Committee reports

Audit committee

The committee continued to monitor the group’s system of internal control, risk management and work of key functions as well as reviewing and challenging as appropriate the disclosures and key judgements made by management.

Chairman’s introduction

As in previous years, the committee has continued to review the integrity of the group’s financial reporting by challenging and debating the judgements made by management, including the estimates which are made. We receive reports from management and the external auditor each quarter highlighting significant accounting issues and judgements and have used these to inform our debate on whether BP’s financial reporting is ‘fair, balanced and understandable’.

In 2018 the committee focused on the effectiveness of a number of group functions including integrated supply and trading, procurement, tax, information technology and security, and shipping. We also received presentations regarding, and reviewed performance of, the Upstream segment and the lubricants business. These reviews were valuable in not only informing the committee of the work and future plans of those functions and businesses but also examining the key risks (and associated mitigations) faced by each of them. In addition, the committee carried out reviews into the group risks of financial liquidity, cyber security and compliance with business regulations.

The transition to Deloitte from EY was completed in 2018. We met with both EY and Deloitte during 2018 as the transition occurred and oversaw and monitored Deloitte’s work as they settled into their role. We meet regularly with the lead audit partner.

Nils Andersen retired from the committee in September 2018 as he joined the SEEAC. I would like to thank Nils for his service to the committee, and for the challenge and perspective he provided as a member. We were very pleased to welcome Dame Alison Carnwath to the committee in May 2018 with Pamela Daley also joining in October 2018. Each of them bring excellent financial and other relevant skills to the committee.

Brendan Nelson
Committee chair

Role of the committee

The committee monitors the effectiveness 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>Member</th>
<th>Years of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brendan Nelson</td>
<td>Member since November 2010 and chair since April 2011</td>
</tr>
<tr>
<td>Nils Andersen</td>
<td>Member since October 2016; resigned September 2018</td>
</tr>
<tr>
<td>Alison Carnwath</td>
<td>Member since May 2018</td>
</tr>
<tr>
<td>Pamela Daley</td>
<td>Member since October 2018</td>
</tr>
<tr>
<td>Paula Reynolds</td>
<td>Member since May 2015</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 nine committee meetings in 2018, of which three were by teleconference. All directors attended every meeting during the period in which they were committee members, except for Nils Andersen, Alison Carnwath and Paula Reynolds who all missed a meeting each due to pre-existing external commitments. Regular attendees at the meetings include the chief financial officer, group controller, chief accounting officer, group head of audit, group general counsel 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 results 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 control over financial reporting. The committee made a recommendation to the board, who in turn reviewed the report as a whole, confirmed the assessment and approved the report’s publication.

Other disclosures reviewed included:

- Oil and gas reserves.
- Pensions and post-retirement benefits assumptions.
- Risk factors.
- Legal liabilities.
- Tax strategy.
- Going concern.
- IFRS 16 (lease accounting).

Risk reviews

The principal risks allocated to the audit committee for monitoring in 2018 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, such as emissions trading and impacts on the control environment.

The committee further considered updates in the integrated supply and 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.

The committee reviewed the group’s ethics and compliance programme, including the work 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 counter-party risk measures, including due diligence.

The committee also reviewed key areas of BP’s legal function that advise on compliance matters.

Cyber security risk: including inappropriate access to or misuse of information and systems and disruption of business activity.

The committee reviewed ongoing developments in the cyber security landscape, including events in the oil and gas industry and within BP itself. The review focused on 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.

Financial liquidity: including the risk associated with external market conditions, supply and demand and prices achieved for BP’s products which could impact financial performance.

The committee reviewed the key price assumptions used by the group for investment appraisal and the judgements underlying those proposals, the cost of capital and its application as a discount rate to evaluate long-term BP business projects, liquidity (including credit rating, hedging, long-term commercial commitments and credit risk) and the effectiveness and efficiency of the capital investment into major projects. These assumptions also impacted financial reporting (see page 79).

BP’s principal risks are listed on page 55.

For 2019, the board has agreed that the committee will continue to monitor the same four group risks as for 2018.

Other reviews

Other reviews undertaken in 2018 by the committee included:

- Lubricants: 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 tangible and intangible assets and a review of the segment’s finance organization.
- Shipping: including an overview of BP shipping’s role and financial performance, risk management and controls, audit findings, key litigation and ethics and compliance findings.
- Procurement: including strategy and strategic progress, financial performance, risk management and controls, audit findings, key litigation and ethics and compliance findings.
- 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 2018 annual cash bonus scorecard and performance share plan, including adjustments to plan conditions and NOIs.
- Auditor transition: regular reports from the external auditor regarding its transition into the role including detailed updates on issues identified by the external auditor.
- Internal controls: assessments of management’s plans to remediate the external auditors findings in relation to IT access risks.
**Corporate governance**

**Internal control and risk management**

The committee received quarterly reports on the findings of group audit in 2018. The committee met privately with the group head of audit and key members of his leadership team. The audit committee also held private meetings with the group ethics and compliance officer during the year.

**Accounting judgements and estimates**

Areas of significant judgement considered by the committee in 2018 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><strong>Gulf of Mexico oil spill</strong></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>→ The group income statement includes a pre-tax charge of $1.2 billion in relation to the Gulf of Mexico oil spill.</td>
</tr>
<tr>
<td></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>
<tr>
<td></td>
<td>→ The committee noted that following the significant number of BEL claim settlements in the year, the degree of judgement necessary to determine the year-end provision had reduced significantly.</td>
<td></td>
</tr>
</tbody>
</table>

| **Oil and natural gas accounting, including reserves** | → 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’, including certain Gulf of Mexico licences which expired in 2013 and 2014. |
|                                                      | → 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. |
|                                                      | → Exploration write-offs totalling $1.1 billion were recognized during the year. |
|                                                      | → BP remains committed to developing the Gulf of Mexico licences and believes it is appropriate to continue to capitalize the costs. |
|                                                      | → Exploration intangibles totalled $16.0 billion at 31 December 2018. |

**Training**

The committee held a review on reserves and pensions. It received technical updates from the chief accounting officer on developments in financial reporting and accounting policy, in particular regarding the introduction of IFRS 16 ‘Leases’ accounting from the start of 2019.

**Integrated supply and trading visit**

In October, the committee held its meeting at BP’s integrated supply and trading (IST) business in London and conducted its annual tour of the business which covered oil and gas market fundamentals, finance and risk, IST’s strategy, and presentations on oil products and LNG trading.

**Corporate governance**

**Internal control and risk management**

The committee received quarterly reports on the findings of group audit in 2018. The committee met privately with the group head of audit and key members of his leadership team. The audit committee also held private meetings with the group ethics and compliance officer during the year.

**Accounting judgements and estimates**

Areas of significant judgement considered by the committee in 2018 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><strong>Gulf of Mexico oil spill</strong></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>→ The group income statement includes a pre-tax charge of $1.2 billion in relation to the Gulf of Mexico oil spill.</td>
</tr>
<tr>
<td></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>
<tr>
<td></td>
<td>→ The committee noted that following the significant number of BEL claim settlements in the year, the degree of judgement necessary to determine the year-end provision had reduced significantly.</td>
<td></td>
</tr>
</tbody>
</table>

| **Oil and natural gas accounting, including reserves** | → 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’, including certain Gulf of Mexico licences which expired in 2013 and 2014. |
|                                                      | → 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. |
|                                                      | → Exploration write-offs totalling $1.1 billion were recognized during the year. |
|                                                      | → BP remains committed to developing the Gulf of Mexico licences and believes it is appropriate to continue to capitalize the costs. |
|                                                      | → Exploration intangibles totalled $16.0 billion at 31 December 2018. |
### Key judgements and estimates in financial reporting

<table>
<thead>
<tr>
<th>Recoverability of asset carrying values</th>
<th>Audit committee activity</th>
<th>Conclusions/outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>→ Reviewed the group’s oil and gas price assumptions.</td>
<td>→ The group’s long-term price assumptions for Brent oil and Henry Hub gas were unchanged from 2017.</td>
</tr>
<tr>
<td></td>
<td>→ Reviewed the group’s discount rates for impairment testing purposes.</td>
<td>→ The group’s discount rates used for impairment testing were also unchanged.</td>
</tr>
<tr>
<td></td>
<td>→ Upstream impairment charges, reversals and ‘watch-list’ items were reviewed as part of the quarterly due diligence process.</td>
<td>→ Impairments of $0.1 billion were recorded in the year, net of impairment reversals.</td>
</tr>
</tbody>
</table>

### 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.

→ Reviewed the judgement on whether the group continues to have significant influence over Rosneft.  
→ Considered IFRS guidance on evidence of participation in policy-making processes.  
→ Received reports from management which assessed the extent of significant influence, including BP’s participation in decision making.  
→ BP has retained significant influence over Rosneft throughout 2018 as defined by IFRS.

### Derivative financial instruments

For its level 3 derivative financial instruments, BP estimates their fair value 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.

→ 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 level 3 derivative financial instruments, using models where observable market pricing is not available.  
→ The committee annually reviews the control process and risks relating to the trading business.  
→ BP has assets and liabilities of $3.6 billion and $3.1 billion respectively recognized on the balance sheet for level 3 derivative financial instruments at 31 December 2018, 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 30 in the financial statements.
**Key judgements and estimates in financial reporting**

<table>
<thead>
<tr>
<th>Provisions</th>
<th>Audit committee activity</th>
<th>Conclusions/outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP’s most significant provisions relate to decommissioning, environmental remediation and 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. Following a regular review of decommissioning cost estimates, from 30 June 2018 the present value of the decommissioning provision was determined by discounting the estimated cash flows expressed in expected future prices, i.e. taking account of expected inflation. Prior to 30 June 2018, the group estimated future cash flows in real terms.</td>
<td>→ 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. → Reviewed the group’s discount rates for calculating provisions, including the change to use the nominal discount rate (i.e. taking account of expected inflation) from the second quarter of 2018.</td>
<td>→ Decommissioning provisions of $13.6 billion were recognized on the balance sheet at 31 December 2018. → The discount rate used by BP to determine the balance sheet obligation at the end of 2018 was a nominal rate of 3% – based on long-dated US government bonds. → The impact of this revised rate has been disclosed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pensions and other post-retirement benefits</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>→ 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.</td>
<td>→ The method for determining the group’s assumptions remained largely unchanged from 2017. 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 24. → At 31 December 2018, surpluses of $6.0 billion and deficits of $8.4 billion were recognized on the balance sheet in relation to pensions and other post-retirement benefits.</td>
</tr>
</tbody>
</table>

**External audit**

**Audit risk**
The external auditor set out its audit strategy for 2018, identifying significant audit risks to be addressed during the course of the audit. These included:

- The risk of impairment in certain cash-generating units which are particularly sensitive to changes in the key assumptions, in particular the long-term oil and gas price assumptions.
- The carrying value of certain exploration and appraisal assets where there could be potential indicators of impairment through licence expiry and/or partner withdrawal.
- Accounting for structured commodity transactions in the integrated supply and trading function.
- Level 3 of derivative financial instruments valuations within the integrated supply and trading function which involve using bespoke valuation models and/or unobservable inputs.
- Management override of controls.

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

**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 $42 million (2017 $47 million), of which 5% was for non-audit assurance work (see Financial statements – Note 36). The audit committee is satisfied that this level of fee is appropriate in respect of the audit services provided and that an effective audit can be conducted for this fee. Non-audit or non-audit related assurance fees were $2 million (2017 $3 million). Non-audit or non-audit related services consisted of other assurance services.
Audit effectiveness

The effectiveness, performance and integrity of the external audit process was evaluated through separate surveys completed by 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 auditor’s performance:

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

The 2018 evaluation was the last of EY as the outgoing auditor. It also included certain questions about the effectiveness of the transition to the incoming auditor, Deloitte. The results of the survey indicated that the external auditor’s performance had remained largely consistent in key areas compared with the previous year. Areas with high scores and favourable comments included quality of accounting and auditing judgement and the working relationship with management. Areas for improvement were identified but none impacted on the effectiveness of the audit. The results of the questions regarding auditor transition indicated that management were confident that Deloitte would be effective in their role. The results of the survey were discussed with Deloitte for consideration in their 2018 audit approach.

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 at least quarterly.

The effectiveness of the external auditor is evaluated by the audit committee. The committee assessed the new auditor’s approach to providing audit services as the team undertook its first audit. On the basis of such assessment, the committee concluded that the audit team was providing the required quality in relation to the provision of the services. The audit team had shown the necessary commitment and ability to provide the services together with a demonstrable depth of knowledge, robustness, independence and objectivity as well as an appreciation of complex issues. The team had posed constructive challenge to management where appropriate.

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. 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 became 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.

Deloitte confirmed its independence to the committee in October 2017. EY resigned on 29 March 2018 following completion of the 2017 audit. The committee also received reports from the external auditor’s transition team in April, May and July 2018 and an update to their plan in December 2018.

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. 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 auditor 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 considered for permitted non-audit services only when its expertise and experience of the company is important.

Approvals for individual engagements of pre-approved permitted services below certain thresholds are delegated to the group controller or the chief financial officer. Any proposed service not included in the permitted services categories must be approved in advance either by the audit committee 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 accountant’s fees and services on page 301. The committee’s policies were updated in 2018 to clarify the engagement of the incoming auditor, Deloitte, and the outgoing auditor (and auditor of Rosneft) EY.

Committee evaluation

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

2018 evaluation

For 2018, an external assessment was used to evaluate the work of the committee as part of a wider review of the operation of the board as a whole. The review concluded that it had performed effectively.

Areas of focus for 2019 include succession planning for membership of the committee, a site visit to global business services Kuala Lumpur and integrated supply and trading Singapore and a further review of capital spending.
Chairman’s introduction
The committee’s focus continued to be on working with executive management to drive safe, ethical and reliable operations. It continued to provide constructive challenge as part of its review of the executives’ management of the highest priority non-financial group risks assigned to SEEAC. The risks under our remit remained the same as for 2017: marine, wells, pipelines, explosion or release at facilities, major security incidents and cyber security in the process control network. The committee receives reports on each of these risks and monitors their management and mitigation.

Following publication of the company’s second Modern Slavery Act (MSA) statement in 2018, the committee again reviewed related work practices in BP and will continue to review progress in developing and embedding those practices. In 2018 it also reviewed the BP Sustainability Report 2017.

The committee made two site visits in the year (see page 73). In July members of the committee visited the Thunder Horse platform in the Gulf of Mexico, and in September members visited Cooper River petrochemicals plant in South Carolina. The level of access into the operations on such visits gives the directors first hand and direct insight. This framework provides an opportunity for meaningful and open dialogue with the local site teams, allowing the committee to better fulfil its obligations.

In May 2018, Paul Anderson retired from the board and the committee. In preparation for my stepping down from the BP board at the annual general meeting in May 2019, Nils Andersen, who was appointed to the committee in December 2018, will assume the role of the chair of SEEAC from April 2019.

Alan Boeckmann
Committee chair

Role of the committee
The role of the SEEAC is to look at the processes adopted by BP’s executive management to identify and mitigate significant non-financial risk. This includes monitoring the management of personal and process safety and receiving assurance that processes to identify and mitigate such non-financial risks are appropriate in their design and effective in their implementation.

Key responsibilities
The committee receives specific reports from the business segments as well as cross-business information from the functions. These include, but are not limited to, the safety and operational risk function, group audit, group ethics and compliance, business integrity and group security. The SEEAC can access any other independent advice and counsel it requires on an unrestricted basis.

The SEEAC and audit committee worked together, through their chairs and secretaries, to ensure that agendas did not overlap or omit coverage of any key risks during the year.

Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alan Boeckmann</td>
<td>Member since September 2014 and chair since May 2016</td>
</tr>
<tr>
<td>Nils Andersen</td>
<td>Member since December 2018</td>
</tr>
<tr>
<td>Paul Anderson</td>
<td>Member since February 2010; resigned May 2018</td>
</tr>
<tr>
<td>Frank Bowman</td>
<td>Member since November 2010</td>
</tr>
<tr>
<td>Ann Dowling</td>
<td>Member since February 2012</td>
</tr>
<tr>
<td>Melody Meyer</td>
<td>Member since May 2017</td>
</tr>
<tr>
<td>John Sawers</td>
<td>Member since July 2015</td>
</tr>
</tbody>
</table>

Meetings and attendance
There were six committee meetings in 2018. All directors attended every meeting for which they were eligible, apart from Alan Boeckmann who missed two meetings due to unforeseen personal circumstances.

In addition to the committee members, all SEEAC meetings were attended by the group chief executive, the executive vice president for safety and operational risk (S&OR) and the head of group audit or his delegate. The external auditor attended some of the meetings and has access to the chair and secretary to the committee as required. The group general counsel and group ethics and compliance officer also attended some of the meetings. At the conclusion of each meeting the committee scheduled private sessions for the committee members only, without the presence of executive management, to discuss any issues arising and the quality of the meeting. The group chief executive receives invitations to join the private meetings on an ad hoc basis and at least once a year the head of group audit and at least twice a year the group ethics and compliance officer are invited to a private meeting with the committee.
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 and their annual review of the system of internal control and risk management.
The committee also received regular reports from the group chief executive and vice president for S&OR on operational risk, including regular reports prepared on the group’s health, safety and environmental performance and operational integrity. These included meeting-by-meeting measures of personal and process safety, environmental and regulatory compliance, security and cyber risk analysis, as well as quarterly reports from 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.

Site visits

In July members of the committee, and other directors, visited the Houston office and went offshore to Thunder Horse in the Gulf of Mexico. The Houston visit included time with various teams understanding the effects of Hurricane Harvey, how central office-based functions support the offshore community and other group monitoring teams. In preparation for the offshore visit to Thunder Horse the directors met with the Gulf of Mexico leadership. Offshore, there was a full tour of the asset including control room, topsides and drilling rig and plenty of opportunity was provided to converse with employees on the rig. In September, committee members, and other directors, visited the petrochemicals plant, Cooper River, in South Carolina. During the visit, directors were able to discuss business continuity planning and emergency response which had been in effect just prior to the visit as a result of Hurricane Florence. For all visits, committee members and other directors received briefings on operations, the status of conformance with BP’s operating management system, key business and operational risks and risk management and mitigation. Committee members reported back in detail about each visit to the committee and subsequently to the board. See page 73 for further details.

Corporate reporting

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

Committee evaluation

In 2018, the committee examined its performance and effectiveness through an externally facilitated evaluation which included individual interviews. Discussion focused on the responsibilities of the committee, 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 to both inform and drive discussion.

The evaluation results continued to be 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. The committee agreed to review its remit in 2019.
Site visits remained an important element of the committee’s work, acknowledged through the responses in the evaluation process. These gave members the opportunity to examine and witness risk management processes embedded in businesses and facilities, including the right 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).

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 2018, 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 2019 forward programmes for the group audit and ethics and compliance functions.
Chair’s introduction
As the new committee chair, I took the opportunity in the autumn to engage with some of our institutional shareholders. In a changing governance landscape, it has been important to ensure our stakeholders continue to be heard.

We have reviewed the responsibilities of the committee and have extended the scope to include oversight of remuneration below board level.

We have continued to operate under the policy approved by shareholders in 2017. Our focus for 2019 will of course be the preparation of a new Policy for approval by shareholders at the 2020 AGM. Pamela Daley has joined the remuneration committee from 1 January 2019. We welcome Pamela to the committee and look forward to her valuable contribution.

PricewaterhouseCoopers LLP has continued as our independent adviser following their appointment in 2017. PwC has other engagements with the company to provide certain services none of which are deemed material in this context.

Paula Rosput Reynolds
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. The committee recognizes the remuneration principles applicable to all employees below board level.

Key responsibilities
- Recommend to the board the remuneration principles and policy for the chairman and the executive directors while considering policies for employees below the board.
- Determine the terms of engagement, remuneration, benefits and termination of employment for the chairman and the executive directors, executive team and the company secretary in accordance with the policy.
- Review the relevant remuneration principles and policies for employees below the executive team.
- 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.
- Ensure termination terms and payments to executive directors and the executive team are fair.
- Approve changes to the design of remuneration for BP group leaders, as proposed by the group chief executive.
- Receive, and take into account as appropriate, regular updates on workforce views and engagement initiatives related to remuneration.
- Ensure insight from data sources on pay ratio, gender pay gap and other workforce remuneration outcomes are considered as appropriate.
- Maintain appropriate dialogue with shareholders on remuneration matters.
- Monitor the alignment of incentives and remuneration for all employees below the executive team with the expected values and behaviours.
- Engage independent consultants or other advisers as the committee may from time to time deem necessary, at the expense of the company.

Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paula Reynolds</td>
<td>Member since September 2017 and chair since May 2018</td>
</tr>
<tr>
<td>Alan Boeckmann</td>
<td>Member since May 2015</td>
</tr>
<tr>
<td>Pamela Daley</td>
<td>Member since January 2019</td>
</tr>
<tr>
<td>Ian Davis</td>
<td>Member since July 2010</td>
</tr>
<tr>
<td>Ann Dowling</td>
<td>Member since July 2012 and chair since May 2015; resigned May 2018</td>
</tr>
<tr>
<td>Brendan Nelson</td>
<td>Member since May 2017</td>
</tr>
</tbody>
</table>
Meetings and attendance
The chairman and the group chief executive attend meetings of the committee except for matters relating to their own remuneration. The group chief executive is consulted on the remuneration of the chief financial officer, 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 seven times during the year. All directors attended each meeting that they were eligible to attend, either in person or by telephone, except Alan Boeckmann who was not able to attend two meetings due to unforeseen personal circumstances.

Activities during the year
In the period before the 2018 AGM, the committee focused on the outcomes for 2017. This involved reviewing directors’ salaries and the group’s performance outcome which in turn determined the annual bonus and the performance share plan.

PwC has continued as independent adviser during 2018. The committee continued to monitor developments in potential regulation and legislation and resulting implications. 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 engagement with shareholders and proxy voting agencies ahead of the 2018 AGM, carried out by the chair of the committee, the chairman and company secretary as required. The new committee chair continued engagement throughout the year, primarily with larger shareholders and representative bodies, in light of evolving regulation and related remuneration issues.

Committee evaluation
An externally facilitated evaluation was undertaken to examine the committee’s performance in 2018. The evaluation concluded that the committee had worked well and had responded to the previous evaluation by increasing its remit to take on oversight of remuneration below board level.

Focus areas for 2019 include responding to regulation and governance reform and planning for the new remuneration policy to be brought to shareholders for approval in 2020. The commitment to stay focused on external developments and emerging ‘best practice’ and improving remuneration reporting remained. See page 87 for the Directors’ remuneration report.

Chairman’s introduction
I am pleased to report on the work of the geopolitical committee in 2018, which continued to develop and evolve during the year. During 2018 I also joined discussions of the international advisory board.

Paul Anderson stood down in May 2018. I want to thank Paul for his valuable contribution. We welcomed Nils Andersen to the committee in August 2018 and his experience is invaluable given he was CEO of major companies, such as Carlsberg and Maersk, which had operations in many jurisdictions with significant political risk considerations. Other board members joined our meetings from time to time.

Sir John Sawers
Committee chair

Role of the committee
The committee monitors the company’s identification and management of geopolitical risk.

Key responsibilities
• Monitor the company’s identification and management of major and correlated geopolitical risk and consider reputational as well as financial consequences:
  – Major geopolitical risks are those brought about by social, economic or political events that occur in countries where BP has material investments.
  – Correlated geopolitical risks are those brought about by social, economic or political events that occur in countries where BP may or may not have a presence but that can lead to global political instability.

• Review BP’s activities in the context of political and economic developments on a regional basis and advise the board on these elements in its consideration of BP’s strategy and the annual plan.

Geopolitical committee
Meetings and attendance
The chairman and group chief executive regularly attend committee meetings. The executive vice president, regions and the vice president, government and political affairs attend meetings as required.

The committee met four times during the year. All directors attended each meeting that they were eligible to attend.

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 existing investments or is considering investment in detail. These included the US, Russia, Mexico, Brazil, India and China.

It considered broader policy issues such as the US domestic and foreign policy and the political and economic impact of a low oil 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 through feedback from the external evaluation of its work and of the work of the board as a whole.

The evaluation concluded that the committee was working well and considering the right issues. The committee currently meets four 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. This is being further considered during 2019.

Chairman’s introduction
The chairman’s and the nomination and governance committees were actively involved in the evolution of the board in 2018. In October, Carl-Henric Svanberg stood down as chairman of both committees and I pay tribute to his exceptional service since 2010. The board expanded the nomination committee’s remit in September 2018 to help fulfil requirements provided in the new UK Corporate Governance Code and it was re-named the nomination and governance committee. It also continues to focus on board renewal and diversity as well as the talent in the senior levels of executive management and development of future leaders.

Helge Lund
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 six times in 2018. All directors attended all the meetings for which they were eligible, except that Nils Andersen was excused from two meetings due to potential conflict of interest and Alan Boeckmann missed two meetings due to unforeseen personal circumstances.

Bob Dudley and Brian Gilvary joined meetings where the chairman’s succession was discussed. Matters relating to the business of the nomination and governance 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.
• Discussed the strategy options for the company, including the transition to a lower carbon future.

Committee evaluation
The committee continues to work well. The balance of skills and experience amongst its non-executive director membership ensures it is best able to support and challenge the company as it implements its strategy.

Nomination and governance committee
Role of the committee
The committee ensures an orderly succession of candidates for directors and the company secretary and oversees corporate governance matters for the group.

Key responsibilities
• Identify, evaluate and recommend candidates for appointment or reappointment as directors.
• Review the outside directorships/commitments of the NEDs.
• Review the mix of knowledge, skills experience and diversity of the Board to ensure the orderly succession of directors.
• Identify, evaluate and recommend candidates for appointment as company secretary.
• Review developments in law, regulation and best practice relating to corporate governance and make recommendations to the board on appropriate actions to allow compliance.

Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helge Lund</td>
<td>Member since July 2018 and chair since September 2018</td>
</tr>
<tr>
<td>Carl-Henric Svanberg</td>
<td>Member since September 2009 and chair since January 2010; resigned as chair September 2018 and from committee December 2018</td>
</tr>
<tr>
<td>Alan Boeckmann</td>
<td>Member since April 2016</td>
</tr>
<tr>
<td>Ian Davis</td>
<td>Member since August 2010</td>
</tr>
<tr>
<td>Ann Dowling</td>
<td>Member since May 2015 and resigned May 2018</td>
</tr>
<tr>
<td>Brendan Nelson</td>
<td>Member since September 2018</td>
</tr>
<tr>
<td>Paula Reynolds</td>
<td>Member since May 2018</td>
</tr>
<tr>
<td>John Sawers</td>
<td>Member since April 2016</td>
</tr>
</tbody>
</table>

Meetings and attendance
The committee met three times in 2018. 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, except Paula Reynolds due to pre-existing external commitments.

Activities during the year
The committee continued to monitor the composition and skills of the board. The committee will continue to focus on ensuring that the board’s composition is strong and diverse. During the year, it was agreed that the committee would assume oversight of governance.

Committee evaluation
Following the board evaluation, it was agreed that the committee would also focus on governance requirements arising from the new UK Corporate Governance Code.