Committee reports

Audit committee

Chairman’s introduction

Last year’s report highlighted our monitoring of the group’s financial performance in light of the demanding external environment. While this focus remains, the committee has continued to review the integrity of the group’s financial reporting, systems of internal control and risk management and the integrity of the group’s external and internal audit processes.

Key responsibilities

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

Members

<table>
<thead>
<tr>
<th>Members</th>
<th>Member since November 2010 and chair since April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brendan Nelson</td>
<td>Member since October 2016</td>
</tr>
<tr>
<td>Nils Andersen</td>
<td>Member since May 2015</td>
</tr>
<tr>
<td>Paula Reynolds</td>
<td>Member since February 2012; retired May 2017</td>
</tr>
</tbody>
</table>

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

Meetings and attendance

There were 13 committee meetings in 2017, of which six were by teleconference. All directors attended every meeting during the period in which they were committee members.

Regular attendees at the meetings include the chief financial officer, group controller, chief accounting officer, group head of audit and external auditor.
Activities during the year

### Financial disclosure

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

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

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

The committee keeps under review the frequency of reporting during the year.

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

The committee considered the BP Annual Report and Form 20-F 2017 and assessed whether the report was fair, balanced and understandable and provided the information necessary for shareholders to assess the group’s position and performance, business model and strategy. In making this assessment, the committee examined disclosures during the year, discussed the requirement with senior management, confirmed that representations to the external auditors had been evidenced and reviewed reports relating to internal controls. 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.

Other disclosures reviewed included:

- Oil and gas reserves.
- Pensions and post-retirement benefits assumptions.
- Risk factors.
- Legal liabilities.
- Tax strategy.
- Going concern.

### Risk reviews

The principal risks allocated to the audit committee for monitoring in 2017 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 – including new areas of activity and impacts on the control environment.

The committee further considered updates in the trading function’s risk management programme, including compliance with regulatory developments and activities in response to cyber threats.

Compliance with applicable laws 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.

### Financial resilience

The committee reviewed key areas of BP’s ethics and compliance programme, including the integration of the business integrity and ethics and compliance functions, development of the anti-bribery and corruption elements of the programme, enhanced policies, tools and training and strengthening of counterparty risk measures, including due diligence.

Security threats against BP’s digital infrastructure: including inappropriate access to or misuse of information and systems and disruption of business activity.

The committee reviewed changes in the cyber security landscape, including events in the oil and gas industry and within BP itself. The review focused on the improvements made in managing cyber risk, including the application of the three lines of defence model and examining the indicators associated with risk management and barrier performance.

### Other reviews

Other reviews undertaken in 2017 by the committee included:

- Downstream: including strategy and strategic progress, financial performance, risk management and controls, audit findings, key litigation and ethics and compliance findings.
- Upstream: including vision and priorities, structure and portfolio, financial controls and the balance sheet, an overview of intangible assets and a review of the segment’s finance organization.
- Shipping: including an overview of BP shipping’s role and operating model, financial performance, strategy, risk management and controls and the impact of IFRS 16 (lease accounting standard).
- Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD): the origin, purpose and work of the TCFD along with its key recommendations and how BP’s existing reporting compares to these recommendations, see page 50.
- Non-operating items (NOIs): BP’s policy for identifying and categorizing NOIs and an analysis of those NOIs impacting BP’s reported results.
- Blockchain: introduction to blockchain technology, its potential impacts on the oil and gas industry and an overview of BP’s participation and approach to date.
- Capability and succession in BP’s finance function, including the group’s finance modernization programme.
- Assessment of financial metrics for executive remuneration: consideration of financial performance for the group’s 2017 annual cash bonus scorecard and performance share plan, including adjustments to plan conditions and NOIs.
Internal control and risk management

The committee received quarterly reports on the findings of group audit in 2017. It reviewed group audit’s vision for 2020, including the roadmap for 2017 and beyond. The committee met privately with the group head of audit and key members of his leadership team.

The committee oversaw an external review of the effectiveness of the group audit function, which was awarded to Deloitte in July 2017 following a competitive tender process. Fieldwork and interviews with management and board members was completed by September 2017 and the results of the assessment were reviewed at a joint meeting of the audit and safety, ethics and environment assurance committees in December.

The review concluded that the group audit function:
- Performed strongly across Deloitte’s assessment framework.
- Demonstrated a high level of maturity when assessed against internal audit functions within large FTSE (non-financial services) companies.
- Had a remit covering all risk categories (financial and operational) – a breadth seen as leading practice.
- Had areas where continuous improvement activity and continued dialogue with the business could result in an even stronger performance.

Implementation of the agreed actions arising from the review will be tracked during 2018.

The audit committee also held private meetings with the group ethics and compliance officer during the year.

Training

The committee held a deep dive on reserves, covering resource definition and estimation, the group’s governance processes, areas of focus for the regulator and how BP compared with its competitors in terms of approach. It received technical updates from the chief accounting officer on developments in financial reporting and accounting policy, including IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenues from Contracts with Customers’ and IFRS 16 ‘Leases’.

Site visits

In September, the committee visited BP’s global business services (GBS) centre in Hungary. During the visit the committee reviewed the function’s strategy, context, and how it has grown in scope and scale. It looked at its risk management and controls processes, including understanding the risks around transition of activity from the business and the standardization of global processes. It also reviewed capability and human resources issues, including talent attraction and retention, met a range of staff and heard about the various GBS diversity programmes including LGBT, working parents and disability awareness.

In December, members of the committee and wider board visited BP’s integrated supply and trading (IST) business in London for a day that covered oil and gas market fundamentals, finance and risk, IST’s strategy, and presentations on oil products and LNG trading.

Accounting judgements and estimates

Areas of significant judgement considered by the committee in 2017 and how these were addressed included:

<table>
<thead>
<tr>
<th>Key judgements and estimates in financial reporting</th>
<th>Audit committee activity</th>
<th>Conclusions/Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf of Mexico oil spill</td>
<td>→ A review of the provisioning for and disclosure of uncertainties relating to the Gulf of Mexico oil spill was undertaken each quarter as part of the review of the stock exchange announcement.</td>
<td>→ Following significantly higher average claims determinations issued by the Court Supervised Settlement Program (CSSP) in the fourth quarter 2017 and the continuing effect arising from the Fifth Circuit May 2017 opinion, BP recognized a post-tax charge of $1.7 billion for BEL and other claims associated with the CSSP.</td>
</tr>
<tr>
<td>BP uses judgement in relation to the recognition of provisions relating to the Gulf of Mexico oil spill. The timing and amounts of the remaining cash flows are subject to uncertainty and estimation is required to determine the amounts provided for.</td>
<td>→ Particular focus was given to updates to the provision related to business economic loss (BEL) and other claims related to the Gulf of Mexico oil spill, including the continuing effect of the Fifth Circuit May 2017 opinion on the matching of revenues with expenses when evaluating BEL claims.</td>
<td>→ Disclosure includes information on remaining uncertainties.</td>
</tr>
</tbody>
</table>
## Key judgements and estimates in financial reporting

### Oil and natural gas accounting, including reserves

BP uses technical and commercial judgements when accounting for oil and gas exploration, appraisal and development expenditure and in determining the group’s estimated oil and gas reserves.

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.

Judgement is required to determine whether it is appropriate to continue to carry intangible assets related to exploration costs on the balance sheet.

### Recovery of asset carrying values

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 pricing, discount rates, production profiles, reserves and the impact of inflation on operating expenses.

Judgement is required in assessing the recoverability of overdue receivables, and deciding whether a provision is required.

### 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.

### Audit committee activity

- Held an in-depth review of BP’s policy and guidelines for compliance with oil and gas reserves disclosure regulation, including the group’s reserves governance framework and controls.
- Reviewed exploration write-offs as part of the group’s quarterly due diligence process.
- Received briefings on the status of upstream intangible assets, including the status of items on the intangibles assets ‘watch-list’.
- Received the output of management’s annual intangible asset certification process used to ensure accounting criteria to continue to carry the exploration intangible balance are met.
- Reviewed the group’s oil and gas price assumptions.
- Reviewed the group’s discount rates for impairment testing purposes.
- Reviewed the group’s credit risk management and reporting framework, including actual credit losses observed, expected loss delegations and utilization and changes in the credit portfolio quality.

### Conclusions/Outcomes

- Exploration write-offs totalling $1.6 billion were recognized during the year.
- Exploration intangibles totalled $17.0 billion at 31 December 2017.
- The group’s long-term price assumptions for Brent oil, and Henry Hub gas were unchanged from 2016.
- The group’s discount rates used for impairment testing were also unchanged.
- Impairments of $1.0 billion were recorded in the year, net of impairment reversals.
- BP has retained significant influence over Rosneft throughout 2017 as defined by IFRS.
### Key judgements and estimates in financial reporting

<table>
<thead>
<tr>
<th>Derivative contracts</th>
<th>Audit committee activity</th>
<th>Conclusions/Outcomes</th>
</tr>
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<tr>
<td>In some instances, BP estimates the fair value of derivative contracts using internal models due to the absence of quoted market pricing or other observable, market-corroborated data. Judgement may also be required to determine whether contracts to buy or sell commodities meet the definition of a derivative.</td>
<td>Received a briefing on the group’s trading risks and reviewed the system of risk management and controls in place, including those covering the valuation of derivative instruments, using models where observable market pricing is not available. The committee annually reviews the control process and risks relating to the trading business.</td>
<td>BP has assets and liabilities of $7.1 billion and $6.6 billion respectively recognized on the balance sheet for derivative contracts at 31 December 2017, mainly relating to the activities of the integrated supply and trading function (IST). BP’s use of internal models to value certain of these contracts has been disclosed in Note 28 in the financial statements.</td>
</tr>
</tbody>
</table>

### Provisions

BP’s most significant provisions relate to decommissioning, the Gulf of Mexico oil spill (see above), environmental remediation litigation.

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

Received briefings on decommissioning, environmental, asbestos and litigation provisions, including the requirements, governance and controls for the development and approval of cost estimates and provisions in the financial statements.

Decommissioning provisions of $16.1 billion were recognized on the balance sheet at 31 December 2017.

The discount rate used by BP to determine the balance sheet obligation at the end of 2017 was a real rate of 0.5% – based on long-dated US government bonds.

### Pensions and other post-retirement benefits

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

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

The method for determining the group’s assumptions remained largely unchanged from 2016. The values of these assumptions and a sensitivity analysis of the impact of possible changes on the benefit expense and obligation are provided in Note 22.

At 31 December 2017, surpluses of $4.2 billion and deficits of $9.1 billion were recognized on the balance sheet in relation to pensions and other post-retirement benefits.

### Income taxes

Computation of the group’s income tax expense and liability, the provisioning for potential tax liabilities and the level of deferred tax asset recognition are underpinned by management judgement and estimation of the amounts which could be payable.

Received regular updates on the group’s tax exposures and deferred tax asset recognition.

Deferred tax assets amounting to $4.5 billion were recognized on the balance sheet at 31 December 2017.

As a result of changes in the fiscal terms of the Abu Dhabi onshore concession following its renewal, the group’s taxes payable relating to the concession are now principally reported as income taxes rather than as production taxes.

Changes to the US corporate tax system resulted in a one-off deferred tax charge of $0.9 billion in the fourth quarter 2017 arising from a revaluation of BP’s US deferred tax assets and liabilities.
External audit

Audit risk
The external auditor set out its audit strategy for 2017, identifying key risks to be monitored during the year. These included:

- Determining the liabilities, contingent liabilities and disclosures arising from the Gulf of Mexico oil spill.
- Estimating oil and gas reserves and resources which has significant impact on the financial statements, particularly impairment testing and the calculation of depreciation, depletion and amortization.
- Monitoring for unauthorized trading activity in the trading function and its potential impact on revenue.

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

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 $47 million (2016 $47 million), of which 6% was for non-audit assurance work (see Financial statements – Note 34). 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 $3 million (2016 $2 million). The $1 million increase in non-audit fees primarily relates to non-audit related assurance services, offset by a reduction in tax compliance services. Non-audit or non-audit related services consisted of other assurance services. There were no new services contracted for tax compliance and advisory services for 2017.

Audit effectiveness
The effectiveness, performance and integrity of the external audit process was evaluated through separate surveys for committee members and those BP personnel impacted by the audit, including chief financial officers, controllers, finance managers and individuals responsible for accounting policy and internal controls over financial reporting.

The survey sent to management comprised questions across five main criteria to measure the auditors’ performance:

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

Further questions were included on BP’s attitude to the audit and the progress of the audit transition.

The 2017 evaluation concluded that the external auditor’s performance had remained largely constant in key areas compared with the previous year. Areas with high scores and favourable comments included quality of accounting and auditing judgement, the working relationship with management and the insight brought through EY’s audit work. Areas of focus included the need for innovation in the audit and consistency of audit practices in locations further away from the UK and US. A further focus was BP’s assessment of its own performance in relation to the audit.

Results of the annual assessment were discussed with the external auditor who considered these themes for the 2017 audit service approach.

A key area of focus from 2016 related to audit team turnover, particularly for junior members of the teams. Actions taken over the year resulted in an improvement in the related score for continuity and retention of key members of the audit team in 2017.

The committee held private meetings with the external auditor during the year and the committee chair met separately with the external auditor and group head of audit before each meeting.

Audit transition
Deloitte was appointed for the statutory audit, with effect from 2018 following a tender process in 2016. The committee monitored the transition of BP’s statutory auditor from EY to Deloitte, including activity to enable Deloitte to achieve independence by October 2017. This included:

- Receiving reports from the audit transition team, including an overview of operational activities and the termination of non-audit services being provided by Deloitte to BP – which would be prohibited when Deloitte becomes the group’s statutory auditor. This included Deloitte stepping down as independent adviser to BP’s remuneration committee.
- Requiring management to report to the committee on any services undertaken by the statutory auditor in line with the group’s policies relating to non-audit services.
- Requiring confirmation of Deloitte’s compliance with BP’s independence and ethics and compliance rules.
- Inviting Deloitte to attend meetings of the audit committee, joint audit and SEEAC committees and the board from October 2017 as part of its ‘shadowing’ of the audit of the third and fourth quarters 2017.

Deloitte confirmed its independence to the committee in October 2017. EY resigned on 29 March 2018 following completion of the 2017 audit. Deloitte will audit the 2018 financial year subject to shareholder approval at the 2018 AGM.

Changes in Registrant’s Certifying Accountant
Following a competitive tender process and on the audit committee’s recommendation, in November 2016 the board selected Deloitte as BP’s independent external auditor for the financial year ending 31 December 2018. This change in external auditor is being made in accordance with UK and EU law requirements – in particular, the UK Corporate Governance Code and the reforms of the audit market by the Competition and Markets Authority and the European Union – which require that companies put their external audit out to tender at least every ten years. EY has served as BP’s external auditor since 1909. EY continued to serve as BP’s external auditor throughout the financial year ended 31 December 2017.

The audit committee supervised the transition period of Deloitte, as new external auditor, to ensure the monitoring of Deloitte’s independence and extended the audit committee’s policy on non-audit services to Deloitte during the financial year ended 31 December 2017. The board appointed Deloitte as the company’s new external auditor with effect from 29 March 2018 to fill the vacancy arising from EY’s resignation following completion of their audit of BP’s 2017 financial statements. At the 2018 AGM, EY will not stand for re-election and the board will seek shareholder approval for the appointment of Deloitte as the company’s external auditor until the conclusion of the next AGM at which the company’s accounts are laid before shareholders.

In respect of the financial years ended 31 December 2016 and 2017, EY did not issue any report on the consolidated financial statements of the BP group that contained an adverse opinion or a disclaimer of opinion, nor were the auditor’s report qualified or modified as to uncertainty, audit scope or accounting principles. There has not been any disagreement as defined in Item 16F(a)(1)(iv) of Form 20-F with EY over any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to EY’s satisfaction, would have caused EY to make reference to the subject matter of the disagreement in connection with its
auditor’s reports, or any reportable event as defined in Item 16F(a)(1)(v) of Form 20-F.

BP has provided EY with a copy of the foregoing disclosure and has requested that they furnish BP with a letter addressed to the US Securities and Exchange Commission (SEC) stating whether or not they agree with such disclosure and, if not, stating the respects in which they do not agree. A copy of EY’s letter dated 29 March 2018, in which they stated that they agree with such disclosure, is filed as Exhibit 15.6.

During the financial years ended 31 December 2016 and 2017 BP did not consult with Deloitte regarding: (i) the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the consolidated financial statements of the BP group; or (ii) any matter that was either the subject of a disagreement as defined in Item 16F(a)(1)(iv) of Form 20-F or reportable event as defined in Item 16F(a)(1)(v) of Form 20-F.

**Auditor appointment and independence**

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 seven years. The current lead partner has been in place since the start of 2013. No partners or senior staff associated with the BP audit may transfer to the group.

**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 auditors may not perform non-audit services that are prohibited by the SEC, Public Company Accounting Oversight Board (PCAOB), UK Auditing Practices Board (APB) 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 only considered for permitted non-audit services when its expertise and experience of the company is important.

For all other services which fall under the ‘permitted services’ categories, approval above a certain financial amount must be sought on a case-by-case basis. Any proposed service not included in the permitted services categories must be approved in advance either by the audit committee chairman or the audit committee before engagement commences. The audit committee, chief financial officer and group controller monitor overall compliance with BP’s policy on audit-related and non-audit services, including whether the necessary pre-approvals have been obtained. The categories of permitted and pre-approved services are outlined in Principal accountants’ fees and services on page 276. The committee’s policies were updated in 2017 to reflect the revised regulatory guidelines of the FRC, including:

- Adoption of the FRC’s prohibited non-audit services list.
- Prohibition of non-audit tax services by the audit firm.
- Reduction of the pre-approval requirements for non-audit services in line with FRC guidance on ‘non-trivial’ engagements with the audit firm.

**Committee evaluation**

The audit committee undertakes an annual evaluation of its performance and effectiveness.

**2017 evaluation**

For 2017 an internal questionnaire was used to evaluate the work of the committee. The review concluded that it had performed effectively. Areas of focus for 2018 include succession planning for membership of the committee and a further review of capital spending.

**Actions from the 2016 evaluation**

Priorities arising from the 2016 evaluation included a review of and visit to one of BP’s global business service (GBS) centres, a focus on streamlining committee materials and further scrutiny on risk management when undertaking business or functional reviews. The committee visited GBS in Budapest in 2017, undertaking a review of the organization’s activities and strategy. It also focused on improving committee pre-read materials, which received improved evaluation scores for the 2017 review. And an overview of risk management and controls was included in all segment and functional reviews.
On site visits we look for ourselves and ask questions, and then we engage with management.
Activities during the year

System of internal control and risk management

The review of operational risk and performance forms a large part of the committee’s agenda. Group audit provided quarterly reports on their assurance work on the system to inform the review. The committee also received regular reports from the group chief executive on operational risk, and from the system of internal control and risk management function, including quarterly reports prepared for executive management on the group’s health, safety and environmental performance and operational integrity. These included quarter-by-quarter measures of personal and process safety, environmental and regulatory compliance and audit findings, as well as quarterly reports from group audit.

In addition, the group ethics and compliance officer and the group auditor met in private with the chairman and other members of the committee over the course of the year. During the year the committee received separate reports on the company’s management of risks relating to:

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

The committee reviewed these risks and their management and mitigation in depth with relevant executive management.

Committee evaluation

For its 2017 evaluation, the committee examined its performance and effectiveness through an internal questionnaire. Topics covered included the balance of skills and experience among its members, the quality and timeliness of information the committee receives, the level of challenge between committee members and management and how well the committee communicates its activities and findings to the board.

The evaluation results continued to be generally positive. Committee members considered that they continued to possess the right mix of skills and background, had an appropriate level of support and received open and transparent briefings from management.

All members emphasized that site visits remained an important element of the committee’s work, particularly because they gave members the opportunity to examine how risk management is being embedded in businesses and facilities, including in the management culture.

Joint meetings between the SEEAC and the audit committee were considered important in reviewing and gaining assurance around financial and operational risks where there was overlap between the committees, particularly in relation to ethics and compliance (see below).

Site visits

In June members of the committee, and other directors, visited the Cherry Point refinery in Blaine, Washington. The site visit included a tour of the dock, training simulator and control room. Meetings with senior leadership and representatives from across the site, including a local safety committee, were held. In July committee members, and other directors, visited the newly operational floating production, storage and offloading vessel, Glen Lyon, at our Quad 204 project in the UK North Sea. This was one of the seven major projects delivered during 2017 and the committee’s visit was the first formal visit following its start-up. During visits committee members and other directors received briefings on operations, the status of conformance with BP’s operating management systems, key business and operational risks and risk management and mitigation. Committee members then reported back in detail about each visit to the committee and subsequently to the board. See page 75 for further details.

Corporate reporting

The committee is responsible for the overview of the BP Sustainability Report 2017. The committee reviewed content and the revised presentation, and worked with the external auditor with respect to their assurance of the report.

Joint meetings of the audit and safety, ethics and environment assurance committees

The audit committee and SEEAC hold joint meetings on a quarterly basis to simplify reporting of key issues that are within the remit of both committees and to make more effective use of the committees’ time. Each committee retains full discretion to require a full presentation and discussion on any joint meeting topic at their respective meeting if deemed appropriate.

The committees jointly met four times in 2017, with the chairmanship of the meetings alternating between the chairman of the audit committee and chairman of the SEEAC.

Topics discussed at the joint meetings were the quarterly ethics and compliance reports (including significant investigations and allegations) and the 2018 forward programmes for the group audit and ethics and compliance functions. The committees reviewed the approach and disclosure statement under the UK Modern Slavery Act and the results of an externally facilitated review of the effectiveness and performance of group audit.
Remuneration committee

After extensive shareholder engagement, we were pleased to receive strong support for our new remuneration policy at the 2017 AGM.

Chair’s introduction
I am pleased to report on the work of the committee in 2017. Following substantial engagement with our shareholders in 2016 and early 2017, we were pleased to receive their support at the 2017 AGM. We applied our new remuneration policy from the start of 2017 and during the year have been addressing some transitional arrangements from old to the new policies. We also reviewed BP pay below the executive team by region, job level and sector to give additional context to our decisions on executive pay.

Having served on this committee for six years, and as chair for the last three, I am stepping down from the committee after the 2018 AGM. Paula Reynolds, who joined the committee in September 2017, will take the chair. She is currently chair of the remuneration committee at BAE Systems plc and has served on that committee since 2015.

During the year, Deloitte LLP had to stand down as our independent adviser following their forthcoming appointment as auditor. Following a competitive tender process, we appointed PwC LLP in their place.

Professor Dame Ann Dowling
Committee chair

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

Key responsibilities
The committee undertakes its tasks in accordance with applicable regulations, including those made from time to time under the Companies Act 2006, the UK Corporate Governance Code and the UK Listing Authority’s Listing Rules in relation to the remuneration of directors of quoted companies.

• Determine the remuneration policy for the chairman and the executive directors.
• Review and determine the terms of engagement, remuneration and termination of employment for the chairman and the executive directors as appropriate and in accordance with the policy, and be responsible for compliance with all remuneration issues applicable to them.
• Prepare the annual remuneration report to shareholders to show how the policy has been implemented.
• Approve the principles of any equity plan that requires shareholder approval.
• Approve the terms of the remuneration of the executive team (including pension and termination arrangements) as proposed by the group chief executive.
• Approve changes to the design of remuneration, for BP group leaders as proposed by the group chief executive.
• Monitor implementation of remuneration for group leaders to ensure alignment and proportionality.
• Engage independent consultants or other advisers as the committee may from time to time deem necessary, at the expense of the company.

Members

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<thead>
<tr>
<th>Name</th>
<th>Member since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ann Dowling</td>
<td>July 2012 and chair since May 2015</td>
</tr>
<tr>
<td>Alan Boeckmann</td>
<td>May 2015</td>
</tr>
<tr>
<td>Ian Davis</td>
<td>July 2010</td>
</tr>
<tr>
<td>Brendan Nelson</td>
<td>May 2017</td>
</tr>
<tr>
<td>Paula Reynolds</td>
<td>September 2017</td>
</tr>
<tr>
<td>Andrew Shilston</td>
<td>May 2015; retired from the committee May 2017</td>
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</table>

Meetings and attendance
Carl-Henric Svanberg and Bob Dudley attend meetings of the committee except for matters relating to their own remuneration. Bob Dudley is consulted on the remuneration of other executive directors, the executive team and more broadly on remuneration across the wider employee population. Both the group chief executive and chief financial officer are consulted on matters relating to the group’s performance.

The group human resources director attends meetings and other executives may attend where necessary. The committee consults other board committees on the group’s performance and on issues relating to the exercise of judgement or discretion.
The committee met eight times during the year. All directors attended each meeting that they were eligible to attend, either in person or by telephone, except that Alan Boeckman was not able to attend a telephone meeting on 27 February in 2017.

Activities during the year
In the period before the 2017 AGM, the committee focused on finalizing the proposed new remuneration policy and outcomes for 2016. This involved reviewing directors’ salaries and the group’s performance outcome which in turn determined the annual bonus and the performance share plan.

From the 2017 AGM, the committee focused on implementing the new policy, in particular looking more broadly at remuneration of employees below the executive team and the measures that could be used to reflect the transition to a lower carbon world. It also considered the implications of the transition from the 2014 to the 2017 policies, in particular aspects relating to share grants, and reviewed potential outcomes for 2017 at the end of the year.

Following the appointment of Deloitte as the group’s statutory auditor from 2018 (subject to shareholder approval) and the need for the firm to be independent prior to the transition of the audit, the committee appointed PwC as its independent adviser effective September 2017.

The committee continued to monitor developments in potential regulation and legislation and held early discussions on the possible implications for its work. It also considered the company’s disclosure on the UK gender pay gap.

In each of its meetings, the committee focused on the overall quantum of executive director remuneration and its alignment to the broader group of employees in BP. It has sought to reflect the views of shareholders and the broader societal context in its decisions.

Shareholder engagement
There was substantial engagement with shareholders and proxy voting agencies ahead of the 2017 AGM, primarily carried out by the chair of the committee, supported by the chairman and company secretary. The committee chair tested proposals and sought support for the new policy put to shareholders at the 2017 AGM. In order to understand evolving issues – particularly around climate change – engagement continued throughout the year, primarily with larger shareholders and representative bodies.

Committee evaluation
We undertook an internally facilitated evaluation to examine the committee’s performance in 2017. The evaluation concluded that the committee had worked well and continued to evolve after its intense work leading up to the 2017 AGM.

Focus areas for 2018 included improving oversight of stakeholders’ views on remuneration and in particular, deepening the committee’s understanding of remuneration below the executive level. In addition, we focussed on staying up to date with external developments and emerging ‘best practice’ and improving remuneration reporting.

See page 90 for the Directors’ remuneration report.
Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Date of Appointment</th>
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<tbody>
<tr>
<td>John Sawers</td>
<td>Member since September 2015 and chair since April 2016</td>
</tr>
<tr>
<td>Paul Anderson</td>
<td>Member since September 2015</td>
</tr>
<tr>
<td>Frank Bowman</td>
<td>Member since September 2015</td>
</tr>
<tr>
<td>Ian Davis</td>
<td>Member since September 2016</td>
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<tr>
<td>Melody Meyer</td>
<td>Member since May 2017</td>
</tr>
<tr>
<td>Cynthia Carroll</td>
<td>Member from September 2016 to May 2017</td>
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<tr>
<td>Andrew Shilston</td>
<td>Member from September 2015; retired May 2017</td>
</tr>
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</table>

Meetings and attendance

Carl-Henric Svanberg and Bob Dudley attend all committee meetings. The executive vice president, regions and the vice president, government and political affairs attend meetings as required.

The committee met three times during the year. All directors attended each meeting that they were eligible to attend except that Cynthia Carroll was unable to attend the meeting on 1 February 2017.

Activities during the year

The committee developed and broadened its work over the year. It discussed BP’s involvement in the key countries where it has investment or is considering investment in detail. These included Angola, the US, Russia, Mexico, Brazil, India, Mauritania and Senegal.

It considered broader policy issues such as the US domestic and foreign policy under the new administration and the political and economic impact of a low price on producing countries.

We reviewed the geopolitical background to BP’s global investments and the politics around climate change.

Committee evaluation

The committee reviewed its performance by means of an internally facilitated questionnaire, and discussed the outcome of that evaluation at its meeting in January 2018.

The evaluation concluded that the committee was working well and considering the right issues, but stressed the importance of considering the geopolitics in a country before an investment is made. The committee currently meets three times a year and is considering additional meetings.

The committee and board felt that there should be greater integration between the work of the board, the committee and the international advisory board.

Chairman’s introduction

The chairman’s and nomination committees were actively involved in the evolution of the board in 2017. In October, I announced that I would be standing down as chairman at an appropriate time after the 2018 AGM in May. As a result, the board has started the search for my successor. This is being carried out by the chairman’s committee led by Ian Davis, the senior independent director.

The nomination committee continues to focus on board renewal and diversity.

Carl-Henric Svanberg  
Chair of the committees

Chairman’s committee

Role of the committee

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

Key responsibilities

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

Members

The committee comprises all non-executive directors. Directors join the committee immediately on their appointment to the board. The group chief executive attends meetings of the committee when requested.
Meetings and attendance
The committee met 10 times in 2017. All directors attended all the meetings for which they were eligible, except that Cynthia Carroll was unable to attend the meeting on 1 February, as was Paula Reynolds for the 19 May 2017 meeting. Nils Andersen did not attend the meetings where succession was discussed. The chairman did not attend the meeting on 2 February when the committee, led by Andrew Shilston, the then senior independent director, carried out an evaluation of the chairman.

Bob Dudley and Brian Gilvary joined meetings where the chairman’s succession was discussed. Matters relating to the business of the nomination committee were also discussed at some meetings.

Activities during the year
- Evaluated the performance of the chairman and the group chief executive.
- Considered the composition of and the succession plans for the executive team.
- Determined the process for the search for a new chair and appointed advisers to support the committee.
- Commenced the search for the new chair.
- Discussed the strategy options for the company, including the lower carbon transition.

Nomination committee
Role of the committee
The committee ensures an orderly succession of candidates for directors and the company secretary.

Key responsibilities
- Identify, evaluate and recommend candidates for appointment or reappointment as directors.
- Identify, evaluate and recommend candidates for appointment as company secretary.
- Keep the mix of knowledge, skills and experience of the board under review to ensure the orderly succession of directors.
- Review the outside directorship/commitments of non-executive directors.

<table>
<thead>
<tr>
<th>Members</th>
<th>Role</th>
<th>Membership Information</th>
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<tbody>
<tr>
<td>Carl-Henric Svanberg</td>
<td></td>
<td>Member since September 2009 and chair since January 2010</td>
</tr>
<tr>
<td>Alan Boeckmann</td>
<td></td>
<td>Member since April 2016</td>
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<tr>
<td>Ann Dowling</td>
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<td>John Sawers</td>
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</tr>
<tr>
<td>Ian Davis</td>
<td></td>
<td>Member since August 2010</td>
</tr>
<tr>
<td>Andrew Shilston</td>
<td></td>
<td>Member between May 2015; retired May 2017</td>
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</table>

Andrew Shilston left the committee when he stood down from the board in May 2017.

Meetings and attendance
The committee met three times in 2017. During the second half of the year, matters relating to the appointment of new directors were considered jointly with the chairman’s committee. All directors attended each meeting that they were eligible to attend.

Activities during the year
The committee monitored the composition and skills of the board. Paul Anderson will be retiring from the board at the 2018 AGM. The committee focused on ensuring that the board’s composition is strong and diverse. As a result, the board is proposing Dame Alison Carnwath for election as a director at the 2018 AGM.

Committee evaluation
The committee generally continues to work well. Its balance of skills and experience needs to be maintained so that it is able to govern the company as it implements its strategy in the transition to the lower carbon world. It expressed a need to ensure that the board maintains strong former executive membership and this will be a focus in forthcoming appointments.