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Local authorities oppose BP pay policy's lack of safety targets

- 1.1. Local authority pension funds will oppose the remuneration report of BP at the company's forthcoming AGM as a result of concerns about insufficient linkage between executive pay and health and safety performance.
- 1.2. The £70bn Local Authority Pension Fund Forum has recommended that its members, who own an estimated 1.2% of BP shares, vote against the company's remuneration report as a result of the company's failure to clearly tie executive rewards to safety performance. LAPFF is also in contact with other institutional investors in the UK and overseas who share its concerns.
- 1.3. The Forum considers that BP's long-term incentive scheme should contain safety-related and other extra-financial performance elements. Given the company has stated that the change in its safety culture is a "5 to 10 year journey" LAPFF considers a link between long-term incentives and safety must form part of BP's remuneration policy.
- 1.4. The Forum also believes extra-financial performance metrics should apply to all executive directors, not only the outgoing CEO. In particular they should apply to the CEO designate, Tony Hayward, who is set to take over from Lord Browne in July 2007.
- 1.5. Although the Forum acknowledges that the company has reduced directors' bonuses, it has raised concerns with BP about the reactive nature of the cuts. The company has responded by confirming that process safety components will be part of the 2007 annual bonus calculation. The Forum believes that this will be in line with BP's commitment to improve process safety. The Forum will assess the stringency of these targets in its analysis of the 2007 annual report.
- 1.6. LAPFF chairman Cllr Darrell Pulk said: "It is plainly right that BP should not pay directors full bonuses in the wake of the highly critical Baker and CSB reports. But we do not see any linkage between long-term incentives

and BP's stated desire to be a leader in process safety management. Whilst we welcome the company's openness to investor engagement, and decision to include process safety as a factor in determining future bonuses, we have no choice but to oppose the remuneration report in this instance. It is important the investors give the company a clear message - if safety culture is to be at the heart of the business going forward, then it must also be inherent in the board's remuneration policy."

1.7. The Forum has been engaging with BP for six months over the company's response to recent safety failures, including the Texas City Refinery blast in March 2005 and the Prudhoe Bay spill in July 2006. The company has been criticised for its management of safety issues in reports by former US Secretary of State James Baker and, more recently, the Chemical Safety and Hazard Investigation Board (CSB).

1.8. BP's AGM is scheduled for 12th April.

About LAPFF:

The Local Authority Pension Fund Forum (LAPFF), which was set up in 1991, is a voluntary association of 39 public sector pension funds based in the UK. It exists 'to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.' The Forum's members currently have combined assets of over £70 billion.

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