



# BP p.l.c. Board Governance Principles

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# Introduction

The BP Board is responsible for the direction and oversight of BP plc (BP) on behalf of the shareholders and is accountable to them, as owners, for all aspects of BP's business. The Board recognises that in conducting its business, BP should be responsive to other relevant constituencies.

The BP Board believes that good governance involves the clarity of roles and responsibilities, and the proper utilisation of distinct skills and processes. The Board therefore focuses on activities that enable it to promote shareholders' interests, such as the active consideration of long-term strategy, the monitoring of executive action, and ongoing Board and executive management succession.

The Board believes that the governance of BP is best achieved by the delegation of its authority for the executive management of BP to the Group Chief Executive (GCE) subject to defined limits and monitoring by the Board.

To reflect this approach, these Board Governance Principles (the Board Principles) are designed to enable the Board and the executive management to operate within a clear governance framework.

# 1 The BP Goal

The purpose of the Group is to maximise long-term shareholder value through the allocation of its resources to activities in the oil, natural gas, petrochemicals and energy businesses.

## 2 The role of the Board

### 2.1 The Board's Role

The Board is collectively responsible for pursuing the BP Goal and is accountable to shareholders for all the actions of BP.

The Board's role is to govern BP by discharging its unique responsibilities, which include those responsibilities set out in paragraphs 2.2 to 2.4 below.

In carrying out its responsibilities the Board will:

- (a) focus primarily on strategic issues;
- (b) have regard to economic, political and social issues and any other relevant external matters which may influence or affect the development of BP's business; and
- (c) seek to exemplify through these Board Principles (including the Executive Limitations), its expectations for the conduct of the BP business and its employees.

### 2.2 Strategy

The Board will review and where appropriate determine the long term strategy (the Strategy) and the annual plan (the Plan) for BP based on proposals made by the GCE for achieving the BP Goal.

### 2.3 Monitoring

The Board will monitor the decisions and actions of the GCE and the performance of BP including:

- (a) the implementation of, and performance against, the Strategy and the Plan; and
- (b) the exercise of authority delegated to the GCE.

The Board will satisfy itself that:

- (a) the material risks to BP are identified and understood and that systems of risk management, compliance and control are in place to mitigate such risks; and
- (b) its expectations for the conduct of BP's business and its employees are reflected in a set of values established by the GCE.

### 2.4 Succession

The Board will ensure that systems and processes are in place for the succession, evaluation and compensation of the GCE, the Executive directors and other key members of senior management.

## 3 The Board and its processes

### 3.1 Shareholders

The Board is committed to promoting the success of BP. It represents the interests of all shareholders and seeks to act fairly between them. The Board will engage in an appropriate dialogue with shareholders and seek to obtain the view of the shareholders as a whole.

### 3.2 Board Meetings

The Board will determine the key items for its consideration for the coming financial year. The agenda will be set by the Chairman in consultation with the GCE and with the support of the Company Secretary. A similar process will be used for meetings of Board Committees.

Discussion at Board meetings will be open and constructive. All discussions of the Board and their record will be maintained in confidence unless there is a specific decision or legal requirement to make disclosure.

In participating in Board discussions, Executive directors are expected to discharge their responsibilities as directors of BP and not to act solely as the representative of that activity for which they bear executive responsibility.

### 3.3 Independent Advice

Any director is entitled to obtain independent professional advice relating to such director's own responsibilities and the affairs of BP. Each director should obtain independent advice where the director is required to consider any matter in which he or she may have an interest which may conflict with the interests of the Company.

Where advice is to be sought, the director will first discuss it with the Chairman or Deputy Chairman as appropriate and, having done so, shall be free to proceed. The director will use the Company Secretary's office to facilitate the obtaining of such advice.

## 3.4 Board Composition and Compensation

### 3.4.1 Composition, Size, Independence and Tenure

The Board will comprise a mix of individuals that ensures an appropriate range of knowledge, views and experience. The Nomination Committee will keep under review this mix of skills and make recommendations as appropriate.

Generally, Board members will be expected to have:

- (a) experience in dealing with strategic issues and long-term perspectives;
- (b) leadership experience, a superior knowledge of business principles and capacity for independent thought;
- (c) an ability to participate constructively in deliberations; and
- (d) a willingness to exercise authority in a collective manner.

Tenure will be determined on the basis of contribution and continued evidence of the exercise of independent judgement. Given the annual re-election of all directors by shareholders, the Board believes that arbitrary term limits on a director's service are not appropriate.

Over half of the directors, excluding the Chairman, will comprise Non-Executive directors who are determined by the Board to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement.

The Board should be of a size which enables the full engagement of all the directors. The number of directors will not normally exceed 16.

The Board will maintain plans for the succession of the Executive and Non-Executive directors.

### 3.4.2 Elections

All directors will stand for re-election by shareholders each year.

### 3.4.3 Terms of Engagement and Compensation

The Board will determine the terms of engagement and the level of remuneration paid to its members within the limitations approved by the shareholders.

The Chairman will be paid a fee inclusive of all services and will receive other support from BP appropriate to his office.

Non-Executive directors will be paid a fee determined by the Board from time to time.

Executive directors will not receive a fee for their service as directors of BP.

#### **3.4.4 Board and Director Evaluation**

The Board will evaluate its own processes and performance including the work of its committees, to ensure its on-going effectiveness as a high performing board. This evaluation process will take place annually, in accordance with the procedures adopted by the Board from time to time.

The performance and contribution of individual directors as members of the Board will be reviewed periodically, with the Chairman's performance being reviewed annually.

The performance of the GCE will be monitored solely by the Non-Executive directors. The performance of the Executive directors will be monitored by the GCE and the Non-Executive directors.

#### **3.4.5 Board Induction and Education**

An induction programme and continuing training and education will be available to all directors to enable them to fulfil their responsibilities as directors.

#### **3.4.6 Other Directorships**

Membership of the Board represents a significant time commitment and Non-Executive directors must be prepared to give sufficient time for the discharge of their BP responsibilities.

All directors should regularly inform the Board through the Company Secretary, of other directorships they hold. The Nomination Committee will keep under review the commitments of Non-Executive directors and make recommendations to the Board if the Committee concludes that a director's other commitments are inconsistent with those required by BP.

All appointments of Executive directors to other boards shall be subject to the approval of the Chairman and reported to the Board.



## 3.5 The Chairman and Deputy Chairman

### 3.5.1 Appointment

The Board will appoint from among their number a Chairman and a Deputy Chairman neither of whom will be employed executives of the Group.

The Board will develop and maintain a plan for the succession of both the Chairman and the Deputy Chairman.

### 3.5.2 Role of the Chairman

The Chairman will provide leadership of the Board and will act as facilitator for meetings.

The Chairman has authority to act and speak for the Board between meetings on all matters relating to the Board Principles and will engage with the GCE on behalf of the Board as required. The Chairman is empowered to make any decision, establish any policy, take any action or enter into any obligation which is consistent with the Board Principles and, in so doing, may interpret the Board Principles in any reasonable manner. The Chairman will report to the next meeting of the Board on any material or sensitive exercise of this authority.

The Chairman will ensure that systems are in place to provide directors with accurate, timely and clear information to enable the Board to consider properly all matters before it. The Chairman is responsible for ensuring the integrity and effectiveness of the Board Principles.

### 3.5.3 Role of the Deputy Chairman

The Deputy Chairman shall act for the Chairman in his absence or at his request.

The Deputy Chairman will normally serve as the Board's Senior Independent Director and will be available to shareholders who have concerns that cannot be addressed through normal channels.

### 3.6 Board Committees

The Board may at any time establish Committees of the Board to assist it in carrying out its responsibilities. Any Committee will be subject to the Board Principles and will speak or act for the Board only when and to the extent so authorised.

The permanent Committees of the Board include the Chairman's Committee, the Safety, Ethics and Environment Assurance Committee (SEEAC), the Remuneration Committee, the Audit Committee, the Results Committee and the Nomination Committee. Regular meetings of the permanent Committees will be scheduled annually.

Each permanent Committee will be comprised of those directors the Board considers best suited to serve on that Committee. With the exception of the Results Committee, all Committee members, including the chairman of each Committee, shall be Non-Executive directors. The main responsibilities and requirements for the composition of the permanent Committees are set out in the Appendix.

Any Committee may establish more detailed processes and procedures for carrying out its responsibilities which are consistent with the Board Principles.

### 3.7 The Company Secretary

All Board members will have access to the advice and services of the Company Secretary.

The Company Secretary reports to the Chairman and is responsible to the Board. His or her appointment and removal is a matter for the Board as a whole. The Nomination Committee will be responsible for recommending candidates for appointment as Company Secretary and the Remuneration Committee will determine the Company Secretary's terms of engagement and remuneration.

The Company Secretary is responsible for advising the Board and the Committees on all governance matters, ensuring that Board procedures are followed, that the applicable laws and regulations for the conduct of the affairs of the Board are complied with and for all matters associated with the maintenance of the Board or otherwise required for its efficient operation.

The Company Secretary will advise on and be responsible for the engagement and retention of all independent monitoring and advisory services required by the Board or its Committees or by individual directors.

## 4 The Board's relationship with Executive Management

### 4.1 Delegation to the GCE

The Board is responsible for reviewing and, where appropriate, determining the Strategy and the monitoring of risk and performance. It delegates to the GCE authority for the executive management of BP consistent with the BP Goal and the Executive Limitations. The Board will hold the GCE accountable for the discharge of this authority.

The GCE will propose for Board consideration, the GCE's Strategy for achieving the BP Goal. Annually the GCE will propose the Plan together with specific results to be achieved during the financial year in pursuit of the BP Goal.

Through the Executive Limitations, the Board will place limits on the practices, methods, conduct and other means by which the GCE may carry out his delegated authority for the executive management of BP. The Board will monitor the GCE's observance of the Executive Limitations.

The GCE is authorised to establish any policy, make any decision, enter into any obligation, take any action and develop any activity that will achieve the BP Goal and which is within a reasonable interpretation of the Executive Limitations.

The Board may at any time change the authority of the GCE and in particular, may change the BP Goal and the Executive Limitations. However, so long as any particular delegation of authority is in place, the Board will respect and support the GCE's decisions and judgement within the proper exercise of such authority.

Decisions or instructions of individual directors or Committees of the Board do not carry the authority of the Board, except in those instances where specific authorisation is given by the Board (such as to the Chairman between meetings or to the Remuneration Committee).

## 4.2 The Executive Limitations

### 4.2.1 Limits on Executive Action

All GCE actions and decisions will be carried out in accordance with commonly accepted business practice and professional ethics and within the Executive Limitations set out below.

### 4.2.2 General Limitations

The GCE will not engage in or cause or permit any practice, activity or decision to be taken:

- (a) without having regard to:
- the health, safety and environmental consequences;
  - the interests of BP's employees or those of other parties doing work for BP and, in particular, the need both to endeavour to treat them in an equitable and dignified manner and to maintain a safe working environment;
  - the political consequences;
  - the need to foster BP's business relationships with suppliers, customers and others; or
  - its effect on the reputation of BP;
- (b) which represents a material deviation from the Strategy and/or the Plan; and
- (c) without ensuring that a system of control is in place for the prevention of conduct which is dishonest, illegal or involves coercion.

### 4.2.3 Risk and Internal Control

The GCE will not cause or permit BP to operate without a comprehensive system of controls and internal audit to identify and manage the risks that are material to BP, to protect BP's assets and to monitor the application of BP's resources in a manner which meets the standards of external auditors.

### 4.2.4 Financial Limitations

The GCE will not cause or permit BP to operate in a manner which would or would be likely, to result in BP becoming financially distressed and in particular, the GCE will not cause or permit any of the following:

- (a) BP to operate outside the financial limits, authorities or ratios determined by the Board from time to time;
- (b) the allocation of capital and resources of BP unless for the purpose of meeting the BP Goal; or
- (c) the assets of BP to be inadequately maintained, unnecessarily risked or unprotected.

### 4.3 Accountability and Monitoring

The Board will carry out its many monitoring responsibilities through whatever means it considers appropriate, using such internal or external sources as it deems relevant.

The GCE will report to the Board at each meeting and advise the Board (or the relevant Board Committee) in a timely manner of all material matters currently or prospectively affecting BP and its performance including, among others:

- (a) any potential strategically or politically significant development prospects;
- (b) progress on the development and implementation of the Strategy and the Plan;
- (c) BP's business and financial performance including any materially under-performing business activities and proposals to remedy the situation;
- (d) any action or project that represents a material deviation from the Strategy or the Plan;
- (e) any action or project (otherwise than permitted by the Strategy or the Plan) that takes BP into a new country;
- (f) any action or project (otherwise than permitted by the Plan) that will involve capital investment or revenue commitments exceeding the amounts determined by the Board from time to time;
- (g) any failure to observe the Executive Limitations;
- (h) the identification of the material risks to BP and an assessment of the effectiveness of the controls in place to assess and manage such risks;
- (i) any material political, economic or other developments in the markets where BP operates;
- (j) any material developments or issues concerning the skills and capability of the BP business;
- (k) all material matters currently or prospectively affecting the shareholders and the markets in which the shareholders' interests are traded;
- (l) anything which may have a material adverse impact on BP's reputation; and
- (m) the outcome of any agreed actions or significant developments relating to any material agenda items considered at previous Board meetings.

Between Board meetings the GCE will engage with the Chairman as the representative of the Board as and when required in respect of those matters referred to above.

# Appendix

## Main Tasks and Requirements for the Board Committees

### (a) Chairman's Committee (The Chairman and all Non-Executive Directors)

- Evaluate the performance and the effectiveness of the GCE
- Review the structure and effectiveness of the business organisation of BP
- Review the systems for senior executive development and determine the succession plan for the GCE, the Executive directors and other senior members of executive management
- Determine any other matter which is appropriate to be considered by all of the Non-Executive directors
- Opine on any matter referred to it by the chairman of any Committee comprised solely of Non-Executive directors

### (b) Safety, Ethics and Environment Assurance Committee (Four to six Non-Executive Directors)

- Monitor and obtain assurance that the GCE's internal control system for operations is designed and implemented effectively in support of his observance of the relevant Executive Limitations
- Monitor and obtain assurance that the management or mitigation of significant BP risks of a non-financial nature is appropriately addressed by the GCE
- Receive and review regular reports from the GCE or his delegate, the Group Internal Auditor and the Group Compliance and Ethics Officer regarding the GCE's adherence to the relevant Executive Limitations and his management in responding to risk
- Review material to be placed before shareholders which addresses environmental, safety and ethical performance and make recommendations to the Board about their adoption and publication
- Review reports on the Group's compliance with its Code of Conduct and on the employee concerns programme (OpenTalk) as it relates to non-financial issues
- Recommend to the Board any changes or further delineation of the Executive Limitations in relation to non-financial matters

### (c) Remuneration Committee (At least three Non-Executive Directors)

- Determine on behalf of the Board the terms of engagement and remuneration of the GCE and the Executive directors and to report on those to shareholders
- Determine on behalf of the Board matters of policy over which BP has authority relating to the establishment or operation of BP's pension scheme of which the Executive directors are members
- Nominate on behalf of the Board any trustees (or directors of corporate trustees) of such pension scheme
- Review the policies being applied by the GCE in remunerating senior executives other than Executive directors to ensure alignment and proportionality

**(d) Audit Committee (Four to six Non-Executive Directors)**

- Monitor and obtain assurance that the GCE's internal control system is designed and implemented effectively in support of his observance of the relevant Executive Limitations
- Monitor and obtain assurance that the management or mitigation of significant BP risks of a financial nature is appropriately addressed by the GCE
- Receive and review regular reports from the GCE or his delegate, the Group Internal Auditor and the Group Compliance and Ethics Officer which evidence the GCE's adherence to the relevant Executive Limitations and his management in responding to risk
- Monitor and obtain assurance that the legally required standards of disclosure are being fully and fairly observed
- Review all financial disclosure documents including quarterly results, annual accounts, prospectuses, information and offering memoranda to be placed before shareholders or filed with regulatory bodies and make recommendations to the Board about their adoption and publication
- Monitor and review the effectiveness of BP's internal audit function
- Review BP's internal financial controls and its systems of internal control and risk management
- Review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process. Recommend to the Board the appointment, re-appointment and removal of the external auditor and to approve their remuneration and terms of engagement
- Implement and monitor policy on the engagement of the external auditor to supply non-audit services to BP
- Review the systems in place (including OpenTalk) to enable those who work for BP to raise, in confidence, any concerns about possible improprieties in matters of financial reporting or other financial issues and for those matters to be appropriately investigated
- Recommend to the Board any changes or further delineation of the Executive Limitations in relation to financial matters

**(e) Results Committee (Chairman (or his Non-Executive nominee), the GCE and the CFO)**

- Authorise upon the instructions of the Board, the release of the periodic financial statements and dividend announcements

**(f) Nomination Committee (Chairman and the chairs of the SEEAC, Audit and Remuneration Committees)**

- Identify, evaluate and recommend candidates for appointment or reappointment as directors
- Identify, evaluate and recommend candidates for appointment as Company Secretary
- Keep under review the mix of knowledge, skills and experience of the Board to ensure the orderly succession of directors
- Review the outside directorship/commitments of the Non-Executive directors.

