

BP board performance report

Letter from the chairman


Dear Shareholder

During the past year, the board has carefully considered the role it plays and its method of working. Central to this is the board's review of its system of governance. This has been timely – BP adopted its prior governance framework for the board more than 10 years ago. This approach has stood the board in good stead and has been robust when judged against the standards of governance that have developed over time. This framework will continue to underpin our approach.

It has, however, been important for the board to consider the position of the company in the markets in which it operates and to ensure that the manner in which the board works will meet the challenges that BP will face in the future. As part of the review, each board member discussed their evaluation of the existing policies and proposed their views on the role and challenges for the BP board going forward. The review process also involved benchmarking, identifying examples of governance best practice and a legal review of US and UK board policies.

The board clearly needs to focus on its unique tasks and these are described in the company's 'board governance principles', which were approved in November and can now be found on our website.

The board will keep its work and performance under regular review and will revisit the governance principles annually. Set out below is a description of the board and its committees and an account of the work that they have done during the year.



Peter Sutherland
Chairman
22 February 2008

Board governance principles

The board governance principles describe the board's relationship with shareholders and executive management, the conduct of board affairs and the tasks and requirements for board committees. They outline the board's focus on activities that enable it to promote shareholders' interests, specifically the active consideration of 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 executive management to the group chief executive, subject to monitoring by the board and the limitations defined in the board governance principles. These 'executive limitations' require that any executive action taken in the course of business takes specific issues into consideration, including health, safety and the environment, risk and internal controls and financing.

BP's board governance principles can be viewed on the 'governance' section of bp.com at www.bp.com/corporategovernance.

Operating the principles

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

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

The board governance principles further set out how the group chief executive's performance will be monitored during the year.

The board's engagement with shareholders

The board is accountable to shareholders for the performance and activities of the BP group. The board takes steps to engage with shareholders and to evaluate the relevant financial, social, environmental and ethical matters that may influence or affect the business. The board recognizes that, in conducting its business, BP should be responsive to other relevant constituencies.

During the year, the chairman met with institutional shareholders to discuss issues relating to the board, governance and high-level strategy and the remuneration committee consulted with larger shareholders on elements of the executive remuneration plan.

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

BP's AGM

Shareholders are encouraged to attend the AGM and use the opportunity to ask questions and hear the resulting discussion about BP's performance. However, given the size and geographical diversity of the company's shareholder base, attendance may not always be practical and shareholders are encouraged to use proxy voting on the resolutions put forward. Every vote cast, whether in person or by proxy at shareholder meetings, is counted, because votes on all matters except procedural issues are taken by a poll.

Copies of speeches and presentations given at the AGM are available to download from the BP website after the event, together with the outcome of voting on the resolutions.

Both the chairman and board committee chairmen were present during the 2007 AGM. Board members met shareholders on an informal basis after the main business of the meeting. In 2007, voting levels at the AGM showed a slight decrease to 61%, compared with 64% in 2006. It is proposed that the AGM in 2008 will also be webcast.

Director elections

All directors stand for re-election by shareholders each year, with new directors being subject to election at the first opportunity following their appointment. All the names submitted to shareholders for election are accompanied by a biography and a description of the skills and experience that the company feels are relevant in proposing each director for election.

Voting levels at the 2007 AGM demonstrated continued support for all BP directors.

Board composition, skills and renewal

The board governance principles require the majority of the board to be composed of independent non-executive directors and the size of the board not normally to exceed 16 directors. The board is composed of the chairman, 10 non-executive and five executive directors; in total, four nationalities are represented.

Lord Browne resigned as group chief executive on 1 May 2007 and was succeeded by Dr Anthony Hayward, who had been appointed group

chief executive designate on 1 February 2007. Andy Inglis joined the board on 1 February 2007 as chief executive of the exploration and production segment succeeding Dr Hayward. John Manzoni resigned as an executive director and chief executive of refining and marketing and left the company on 31 August 2007. Dr David Allen will retire from the board and the company at the end of March 2008.

From the non-executive directors, Mr John Bryan retired in April 2007 and, at the 2008 AGM, Dr Walter Massey will retire from the board.

In June 2007, Mrs Cynthia Carroll and, in February 2008, Mr George David were appointed as non-executive directors. External recruitment consultants were used to identify Mrs Carroll and Mr David as candidates and the board believes that their skills and experience will complement those of existing board members and enhance the efficiency and effectiveness of the board as a whole, particularly from the aspect of BP's US operations.

The board remains actively engaged in orderly succession planning for both executive and non-executive roles and manages this with the assistance of the nomination committee. The committee assesses the balance of executive and non-executive directors and the composition of the board in terms of the skills and diversity required to ensure it remains relevant and effective. Following an assessment by the nomination committee, the board will continue its policy of regularly refreshing board membership.

The board has also begun the process for the identification and selection of the board's chairman, as Peter Sutherland will step down at the 2009 AGM. This is being led by Sir Ian Prosser, deputy chairman and the board's senior independent director. The board is using an external adviser to evaluate the board's mix of skills and experience and to assist in defining the criteria to be used in identifying potential candidates. The adviser has also been engaged to assist with the selection process.

Board independence

Part of the qualification for board membership of BP is the requirement that non-executive directors be free from any relationship with the company's executive management that could materially interfere with the exercise of their independent judgement. In the board's view, BP's non-executive directors fulfil this requirement and the board has determined that those who served during 2007 were independent. BP is involved in a long-term business of global scale and scope. Membership of the board needs to reflect that not only in terms of skills but also in terms of tenure where artificial restrictions on the duration of tenure may not be best for the company. It is for this reason that all non-executive directors have been subject to annual re-election since 2004.

Sir Ian Prosser joined the board in 1997. It is the view of the board that he remains independent. His experience and long-term perspective on

BP's business have provided and continue to provide a valuable contribution to the board and to the audit committee, which he chairs. As deputy chairman and senior independent director, Sir Ian is leading the board's search for the successor to the current chairman. He has been asked by the board to remain in post until April 2010 at the latest in order that he may conclude both the chairman's succession process and the identification and appointment by the new chairman of a senior independent director.

BP completed the merger with Amoco in December 1998. Dr Walter Massey and Erroll Davis, Jr are the two remaining former Amoco directors. Dr Massey will retire as a director at the 2008 AGM. Both directors have continued to be determined by the board to be independent during the past year, with Dr Massey chairing the safety, ethics and environment assurance committee (SEEAC). Mr Davis will remain on the board until such time as he steps down as part of the implementation of the board's succession policy. The board believes Mr Davis continues to demonstrate his independence as a director through his ongoing contribution and challenge at board and committee discussions.

The board has satisfied itself that there is no compromise to the independence of those directors who serve together as directors on the boards of outside entities (or who have other appointments in outside entities). Where necessary, the board ensures appropriate processes are in place to manage any possible conflict of interest.

The board: terms of appointment

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

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

In accordance with the company's Articles of Association, directors are granted an indemnity from the company in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the company maintained a directors' and officers' liability insurance policy throughout 2007. During the year, a review of the terms and nature of the policy was undertaken and has been renewed for 2008. Although their defence costs may be met, neither the company's indemnity nor insurance provides cover in the event that the director is proved to have acted fraudulently or dishonestly.

Board and committees: meetings and attendance

The board requires all members to devote sufficient time to the work of the board to discharge the office of director and to use their best endeavours to attend meetings.

In addition to the AGM (which 17 directors attended), the board met 12 times during 2007 for meetings of varying length: nine times in the UK, twice in the US and once in Brussels. Two of these meetings focused solely on strategy, one of them of two-days' duration. A number of board committee meetings were held during the year; for details of these and their attendance by board members please see the table below.

	Board meetings	Audit committee	SEEAC	Chairman's committee	Remuneration committee	Nomination committee
P D Sutherland	12/12	–	–	5/5	6/6	5/5
J H Bryan	6/6	7/7	–	2/2	2/2	–
A Burgmans	12/12	–	8/8	5/5	–	–
C B Carroll	3/4	–	–	2/2	–	–
Sir William Castell	11/12	14/14	7/8	5/5	–	–
E B Davis, Jr	11/12	13/14	–	5/5	6/6	–
D J Flint	11/12	12/14	–	5/5	–	–
Dr D S Julius	12/12	–	–	5/5	6/6	5/5
Sir Tom McKillop	10/12	–	7/8	5/5	6/6	–
Dr W E Massey	12/12	–	8/8	5/5	–	5/5
Sir Ian Prosser	12/12	14/14	–	5/5	6/6	5/5
Lord Browne	6/6	–	–	–	–	–
Dr D C Allen	12/12	–	–	–	–	–
I C Conn	12/12	–	–	–	–	–
Dr B E Grote	11/12	–	–	–	–	–
Dr A B Hayward	12/12	–	–	–	–	–
A G Inglis	9/9	–	–	–	–	–
J A Manzoni	8/9	–	–	–	–	–

Serving as a director

Induction

Following their appointment to the board, new directors undertake an induction programme, which includes matters such as the operation and activities of the group (for example, key financial, business, social and environmental risks to the group's activities), the board governance principles and the duties of directors. The operational and business element of the induction programme is tailored to the requirements of the new director and is targeted for completion within the first six to nine months of taking office.

The chairman is accountable for the induction of new board members and is assisted by the company secretary's office in this task.

Training and site visits

Directors are kept briefed on BP's business, the environment in which it operates and other matters throughout their period in office. Non-executive directors also receive training specific to the tasks of the particular board committees on which they serve in order to complement their skills and knowledge and enhance their effectiveness during their tenure. On appointment, directors are advised of the legal and other duties and obligations they have as directors of a listed company. The board regularly considers the implications of these duties under the board governance principles.

During 2007, board members undertook visits to Thunder Horse in the Gulf of Mexico, the refineries at Texas City and Gelsenkirchen, BP's UK trading operations in Canary Wharf and BP's offices in Houston. All non-executive directors are now required to participate in at least one site visit per year.

Outside appointments

As part of their ongoing development, executive directors are permitted to take up one external board appointment, subject to the agreement

of the chairman (which is then reported to the BP board). The board is satisfied that these appointments do not conflict with their duties and commitments to BP. Executive directors retain any fees received in respect of such external appointments and this is reported in the directors' remuneration report.

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

Evaluation

The board continued its ongoing evaluation processes to assess its performance and identify areas in which its effectiveness, policies and processes might be enhanced. The board evaluated its performance during the year through the use of a board skills evaluation completed by an external facilitator and also individual director interviews held by the company secretary. The process aimed at building on the outcome of the previous year's evaluation and assessing the way in which the board had responded to issues that occurred during 2007. A report from the external facilitator was considered by the board and recommendations adopted. The outcome from the evaluation has led the board to focus on certain areas for 2008, including a greater use of site visits and restructuring of forward board agendas.

Separate evaluations of the audit and remuneration committees and of SEEAC took place during the year and are outlined in the reports for those committees below (and in the directors' remuneration report in the case of the remuneration committee).

The chairman and senior independent director

BP's board governance principles require that neither the chairman nor the deputy chairman is employed as an executive of the group. During 2007, the posts were held by Mr Sutherland and Sir Ian Prosser respectively. Sir Ian also acts as BP's senior independent director and is available to shareholders who have concerns that cannot be addressed through normal channels.

The chairman is responsible for leading the board and facilitating its work. He ensures that the governance principles and processes of the board are maintained and encourages debate and discussion. The chairman also leads board performance appraisals. He represents the views of the board to shareholders on key issues, not least in succession planning for both executive and non-executive appointments. Shareholders' views are fed back to the board by the chairman.

The company secretary reports to the chairman and has no executive functions. His remuneration is determined by the remuneration committee.

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

The chairman and all the non-executive directors meet periodically as the chairman's committee. The performance of the chairman is evaluated each year, with the evaluation discussion taking place when the chairman is not present. The BP board governance principles require that the board develop and maintain a plan for the succession of both the chairman and the deputy chairman.

Board committees

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

Reports for each of the main board committees follow. In common with the board, each committee has access to independent advice and counsel as required and each is supported by the company secretary's office, which is independent of the executive management of the group.

Audit committee report

Membership

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

Members of the audit committee throughout the year were Sir Ian Prosser (chairman), Douglas Flint, Erroll Davis, Jr and Sir William Castell. John Bryan was a member until his retirement in April 2007. Support is provided by the committee secretary, David Pearl (deputy company secretary).

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

Meetings and attendance

The audit committee met 14 times during 2007.

At the request of the audit committee chairman, each meeting is attended by the lead partner of the external auditors (Ernst & Young). From BP, the group chief financial officer, the general auditor (head of internal audit), the chief accounting officer and the deputy chief financial officer also attend each meeting by invitation. Private sessions without executive management present are held regularly.

Role and authority of the audit committee

The audit committee monitors the observance of the executive limitations relating to financial matters and does this on behalf of the board.

BP's board governance principles set out the main tasks and requirements for each of the board committees. Key tasks for the audit committee include gaining assurance on the integrity of the group's reports, accounts and financial processes and reviewing the management of financial risks and the internal controls designed to address them. The audit committee believes that the tasks outlined in the board governance principles meet each of the tasks and activities outlined by the Combined Code as falling within the remit of an audit committee.

Agendas

The audit committee uses a forward agenda at the start of each year to establish an initial work programme. This is compiled using a combination of regular items (including those required by regulation) and items that reflect a current review of the group's risks. The forward agenda also includes regular meetings during the year with both the external and internal auditors in private sessions where members of executive management are not present.

During the year, the committee chairman reviews any issues that may arise with the group chief financial officer, the external auditors and the BP general auditor and will add items to the next meeting agenda where appropriate.

Information

Information on audit committee agenda items are received from both internal and external sources, including Ernst & Young, the general auditor and the chief financial officer. The committee receives presentations from a wide cross-section of BP's business and financial control management, with the attendance of additional Ernst & Young partners, if appropriate, to a particular business or functional review.

The audit committee is able to access independent advice and counsel when needed, on an unrestricted basis. Further support is provided to the committee by the company secretary's office and during 2007 external specialist legal and regulatory advice was provided by Sullivan & Cromwell LLP.

The board is kept informed of the activities of the committee and any issues that have arisen through the regular report given by the audit committee chairman after each meeting. Minutes of the committee are circulated to all board members.

Training

A programme has been developed with the committee to enable committee members to update their skills and knowledge with regard to the financial issues that may impact BP, for example on developments in financial reporting and changes to financial standards.

Committee activities in 2007

Financial reports

During the year, the committee reviewed all financial reports before recommending their publication to the board.

Internal controls and risk management

In 2007, the audit committee reviewed reports on risks, controls and assurance for the BP business segments (Exploration and Production and Refining and Marketing), together with gas, shipping, BP Alternative Energy and BP's trading function. A monitoring review was also carried out on the performance of major BP projects against their original sanctioned investment.

A joint meeting with SEEAC was held in early 2007 to review the general auditor's report on internal controls and risk management; a further joint meeting took place in early 2008 on the same theme.

The committee discussed key regulatory issues during the year as part of its standing agenda items, including a quarterly review of the company's evaluation of its internal controls systems as part of the requirement of Section 404 of the Sarbanes-Oxley Act. The effectiveness

of BP's enterprise level controls was examined through the annual assessment undertaken by the internal audit function.

In addition to the standing items on the agenda, the committee considered a range of other topics including an update on TNK-BP, a review of the group's decommissioning provisions and the legal settlements reached in the US. The committee also received an independent report on the group's US trading operations and visited the trading operations in the UK.

External auditors

The lead audit partner from Ernst & Young attends all meetings of the audit committee at the request of the committee chairman. Other audit partners are invited to attend meetings where they can utilize their areas of expertise, for example, during business segment or function reviews.

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

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

Fees paid to the external auditors for the year (*see Financial statements – Note 17 on page 126*) were \$75 million, of which 16% was for non-audit work. Non-audit services provided by Ernst & Young have remained constant from 2006, and audit fees (\$63 million in 2007 compared with \$61 million in 2006) are also little changed as the impact of inflation and exchange rate movements have been offset by efficiency gains.

A new lead audit partner is appointed every five years and other senior audit partners and staff are rotated every seven years. No partners or senior staff from Ernst & Young who are currently connected with the BP audit may transfer to the group. During the year, the committee approved the appointment of a new lead partner from Ernst & Young to replace the current partner who reaches five years' service in early 2008.

The audit committee has considered both the proposed fee structure and the audit engagement terms for 2008 and has recommended to the board that the reappointment of the external auditors be proposed to shareholders at the 2008 AGM.

Internal audit

BP's internal audit function advises the committee on the company's identification and control of risk. The general auditor attends each committee meeting at the invitation of the committee chairman and presents a quarterly internal audit and controls report.

During the year, the audit committee evaluated the performance of the internal audit function and agreed to the proposed forward programme of work. The committee was also involved with finding a successor to the general auditor who is due to retire in 2008. An external consultant was engaged to undertake the search and the committee approved the appointment of an external candidate with deep audit experience.

In 2007, the committee met once with the general auditor in a private session without the presence of executive management.

Fraud reporting and employee concerns on financial matters

The audit committee received a quarterly report from internal audit on instances of actual or potential fraud, and concerns relating to the financial accounting of the company. The committee also received reports on a quarterly basis from the group compliance and ethics function, which captured issues relating to financial matters raised through the employee concerns programme, OpenTalk, together with topics highlighted by the company's annual certification process.

Performance evaluation

The committee conducts a yearly evaluation of its performance. For 2007, the review methodology included a survey of committee members and those individuals who regularly attend committee meetings. The

survey results were analysed by the company secretary's office and discussed at the November audit committee meeting. Areas for future focus were identified following the evaluation, including training opportunities for committee members. These have been incorporated into the committee's agenda for 2008.

The audit committee plans to meet 12 times during 2008.

Safety, ethics and environment assurance committee report

Membership

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

Members of SEEAC during 2007 were Dr Walter Massey (chairman), Antony Burgmans, Sir William Castell and Sir Tom McKillop. Support was provided by the committee secretary, David Pearl (deputy company secretary).

The committee chairman, Dr Massey, will retire as a director at the 2008 AGM. The appointment of his successor will be announced at the 2008 AGM. Mrs Cynthia Carroll will be joining the committee in due course.

Meetings and attendance

SEEAC met eight times during 2007.

At the request of the committee chairman, each SEEAC meeting is attended by the lead partner of the external auditors (Ernst & Young) and the BP general auditor (head of internal audit).

Reports and presentations to SEEAC are led by a member of executive management. Following a change in executive responsibilities during the year, the executive liaison with SEEAC changed from Iain Conn to Dr Anthony Hayward, who attended three meetings of the committee in the second half of 2007. Private sessions without executive management in attendance are held at the end of each meeting.

Role and authority of the committee

On behalf of the board, SEEAC monitors observance of the executive limitations policy relating to the environmental, health and safety, security and ethical performance of the company and compliance to its code of conduct.

In common with the other BP board committees, the board governance principles set out the main tasks and requirements for SEEAC. These include monitoring and obtaining assurance that the management or mitigation of material non-financial risks is appropriately addressed by the group chief executive.

Agendas

The committee's tasks are broad as they cover all non-financial risk, and in constructing the forward agenda, the committee considers the risks identified in BP's business and annual plans and also the review of risks conducted by the general auditor.

The forward agenda includes standing items that enable the committee to monitor and assess how the executive limitations policy is being observed (for example, health, safety and environment reports) and to review the non-financial risks identified in the business plan (for example, regional risk reviews). The committee also holds a joint session with the audit committee to review the general auditor's report on internal controls and risk management.

During the year, the forward agenda is supplemented with any emerging issues or developments that may arise.

Information

The committee receives information on agenda items from both internal and external sources, including internal audit, the safety and operations function, the group compliance and ethics function and Ernst & Young. Like other board committees, SEEAC can access independent advice and counsel if it requires, on an unrestricted basis.

The activities of the committee and any issues that have arisen are reported back to the main board by the committee chairman following each meeting.

Committee activities in 2007

Baker Panel Report and appointment of independent expert

In January 2007, the Baker Panel published its report on BP's corporate safety culture and the oversight of safety management systems at BP's five US refineries. The company agreed to adopt all the panel's recommendations, which were aimed at improving process safety performance at the five US plants, including the appointment of an independent expert for a period of at least five years to monitor and report annually on the progress of such implementation to the BP board.

In May, the board announced that L Duane Wilson, a member of the Baker Panel, was appointed as the independent expert to provide an objective assessment to the board of the company's progress towards implementation of the panel's recommendations. Mr Wilson reports to the chairman of SEEAC, has attended three of the committee's meetings since his appointment and has also accompanied the committee to its site visit of the Texas City refinery.

SEEAC received a presentation on Mr Wilson's detailed work plan in early 2008 and he will now periodically report to SEEAC on his progress. On behalf of the board, SEEAC will receive an annual report by mid-2008 in which Mr Wilson will address progress against the 10 Baker Panel recommendations.

Group operations risk committee

The group operations risk committee (GORC) was formed at the end of 2006 by executive management. The GORC is chaired by the group chief executive and reports regularly to SEEAC. GORC reports presented to SEEAC during the year included reviews of the progress of the six-point plan and the development of leading and lagging indicators of safety and operational performance.

Site visits

The committee visited BP's Gelsenkirchen refinery in Germany in March 2007 and the Texas City refinery in September. The annual committee evaluation process concluded that such site visits were valuable to the committee's work and, as a result, other site visits are planned for inclusion on the forward agenda for 2008.

Compliance and ethics

The committee is tasked with reviewing reports on the group's compliance with its code of conduct and on the employee concerns programme (OpenTalk) as it relates to non-financial issues. During the year, the committee received quarterly compliance and ethics reports, reviewed the 2006 certification process and the nature and resolution of cases raised through OpenTalk.

Other topics

Other topics reviewed during the year by SEEAC included a risk review of the Latin America and Caribbean region; health, safety and environmental progress in TNK-BP; and the BTC pipeline.

Performance evaluation

The committee conducts an annual review of its process and performance. The 2007 committee review involved a facilitated

discussion at its November meeting. The review concluded that overall the committee was functioning as intended but that going forward more emphasis would be given to operational risk. In terms of committee processes, the review concluded that greater focus should be given to the effective use of the committee's time, as the committee's workload had increased with the frequency and duration of meetings lengthening.

SEEAC plans to meet seven times during 2008.

Remuneration committee report

Membership

The committee's members consist solely of non-executive directors who are considered by the board to be independent.

Members of the remuneration committee during the year were Dr DeAnne Julius (chairman), Erroll Davis, Jr, Sir Tom McKillop and Sir Ian Prosser. John Bryan retired from the committee in April 2007. The chairman of the board also attends meetings of the committee.

Meetings and attendance

The remuneration committee met six times during 2007 and is independently advised.

Role and authority of the committee

The committee's main task is to determine on behalf of the board the terms of engagement and remuneration of the group chief executive and the executive directors and to report on those to shareholders.

Further details on the committee's role, authority and activities during the year are set out in the directors' remuneration report, which is the subject of a vote by shareholders at the 2008 AGM.

Chairman's committee report

The chairman's committee completed the task that it commenced in 2006, formally concluding the process for the identification and appointment of a group chief executive to replace Lord Browne. This process involved establishing a clear definition of the role description and benchmarking internal candidates against an external population. The committee held detailed interviews with each of the candidates and undertook an evaluation of the candidates' strengths and weaknesses.

During the year, the committee reviewed with Dr Hayward the short- and long-term challenges facing the group and, in particular, Dr Hayward's proposals for the 'forward agenda'.

The committee also considered a number of management changes initiated by Dr Hayward and discussed his proposals for executive succession. The committee reviewed Lord Browne's performance at the start of the year and that of Mr Sutherland at the end.

Nomination committee report

During the year, the nomination committee, through an external facilitator, carried out a detailed review of the board's skills aimed at identifying any perceived deficiencies such that a comprehensive succession plan could be prepared. The committee, under the chairmanship of Sir Ian Prosser, has acted as the working group for the identification of a successor to Mr Sutherland as chairman.

Combined Code compliance

BP complied throughout 2007 with the provisions of the Combined Code Principles of Good Governance and Code of Best Practice, except in the following aspects:

- A.4.4 Letters of appointment do not set out fixed time commitments since the schedule of board and committee meetings is subject to change according to the exigencies of the business. All directors are expected to demonstrate their commitment to the work of the board on an ongoing basis. This is reviewed by the nomination committee in recommending candidates for annual re-election.
- B.2.2 The remuneration of the chairman is fixed by the board as a whole (rather than the remuneration committee) within the limits set by shareholders, since the chairman's performance is a matter for the whole board.

Internal control review

The board, through its governance principles, has established a process by which the effectiveness of the system of internal control can be regularly reviewed as required by provision C.2.1 of the Combined Code.

The process enables the board and its committees to assess the system of internal controls being operated for managing significant risks, including social, environmental, safety and ethical risks, throughout the year. The process did not extend to joint ventures or associates.

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

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

A joint meeting of the committees in January 2008 reviewed reports from BP's general auditor to support the board in its annual assessment of internal control. The reports described the significant enduring and inherent risks identified across the group, the effectiveness of executive controls that respond to such risks and the continuing development of the systems in place to identify and manage risks. The reports also highlighted future risks of potential significance. These had been reviewed by the board as part of the company's planning process.

The committees engage with executive management during the year on a regular basis to monitor the management of risks. Significant incidents that occurred and management's response to them were considered by the committees during the year.

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

In the board's view, the information it received was sufficient to enable it to review the effectiveness of the company's system of internal control in accordance with the Internal Control Revised Guidance for Directors in the Combined Code (Turnbull).

Directors' interests

	At 31 Dec 2007	At 1 Jan 2007	Change from 31 Dec 2007 to 19 Feb 2008
Current directors			
Dr D C Allen	597,568 ^a	530,933 ^a	–
A Burgmans	10,000	10,000	–
C B Carroll	–	–	–
Sir William Castell	50,000	–	–
I C Conn	229,969 ^b	209,449 ^b	123
E B Davis, Jr	70,602 ^c	68,992 ^c	–
D J Flint	15,000	15,000	–
Dr B E Grote	1,193,137 ^d	1,105,825 ^d	–
Dr A B Hayward	482,398	407,021	123
A G Inglis	758,756 ^e	727,772 ^f	(209,000)
Dr D S Julius	15,000	15,000	–
Sir Tom McKillop	20,000	20,000	–
Dr W E Massey	49,722 ^c	49,722 ^c	–
Sir Ian Prosser	16,301	16,301	–
P D Sutherland	30,906	30,079	–
Directors leaving the board in 2007			
	At resignation/retirement	At 1 Jan 2007	
Lord Browne	2,750,521 ^g	2,525,313 ^g	
J H Bryan	158,760 ^c	158,760 ^c	
J A Manzoni	451,806	376,213	
Directors joining the board in 2008			
	On appointment 11 Feb 2008	Change from 11 Feb 2008 to 19 Feb 2008	
G David	–	9,000 ^c	

^a Includes 25,368 shares held as ADSs.

^b Includes 41,692 shares held as ADSs at 31 December 2007 and 40,155 shares held as ADSs at 1 January 2007.

^c Held as ADSs.

^d Held as ADSs, except for 94 that are held as ordinary shares.

^e Includes 34,962 shares held as ADSs.

^f Interest as at 1 February 2007 on appointment as a director. Includes 34,962 shares held as ADSs and 534,750 MTPPs granted prior to appointment as a director, 209,000 of which lapsed on 6 February 2008.

^g Includes 61,800 held as ADSs at resignation and 61,186 at 1 January 2007.

The above figures indicate and include all the beneficial and non-beneficial interests of each director of the company in shares of the company (or calculated equivalents) that have been disclosed to the company under the Disclosure and Transparency Rules and Companies Acts 1985 or 2006 (as the case may be) as at the applicable dates.

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

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