with respect to its limited assurance of selected sustainability KPIs.
The committee’s agenda developed and evolved during the year, reflecting a year with a significant number of geopolitical developments globally.

Sir John Sawers
Committee chair

Chair’s introduction
I am pleased to report on the work of the geopolitical committee in 2020. The committee’s agenda developed and evolved during the year, reflecting a year with a significant number of geopolitical developments globally.

Following changes to the board governance framework that took effect on 1 January 2021, the committee was replaced by a geopolitical advisory council. Although the council is not a formal committee of the board, its membership includes other directors, certain members of the bp leadership team and three external advisors, with myself as chair. The geopolitical highest priority risk is now overseen by the board as a whole, informed by feedback from the council.

Sir John Sawers
Committee chair

Activities during the year
Early in the year, the committee considered the potential impact on bp of policies and plans of the new EU Commission and new UK government elected in December 2019. Later in the year, the committee considered the geopolitics of the COVID-19 pandemic and its impact on businesses and policies. The impacts of different potential outcomes of the November US election were discussed by the committee at its meeting in September 2020. The committee also received periodic geopolitical updates on a number of territories in which bp has significant interests throughout the year.
Chair’s letter

The committee wishes to place on record our gratitude for all that bp’s people achieved last year, and our acknowledgment of the challenging environment they faced. We look forward to better days ahead.

Paula Rosput Reynolds
Committee chair

Dear shareholder,

Last year was enormously challenging – for the world and for bp. Yet the bp team operated safely and reliably, ran the business as well as could possibly be expected, and launched a strategic transformation of the company.

That bp achieved so much last year is a credit to everyone in the company – from the leadership to the front lines. Together, they delivered the energy the world needs, and positioned the company for the future.

Nevertheless, as COVID-19 took its toll around the globe, there were consequences for bp’s financial outcomes in 2020. The remuneration committee always seeks to align employee reward with shareholder experience. Thus, despite extraordinary efforts on the part of the organization, we decided that there should be no 2020 pay-out for all those who normally participate in our broadly-applicable annual bonus plan.

We know that this decision was painful for bp’s people, many of whom count on earning a cash bonus as part of their personal and family financial planning. While words cannot substitute for remuneration not received, the committee wishes to place on record our gratitude for all that bp people achieved amidst the environment they faced. We look forward to better days ahead.

Shareholder engagement

Throughout this challenging period when we had many decisions to make regarding metrics and reward, the committee has benefited from engagement with our shareholders. The remuneration policy under which we now operate was directly shaped by a meeting we held with bp’s top 25 shareholders and other proxy representatives in 2019. We appreciated shareholders’ overwhelming support (96.58% approval) of the new policy at our AGM last May. Throughout 2020, we have continued to meet (virtually) with our largest shareholders to discuss a range of performance and incentive topics in detail. We are grateful for your counsel and hope you will see your advice reflected in the decisions which we have reached. We ask for your support of this directors’ remuneration report, and the decisions described herein, at the forthcoming annual general meeting.
In this report, the committee continues its practice of scrutinizing both one- and three-year performance. Even in the absence of paying annual bonuses for 2020, we have included some discussion on results to give a balanced view of what worked well and what disappointed. This report covers our decisions for 2020 and the details regarding our implementation of the 2020 remuneration policy for 2021 and beyond. The highlights are provided immediately below.

**Key remuneration outcomes for 2020**

- There was no pay-out under the annual bonus plan for any of the participating employees.
- Lower vesting for the 2018-2020 equity plan.
- The vesting outcome for the 2018-20 performance shares cycle is 32.5% of maximum, down from 71.2% in the previous cycle, and from an average of over 66% over the last six cycles. It is worth noting that the committee made no alterations to the performance measures or targets on which these awards were based, nor any discretionary adjustment to the vesting outcome. This vesting outcome applies equally to our former executive directors, and to our new CEO and CFO in respect to their pre-appointment performance share awards.

**Key remuneration decisions for 2021 and beyond**

- To recognize the efforts of the wider workforce, virtually all employees will receive an above-market pay increase in 2021. Large numbers of our employees received no pay adjustment in 2020 or had their increase deferred for six months. Given the large reduction in headcount and all the responsibility this action places on those who remain, we agreed with management’s plan to increase salaries across-the-board, and ahead of market. Any time salaries rise, the cost of other remuneration that hinges off salary rises as well. At the same time, we are obligated to monitor disparate impacts and overall welfare of the workforce. We will, therefore, continue to monitor and balance the costs of the programme with wider workforce pay issues.
- We considered the approach to salary for our executive directors apart from the wider workforce. We embrace restraint as a guiding principle, but restraint must be balanced with fair reward for contribution. The board has been gratified by the immediacy of Bernard Looney’s impact in leading the organisation, and in refreshing bp’s purpose, strategy and organisation. We propose to recognize his efforts with an increase of 2.75% salary with effect from the annual general meeting. This increase is significantly lower than the increase that our UK professional workforce will receive on their pay review date in 2021.
- Murray Auchincloss has likewise made an immediate impact since his appointment. He fully assumed the challenges of the CFO role and has forged a strong partnership alongside Bernard. We set his initial salary in 2020 at a level below comparable rates for finance directors in the FTSE 30, until we could be certain of the contribution he would bring to the role. Shareholders will recall our policy is to keep executive increases within the boundary of wider workforce increases, except in specific circumstances. We find that Murray is already contributing beyond our expectations of even a seasoned CFO. Given his criticality to the execution of our strategy, we conclude that adjusting his below-market salary is such a specific circumstance. We therefore intend to increase his salary by 8% to £750,500, following the annual general meeting, placing him in line with the median rate for FTSE 30 CFOs. It is our intention, subject to the committee’s view of Murray’s continued development and success in role, to bring his salary in line with that of his predecessor and other CFOs in similarly challenging roles. We anticipate that this may require increases somewhat above the wider workforce average in the future.
- In 2021 we have made an all-employee share award to allow employees to participate in the success that a reinvented bp can deliver. The majority of employees will receive restricted shares vesting in 2025, while more senior employees will receive share options to be exercised from 2025 onward and with a ten-year term.
- We are bringing our metrics and targets for both the 2021 annual bonus and the 2021-23 performance share into line with bp’s new strategy and the refreshed commitments to financial performance. The changes are described in detail in this report and we hope you will see how closely we have sought to align these targets to the commitments that management have articulated to investors.
- The 2021-23 awards will be in line with approved policy and the grant size is unchanged from prior years. All share awards will be granted after the annual meeting and pricing will be based on the preceding 90 days.

**Overview of financial performance, operating achievements, and strategic progress**

Our 2020 annual bonus plan consisted of measures associated with financial performance and operations. Our long-term share plan consisted of financial measures and strategic progress. Each area of performance is summarized below to provide a sense of how we evaluated overall performance.

Financial performance for bonus purposes was measured in terms of underlying replacement cost profit and free cash flow. For performance shares, we measured return on average capital employed (ROACE) and relative total shareholder return (rTSR). In neither the short nor the long-term plan did actual financial performance meet targets.

Over the three-year performance period, however, bp ranked third out of the five super-majors for rTSR purposes which accounted for a modest 12.5% vesting of the 2018-20 performance share grant. To offer some perspective, we note that during 2020 the company reduced net debt by $6.5 billion to $39 billion. In announcing the sale of a share of bp’s interest in Oman’s Block 61, we continue making good progress towards the 2025 target of $25 billion of proceeds from divestments. Importantly, too, management initiated the review of bp’s portfolio of assets in 2020 and recommended significant impairments and exploration write-offs. Thus, management took the necessary steps to address the value of our assets given the energy transition, in full knowledge that they would forego near-term benefit because of these actions. We think this reflects well on the system of reward – not paying when performance is below expectations – but also on the integrity of the leadership which is nonetheless doing the right thing to create a sustainable future.
Despite the challenges of the pandemic, operations were strong in 2020, with refining availability of 96%, upstream plant reliability of 94%, and delivery of four new major projects. Safety trends were also positive, with process safety events, recordable injury frequency, and other key safety and environmental metrics significantly lower than in 2019. While workforce hours were down, bp people safely managed increased COVID-19-related risks and travel restrictions, and increased quarantine periods associated with cross-border crew rotations, while ensuring safety critical staffing and emergency response preparedness. bp teams also delivered above-target sustainable emissions reductions in 2020.

Strategic progress is the other area we assessed; in the 2018-20 performance share plan it carried a 20% weight.

As we consulted with shareholders, we can appreciate that the inclusion of ‘strategic progress’ in a scorecard can be a double-edged sword. On the one side, measuring strategic progress more specifically aligns our strategy and the reward we will confer. On the other side, strategic progress does not always carry with it straightforward metrics that are more typically used in remuneration designs. Thus the committee must use its judgement and explain its rationale. We do so here on page 111. We hope you will agree that we’ve been thoughtful in evaluating the organization’s strategic performance over the 2018-20 period.

Other decisions and forward-looking activity

In our approved 2020 remuneration policy, we retained flexibility to adjust performance measures and weightings in both our annual bonus and performance share plans. Given the shift in the business mix and the exigencies of our financial frame, for the 2021 annual bonus, we are introducing two new financial measures: cumulative cash cost reductions (weighted at 25%); and an operational measure to reflect margin share from convenience retail and electrification (weighted at 10%). These changes represent the committee’s best judgment for fine-tuning measures to the new strategy. While we are adding two new measures, we will continue to measure annual performance of our operations, of cash generation, of sustainable emissions reductions and of safety.

For the 2021-23 performance share awards, we will introduce an earnings per share growth (EBIDA CAGR) measure alongside the existing ROACE measure (each weighted at 20%), and will reduce the weighting on rTSR (from 40% to 20%). Many of you will recall that the relevance of rTSR and the selection of an appropriate peer group were widely, but inconclusively discussed, during our September 2019 stakeholder engagement session. Against that backdrop, our judgment is that if the bp team can achieve the multi-year financial results to which it committed in July 2020, then the team should be rewarded, with only a modest calibration to what other energy companies accomplish over these three years.