BP PLC
Form 20-F
March 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 December 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-6262

BP p.l.c.

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1 St James s Square, London SW1Y 4PD

United Kingdom

(Address of principal executive offices)

Dr Brian Gilvary

BP p.l.c.

1 St James s Square, London SW1Y 4PD

United Kingdom

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Ordinary Shares of 25c each	New York Stock Exchange*
Floating Rate Guaranteed Notes due 2016	New York Stock Exchange
Floating Rate Guaranteed Notes due 2017	New York Stock Exchange
Floating Rate Guaranteed Notes due February 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due May 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due September 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due 2019	New York Stock Exchange
2.248% Guaranteed Notes due 2016	New York Stock Exchange
3.200% Guaranteed Notes due 2016	New York Stock Exchange
1.375% Guaranteed Notes due 2017	New York Stock Exchange

1.846% Guaranteed Notes due 2017	**New York Stock Exchange**
1.375% Guaranteed Notes due 2018	**New York Stock Exchange**
1.674% Guaranteed Notes due 2018	**New York Stock Exchange**
2.241% Guaranteed Notes due 2018	**New York Stock Exchange**
4.750% Guaranteed Notes due 2019	**New York Stock Exchange**
2.237% Guaranteed Notes due 2019	**New York Stock Exchange**
2.315% Guaranteed Notes due 2020	**New York Stock Exchange**
2.521% Guaranteed Notes due 2020	**New York Stock Exchange**
4.500% Guaranteed Notes due 2020	**New York Stock Exchange**
4.742% Guaranteed Notes due 2021	**New York Stock Exchange**
3.561% Guaranteed Notes due 2021	**New York Stock Exchange**
2.500% Guaranteed Notes due 2022	**New York Stock Exchange**
3.245% Guaranteed Notes due 2022	**New York Stock Exchange**
3.062% Guaranteed Notes due 2022	**New York Stock Exchange**
2.750% Guaranteed Notes due 2023	**New York Stock Exchange**
3.994% Guaranteed Notes due 2023	**New York Stock Exchange**
3.535% Guaranteed Notes due 2024	**New York Stock Exchange**
3.814% Guaranteed Notes due 2024	**New York Stock Exchange**
3.506% Guaranteed Notes due 2025	**New York Stock Exchange**

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 25c each	20,108,770,973
Cumulative First Preference Shares of £1 each	7,232,838
Cumulative Second Preference Shares of £1 each	5,473,414

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes x   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).*   Yes ¨   No ¨

* This requirement does not apply to the registrant in respect of this filing.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨   International Financial Reporting Standards as issued by the International Accounting Standards Board x   Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨   Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x

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Annual Report and

Form 20-F 2015

bp.com/annualreport

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Who we are

We aim to create long-term value for

shareholders by helping to meet growing

demand for energy in a safe and responsible

way. We strive to be a world-class operator,

a responsible corporate citizen and a

good employer.

BP is one of the world s leading integrated oil and gas companies based on market capitalization, proved reserves and production. Through our work we provide customers with fuel for transportation, energy for heat and light, lubricants to keep engines moving and the petrochemicals products used to make everyday items as diverse as paints, clothes and packaging.

We believe a mix of fuels and technologies is needed to meet growing energy demand, improve efficiency and support the transition to a lower-carbon economy. These are the reasons why our portfolio includes oil, gas and renewables.

Our projects and operations help to generate employment, investment and tax revenues in countries and communities across the world. We have well-established operations in Europe, North and South America, Australasia, Asia and Africa and employ around 80,000 people.

Our proposition for value growth

For BP good business starts with a relentless focus on safe and reliable operations. Our portfolio enables us to develop high-quality opportunities from a broad set of options. We prioritize value over volume and invest where we can apply our distinctive strengths, capabilities and technologies.

Our objective is to create shareholder value by growing sustainable free cash flow and distributions over the long term through capital and cost discipline.

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Front cover images

In Oman s remote desert, we use our advanced technology to unlock gas from hot sandstone almost three miles below the earth s surface. Construction work has started on the Khazzan field one of the Middle East s largest unconventional gas resources and we expect first gas in late 2017.

Your feedback

We welcome your comments and feedback on our reporting. You can provide this at *bp.com/annualreportfeedback* or by emailing the corporate reporting team   details are on the back cover.

Your views are important to us and help shape our reporting for future years.

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BP in 2015

It is a challenging time for our industry but we are making the changes that are needed without compromising our longer-term goals.

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Information about this report

This document constitutes the Annual Report and Accounts in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the US Securities Exchange Act of 1934, for BP p.l.c. for the year ended 31 December 2015. A cross reference to Form 20-F requirements is included on page 260.

This document contains the Strategic report on pages 1-54 and the inside cover (Who we are) and the Directors report on pages 55-75, 169-195 and 215-258. The Strategic report and the Directors report together include the management report required by DTR 4.1 of the UK Financial Conduct Authority s Disclosure and Transparency Rules. The Directors remuneration report is on pages 22-23 and 76-92. The consolidated financial statements of the group are on pages 95-168 and the corresponding reports of the auditor are on pages 101-102.

BP Annual Report and Form 20-F 2015 and *BP Strategic Report 2015* (comprising the Strategic report and supplementary information) may be downloaded from *bp.com/annualreport*. No material on the BP website, other than the items identified as *BP Annual Report and Form 20-F 2015* or *BP Strategic Report 2015* (comprising the Strategic report and supplementary information), forms any part of those documents. References in this document to other documents on the BP website, such as *BP Energy Outlook, BP Sustainability Report, BP Statistical Review of World Energy* and *BP Technology Outlook* are included as an aid to their location and are not incorporated by reference into this document.

BP p.l.c. is the parent company of the BP group of companies. The company was incorporated in 1909 in England and Wales and changed its name to BP p.l.c. in 2001. Where we refer to the company, we mean BP p.l.c. Unless otherwise stated, the text does not distinguish between the activities and operations of the parent company and those of its subsidiaries«, and information in this document reflects 100% of the assets and operations of the company and its subsidiaries that were consolidated at the date or for the periods indicated, including non-controlling interests.

BP s primary share listing is the London Stock Exchange. Ordinary shares are also traded on the Frankfurt Stock Exchange in Germany and, in the US, the company s securities are traded on the New York Stock Exchange (NYSE) in the form of ADSs (see page 248 for more details).

The term shareholder in this report means, unless the context otherwise requires, investors in the equity capital of BP p.l.c., both direct and indirect. As BP shares, in the form of ADSs, are listed on the NYSE, an Annual Report on Form 20-F is filed with the SEC. Ordinary shares are ordinary fully paid shares in BP p.l.c. of 25 cents each. Preference shares are cumulative first preference shares and cumulative second preference shares in BP p.l.c. of £1 each.

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Registered office and our worldwide headquarters:

BP p.l.c.

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UK

Tel +44 (0)20 7496 4000

Our agent in the US:

BP America Inc.

501 Westlake Park Boulevard

Houston, Texas 77079

US

Tel +1 281 366 2000

Registered in England and Wales
No. 102498.

London Stock Exchange symbol
BP.

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BP at a glance

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BP around the world

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Chairman s letter

$7.3bn

dividends to BP shareholders

7.5%

ordinary shareholders annual dividend yield «

7.7%

ADS shareholders annual dividend yield «

Dear fellow shareholder,

2015 has been another challenging year: oil prices have remained low, falling by more than 50% and our industry finds itself in a position not seen for some 30 years. This sustained low price is a result, not of lack of demand, but of oversupply. However, our work in reconfiguring BP following the incident in the Gulf of Mexico has meant that we were prepared and well positioned to respond to this volatile environment as we move through 2016.

Shareholders and distributions

We have maintained our dividend during the year and remain committed to growing sustainable free cash flow and shareholder distributions over the long term. I believe that our current financial framework can support these commitments.

The board considers shareholder distributions in the context of how to achieve long-term growth and value creation. In the current weaker price environment, our aim is to rebalance our sources and uses of cash to ensure we cover capital expenditure and shareholder distributions with operating cash flow.[a] This will enable BP to continue to develop its business while maintaining safe and reliable operations. We anticipate that all the actions we are taking will capture more deflation and drive the point of rebalance to below $60 per barrel. The board will keep all of this under review and will make any adjustments to our financial framework as circumstances require.

Strategy

The proposed consent decree with the United States federal government and settlements with the US Gulf states are an important step. It has enabled us to look at the future with greater confidence. However the current price environment continues to be a cause for concern and so we have set a financial path for the next two years. This medium-term strategy is based on optimizing our deployment and allocation of capital and the continuing simplification of our business while maintaining our commitment to safety and reliability.

Our financial results over the year demonstrated the benefit from the integration of our upstream and downstream activities. We have a strong, refocused and rebalanced portfolio based on our distinctive capabilities which we believe will enable us to withstand lower prices. In the future, we will continue to invest in a balanced range of resources and geographies across the Upstream and Downstream to enable us to achieve long-term growth.

We have recently published our *BP Energy Outlook*. I believe this makes an important contribution to the discourse and debate in this area. As the world continues to develop economically then oil, and increasingly gas, will be needed for the foreseeable future. This is the core of our business. Overall we keep under review the broader strategic direction of the group as the market for our products evolves and the energy landscape starts to change.

2015 has seen increased focus on climate change. BP has consistently argued for a price on carbon and recognized the part we all must play in being part of the solution. However governments must take the lead in developing policies to reduce carbon emissions and we continue to engage in this debate. The UN conference on climate change has produced

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Board performance

For information about the board and

its committees see page 55.

Remuneration

For information about our directors

remuneration see page 76.

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Top: The safety, ethics and environmental assurance committee (SEEAC) examine safety measures at our operations in the Khazzan field in Oman.

Bottom: SEEAC members meeting crew on the Cassia platform in Trinidad and Tobago where they inspected the safety of operations.

[a] See Our financial framework on page 19.

some clear results and I am proud of the part that Bob has played in leading the initiative within our industry. At our last AGM in April the board was pleased to support a resolution brought by a group of our shareholders that encouraged greater disclosure of our work in this area; our evolving response to this is set out in our Sustainability Report due for publication this March.

Oversight

The world continues to be a troubled place and the risks faced by BP are ever evolving. The board keeps under review its approach to the monitoring of risk as demonstrated by the board s oversight of cybersecurity and the sharpened focus on geopolitical risk through the formation of the geopolitical committee. This is complemented by the work of our international advisory board. As we progress with our litigation in the US, we expect to stand down the Gulf of Mexico committee during 2016 and I would like to thank my colleagues for the important work and focus they have given to this committee over the past five years. Oversight of the continuing litigation will fall to the full board.

Governance and succession

Membership of the board has continued to be refreshed and during the year Paula Reynolds and Sir John Sawers joined us as non-executive directors. Paula brings deep experience from the financial and energy worlds, while John brings long experience of international politics and security that are so important to our business. Professor Dame Ann Dowling has taken the chair of the remuneration committee in anticipation of Antony Burgmans standing down from the board after twelve years. Antony has chaired the remuneration committee and is also chairing the newly formed geopolitical committee until April when Sir John Sawers will succeed him. Phuthuma Nhleko, who joined the board in 2011, has decided not to offer himself for re-election at the forthcoming AGM due to external business commitments. On behalf of the board I thank Antony and Phuthuma for the substantial contribution that they have made to all of our work.

In 2015 Bob and his executive team have worked determinedly to steer the business through some difficult times with some tough decisions. They have met every challenge and as a result the business is in robust shape as we go into 2016. They deserve our thanks as do all our employees. I would like to thank the board for all that they have done.

And I would like to thank our shareholders for your continued support. We are set to continue supplying energy to help meet global demand while delivering value to you from a great business.

Carl-Henric Svanberg

Chairman

4 March 2016

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Group chief executive s letter

94.7%

2015 refining availability«.

95%

Upstream BP-operated plant reliability«.

Dear fellow shareholder,

In 2015 we continued to adapt to the tough environment created by the dramatic drop in oil prices. We have seen prices crash before, but this fall has been particularly steep, from over $100 a barrel in mid-2014 to below $30 by January 2016. The work we have done to reshape and strengthen BP after 2010 stood us in good stead to withstand these conditions and last year we took further action to make the business more resilient in the short term. We also continue to invest for long-term growth. Our safety record improved, along with operating reliability, while costs came down and capital discipline was maintained. The current environment has however impacted our financial results, as well as those of our competitors. So, while the oil price is beyond our control, we have performed strongly on the factors that we can control.

A safer, more reliable, more resilient BP

In terms of safety, our top priority, we achieved improvements year-on-year in all of our key safety measures process safety events, leaks, spills and other releases, and recordable injuries. This performance is at a much better level than five years ago and in line with the best among our peers. Safety is also good business. When we operate safely, our operations are more reliable. When the assets run reliably, they operate more continuously. When our operations run efficiently, we have better financial results.

In the current business environment, competitiveness depends on minimizing our costs and being disciplined in our use of limited capital as demonstrated by our organic capital expenditure in 2015 of $18.7 billion, down from nearly $23 billion in 2014. And we continue to focus our portfolio on the highest quality projects and operations, divesting $10 billion worth of assets in 2014 and 2015, in line with our target.

2015 was a challenging year for our Upstream business, with weaker oil and gas realizations leading to a significantly lower underlying pre-tax replacement cost profit of $1.2 billion. However, efficiency and reliability improved across the business in 2015. Upstream unit production costs were down 20% on 2013, and BP-operated plant reliability increased to 95% from 86% in 2011. We have made our base production more resilient by improving our reservoir management and increasing efficiencies in our drilling and operations lowering the decline rate and reducing non-productive time in drilling to its lowest level since 2011. And the decision to manage our US Lower 48 business separately is starting to deliver improvements in performance and competitiveness.

Our Downstream business had a record year, delivering $7.5 billion of underlying pre-tax replacement cost profit, demonstrating the benefit of being an integrated business. Our refining business is ranked among the top performers based on net cash margin in the most recent industry benchmark. We made improvements in safety, efficiency and operational performance, and continued to develop a portfolio of highly competitive assets and products. These include the launch in Spain of a new range of fuels with engine-cleaning and fuel-economy benefits, the unveiling of *Nexcel* from *Castrol* a technology with the potential to revolutionize the oil changing process in vehicles, and the start-up of Zhuhai 3 in China one of the most efficient purified terephthalic acid production units in the world.

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Strategy

For more information on our strategic priorities and longer-term objectives see pages 12-17.

Industry context

See how we are responding to the lower price environment on pages 18-19.

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Top: Bob Dudley meets Russian deputy prime minister for social affairs, Olga Golodets, at the London Science Museum Cosmonauts exhibition.

Bottom: Bob Dudley speaks with Pemex CEO, Emilio Lozoya Austin and Total CEO Patrick Pouyanné at the OGCI event in Paris.

Our executive vice president for corporate business activities, Katrina Landis, decided to step down after a very successful 24 years in BP. We have taken this opportunity to simplify and better align responsibilities within the team, appointing Lamar McKay as deputy chief executive, leading on key accountabilities such as strategy and safety, with Bernard Looney succeeding Lamar as Upstream chief executive.

Building a platform for growth

The agreements we reached in July with US federal, state and the vast majority of local government bodies will, subject to court approval, settle our largest remaining legal exposures relating to the Deepwater Horizon accident and oil spill in 2010. This is a realistic outcome that gives BP clarity to plan for the future.

To build that future, we are continuing to invest in a disciplined way in a portfolio that is well balanced in several respects geographically across regions, across our upstream and downstream businesses and across resource types conventional and unconventional oil and gas, as well as the renewable energies of biofuels and wind. This gives us resilience and flexibility now and in the future.

In the Upstream, in addition to a well-managed base of existing operations, we had three major project start-ups in 2015 and we made final investment decisions on four projects, including the West Nile Delta project in Egypt, where we are seeing some best-in-class drilling performance. Looking ahead, we expect significant new production from projects starting up between 2015 and 2020, including our mega projects at Shah Deniz 2 in Azerbaijan and Khazzan in Oman, which will create value for decades. These projects are on time and on budget.

In the Downstream, we continue to focus on resilient and improving performance and growth from a quality portfolio of high-performing refineries, a competitive petrochemicals business and growing fuels marketing and lubricants businesses.

In 2015 we furthered our relationship with Rosneft to that of a strategic partner, with involvement in exploration, appraisal and production in some of the world s most prolific oil and gas provinces. In China, we have signed new agreements to supply liquefied natural gas and to explore for shale gas. And we continue to build relationships in BP s historic heartlands of the Middle East, with growing opportunities in Oman, Kuwait, Egypt and Iraq.

Acting on climate change

We continue to support action to address the risk of climate change. Through the Oil and Gas Climate Initiative a business coalition that accounts for over a fifth of global oil and gas production we are sharing best practices and developing common approaches, such as on the role of natural gas, the lowest-carbon fossil fuel and on energy efficiency. We also joined with BG Group, Eni, Reliance, Repsol, Royal Dutch Shell, Statoil and Total to call on the UN and governments to put a price on carbon so that businesses and consumers of energy can better work within frameworks that are clear.

We welcome the direction provided by the historic agreement reached at the UN climate conference in Paris. Governments, companies and consumers all have to make an appropriate contribution and we will continue to play our part through means including energy efficiency, renewable energy and increasing the share of natural gas in our portfolio.

Adapting for now and the future

Over the years BP has responded to changing circumstances many times. Each time we have learned, adapted and evolved. This experience, gained over more than 100 years, is one of our greatest assets. Today, we are well placed to weather the storm and navigate through a testing environment to emerge in good shape for taking advantage of new opportunities. I am confident that BP will be delivering energy for our customers and value for our shareholders long into the future.

Bob Dudley

Group chief executive

4 March 2016

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Our market outlook

We believe that a diverse mix of fuels and technologies will be essential to meet the growing demand for energy and challenges facing our industry.

Our markets in 2015

See page 24 for information on oil and gas prices in 2015.

Global energy consumption by region

(billion tonnes of oil equivalent)

Source: *BP Energy Outlook.*

Near-term outlook

The global economy continues to experience weaker growth in the main developing economies and slower than expected recovery in the developed world. World gross domestic product (GDP) is expected to grow by 2.8% in 2016, led by the OECD, but with significant downside risks from emerging economies, particularly commodity exporters.

After around four years of averaging about $100 per barrel, oil prices fell by nearly 50% in 2015. Even as US production growth stalled and global oil demand rebounded, a large increase in OPEC production continued to push inventories higher. Price declines continued into early 2016, with daily prices reaching levels not seen since 2004.

Prices are expected to remain low at least through the near term. And while we anticipate supply chain deflation in 2016 and beyond, as industry costs follow oil prices with a lag, this will be a tough period of

Affordability

Fossil fuels are currently cheaper than renewables but their future costs are hard to predict. Some fossil fuels may become more costly as the difficulty to access and process them increases; others may be more affordable with technological progress, as seen with US shale gas. While many renewables remain expensive, innovation and wider deployment are likely to bring down their costs.

Supply security

Energy resources are often distant from the hubs of energy consumption and in places facing political uncertainties. More than half of the world s known oil and natural gas reserves are located in just eight countries.

Sustainability

Fossil fuels though plentiful and currently more affordable than other energy resources emit carbon dioxide (CO_2) and other greenhouse gases (GHG) through their intense change for the industry as it adapts to this new reality.

Long-term outlook

The world economy is likely to more than double from 2014 to 2035, largely driven by rising incomes in the emerging economies and a projected population increase of 1.5 billion.

We expect world demand for energy to increase by as much as 34% between 2014 and 2035. This is after taking into account improvements in energy efficiency, a shift towards less energy-intensive activities in fast-growing economies, governmental policies that incentivize lower-carbon activity, and national pledges made at the 2015 UN climate conference in Paris.

There are more than enough energy resources to meet this growing demand, but there are a number of challenges.

production and use in homes, industry and vehicles. Renewables are lower carbon but can have other environmental or social impacts, such as high water consumption or visual intrusion.

Effective policy

BP believes that carbon pricing is the most comprehensive and economically efficient policy to limit GHG emissions. Putting a price on carbon one that treats all carbon equally, whether it comes out of a smokestack or a car exhaust would make energy efficiency more attractive and lower-carbon energy sources, such as natural gas and renewables, more cost competitive. A carbon price incentivizes both energy producers and consumers to reduce their GHG emissions. Governments can put a price on carbon via a well-constructed carbon tax or cap-and-trade system.

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The *BP Technology Outlook* shows how technology can play a major role in meeting the energy challenge by widening energy resource choices, transforming the power sector, improving transport efficiency and helping to address climate concerns out to 2050.

See *bp.com/technologyoutlook*

BP Energy Outlook provides our projections of future energy trends and factors that could affect them out to 2035, based on our views of likely economic and population growth and developments in policy and technology. Also available in Excel and video format.

See *bp.com/energyoutlook*

Our strategy

Find out how BP can help meet energy demand for years to come on page 12.

Climate change

Energy efficiency

Greater efficiency helps with affordability because less energy is needed; with security because it reduces dependence on imports; and with sustainability because it reduces emissions. Innovation can play a key role in improving technology, bringing down cost and increasing efficiency. In transport, for example, we believe energy-efficient technologies and biofuels could offer the most cost-effective pathway to a secure, lower-carbon future.

All sorts of energy required

We believe a diverse mix of fuels and technologies is needed to meet growing energy demand, while supporting the transition to a lower-carbon economy. These are reasons why our portfolio includes oil, gas and renewables.

Oil and natural gas

Over the next few decades, we think oil and natural gas are likely to continue to play a significant part in meeting demand for energy. They currently account for around 56% of total energy consumption, and we believe they will decrease to about 54% in 2035. For comparison, under the International Energy Agency s most ambitious climate policy scenario (the 450 scenario[a]), oil and

We believe shale gas will contribute more than half of the growth in natural gas globally between 2014 and 2035. In the US, the growth of shale gas has already had a significant impact on gas demand as well as CO_2 emissions, which have fallen back to 1990s levels.

The increasing gas supply in the US and other countries is encouraging the use of liquefied natural gas worldwide, which is expected to double between 2014 and 2035.

New sources of hydrocarbons may be more difficult to reach, extract and process. BP and others in our industry are working to improve techniques for maximizing recovery from existing and currently inaccessible or undeveloped fields.

Renewables

Renewables are the fastest-growing energy source. Over the past few years, there has been rapid expansion of the use of solar power due to cost reduction in manufacturing and public subsidies. That said, renewables, excluding large-scale hydroelectricity, currently account for around 3% of energy consumption. While they are starting from a low base, we estimate that by 2035 they will contribute around 9% of total

Our sector has an important part to

play in addressing climate change.

See page 46 to find out what BP

is doing.

gas would still make up 50% of the energy mix in 2030 and 44% in 2040 assuming carbon capture and storage is widely deployed.

Oil is a good source of energy for transportation as it has a high energy density. That means vehicles go further on less weight and volume of fuel than alternatives. Also, oil s liquid form makes it easy to move around, globally and locally. For these reasons, we expect oil to still account for almost 90% of transportation fuels in 2035 compared with 94% today.

Natural gas is likely to play an increasing role in meeting global energy demand, because it s available at scale, relatively low cost and lower carbon than other fossil fuels. By 2035 gas is expected to provide 26% of global energy, placing it on a par with oil and coal.

[a] From *World Energy Outlook 2015*. © OECD/International Energy Agency 2015, page 35. The IEA 450 scenario assumes a set of policies that bring about a trajectory of greenhouse gas emissions from the energy sector that is consistent with limiting long-term average global temperature increase to 2°C.

global energy demand.

Temporary policy support is needed to help commercialize lower-carbon options and technologies, but they will ultimately need to become commercially self-sustaining, supported only by a carbon price.

Beyond 2035

We expect that growing population and per capita incomes will continue to drive growing demand for energy. These dynamics will be shaped by future technology developments, changes in tastes, and future policy choices all of which are inherently uncertain. Concerns about energy security, affordability and environmental impacts are all likely to be important considerations. These factors may accelerate the trend towards more diverse sources of energy supply, a lower average carbon footprint, increased efficiency and demand management.

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Our business model and strategy

We aim to create value for our investors and benefits for

the communities and societies where we operate.

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The new semi-submersible Deepsea Aberdeen drilling vessel carries out ultra-deepwater drilling in the UK North Sea.

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An officer working in the under-deck pipe passageway on board BP s LNG tanker *British Trader*.

Illustrated business model

For an at a glance overview of our

business model see page 2.

Our businesses

For more information on our upstream

and downstream business models,

see pages 28 and 34 respectively.

Our business model

We believe the best way to achieve sustainable success as a group is to act in the long-term interests of our shareholders, our partners and society. By supplying energy, we support economic development and help to improve quality of life for millions of people. Our activities also generate jobs, investment, infrastructure and revenues for governments and local communities.

Our business model spans everything from exploration to marketing. We have a diverse integrated portfolio that is balanced across resource types, geographies and businesses, and adaptable to prevailing conditions. Our geographic diversity gives us access to growing markets and new resources and provides robustness to geopolitical events.

By having upstream and downstream businesses and well established trading capabilities, we have a cushion to oil price volatility as downward pressures in one part of the group can create opportunities in another. Integration also allows us to share functional excellence more efficiently across areas such as safety and operational risk, environmental and social practices, procurement, technology and treasury management.

Every stage of the hydrocarbon value chain offers opportunities for us to create value, through both the successful execution of activities that are core to our industry, and the application of our own distinctive strengths and capabilities in performing those activities.

Industry context

See how we are responding to the lower price environment on pages 18-19.

Our key performance indicators

See how we measure our progress on page 20.

Risks

Find out how we manage the risks to our strategy on page 51.

A relentless focus on safety remains the top priority for everyone at BP. Rigorous management of risk helps to protect the people at the front line, the places where we operate and the value we create. We understand that operating in politically complex regions and technically demanding geographies requires particular sensitivity to local environments.

Our strategy

We prioritize value over volume by actively managing a high-value upstream and downstream portfolio and investing where we can apply the distinctive strengths, capabilities and technologies we have built up over decades.

We aim to create shareholder value by growing sustainable free cash flow« and distributions over the long term.

We are pursuing our strategy by setting clear priorities, actively managing a quality portfolio and employing our distinctive capabilities.

Clear priorities

Quality portfolio

We undertake active portfolio management to concentrate on areas where we can play to our strengths. We focus on high-value upstream assets in deep water, giant fields, selected gas value chains and unconventionals«. And, in our downstream businesses, we plan to leverage our upgraded assets, customer relationships, brand and technology to continue to grow free cash flow.

Our portfolio of projects and operations is focused where we believe we can generate the most value, using our commercial agility and technical capability. This allows us to build a strong pipeline of future growth.

Distinctive capabilities

Our ability to deliver against our priorities and build the right portfolio depends on our distinctive capabilities. We apply advanced technology across the hydrocarbon value chain, from finding resources to developing energy-efficient and high-performance products for customers. We work to develop and maintain strong relationships with governments, partners, civil society and others to enhance our operations in more than 70 countries across the globe. And the proven expertise of our employees comes to the fore in a wide range

First, we aim to run safe, reliable and compliant operations leading to better operational efficiency and safety performance. We target competitive project execution to deliver projects as efficiently as possible. Making disciplined financial choices focused on capital and cost discipline allows us to maximize free cash flow and increase the resilience of our portfolio to changing price environments.

of disciplines.

« Defined on page 256.

Our strategy in action

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How we deliver	How we measure	Strategy in action in 2015	
We prioritize the safety and reliability of our operations to protect the welfare of our workforce, local communities and the environment, and to improve the efficiency of our operations. This also helps preserve value and secure our right to operate around the world.	Recordable injury frequency, loss of primary containment, greenhouse gas emissions, tier 1 process safety events.	**Improving reliability** Improvement plans are increasing UK North Sea plant reliability. See page 44.	20 tier 1 process safety events 2014: 28
We rigorously screen our investments and we work to keep our annual capital expenditure within a set range. Ongoing management of our portfolio helps ensure focus on more value-driven propositions. We balance funds between shareholder distributions and investment for the future.	Operating cash flow, gearing, total shareholder return, underlying replacement cost profit per ordinary share.	**Capturing value** Improving the quality of future investments. See page 30.	$19.1bn operating cash flow 2014: $32.8bn
We seek efficient ways to deliver projects on time and on budget, from planning through to day-to-day operations. Our wide-ranging project experience makes us a valued partner and enhances our ability to compete.	Major project delivery.	**Adapting rapidly** Using local knowledge to increase our competitiveness. See page 29.	3 major project start-ups in Upstream 2014: 7
We target opportunities with the greatest potential to increase value, using our commercial agility and technical capability. This allows us to build a strong pipeline for future growth.	Proved reserves replacement ratio.	**Unlocking energy potential** Investing in exploration and development in Egypt. See page 33.	61% reserves replacement ratio[a] 2014: 63%
We are strengthening our portfolio of high-return and longer-life assets across deep water, giant fields, gas value	Production.	**Optimizing our assets** Using our technical	3.3 million barrels of oil equivalent per

chains and unconventionals to provide BP with momentum for years to come.		expertise to maintain a secure and reliable supply. See page 31.	day[a] 2014: 3.2 million
We benefit from our high-performing fuels, lubricants, petrochemicals and biofuels businesses. Through premium products, powerful brands and supply and trading, Downstream provides strong cash generation for the group.	Refining availability.	**Improving operations** Improvements at Castellón refinery are helping to increase profitability. See page 36.	94.7% refining availability 2014: 94.9%

Creating shareholder value by generating

sustainable free cash flow over the long term

Advanced technology
We develop and deploy technologies we expect to make the greatest impact on our businesses from enhancing the safety and reliability of our operations to creating competitive advantage in energy discovery, recovery, efficiency and products.

Strong relationships
We aim to form enduring partnerships in the countries in which we operate, building strong relationships with governments, customers, partners, suppliers and communities to create mutual advantage. Co-operation helps unlock resources found in challenging locations and transforms them into products for our customers.

Proven expertise
Our talented people help to drive our business forward. They apply their diverse skills and expertise to deliver complex projects across all areas of our business.

[a] On a combined basis of subsidiaries« and equity-accounted entities.

« Defined on page 256.

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Our distinctive capabilities

We select and develop the technologies that can best help us manage risk and grow value for our businesses. Our first priority is to enhance the safety and reliability of our operations. Beyond that we aim to build and maintain leadership positions in selected technologies.

Our upstream technology programmes include advanced seismic imaging to help us find more oil and gas, and enhanced oil recovery to get more from existing fields. New techniques are improving the efficiency of unconventional oil and gas production. Our downstream technology programmes are designed to improve the performance of our refineries and petrochemicals plants and create high-quality, energy-efficient products.

q

High-speed graphics workstations in our Sunbury office use state-of-the-art software and projection equipment to create a 3D virtual world.

We employ scientists and technologists at seven major technology centres in the US, UK and Germany. BP and its subsidiaries hold more than 4,500 granted patents and pending patent applications throughout the world. In 2015 we invested $418 million in research and development (2014: $663 million, 2013 $707 million).

We partner with universities for research, recruitment, policy insights and education. Our long-term research programmes around the world are exploring areas from reservoir fluid flow to novel lubricant additives and lower-carbon energy sources. For example research at the BP International Centre for Advanced Materials has led to its first patent application on a strong steel alloy that resists becoming brittle and is less likely to crack. This has the potential to enhance the reliability of our equipment.

See bp.com/technology

Seismic imaging

Our *Independent Simultaneous Source (ISS)* technology makes large-scale 3D seismic surveys faster and reduces cost by using multiple surveying sources and receivers at the same time. Our 2015 *ISS* survey at Prudhoe Bay in Alaska delivered a 10-fold increase in productivity, meaning we could acquire higher-quality images in just one winter season.

Production optimization

We began to deploy a new automated well choke control system as part of our *Field of the Future* technology suite in Azerbaijan in 2015. Sand can cause wells to fail, but this system is helping us manage well start-up and unsteady flow during operations, contributing to improved operational efficiency and production rates.

We aim to maintain a skilled workforce to deliver our strategy and meet our commitments to investors, partners and the wider world. We compete for the best people within the energy sector and other industries.

Our people are talented in a wide range of disciplines from geoscience, mechanical engineering and research technology to government affairs, trading, marketing, legal and others.

We have a bias towards building capability and promoting from within the organization and complement this with selective external recruitment. We invest in our employees development to build enduring capability for the future.

Our approach to professional development and training helps build individual capabilities. We believe our shared values help everyone at BP to contribute to their full potential.

Enhanced oil recovery (EOR)

Bright Water technology, invented by BP, helps to maximize oil production by recovering and moving more oil to our wells. We use it in more than 140 wells worldwide to date. It costs less than $5 to recover each additional barrel of oil released through *Bright Water,* and we deliver more light oil EOR production than any other international oil company.

Lubricants

Castrol s new technology, the *Nexcel* oil cell, is an easy-to-change unit containing both engine oil and filter. We believe the technology is a significant oil change innovation for the automotive industry. It is designed to lower CO_2 emissions, improve vehicle servicing and increase the recycling of used oil for cars of the future.

Petrochemicals

BP is one of the world s largest producers of purified terephthalic acid (PTA), a raw material for many consumer products. In 2015 we entered into licensing agreements in Oman and China, for plants that will use our latest generation PTA technology, with a combined capacity to produce more than two million tonnes of PTA each year.

Corrosion prevention

We use automated phased array ultrasonic testing (PAUT) across our refineries to safely inspect our tanks and pipelines. Our PAUT technology uses ultrasonic pulses to examine the integrity of these assets and detect cracks in a non-destructive way. The technique reduces facility downtime, decreases turnaround costs and risks, and avoids production losses.

Fuels

BP began marketing a range of dirt-busting fuels with a launch in Spain in 2015. The fuels contain our new *ACTIVE* technology that cleans and protects car engines with proprietary additives. Our fuels are designed to remove deposits and prevent their formation helping engines perform in the way they were designed to do.

Biofuels

We are developing biobutanol in conjunction with DuPont. This second-generation biofuel can be blended into gasoline in greater proportions and is more compatible than ethanol with the infrastructure used for existing fuel supplies.

We work closely with governments, national oil companies, other resource holders and local communities to build long-lasting relationships that are crucial to the success of our business.

We place enormous importance on acting responsibly and meeting our obligations as we know from experience that trust

Internally we put together collaborative teams of people with the skills and experience needed to address complex issues, work effectively with our partners, engage with our stakeholders and help create shared value.

can be lost. We work on big and complex projects with partners ranging from other oil companies to suppliers and contractors. Our activity creates value that benefits governments, shareholders, customers, local communities and other partners.

We believe good communication and open dialogue are vital if we are to meet their expectations.

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Lower oil and gas prices

We are taking action to adapt to a lower oil and gas price environment while maintaining longer-term growth prospects.

Since 2010, we have been working to create a stronger, simpler and more focused business. This has positioned us well to respond to the lower oil and gas price environment. We are reducing capital expenditure by paring back and rephasing activities as necessary, as well as capturing the benefits of deflation of industry costs. We are driving down cash costs« through a reduction in third-party costs, and through efficiency and simplification across the organization. As always, safe and reliable operations are our first priority.

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Remodelling Mad Dog Phase 2 reduced our project cost estimate by more than half.

Between 2010 to mid-2014 oil prices were relatively stable, averaging around $100 per barrel. In 2014, strong supply growth, largely as a result of growth in US shale, caused oil prices to fall sharply. Prices fell further in 2015 as OPEC production increased and supply continued to

Low prices are having a significant effect on our industry, including BP. With falling revenues, companies need to re-base costs and activity a process that could take several years. We expect 2016 to be a period of intense change, with ongoing restructuring and further deflation in the supply outstrip demand. There are, however, increasing signs that the market is adjusting to the current low level of prices, with strong demand growth and weakening supply. The high level of inventories suggests that this adjustment process is likely to take some time, but it does appear to be underway. This underpins our belief that prices will stay lower for longer, but not forever.

Gas prices also fell, albeit on a more regional and less dramatic scale. In markets such as the US, gas prices are at historically low levels, with increases in production from shale being a key factor.

Sources and uses of cash

The cash flow from our Upstream operations was significantly lower than in 2014 although Downstream cash flows were strong. We significantly reduced the capital expenditure of the group as well as received proceeds from divestments. The strength of our balance sheet helped us meet the balance of outgoings.

chain. That said, periods of low prices are not uncommon in our industry and BP has gone through such cycles in the past.

For BP, the lower prices significantly impacted our 2015 financial results. The result for the year was a loss of $6.5 billion. Underlying replacement cost profit« was $5.9 billion (2014 $12.1 billion) and operating cash flow« was $19.1 billion (2014: $32.8 billion).

Our financial framework is designed to re-establish a balance where operating cash flow (excluding payments related to the Gulf of Mexico oil spill) covers organic capital expenditure« and the current level of dividend per share by 2017, based on an average Brent« price of around $60 per barrel.

If prices remain lower for longer than anticipated, we expect to continue to recalibrate for the weaker environment and to capture more deflation. We would expect this to drop the balance point below $60 per barrel.

We will keep our financial framework under review as we monitor oil and gas prices and their impact on industry costs as we move through 2016 and beyond.

Our financial framework through 2017

Underpinning our commitment to sustain the dividend for our shareholders

Principle		2015 achievement	Looking ahead
Optimize capital expenditure	g	2015 organic capital expenditure was $18.7 billion. This is 18% down from the 2011-2014 period average.	We expect capital expenditure of $17-19 billion per year in 2016 and 2017 as a result of reducing costs and activity, with 2016 spend towards the lower end of this range.
Reduce cash costs	g	We made significant progress in reducing cash costs compared with 2014.	We anticipate the reduction in our cash costs to be close to $7 billion versus 2014 by the end of 2017.
Make selective divestments	g	We completed the $10-billion divestment programme announced for 2014-2015.	We expect divestments of $3-5 billion in 2016 and $2-3 billion per year from 2017 to help manage oil price volatility and fund the ongoing Gulf of Mexico commitments.
Maintain flexibility around gearing	g	Gearing« at the end of 2015 was 21.6% against a 2011-2014 average of 18%.	Looking ahead, we aim to manage gearing with some flexibility at around 20%. While oil prices remain weak, we expect gearing to be above 20%.

Upstream

We are focusing on the timing of investments to capture deflation in the supply chain, paring back access and exploration spend and prioritizing activity in our base operations. Where we are not the operator, we are influencing partners to focus on third-party costs.

We reduced unit production costs by more than 20% compared with 2013 and achieved an average reduction of 15% in upstream third-party costs in 2015. By the end of 2016, we expect to re-bid 40% of our third-party spend, including a significant proportion of our well services contracts.

Our total upstream workforce including employees and contractors is now 20% smaller than it was in 2013, with a reduction of around 4,000 expected in 2016. We are aiming for an upstream workforce of approximately 20,000 by the end of 2016.

Downstream

In 2015 we reorganized our fuels business from nine regions to three, streamlined the lubricants business and started restructuring petrochemicals. We are implementing site-by-site improvement programmes to drive manufacturing efficiency in refining and petrochemicals. Our focus on third-party spend has resulted in significant cost reductions and we have reduced head office related costs by around 40%.

These simplification and efficiency actions have significantly contributed to the group s cash cost reductions in 2015.

We expect to reduce our downstream workforce roles by more than 5,000 by the end of 2017 compared with 2014, and by the end of 2015 had already achieved a reduction of more than 2,000.

Other businesses and corporate

We made significant progress in reducing corporate and functional costs in 2015. We are focusing on third-party spend and headcount both in response to the lower oil price and also to reflect the changes to our portfolio.

Figures exclude retail staff and agricultural,

operational and seasonal workers in Brazil.

« Defined on page 256.

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Our key performance indicators

We assess our performance across a wide range of measures and indicators. Our key performance indicators (KPIs) help the board and executive management measure performance against our strategic priorities and business plans. We periodically review our metrics and test their relevance to our strategy. We believe non-financial measures such as safety and an engaged and diverse workforce have a useful role to play as leading indicators of future performance.

Remuneration

To help align the focus of our board and executive management with the interests of our shareholders, certain measures are reflected in the variable elements of executive remuneration.

Overall annual bonuses, deferred bonuses and performance shares are all based on performance against measures and targets linked directly to strategy and KPIs.

Underlying RC profit« per ordinary share (cents)

Underlying RC profit is a useful measure for investors because it is one of the profitability measures BP management uses to assess performance. It assists management in understanding the underlying trends in operational performance on a comparable year-on-year basis.

It reflects the replacement cost of inventories sold in the period and is arrived at by excluding inventory holding gains and losses« from profit or loss. Adjustments are also made for non-operating items« and fair value accounting effects«. The IFRS equivalent can be found on page 216.

2015 performance The significant reduction in underlying RC profit per ordinary share for the year

Operating cash flow ($ billion)

Operating cash flow is net cash flow provided by operating activities, as reported in the group cash flow statement. Operating activities are the principal revenue-generating activities of the group and other activities that are not investing or financing activities.

2015 performance
Operating cash flow was lower in 2015, largely reflecting the impact of the lower oil price environment.

Gearing (net debt ratio)« (%)

Our gearing (net debt ratio) shows investors how significant net debt is relative to equity from shareholders in funding BP s operations.

We aim to keep our gearing around 20% to give us the flexibility to deal with an uncertain environment.

Gearing is calculated by dividing net debt by total equity plus net debt. Net debt is equal to gross finance debt, plus associated derivative financial instruments, less cash and cash equivalents. For the nearest equivalent measure on an IFRS basis and for further information see Financial statements Note 26.

Directors remuneration

See how our performance

impacted 2015 pay on

page 76.

Key

KPIs used to measure progress

against our strategy.

KPIs used to determine 2015

and 2016 remuneration.

compared with 2014 was mainly due to lower profit in Upstream.

2015 performance
Gearing at the end of 2015 was 21.6%, up 4.9% on 2014.

Refining availability (%)

Refining availability represents Solomon Associates operational availability. The measure shows the percentage of the year that a unit is available for processing after deducting the time spent on turnaround activity and all mechanical, process and regulatory downtime.

Refining availability is an important indicator of the operational performance of our Downstream businesses.

2015 performance
Refining availability was similar to 2014.

Reported recordable injury frequency[a]

Reported recordable injury frequency (RIF) measures the number of reported work-related employee and contractor incidents that result in a fatality or injury (apart from minor first aid cases) per 200,000 hours worked.

The measure gives an indication of the personal safety of our workforce.

2015 performance Our workforce RIF, which includes employees and contractors combined, was 0.24. This improvement on 2014 was also reflected in our other occupational safety metrics. While this is encouraging, continued vigilance is needed.

Loss of primary containment[a]

Loss of primary containment (LOPC) is the number of unplanned or uncontrolled releases of oil, gas or other hazardous materials from a tank, vessel, pipe, railcar or other equipment used for containment or transfer.

By tracking these losses we can monitor the safety and efficiency of our operations as well as our progress in making improvements.

2015 performance We have seen a decrease in our loss of primary containment to 235. Figures for 2014 and 2015 include increased reporting due to the introduction of enhanced automated monitoring for remote sites in our US Lower 48 business. Using a like-for-like approach with prior years reporting, our 2015 loss of primary containment figure is 208 (2014 246).

Total shareholder return (%)

Total shareholder return (TSR) represents the change in value of a BP shareholding over a calendar year. It assumes that dividends are reinvested to purchase additional shares at the closing price on the ex-dividend date. We are committed to maintaining a progressive and sustainable dividend policy.

2015 performance Negative TSR in the year reflects the fall in the BP share price exceeding the dividend.

Reserves replacement ratio (%)

Proved reserves replacement ratio is the extent to which the year s production has been replaced by proved reserves added to our reserve base.

The ratio is expressed in oil-equivalent terms and includes changes resulting from discoveries, improved recovery and extensions and revisions to previous estimates, but excludes changes resulting from acquisitions and disposals. The ratio reflects both subsidiaries« and equity- accounted entities.

This measure helps to demonstrate our success in accessing, exploring and extracting resources.

2015 performance This year s reserves replacement ratio was similar to 2014. See page 229 for more information.

Major project delivery

Major projects are defined as those with a BP net investment of at least $250 million, or considered to be of strategic importance to BP, or of a high degree of complexity.

We monitor the progress of our major projects to gauge whether we are delivering our core pipeline of activity.

Projects take many years to complete, requiring differing amounts of resource, so a smooth or increasing trend should not be anticipated.

2015 performance We delivered three major projects in Upstream two in Angola and one in Asia Pacific, and started up Zhuhai 3 in Downstream.

Production (mboe/d)

We report production of crude oil, condensate, natural gas liquids (NGLs), natural bitumen and natural gas on a volume per day basis for our subsidiaries and equity-accounted entities. Natural gas is converted to barrels of oil equivalent at 5,800 standard cubic feet of natural gas = 1 boe.

2015 performance BP s total reported production including Upstream and Rosneft segments was 4.0% higher than in 2014. This was mainly due to favourable entitlement impact in our production-sharing agreements in the Upstream segment.

Tier 1 process safety events«[a]

Greenhouse gas emissions[b]

Group priorities index[d] (%)

Diversity and inclusion[d] (%)

(million tonnes of CO_2 equivalent)

We report tier 1 process safety events, which are the losses of primary containment of greatest consequence causing harm to a member of the workforce, costly damage to equipment or exceeding defined quantities.

2015 performance The number of tier 1 process safety events has decreased substantially since 2011. We believe our systematic approach to safety management and assurance is contributing to improved performance over the long term and will maintain our focus in these areas.

We provide data on greenhouse gas (GHG) emissions material to our business on a carbon dioxide-equivalent basis. This includes carbon dioxide (CO_2) and methane for direct emissions. Our GHG KPI encompasses all BP s consolidated entities as well as our share of equity-accounted entities other than BP s share of TNK-BP and Rosneft.[c]

2015 performance The increase in our reported emissions is due to updating the global warming potential for methane. Without this update, our emissions would have decreased primarily due to divestments in Alaska.

We track how engaged our employees are with our strategic priorities using our group priorities index. This is derived from survey questions about their perceptions of BP as a company and how it is managed in terms of leadership and standards.

2015 performance Our group priorities engagement measure fell slightly in 2015, as expected in the current low oil price environment.

Each year we report the percentage of women and individuals from countries other than the UK and the US among BP s group leaders. This helps us track progress in building a diverse and well-balanced leadership team.

2015 performance The percentage of our group leaders who are women or non-UK/US rose slightly. We remain committed to our aim that women will represent at least 25% of our group leaders by 2020.

[a] This represents reported incidents occurring within BP s operational HSSE reporting boundary. That boundary includes BP s own operated facilities and certain other locations or situations.

[b] The 2015 figure reflects our update of the global warming potential for methane from 21 to 25, in line with IPIECA s guidelines.

[c] For more information on our GHG emissions see page 46.

[d] Relates to BP employees.

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Strategy, performance and pay

In a difficult environment, BP s leadership delivered strong operating performance, based on a sound strategy and consistently improved safety performance. They have acted early and decisively in response to low oil prices to preserve future growth.

Highlights of the year

Strong safety and operational performance in a difficult environment

Responded early and decisively to lower oil price environment.

Excellent safety standards with continuous improvement over the past three years, leading to improvements in reliability and operations.

Strong operating cash flow« and underlying replacement cost profit relative to plan.

Net investment managed aggressively to reflect lower for longer oil price environment.

Executive directors pay outcomes reflect strong operating performance relative to plan.

Alignment between executives and shareholders with the majority of executive director remuneration paid in equity with lengthy retention requirements.

In an ever more challenging world BP executives performed strongly in 2015 in managing the things they could control and for which they were accountable. BP was one of the first to recognize the shift to a lower for longer price environment and through early action delivered distinctive competitive performance on costs. Momentum built through the year in simplification and efficiencies, such that operating cash flow significantly exceeded plan. Assets ran well and major projects« were commissioned on time. Good performance on safety has led to sound and reliable operations. There has been a high quality of execution.

Our pay structure is relatively simple and reflects a number of key overriding principles. It is long-term, performance-based and tied directly to strategy and delivery. It is biased towards equity with long retention periods. This is reflected in the policy framework that was approved by shareholders in 2014. Variable remuneration is primarily based on true underlying performance and not driven by factors over which the executives have no control. Consistent with past practice, we normalize for changes in oil and gas price and refining margins. This avoids both windfall gains and punitive losses in periods of extreme volatility such as we are currently experiencing.

Against this background, I am pleased to give an overview of key elements of executive remuneration for 2015. All of the detail is set out in the Directors remuneration report on page 76.

Short-term performance

The annual cash bonus is based on safety (30%) and value (70%) measures directly linked to our KPIs and strategy. In setting annual safety targets, the committee reviews the three-year performance and in each case aims for improvement. We measure value by reference to operating cash flow and underlying replacement cost profit. In addition, two value measures, reductions in corporate and functional costs and net investment (organic)«, reflect progress in simplification. Targets were based on the board s plan set in January 2015, with the maxima tested for stretch. Results were strong across all measures.

Short-term: annual bonus

Measure	Result		Target	Outcome
Safety and operational risk				

Loss of primary containment	Spills and leaks declined.	£ 253 events	**208 events[a]**
Process safety tier 1 events	The most serious process safety events were reduced.	£ 29 events	**20 events**
Recordable injury frequency	Number of work-related recordable injuries per 200k hours fell.	£ 0.261/200k hours[b]	**0.223/200k hours[b]**

For more information on the group s key performance indicators see page 20.

Value			
Operating cash flow	Significantly ahead of plan.	$17.2bn	**$19.1bn**
Underlying replacement cost profit	Significantly ahead of plan.	$4.2bn	**$5.9bn**
Net investment (organic)	Significantly ahead of plan.	i18%	**i27%**
Corporate and functional costs	Significantly ahead of plan.	i5.9%	**i17.6%**
Major project delivery	On target.	4	**4**

[a] Adjusted in accordance with the treatment of the loss of primary containment key performance indicator on page 20.
[b] Excludes biofuels.

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The safety and operational risk performance has been excellent. This has led to increased reliability and more efficient operations. There is a proposed settlement of the federal and state claims and settlement of most of the local government claims relating to the Deepwater Horizon incident. BP responded quickly and decisively to the drop in oil price, continuing to simplify its activities and significantly reducing its cost base. Capital discipline has been demonstrated in a strategic way that offers flexibility and resilience now and options for future growth. Our belief is that management has delivered very well in a difficult year.

The overall group score achieved was 1.91 out of a maximum of 2.00. As is our normal practice, the committee reviewed this result and considered whether it produced a fair outcome in light of the underlying performance of the company and the wider environment. As part of this both the committee and the

Long-term: performance share plan

Measure	Result	Target	Outcome
Relative TSR	BP s TSR ranked third versus other oil majors.	Outperform peers	**Third**
Operating cash flow	Strong operating cash flow in 2015 relative to plan.	$17.7bn	**$19.1bn**
Strategic imperatives			
Relative reserves replacement ratio (RRR)	BP s RRR preliminary ranked first versus other oil majors.	Outperform peers	**First**
Safety and operational risk:	Downward trend over the last three years.		
Loss of primary containment		£ 212 events	**208 events[a]**
Process safety tier 1 events		£ 30 events	**20 events**
Recordable injury frequency		£ 0.240/200k hours[b]	**0.223/200k hours**
Major project delivery	15 major projects were commissioned.	11	**15**

[a] Adjusted in accordance with the treatment of the loss of primary containment key performance indicator on page 20.

[b] Excluding biofuels.

Pay outcomes

The resulting remuneration for executive directors is shown below. Consistent with the wider

three-year retention period before being released to the individual.

group chief executive believed some recognition of the dramatic fall in oil prices and its impact on shareholders was warranted. As a result the group score was lowered to 1.70 and this has been used to determine annual bonuses for BP s wider management group. For executive directors our approved policy limits annual bonus to 1.50.

Long-term performance

The 2012 deferred bonus was contingent on safety and environmental sustainability over a three-year period. The committee saw good evidence of a continued improvement on safety that is both ingrained in the culture and has led to more reliable and efficient operations. The award vested in full.

The 2013-15 performance share plan was, as in previous years, based on three sets of measures equally weighted: relative total shareholder return (TSR) over the three-year period, 2015

population of BP employees, executive directors received no increase in base salary in 2015. This is being continued with no salary increase for the senior leadership and executive directors in 2016.

As described above, annual bonus was limited to a group score of 1.50, the 2012 deferred bonus vested fully and 77.6% of shares in the 2013-2015 performance share plan are expected to vest. These will be finally determined later in the year when results from all oil majors are known. The shares that vest will have a further

Total remuneration (excluding pensions)

In our assessment, the overall quantum of remuneration is market competitive and represents a balanced outcome. It is based heavily on performance and mainly paid in equity with long retention periods. Executive directors are required to hold shares in excess of five-times salary. While the value of their shares has, as for all shareholders, dropped with the oil price, they satisfy that requirement.

For the single figure remuneration table see page 77.

Conclusion

In conclusion, BP has performed well and surpassed the board s expectations on almost all of the measures. I am pleased that our current policy has appropriately recognized this in the 2015 outcomes. There remain challenging times with an evolving remuneration landscape. During 2016, the committee will be undertaking a full review of our policy. I have already met with some of our key shareholders and look forward to continuing this engagement as we develop a

new proposed policy for approval at the 2017 Annual General Meeting.

BP is a strong company with strong leadership. The company continues to evolve as will our remuneration policy and practice to ensure we remain performance driven and competitive.

Professor Dame Ann Dowling

Chair of the remuneration committee

operating cash flow and finally, strategic imperatives which included safety and operational risk, relative reserves replacement ratio (RRR) and major project delivery over the three years.

For TSR, BP was in third place. The target set in 2013 for operating cash flow in 2015 was $35 billion based on the plan assumptions. At the start of the year, this was normalized for the change in oil and gas price, and refining margins since 2013. We also, as in previous years, adjusted for major divestments and for contributions to the Gulf of Mexico restoration. The resulting target was $17.7 billion. This compared to an outcome of $19.1 billion. Safety performance at the end of the three-year period, against targets previously set at the outset, was strong. The final results from the comparator group for RRR are not yet available but on the evidence, our preliminary assessment is that the company is in first place. There will be a final assessment later in the year. Major project delivery exceeded target.

As a result 77.6% of the shares are expected to vest. Reviewing the period 2013-15, the committee believes that this represents a fair outcome. In that time there has been the delivery of the 10-point plan in 2014, consistent improvements in safety performance and effective budgetary and capital discipline in difficult circumstances.

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Our markets in 2015

A snapshot of the challenging global energy market in 2015.

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More than 200 of our UK BP stores have an M&S Simply Food® outlet. This premium offer is helping to drive overall service station sales growth.

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Construction of *Glen Lyon,* our new 270 metre long floating, production, storage and offloading vessel, at a shipyard in South Korea.

BP Statistical Review of World Energy

See *bp.com/statisticalreview* for an objective review of key global energy trends.

Crude oil prices (quarterly average)

Natural gas prices (quarterly average)

The global economy struggled to return to a more normal pace of growth in 2015 GDP growth estimates were revised down over the course of the year, with latest estimates indicating that the world economy grew by 2.5% in 2015, compared to trend growth of around 3%. Slowing growth in China contributed to falling commodity prices, weak global trade and weakening emerging market growth. The developed world also failed to take off as expected with the US, EU and Japan all underperforming.

Oil

Crude oil prices averaged $52.39 per barrel in 2015, as demonstrated by the industry benchmark of dated Brent«, nearly $47 per barrel below the 2014 average of $98.95. This was the largest oil price decline ever in inflation-adjusted terms and it was the third-largest percentage decline (behind 1873 and 1986). Prices recovered in the second quarter, averaging nearly $62, but fell later in the year as OPEC production increased and inventories grew. Brent prices ended the year near $35.

In 2014 global oil consumption grew by roughly 0.8 million barrels per day (0.8%), significantly slower than the increase in global production (2.3%).[b] Non-OPEC production once again accounted for all the net global increase, driven by record US growth.

Natural gas

Global price differentials in 2015 continued to narrow. US gas prices and Asian transacted LNG prices were more than 40% lower, while European transacted LNG prices were 15% lower. The Henry Hub« First of the Month index fell from $4.43 per million British thermal units (mmBtu) in 2014 to $2.67 in 2015 as supply growth continued to be resilient.

Transacted LNG prices in Europe and Asia fell with rising global LNG supplies and weak demand growth. New LNG projects in Papua New Guinea and Australia and recovering supplies in Africa added 1.4bcf/d of supply capacity to the LNG market in 2015.

In response to the sharp decline in world oil prices, global oil consumption increased by an above-average 1.6 million barrels per day (mmb/d) for the year (1.7%).[a] While emerging economies accounted for the majority of growth, the mature economies of the OECD recorded a rare increase as well. The robust growth in consumption was once again exceeded by growth in global production. Non-OPEC production growth slowed to 1.4mmb/d as US production peaked in the second quarter in the face of a rapid contraction in investment and drilling.[a] OPEC crude oil production, however, accelerated, growing by 1.1mmb/d in 2015.[a] As a result, OECD commercial oil inventories reached record levels late in the year.

[a] From IEA Oil Market Report, February 2016 ©, OECD/IEA

2016, Page 4.

[b] *BP Statistical Review of World Energy 2015.*

Moderating demand and ample supplies from both Russia and LNG markets reduced the UK National Balancing Point« hub price to an average of 42.61 pence per therm in 2015 (2014 50.01). The Japanese spot price fell to an average of $7.45/mmBtu in 2015 (2014 $13.86) with weaker demand from North Asian consumers coinciding with rising supplies in the region.

In 2014 growth in natural gas consumption was at its slowest rate for the last 20 years with the exception of the financial crisis of 2008-09. Broad differentials between regional gas prices narrowed considerably, as US gas prices continued their recovery from their 2012 lows. Global LNG supply capacity expanded further in 2014, following a small increase in 2013, while growth in LNG demand moderated.

Prices and margins

See pages 29 and 35.

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BP is embedding cost efficiency and simplification into everyday activities as well as large-scale changes in response to market conditions.

As with other companies within our industry, BP is taking measures to respond to the impact of a lower-price environment by limiting capital spend, looking to benefit from cost deflation and reducing headcount. In addition, for some time we have been encouraging everyone in BP to find and implement smarter ways of working, without compromising safety. From large-scale behaviour changes to small and simple ideas, our employees are helping to make a positive difference to the reliability and efficiency of our operations.

A helicopter-sharing first t

When changing crews on board BP s Skarv platform in the Norwegian North Sea, a helicopter flies the replacement team offshore and brings the current team back to land. On these journeys an average of six of the 19 seats were unused. We discovered that nearby operator, Statoil, was in the same situation and so looked for opportunities to maximize seat usage on our journeys. Statoil offered BP a 50% share in its contracted helicopter capacity and the companies entered into a cost-sharing agreement for scheduled flights. With fewer flights offshore we have reduced costs and CO_2 emissions.

Easing the bottleneck q

The Cherry Point refinery rail facility receives crudes directly from US and Canadian producers. But with only two tracks available, the mile-long trains often had to wait to offload their oil supply. This prevented the refinery from maximizing its rail offloading efficiency. Teams at the site, along with the supply organization, worked to resolve the problem by installing additional track to reduce congestion and allow full utilization of the rail facility. In 2015 we safely executed this rail upgrade ahead of schedule and

Foundations for success p

BP drilling and cementing teams in Azerbaijan regularly review well design and construction to ensure they are safe, efficient and reliable. In efforts to improve cementing technology, a key element of well construction, the teams identified ways to simplify the process and decrease drying times. By changing cement and optimizing parameters, drying time has been reduced and more than $1 million has been saved. The process can be replicated elsewhere.

within budget.

Logistics planning p

Driving supply boats to our offshore Egypt rigs can consume a lot of fuel. Through detailed logistics planning we calculated that a 25% reduction in speed consumed about 40% less fuel per trip. We also found that keeping a vessel outside the 500 metre rig zone required less engine power than the full dynamic positioning mode needed within it, and this reduced fuel consumption by around 80%. We have applied these changes across the region s fleet and are expecting to save more than $400,000 a year. We are sharing this cost-saving approach globally.

Making storage simpler u

Throughout more than 50 years of operations in the North Sea, BP had built up large quantities of equipment that were spread around 172 locations, with significant storage fees and long lead times to get these materials offshore. By updating and improving our materials management process we reduced the number of stored inventory items by half and brought the number of storage locations down by about 65%. We also generated around $32 million by selling surplus materials and scrap.

Steam clean savings p

Refinery tank cleaning, which is done by hand, is not always efficient as it is based on estimates of waste within the tank. Downstream teams tested an existing steam injection method that was new to BP that separates the build up into sediment on the bottom, then water, and a layer of recoverable oil floating on the top. The oil and water are pumped away, leaving the sediment to be easily cleaned up in the final manual cleaning step. Since the process was implemented at the Rotterdam refinery in 2015, it has significantly reduced cleaning times from 9-12 months down to three, reduced risks to cleaners and saved more than $3 million. It is now being adopted across BP with further savings expected.

« Defined on page 256.

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Group performance

A summary of our group financial and

operating performance.

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A technician monitors the pressure gauges in the enhanced oil recovery laboratory in Sunbury.

Financial and operating performance

			$ million
	2015	2014	2013
Profit (loss) before interest and taxation	**(7,918)**	6,412	31,769
Finance costs and net finance expense relating to pensions and other post-retirement benefits	**(1,653)**	(1,462)	(1,548)
Taxation	**3,171**	(947)	(6,463)
Non-controlling interests	**(82)**	(223)	(307)
Profit (loss) for the year[a]	**(6,482)**	3,780	23,451
Inventory holding (gains) losses«, net of tax	**1,320**	4,293	230
Replacement cost profit (loss)«	**(5,162)**	8,073	23,681
Net charge (credit) for non-operating items«, net of tax	**11,272**	4,620	(10,533)
Net (favourable) unfavourable impact of fair value accounting effects«, net of tax	**(205)**	(557)	280
Underlying replacement cost profit«	**5,905**	12,136	13,428
Dividends paid per share cents	**40.0**	39.0	36.5
pence	**26.383**	23.850	23.399
Capital expenditure and acquisitions, on an accruals basis	**19,531**	23,781	36,612

[a] Profit (loss) attributable to BP shareholders.

The result for the year ended 31 December 2015 was a loss of $6.5 billion, compared with a profit of $3.8 billion in 2014. Excluding inventory holding losses, replacement cost (RC) loss was $5.2 billion, compared with a profit of $8.1 billion in 2014.

After adjusting for a net charge for non-operating items, which mainly related to the agreements in principle to settle federal, state and the vast majority of local government claims arising from the 2010 Deepwater Horizon accident and impairment charges; and net favourable fair value accounting effects, underlying RC profit for the year ended 31 December 2015 was $5.9 billion, a decrease of $6.2 billion compared with 2014. The reduction was mainly due to a significantly lower profit in Upstream, partially offset by improved earnings from Downstream.

Non-operating items in 2015 also included $1,088 million for restructuring charges that largely relate to rationalization and reorganization costs in response to the low oil and gas price environment. A further $1.0 billion of restructuring charges are expected to be incurred in 2016.

Profit for the year ended 31 December 2014 decreased by $19.7 billion compared with 2013. Excluding inventory holding losses, RC profit decreased by $15.6 billion compared with 2013. Both results in 2013 included a $12.5-billion non-operating gain relating to the disposal of our interest in TNK-BP.

After adjusting for a net charge for non-operating items, which mainly related to impairments and further charges associated with the Gulf of Mexico oil spill; and net favourable fair value accounting effects, underlying RC profit for the year ended 31 December 2014 was down by $1.3 billion compared with 2013. The reduction was mainly due to a lower profit in Upstream, partially offset by improved earnings from Downstream.

More information on non-operating items, and fair value accounting effects, can be found on page 217. See Gulf of Mexico oil spill on page 41 and Financial statements Note 2 for further information on the impact of the Gulf of Mexico oil spill on BP s financial results.

See Upstream on page 28, Downstream on page 34, Rosneft on page 38 and Other businesses and corporate on page 40 for further information on segment results. Also see page 41 for further information on the Gulf of Mexico oil spill.

Taxation

The credit for corporate income taxes in 2015 reflects the deferred tax impact of the increased provisions in respect of the Gulf of Mexico oil spill. The effective tax rate (ETR) was 33% in 2015 (2014 19%, 2013 21%).

The ETR in 2015 compared with 2014 was impacted by various one-off items. Adjusting for inventory holding impacts, non-operating items, fair value accounting effects and the one-off deferred tax adjustment in 2015 as a result of the reduction in the UK North Sea supplementary charge, the underlying ETR on RC profit was 31% in 2015 (2014 36%, 2013 35%). The underlying ETR for 2015 is lower than 2014 mainly due to changes in the geographical mix of profits.

The ETR in 2014 was similar to 2013 and was relatively low in both years. The low ETR in 2014 reflected the impairment charges on which tax credits arise in relatively high tax rate jurisdictions. The ETR in 2013 reflected the gain on disposal of TNK-BP in 2013 for which there was no corresponding tax charge.

In the current environment, and with our existing portfolio of assets, the underlying ETR in 2016 is expected to be lower than 2015 due to the anticipated mix of profits moving away from relatively high tax Upstream jurisdictions.

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Cash flow and net debt information

			$ million
	2015	2014	2013
Net cash provided by operating activities	**19,133**	32,754	21,100
Net cash used in investing activities	**(17,300)**	(19,574)	(7,855)
Net cash used in financing activities	**(4,535)**	(5,266)	(10,400)
Cash and cash equivalents at end of year	**26,389**	29,763	22,520
Gross debt	**53,168**	52,854	48,192
Net debt«	**27,158**	22,646	25,195
Gross debt to gross debt-plus-equity	**35.1%**	31.9%	27.0%
Net debt to net debt-plus-equity«	**21.6%**	16.7%	16.2%

KPIs used to measure progress against our strategy.

Net cash provided by operating activities

Net cash provided by operating activities for the year ended 31 December 2015 was $13.6 billion lower than 2014, of which $1.1 billion related to the Gulf of Mexico oil spill. This was principally a result of the lower oil price environment, although there were benefits of reduced working capital requirements and lower tax paid.

There was an increase of $11.7 billion in 2014 compared with 2013. Profit before taxation was lower but this was partially offset by movements in the adjustments for non-cash items, including depreciation, depletion and amortization, impairments and gains and losses on sale of businesses and fixed assets. Furthermore, 2014 was impacted by a favourable movement in working capital.

Net cash used in investing activities

Net cash used in investing activities for the year ended 31 December 2015 decreased by $2.3 billion compared with 2014. The decrease mainly reflected a reduction in capital expenditure of $3.9 billion in response to the lower oil price environment, partly offset by a reduction of $0.7 billion in disposal proceeds.

The increase of $11.7 billion in 2014 compared with 2013 reflected a decrease in disposal proceeds of $18.5 billion, partly offset by a $4.9-billion decrease in our investments in equity-accounted entities, mainly relating to the completion of the sale of our interest in TNK-BP and subsequent investment in Rosneft in 2013. There was also a decrease in our other capital expenditure excluding acquisitions of $2.0 billion.

There were no significant acquisitions in 2015, 2014 and 2013.

The group has had significant levels of capital investment for many years. Cash flow in respect of capital investment, excluding acquisitions, was $20.2 billion in 2015 (2014 $23.1 billion and 2013 $30 billion). Sources of funding are fungible, but the majority of the group s funding requirements for new investment comes from cash generated by existing operations.

We expect capital expenditure, excluding acquisitions and asset exchanges, to be at the lower end of the range of $17-19 billion in 2016.

Total cash disposal proceeds received during 2015 were $2.8 billion (2014 $3.5 billion, 2013 $22.0 billion). In 2015 this included amounts received from our Toledo refinery partner, Husky Energy, in place of capital commitments relating to the original divestment transaction that have not been subsequently sanctioned. In 2013 this included $16.7 billion for the disposal of BP s interest in TNK-BP. See Financial statements Note 4 for more information on disposals.

We have now completed the $10-billion divestment programme which we announced in 2013. We expect divestments to be around $3-5 billion in 2016 and ongoing divestments to be around $2-3 billion per annum thereafter.

Net cash used in financing activities

Net cash used in financing activities for the year ended 31 December 2015 decreased by $0.7 billion compared with 2014. There were no share repurchases in 2015, compared with $4.6 billion in 2014. This was largely offset by lower net proceeds from financing of $3.2 billion ($4.4 billion

lower net proceeds from long-term debt offset by an increase of $1.2 billion in short-term debt).

The decrease of $5.1 billion in 2014 compared with 2013 primarily reflected higher net proceeds of $3.3 billion from long-term financing and a decrease in the net repayment of short-term debt of $1.3 billion. The $8-billion share repurchase programme was completed in July 2014.

Total dividends paid in 2015 were 40 cents per share, up 2.6% compared with 2014 on a dollar basis and 10.6% in sterling terms. This equated to a total cash distribution to shareholders of $6.7 billion during the year (2014 $5.9 billion, 2013 $5.4 billion).

Net debt

Net debt at the end of 2015 increased by $4.5 billion from the 2014 year-end position. The net debt ratio« at the end of 2015 increased by 4.9%.

The total cash and cash equivalents at the end of 2015 were $3.4 billion lower than 2014.

We aim to maintain the net debt ratio, with some flexibility, at around 20%. We expect the net debt ratio to be above 20% while oil prices remain weak. Net debt and the net debt ratio are non-GAAP measures. See Financial statements Note 26 for gross debt, which is the nearest equivalent measure on an IFRS basis, and for further information on net debt.

For information on financing the group s activities, see Financial statements Note 28 and Liquidity and capital resources on page 219.

Group reserves and production

	2015	2014	2013
Estimated net proved reserves[a] (net of royalties)			
Liquids« (mmb)	**9,560**	9,817	10,070
Natural gas (bcf)	**44,197**	44,695	45,975
Total hydrocarbons« (mmboe)	**17,180**	17,523	17,996
Of which: Equity-accounted entities[b]	**7,928**	7,828	7,753
Production[a] (net of royalties)			
Liquids (mb/d)	**2,045**	1,927	2,013

Natural gas (mmcf/d)	**7,146**	7,100	7,060
Total hydrocarbons (mboe/d)	**3,277**	3,151	3,230
Of which: Subsidiaries«	**2,007**	1,898	1,882
Equity-accounted entities[c]	**1,270**	1,253	1,348

[a] Because of rounding, some totals may not agree exactly with the sum of their component parts.
[b] Includes BP s share of Rosneft. See Rosneft on page 38 and Supplementary information on oil and natural gas on page 169 for further information.
[c] Includes BP s share of Rosneft. 2013 also includes BP s share of TNK-BP production. See Rosneft on page 38 and Oil and gas disclosures for the group on page 227 for further information.

Total hydrocarbon proved reserves at 31 December 2015, on an oil equivalent basis including equity-accounted entities, decreased by 2% compared with 31 December 2014. The change includes a net increase from acquisitions and disposals of 130mmboe (103mmboe within our subsidiaries, 28mmboe within our equity-accounted entities). Acquisition activity in our subsidiaries occurred in Egypt, Trinidad, the US and the UK, and divestment activity in our subsidiaries occurred in Egypt, Trinidad, the US and the UK. In our equity-accounted entities the most significant item was a purchase in Russia.

Our total hydrocarbon production for the group was 4% higher compared with 2014. The increase comprised a 6% increase (13% increase for liquids and 2% decrease for gas) for subsidiaries and a 1% increase (1% decrease for liquids and 9% increase for gas) for equity-accounted entities.

See Oil and gas disclosures for the group on page 227.

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Upstream

Our strategy is to have a balanced portfolio across the world s key basins, working safely and reliably while maintaining a focus on capital discipline and quality execution to deliver value.

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Operators work on board the floating production, storage and offloading vessel in the Plutão, Saturno, Vénus and Marte fields in Angola.

Our business model and strategy

The Upstream segment is responsible for our activities in oil and natural gas exploration, field development and production, as well as midstream transportation, storage and processing. We also market and trade natural gas, including liquefied natural gas, power and natural gas liquids. In 2015 our activities took place in 25 countries.

With the exception of our US Lower 48 onshore business, we deliver our exploration, development and production activities through five global technical and operating functions:

The **exploration** function is responsible for renewing our resource base through access, exploration and appraisal, while the **reservoir development** function is responsible for the stewardship of our resource portfolio over the life of each field.

The **global wells organization** and the **global projects organization** are responsible for the safe, reliable and compliant execution of wells (drilling and completions) and major projects«.

The **global operations organization** is responsible for safe, reliable and compliant operations, including upstream production assets and midstream transportation and processing activities.

We optimize and integrate the delivery of these activities across 12 regions, with support provided by global functions in specialist areas of expertise: technology, finance, procurement and supply chain, human resources and information technology.

The US Lower 48 began operating as a separate onshore business in 2015.

Technologies such as seismic imaging, enhanced oil recovery and big data analytics support our upstream strategy by helping us gain new access, increase recovery and reserves and improve production efficiency. See Our distinctive capabilities on page 16.

We actively manage our portfolio and place increasing emphasis on accessing, developing and producing from fields able to provide the greatest value (including those with the potential to make the highest contribution to our operating cash flow«). We sell assets that we believe have more value to others. This allows us to focus our leadership, technical resources and organizational capability on

developing the resources we believe are likely to add the most value to our portfolio.

Our strategy is to have a balanced portfolio of material, enduring positions in the world s key hydrocarbon basins; to employ capital and execute projects and other activities efficiently; and to operate safely and reliably in every basin to deliver increasing value.

Our strategy is enabled by:

- A continued focus on safety, reliability and the systematic management of risk.
- Prioritizing value over volume, and a continuous focus on executional excellence, managing costs and business delivery.
- Maintaining disciplined investment in a balanced portfolio of opportunities, in deep water, gas value chains, giant fields and unconventionals«.
- Delivering competitive operating cash growth through improvements in efficiency and reliability for both operations and capital investment.
- Strong relationships built on trust, mutual advantage and deep knowledge of the basins where we operate.

Our performance summary

- For upstream safety performance see page 44.
- We achieved an upstream BP-operated plant reliability« of 95%.
- We started up three major upstream projects.

Our exploration function gained access to new potential resources covering almost 8,000km^2 in four countries.

Our divestments generated $0.8 billion in proceeds in 2015.

Upstream profitability ($ billion)

Outlook for 2016

We expect underlying production« to be broadly flat with 2015. The actual reported outcome will depend on the exact timing of project start-ups, divestments, OPEC quotas and entitlement impacts in our production-sharing agreements.

Capital investment is expected to decrease, largely reflecting our commitment to continued capital discipline and the rephasing and refocusing of our activities and major projects where appropriate in response to the current business environment. We will continue to manage our costs down using all levers available to us. These include continuing and expanding the simplification and efficiency efforts started in 2014, continuing to drive deflation into our third-party spend, influencing spend in our non-operated assets, and bringing headcount down to a level that reflects the size of our operations and the current environment.

Oil prices continue to be challenging in the near term.

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Financial performance

			$ million
	2015	2014	2013
Sales and other operating revenues[a]	**43,235**	65,424	70,374
RC profit before interest and tax	**(937)**	8,934	16,657
Net (favourable) unfavourable impact of non-operating items« and fair value accounting effects«	**2,130**	6,267	1,608
Underlying RC profit before interest and tax	**1,193**	15,201	18,265
Capital expenditure and acquisitions	**17,082**	19,772	19,115
BP average realizations«[b]			$ per barrel
Crude oil[c]	**47.78**	93.65	105.38
Natural gas liquids	**20.75**	36.15	38.38
Liquids«	**45.63**	87.96	99.24
			$ per thousand cubic feet
Natural gas	**3.80**	5.70	5.35
US natural gas	**2.10**	3.80	3.07
			$ per barrel of oil equivalent
Total hydrocarbons«	**34.78**	60.85	63.58
Average oil marker prices[d]			$ per barrel
Brent«	**52.39**	98.95	108.66
West Texas Intermediate	**48.71**	93.28	97.99
Average natural gas marker prices			$ per million British thermal units
Henry Hub gas price«[e]	**2.67**	4.43	3.65
			pence per therm
UK National Balancing Point gas price«[d]	**42.61**	50.01	67.99

[a] Includes sales to other segments.
[b] Realizations are based on sales by consolidated subsidiaries« only, which excludes equity-accounted entities.
[c] Includes condensate and bitumen.
[d] All traded days average.
[e] Henry Hub First of Month Index.

Market prices

Brent remains an integral marker to the production portfolio, from which a significant proportion of production is priced directly or indirectly. Certain regions use other local markers that are derived using differentials or a lagged impact from the Brent crude oil price.

Brent ($/bbl)

Henry Hub ($/mmBtu)

The dated Brent price in 2015 averaged $52.39 per barrel. Prices averaged about $58 during the first half of 2015, but fell sharply during the second half in the face of strong OPEC production growth and rising inventories. Brent prices ended the year near $35.

The Henry Hub First of Month Index price was down by 40%, year-on-year, in 2015 (2014, up by 21%).

The UK National Balancing Point gas price in 2015 fell by 15% compared with 2014 (2014 a decrease of 26% on 2013). This reflected ample supplies in Europe with robust Russian flows, higher LNG cargoes and rising indigenous production. Lower LNG prices in Asia led to a reduction in the price of transacted LNG available for Europe, which contributed to the weakness of European spot prices. For more information on the global energy market in 2015, see page 24.

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Financial results

Sales and other operating revenues for 2015 decreased compared with 2014, primarily reflecting significantly lower liquids and gas realizations and lower gas marketing and trading revenues partly offset by higher production. The decrease in 2014 compared with 2013 primarily reflected lower liquids realizations partially offset by higher production in higher-margin areas, higher gas realizations and higher gas marketing and trading revenues.

Replacement cost (RC) loss before interest and tax for the segment included a net non-operating charge of $2,235 million. This is primarily related to a net impairment charge associated with a number of assets, following a further fall in oil and gas prices and changes to other assumptions. See Financial statements Note 4 for further information. Fair value accounting effects had a favourable impact of $105 million relative to management s view of performance.

The 2014 result included a net non-operating charge of $6,298 million, primarily related to impairments associated with several assets, mainly in the North Sea and Angola reflecting the impact of the lower near-term price environment, revisions to reserves and increases in expected decommissioning cost estimates. Fair value accounting effects had a favourable impact of $31 million relative to management s view of performance. The 2013 result included a net non-operating charge of $1,364 million, which included an $845-million write-off attributable to block BM-CAL-13 offshore Brazil, as a result of the Pitanga exploration well not encountering commercial quantities of oil or gas, and an unfavourable impact of $244 million from fair value accounting effects.

After adjusting for non-operating items and fair value accounting effects, the decrease in the underlying RC profit before interest and tax compared with 2014 reflected significantly lower liquids and gas realizations, rig cancellation charges and lower gas marketing and trading results partly offset by lower costs including benefits from simplification and efficiency activities and lower exploration write-offs, and higher production.

Compared with 2013 the 2014 result reflected lower liquids realizations, higher costs, mainly depreciation, depletion and amortization and exploration write-offs and the absence of one-off benefits which occurred in 2013. This was partly offset by higher production in higher-margin areas, higher gas realizations and a benefit from stronger gas marketing and trading activities.

Total capital expenditure including acquisitions and asset exchanges in 2015 was lower compared with 2014. This included $100 million capital expenditure before closing adjustments in 2015 relating to the purchase of additional equity in the West Nile Delta concessions in Egypt and $81 million capital expenditure before closing adjustments relating to the purchase of additional equity in the Northeast Blanco and 32-9 concessions in the San Juan basin onshore US.

In total, disposal transactions generated $0.8 billion in proceeds in 2015, with a corresponding reduction in net proved reserves of 20mmboe within our subsidiaries.

The major disposal transaction during 2015 was the sale of our 36% interest in the Central Area Transmission System (CATS) business in the UK North Sea to Antin Infrastructure Partners. More information on disposals is provided in Upstream analysis by region on page 221 and Financial statements Note 4.

Exploration

The group explores for oil and natural gas under a wide range of licensing, joint arrangement« and other contractual agreements. We may do this alone or, more frequently, with partners.

In exploration we have reduced capital spending by 50% since 2014 with a focus on prioritizing near-term activity while creating options for longer-term renewal.

New access in 2015

We gained access to new potential resources covering almost 8,000km^2 in four countries (UK (North Sea), Egypt, the US, and Azerbaijan). We acquired a 20% participatory interest in Taas-Yuryakh Neftegazodobycha, a Rosneft subsidiary that will further develop the Srednebotuobinskoye oil and gas condensate field in East Siberia, in November 2015. Related to this, Rosneft and BP will jointly undertake exploration in an adjacent area of mutual interest.

Rosneft and BP have also agreed to jointly explore two additional areas of mutual interest in the prolific West Siberian and Yenisey-Khatanga basins where they will jointly appraise the Baikalovskoye discovery subject to receipt of all relevant consents. This is in addition to the exploration agreement announced in 2014 for an area of mutual interest in the Volga-Urals region of Russia, where Rosneft and BP have commenced joint study work to assess potential non-shale, unconventional tight-oil« exploration prospects.

Exploration success

We participated in two potentially commercial discoveries in Egypt   Atoll and Nooros in 2015.

Exploration and appraisal costs

Excluding lease acquisitions, the costs for exploration and appraisal were $1,794 million (2014 $2,911 million, 2013 $4,811 million). These costs included exploration and appraisal drilling expenditures, which were capitalized within intangible fixed assets, and geological and geophysical exploration costs, which were charged to income as incurred.

Approximately 26% of exploration and appraisal costs were directed towards appraisal activity. We participated in 29 gross (16.76 net) exploration and appraisal wells in six countries.

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Exploration expense

Total exploration expense of $2,353 million (2014 $3,632 million, 2013 $3,441 million) included the write-off of expenses related to unsuccessful drilling activities, lease expiration or uncertainties around development in Libya ($432 million), Angola ($471 million), the Gulf of Mexico ($581 million) and others ($345 million).

Reserves booking

Reserves booking from new discoveries will depend on the results of ongoing technical and commercial evaluations, including appraisal drilling. The segment s total hydrocarbon reserves on an oil equivalent basis, including equity-accounted entities at 31 December 2015 decreased by 4% (a decrease of 5% for subsidiaries and an increase of less than 1% for equity-accounted entities) compared with reserves at 31 December 2014.

Proved reserves replacement ratio«

The proved reserves replacement ratio for the Upstream segment in 2015, excluding acquisitions and disposals, was 33% for subsidiaries and equity-accounted entities (2014 31%), 28% for subsidiaries alone (2014 29%) and 76% for equity-accounted entities alone (2014 43%). For more information on proved reserves replacement for the group see page 227.

Upstream reserves

Estimated net proved reserves[a] (net of royalties)

	2015	2014	2013
Liquids			million barrels
Crude oil[b]			
Subsidiaries«	**3,560**	3,582	3,798
Equity-accounted entities[c]	**694**	702	729
	4,254	4,283	4,527
Natural gas liquids			
Subsidiaries	**422**	510	551
Equity-accounted entities[c]	**13**	16	16
	435	526	567
Total liquids			
Subsidiaries[d]	**3,982**	4,092	4,349
Equity-accounted entities[c]	**707**	717	745
	4,689	4,809	5,094
Natural gas			billion cubic feet
Subsidiaries[e]	**30,563**	32,496	34,187
Equity-accounted entities[c]	**2,465**	2,373	2,517
	33,027	34,869	36,704
Total hydrocarbons			million barrels of oil equivalent
Subsidiaries	**9,252**	9,694	10,243
Equity-accounted entities[c]	**1,132**	1,126	1,179
	10,384	10,821	11,422

[a] Because of rounding, some totals may not agree exactly with the sum of their component parts.
[b] Includes condensate and bitumen which are not material.
[c] BP s share of reserves of equity-accounted entities in the Upstream segment. During 2015, upstream operations in Abu Dhabi, Argentina and Bolivia, as well as some of our operations in Angola and Indonesia, were conducted through equity-accounted entities.
[d] Includes 19 million barrels (21 million barrels at 31 December 2014 and 2013) in respect of the 30% non-controlling interest in BP Trinidad & Tobago LLC.
[e] Includes 2,359 billion cubic feet of natural gas (2,519 billion cubic feet at 31 December 2014 and 2,685 billion cubic feet at 31 December 2013) in respect of the 30% non-controlling interest in BP Trinidad & Tobago LLC.

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Developments

We achieved three major project start-ups in 2015: two in Angola and one in Australia. The In Salah Southern Fields project started up in February 2016. In addition to starting up major projects, we made good progress in projects in AGT (Azerbaijan, Georgia, Turkey), the North Sea, Oman and Egypt.

- **Azerbaijan, Georgia, Turkey** we signed agreements to become a shareholder in the Trans Anatolian Natural Gas Pipeline (TANAP), to transport gas from Shah Deniz to markets in Turkey, Greece, Bulgaria and Italy.

- **North Sea** we continued to see high levels of activity, including further progress in the major redevelopment of Quad 204 and approval of the development plans for the Culzean field. We also completed the Magnus life extension project and installed the platform topsides at Clair Ridge.

- **Oman** development of the Khazzan project continued, with 10 rigs in operation by the end of 2015. We also signed a heads of agreement with the government of the Sultanate of Oman to extend the licence area in February 2016.

- **Egypt** we signed final agreements on the West Nile Delta project. We also increased our working interest in both West Nile Delta concessions.

Subsidiaries development expenditure incurred, excluding midstream activities, was $13.5 billion (2014 $15.1 billion, 2013 $13.6 billion).

Production

Our oil and natural gas production assets are located onshore and offshore and include wells, gathering centres, in-field flow lines, processing facilities, storage facilities, offshore platforms, export systems (e.g. transit lines), pipelines and LNG plant facilities. These include production from conventional and unconventional (coalbed methane and shale) assets. The principal areas of production are Angola, Argentina, Australia, Azerbaijan, Egypt, Iraq, Trinidad, the UAE, the UK and the US.

With BP-operated plant reliability increasing from around 86% in 2011 to 95% in 2015, efficient delivery of turnarounds and strong infill drilling performance, we expect to keep the average managed base decline through 2016 at around 2% versus our 2014 baseline. Our long-term expectation for managed base decline remains at the 3-5% per annum level we have described in the past.

Production (net of royalties)[a]

	2015	2014	2013
Liquids			thousand barrels per day
Crude oil[b]			

Subsidiaries	**971**	844	789
Equity-accounted entities[c]	**165**	163	294
	1,137	1,007	1,083
Natural gas liquids			
Subsidiaries	**88**	91	86
Equity-accounted entities[c]	**7**	7	8
	95	99	94
Total liquids			
Subsidiaries	**1,060**	936	874
Equity-accounted entities[c]	**172**	170	302
	1,232	1,106	1,176
Natural gas		million cubic feet per day	
Subsidiaries	**5,495**	5,585	5,845
Equity-accounted entities[c]	**456**	431	415
	5,951	6,016	6,259
Total hydrocarbons	thousand barrels of oil equivalent per day		
Subsidiaries	**2,007**	1,898	1,882
Equity-accounted entities[c]	**251**	245	374
	2,258	2,143	2,256

[a] Because of rounding, some totals may not agree exactly with the sum of their component parts.
[b] Includes condensate and bitumen which are not material.
[c] Includes BP s share of production of equity-accounted entities in the Upstream segment.

Our Upstream project pipeline

Key: Oil Gas
*BP operated

Project	Location	Type
2015 start-ups		
Kizomba Satellites Phase 2	Angola	Deepwater
Greater Plutonio Phase 3*	Angola	Deepwater
Western Flank Phase A	Australia	LNG
Expected start-ups 2016-2020		

Project	Location	Type
Expected start-ups 2017-2020		
Design and appraisal phase		
Angelin	Trinidad	LNG
Atoll	Egypt	Conventional
B18	Angola	Deepwater
Platina*		
	Gulf of Mexico	Deepwater

Projects currently under construction

Angola LNG	Angola	LNG
In Amenas compression	North Africa	Conventional
In Salah Southern Fields[a]	North Africa	Conventional
Point Thomson	Alaska	Conventional
Quad 204*	North Sea	Conventional
Thunder Horse water injection*	Gulf of Mexico	Deepwater
Clair Ridge*	North Sea	Conventional
Juniper	Trinidad	LNG
Oman Khazzan*	Middle East	Tight
Persephone	Asia Pacific	LNG
Thunder Horse South expansion*	Gulf of Mexico	Deepwater
West Nile Delta Taurus/Libra*	Egypt	Conventional
Culzean	North Sea	High pressure
Shah Deniz Stage 2*	Azerbaijan	Conventional
Taas-Yuryakh expansion	Russia	Conventional
West Nile Delta Giza/ Fayoum/Raven*	Egypt	Conventional
Western Flank Phase B	Australia	Conventional
Mad Dog Phase 2*		
Snadd*	North Sea	Conventional
Tangguh expansion*	Asia Pacific	LNG
Trinidad onshore compression	Trinidad	LNG
Trinidad offshore compression	Trinidad	LNG
Vorlich*	North Sea	Conventional

Beyond 2020

We have an additional 35-40 projects in the pipeline for post-2020 start-up.

Mix of resource types across conventional oil, deepwater oil, conventional gas and unconventionals.

Broad geographic reach.

Range of development types, from new to producing fields where we can use existing infrastructure.

[a] Started up in February 2016.

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Our total hydrocarbon production for the segment in 2015 was 5.4% higher compared with 2014. The increase comprised a 5.7% increase (13.2% increase for liquids and 1.6% decrease for gas) for subsidiaries and a 2.4% increase (1.2% increase for liquids and 5.8% increase for gas) for equity-accounted entities compared with 2014. For more information on production see Oil and gas disclosures for the group on page 227.

In aggregate, underlying production was flat versus 2014.

The group and its equity-accounted entities have numerous long-term sales commitments in their various business activities, all of which are expected to be sourced from supplies available to the group that are not subject to priorities, curtailments or other restrictions. No single contract or group of related contracts is material to the group.

Gas marketing and trading activities

Our integrated supply and trading function markets and trades our own and third-party natural gas (including LNG), power and NGLs. This provides us with routes into liquid markets for the gas we produce and generates margins and fees from selling physical products and derivatives to third parties, together with income from asset optimization and trading. This means we have a single interface with gas trading markets and one consistent set of trading compliance and risk management processes, systems and controls.

Our upstream marketing and trading activity primarily takes place in the US, Canada and Europe and supports group LNG activities, managing market price risk and creating incremental trading opportunities through the use of commodity derivative contracts. It also enhances margins and generates fee income from sources such as the management of price risk on behalf of third-party customers.

Our trading financial risk governance framework is described in Financial statements Note 28 and the range of contracts used is described in Glossary commodity trading contracts on page 256.

Unlocking energy potential

BP has invested in Egypt for half a century. And in recent years, it has been a key location for BP discoveries. Our ongoing investment and exploration activities are helping to unlock energy potential in the area.

In March we made a gas discovery 6,400 metres below sea level in the North Damietta offshore area. We are working with the Egyptian government to accelerate the development of the Atoll discovery.

The discovery is in line to become our next major project in Egypt after completion of our West Nile Delta project.

Building a pipeline of future growth opportunities.

« Defined on page 256.

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Downstream

We continued to improve our personal and process safety and delivered strong operations and marketing performance, contributing to record replacement cost profit before interest and tax.

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The Cherry Point refinery processes crude oil sourced from Alaska, mid-continent US and Canada and has a capacity of 234,000 barrels per day.

Our business model and strategy

The Downstream segment has global manufacturing and marketing operations. It is the product and service-led arm of BP, made up of three businesses:

Fuels includes refineries, fuels marketing and convenience retail businesses, together with global oil supply and trading activities that make up our fuels value chains (FVCs). We sell refined petroleum products including gasoline, diesel and aviation fuel.

Lubricants manufactures and markets lubricants and related products and services globally, adding value through brand, technology and relationships, such as collaboration with original equipment manufacturing partners.

Petrochemicals manufactures, sells and distributes products, that are produced mainly using proprietary BP technology, and are then used by others to make essential consumer products such as paint, plastic bottles and textiles. We also license our technologies to third parties.

We aim to run safe and reliable operations across all our businesses, supported by leading brands and technologies, to deliver high-quality products and services that meet our customers needs.

Our strategy focuses on a quality portfolio that aims to lead the industry, as measured by net income per barrel«, with improving returns and growing operating cash flow«. Our five strategic priorities are:

Safe and reliable operations this remains our first priority and we continue to drive improvement in personal and process safety performance.

Advantaged manufacturing we continue to build a top-quartile refining business by having a competitively advantaged portfolio underpinned by operational excellence that helps to reduce exposure to margin volatility. In petrochemicals we seek to sustainably improve earnings potential and make the business more resilient to a bottom of cycle environment through portfolio repositioning, improved operational performance and efficiency benefits.

Fuels and lubricants marketing we invest in higher-returning businesses with reliable cash flows and growth potential.

Portfolio quality we maintain our focus on quality by high-grading of assets combined with capital discipline.

Simplification and efficiency we are embedding a culture of simplification and efficiency to support performance improvement and make our businesses even more competitive.

Disciplined execution of our strategy is helping improve our underlying performance and create a more resilient business that is better able to withstand external environmental impacts. This is with the aim of ensuring Downstream remains a reliable source of cash flow for BP.

Our performance summary

For Downstream safety performance see page 45.

We have delivered record replacement cost profit before interest and tax« and pre-tax returns« this year, demonstrating that we are creating a more resilient Downstream business.

We delivered strong availability and operational performance across our refining portfolio and year-on-year improvement in utilization.

We commenced the European launch of our BP fuels with *ACTIVE* technology in Spain, which are designed to remove dirt and protect car engines.

We announced the agreement to restructure our German refining joint operation« with Rosneft.

We halted operations at Bulwer refinery in Australia.

In Air BP we completed the integration of Statoil Fuel and Retail s aviation business which added more than 70 airports to our global network.

In our lubricants business we launched *Castrol s Nexcel*, an innovative automotive oil-change technology.

We completed start-up of the Zhuhai 3 plant in China the world s largest single train purified terephthalic acid (PTA) unit.

Our simplification and efficiency programmes contributed to material progress in lowering cash costs«. These programmes include right-sizing the Downstream organization, implementing site-by-site improvement plans to deliver manufacturing efficiency in refining and petrochemicals, and focusing on third-party costs.

Downstream profitability ($ billion)

See Financial performance on page 35 for the main factors influencing downstream profit.

Outlook for 2016

We anticipate a weaker refining environment.

We expect the financial impact of refinery turnarounds to be higher than 2015 as a result of increased turnaround activity.

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Financial performance

			$ million
	2015	2014	2013
Sale of crude oil through spot and term contracts	**38,386**	80,003	79,394
Marketing, spot and term sales of refined products	**148,925**	227,082	258,015
Other sales and operating revenues	**13,258**	16,401	13,786
Sales and other operating revenues[a]	**200,569**	323,486	351,195
RC profit (loss) before interest and tax[b]			
Fuels	**5,858**	2,830	1,518
Lubricants	**1,241**	1,407	1,274
Petrochemicals	**12**	(499)	127
	7,111	3,738	2,919
Net (favourable) unfavourable impact of non-operating items« and fair value accounting effects«			
Fuels	**137**	389	712
Lubricants	**143**	(136)	(2)
Petrochemicals	**154**	450	3
	434	703	713
Underlying RC profit (loss) before interest and tax[b]			
Fuels	**5,995**	3,219	2,230
Lubricants	**1,384**	1,271	1,272
Petrochemicals	**166**	(49)	130
	7,545	4,441	3,632
Capital expenditure and acquisitions	**2,109**	3,106	4,506

[a] Includes sales to other segments.
[b] Income from petrochemicals produced at our Gelsenkirchen and Mülheim sites is reported within the fuels business. Segment-level overhead expenses are included within the fuels business.

Financial results

Sales and other operating revenues in 2015 were lower compared with 2014 due to lower crude prices. Similarly, the decrease in 2014, compared with 2013 primarily was due to falling crude prices.

Replacement cost (RC) profit before interest and tax for the year ended 31 December 2015 included a net operating charge of $590 million, mainly relating to restructuring charges. The 2014 result included a net non-operating charge of $1,570 million, primarily relating to impairment charges in our petrochemicals and fuels businesses, while the 2013 result included impairment charges in our fuels business, which were mainly associated with our disposal programme. In addition, fair value accounting effects had a favourable impact of $156 million, compared with a favourable impact of $867 million in 2014 and an unfavourable impact of $178 million in 2013.

After adjusting for non-operating items and fair value accounting effects, underlying RC profit before interest and tax of $7,545 million in 2015 was a record for Downstream.

Our fuels business

The fuels strategy focuses primarily on fuels value chains (FVCs). This includes building a top-quartile and focused refining business through operating reliability, feedstock and location advantage and efficiency improvements to our already competitively advantaged portfolio.

We believe that having a quality refining portfolio connected to strong marketing positions is core to our integrated FVC businesses as this provides optimization opportunities in highly competitive markets.

In January 2016 we announced that we signed definitive agreements to dissolve our German refining joint operation with our partner Rosneft. The restructuring will refocus our refining business in the heart of Europe and is in line with our drive for greater simplification and efficiency.

We continue to grow our fuels marketing businesses, including retail, through differentiated marketing offers and key partnerships. We partner with leading retailers, creating distinctive offers that aim to deliver good returns and reliable profit and cash generation (see page 13).

Underlying RC profit before interest and tax was higher compared with 2014 reflecting a strong refining environment, improved refining margin optimization and operations, and lower costs from simplification and efficiency programmes. Compared with 2013, the 2014 result was higher, mainly due to improved fuels marketing performance, increased heavy crude processing and higher production, mainly as a result of the ramp-up of operations at our Whiting refinery following the modernization project. This was partially offset by a weaker refining environment.

Refining marker margin«

We track the margin environment by a global refining marker margin (RMM). Refining margins are a measure of the difference between the price a refinery pays for its inputs (crude oil) and the market price of its products. Although refineries produce a variety of petroleum products, we track the margin environment using a simplified indicator that reflects the margins achieved on gasoline and diesel only. The RMM may not be representative of the margin achieved by BP in any period because of BP s particular refinery configurations and crude and product slates. In addition, the RMM does not include estimates of energy or other variable costs.

$ per barrel

Region	Crude marker	**2015**	2014	2013
US North West	Alaska North Slope	**24.0**	16.6	15.2
US Midwest	West Texas Intermediate	**19.0**	17.4	21.7
Northwest Europe	Brent«	**14.5**	12.5	12.9
Mediterranean	Azeri Light	**12.7**	10.6	10.5
Australia	Brent	**15.4**	13.5	13.4
BP RMM		**17.0**	14.4	15.4

BP refining marker margin ($/bbl)

The average global RMM in 2015 was $17.0/bbl, $2.6/bbl higher than in 2014, and the second highest on record (after 2012). The increase was driven by higher margins on gasoline as a result of increased demand in a low oil price environment and persistent refinery outages in the US.

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Refining

At 31 December 2015 we owned or had a share in 13 refineries producing refined petroleum products that we supply to retail and commercial customers. For a summary of our interests in refineries and average daily crude distillation capacities see page 225.

In 2015, refinery operations were strong, with Solomon refining availability« sustained at around 95% and utilization rates of 91% for the year. Overall refinery throughputs in 2015 were flat compared to 2014, with reduced throughput from ceasing refining operations at Bulwer refinery, offset by increased throughput at the Whiting and Kwinana refineries.

	2015	2014	2013
Refinery throughputs[a]			thousand barrels per day
US[b]	**657**	642	726
Europe	**794**	782	766
Rest of world[b]	**254**	297	299
Total	**1,705**	1,721	1,791
			%
Refining availability	**94.7**	94.9	95.3
Sales volumes			thousand barrels per day
Marketing sales[c]	**2,835**	2,872	3,084
Trading/supply sales[d]	**2,770**	2,448	2,485
Total refined product sales	**5,605**	5,320	5,569
Crude oil[e]	**2,098**	2,360	2,142
Total	**7,703**	7,680	7,711

[a] Refinery throughputs reflect crude oil and other feedstock volumes.
[b] Bulwer refinery in Australia ceased refining operations in 2015. The Texas City and Carson refineries in the US were both divested in 2013.
[c] Marketing sales include sales to service stations, end-consumers, bulk buyers and jobbers (i.e. third parties who own networks of a number of service stations) and small resellers.
[d] Trading/supply sales are sales to large unbranded resellers and other oil companies.
[e] Crude oil sales relate to transactions executed by our integrated supply and trading function, primarily for optimizing crude oil supplies to our refineries and in other trading. 87,000 barrels per day relate to revenues reported by the Upstream segment.

Logistics and marketing

Downstream of our refineries, we operate an advantaged infrastructure and logistics network that includes pipelines, storage terminals and tankers for road and rail. We seek to drive excellence in operational and transactional processes and deliver compelling customer offers in the various markets where we operate. In early 2016 we agreed the disposal of our Amsterdam oil terminal. We also announced our intention to enter into joint ventures« on certain midstream assets in North America and Australia to increase our competitiveness and enable growth in these regions.

We supply fuel and related retail services to consumers through company-owned and franchised retail sites, as well as other channels, including dealers and jobbers. We also supply commercial customers within the transport and industrial sectors.

Retail sites[f]	Number of retail sites operated under a BP brand		
	2015	2014	2013
US	**7,000**	7,100	7,700
Europe	**8,100**	8,000	8,000
Rest of world	**2,100**	2,100	2,100
Total	**17,200**	17,200	17,800

[f] Reported to the nearest 100. Includes sites not operated by BP but instead operated by dealers, jobbers, franchisees or brand licensees under a BP brand. These may move to or from the BP brand as their fuel supply or brand licence agreements expire and are renegotiated in the normal course of business. Retail sites are primarily branded *BP, ARCO* and *Aral.* Excludes our interests in equity-accounted entities that are dual-branded.

Retail is the most material element of our fuels marketing operations and has good exposure to growth markets. In addition we have distinctive partnerships with leading retailers in six countries and plan to expand elsewhere. Retail is a significant source of growth today and is expected to be so in the future. This year we began rolling out our new BP fuels with *ACTIVE* technology in Spain and we plan to continue this roll-out in additional markets in 2016.

Supply and trading

Our integrated supply and trading function is responsible for delivering value across the overall crude and oil products supply chain. This structure enables our downstream businesses to maintain a single interface with oil trading markets and operate with one set of trading compliance and risk management processes, systems and controls. It has a two-fold purpose:

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First, it seeks to identify the best markets and prices for our crude oil, source optimal raw materials for our refineries and provide competitive supply for our marketing businesses. We will often sell our own crude and purchase alternative crudes from third parties for our refineries where this will provide incremental margin.

Second, it aims to create and capture incremental trading opportunities by entering into a full range of exchange-traded commodity derivatives, over-the-counter contracts and spot and term contracts. In combination with rights to access storage and transportation capacity, this allows it to access advantageous price differences between locations and time periods, and to arbitrage between markets.

The function has trading offices in Europe, North America and Asia. Our presence in the more actively traded regions of the global oil markets supports overall understanding of the supply and demand forces across these markets.

Our trading financial risk governance framework is described in Financial statements Note 28 and the range of contracts used is described in Glossary commodity trading contracts on page 256.

Aviation

Air BP s strategic aim is to continue to hold strong positions in our core locations of Europe and the US, while expanding our portfolio in airports that offer long-term competitive advantage in material growing markets such as Asia and South America. We are one of the world s largest global aviation fuels suppliers. Air BP serves many major commercial airlines as well as the general aviation sectors. We have marketing sales of more than 430,000 barrels per day and we added more than 70 airports to our global network with the acquisition of Statoil Fuel & Retail s aviation business.

Our lubricants business

Our lubricants strategy is to focus on our premium brands and growth markets while leveraging technology and customer relationships. With more than 50% of profit generated from growth markets and continued growth in premium lubricants, we have an excellent base for further expansion and sustained profit growth.

Our lubricants business manufactures and markets lubricants and related products and services to the automotive, industrial, marine and energy markets across the world. Our key brands are *Castrol, BP* and *Aral. Castrol* is a recognized brand worldwide that we believe provides us with significant competitive advantage. In technology, we apply our expertise to create differentiated, premium lubricants and high-performance fluids for customers in on-road, off-road, sea and industrial applications globally.

We are one of the largest purchasers of base oil in the market, but have chosen not to produce it or manufacture additives at scale. Our participation choices in the value chain are focused on areas where we can leverage competitive differentiation and strength, such as:

- Applying cutting-edge technologies in the development and formulation of advanced products.

- Creating and developing product brands and clearly communicating their benefits to customers.

- Building and extending our relationships with customers to better understand and meet their needs.

The lubricants business delivered an underlying RC profit before interest and tax which was higher than 2014 and 2013. The 2015 result reflected strong performance in growth markets and premium brands and lower costs from simplification and efficiency programmes. These factors contributed to around a 20% year-on-year improvement in results, which was partially offset by adverse foreign exchange impacts. The 2014 result benefited from improved margins across the portfolio, offset by adverse foreign exchange impacts.

Our petrochemicals business

Our petrochemicals strategy is to improve our earnings potential and make the business more resilient to a bottom-of-cycle environment. We develop proprietary technology to deliver leading cost positions compared with our competition. We manufacture and market four main product lines:

- Purified terephthalic acid (PTA).
- Paraxylene (PX).
- Acetic acid.
- Olefins and derivatives.

We also produce a number of other specialty petrochemicals products.

We aim to reposition our portfolio, improve operating performance and create efficiency benefits. We are taking steps to significantly improve the resilience of the business to a bottom-of-cycle environment by:

- Restructuring a significant portion of our portfolio, primarily in our aromatics business, to shut down older capacity in the US and Asia and assess disposal options for less advantaged assets.
- Retrofitting our best technology in our advantaged sites to reduce overall operating costs.
- Growing third-party licensing income to create additional value.
- Delivering operational improvements focused on turnaround efficiency and improved reliability.
- Delivering value through simplification and efficiency programmes.

In addition to the assets we own and operate, we have also invested in a number of joint arrangements« in Asia, where our partners are leading companies in their domestic market. We are licensing our distinctive technologies, including recently announced licensing agreements for our latest generation PTA technology in Oman and China.

In 2015 the petrochemicals business delivered a higher underlying RC profit before interest and tax compared with 2014 and 2013. The result reflected improved operational performance and benefits from our simplification and efficiency programmes leading to lower costs. Compared with 2013, the 2014 result was lower, reflecting a continuation of the weak margin environment, particularly in the Asian aromatics sector, and unplanned operational events.

Our petrochemicals production of 14.8 million tonnes in 2015 was higher than 2014 and 2013 (2014 14.0mmte, 2013 13.9mmte), with the low margin environment in 2014 and 2013 driving reduced output.

In 2015, our Zhuhai 3 PTA plant in China was fully commissioned adding 1.25 million tonnes of production capacity to our petrochemicals portfolio. During the year we also shut down older capacity of certain units in the US and Asia.

We are upgrading our PTA plants at Cooper River in South Carolina, US and Geel in Belgium using our latest proprietary technology. We expect these investments to significantly increase manufacturing efficiency at these facilities. We plan to continue deploying our technology in new asset platforms to access Asian demand and advantaged feedstock sources.

We announced in January 2016 that we had reached an agreement to sell our Decatur petrochemicals complex in Alabama, US, as part of our strategy to refocus our global petrochemicals business for long-term growth.

« Defined on page 256.

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Rosneft

Rosneft is the largest oil company in Russia, with a strong portfolio of existing and future opportunities.

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Taas-Yuryakh central processing facility at the Srednebotuobinskoye oil and gas field during the Siberian winter.

BP and Rosneft

BP s 19.75% shareholding in Rosneft allows us to benefit from a diversified set of existing and potential projects in the Russian oil and gas sector.

Russia has significant hydrocarbon resources and will continue to play an important role in long-term energy supply to the global economy.

BP is positioned to contribute to Rosneft s strategy implementation through collaboration on technology and best practice.

We have the potential to undertake standalone projects with Rosneft, both in Russia and internationally.

We remain committed to our strategic investment in Rosneft, while complying with all relevant sanctions.

2015 summary

In the current environment Rosneft continues to deliver solid operational and financial performance, demonstrating the resilience of its business model.

BP received $271 million, net of withholding taxes, in July representing our share of Rosneft s dividend of 8.21 Russian roubles per share for 2014.

In 2015 Rosneft met all its debt service obligations and increased total hydrocarbon production by 1%.

Bob Dudley serves on the Rosneft Board of Directors, and its Strategic Planning Committee.

A second BP nominee, Guillermo Quintero, was elected to Rosneft s Board of Directors at Rosneft s annual general meeting in June 2015 and was subsequently elected to its HR and Remuneration Committee.

US and EU sanctions remain in place on certain Russian activities, individuals and entities, including Rosneft.

Upstream

Rosneft is the largest oil company in Russia and the largest publicly traded oil company in the world, based on hydrocarbon production volume. Rosneft has a major resource base of hydrocarbons onshore and offshore, with assets in all key hydrocarbon regions of Russia: West Siberia, East Siberia, Timan-Pechora, Volga-Urals, North Caucasus, the continental shelf of the Arctic Sea, and the Far East.

BP purchased a 20% participatory interest in Taas-Yuryakh Neftegazodobycha, a Rosneft subsidiary that will further develop the Srednebotuobinskoye oil and gas condensate field in East Siberia. Related to this, Rosneft and BP will jointly undertake exploration in an adjacent area of mutual interest. BP s interest in Taas-Yuryakh Neftegazodobycha is reported in the Upstream segment.

Rosneft and BP have also agreed to jointly explore two additional areas of mutual interest in the prolific West Siberian and Yenisey-Khatanga basins, where they will jointly appraise the Baikalovskoye discovery subject to receipt of all relevant consents. This is in addition to the exploration agreement announced in 2014 for an area of mutual interest in the Volga-Urals region of Russia, where Rosneft and BP have commenced joint study work to assess potential non-shale, unconventional tight-oil« exploration prospects.

Rosneft participates in international exploration projects or has operations in countries including the US, Canada, Vietnam, Venezuela, Brazil, Algeria, United Arab Emirates, Turkmenistan and Norway.

Rosneft continued to optimize its budget and to focus on new upstream projects, including the development of the Labaganskoye, Suzun and East Messoyakha fields. It also signed preliminary contracts for the Russkoye, Kuyumba, Yurubcheno-Tokhomskoye and East Messoyakha fields to deliver oil to the Transneft pipeline system.

Rosneft s estimated hydrocarbon production reached an annual record in 2015. This was due to a ramp-up in drilling, optimization of well performance and the application of modern technologies such as multistage fracturing, dual completion and bottomhole treatment. In 2015 estimated gas production increased by around 10% compared with 2014, primarily driven by greenfield start-ups and commissioning of new wells.

Downstream

Rosneft is the leading Russian refining company based on throughputs. It owns and operates 10 refineries in Russia. Rosneft continued to implement the modernization programme for its Russian refineries in 2015 to significantly upgrade and expand refining capacity.

As at 31 December 2015, Rosneft owned and operated more than 2,500 retail service stations in Russia and abroad. This includes BP-branded sites acquired as part of the TNK-BP acquisition in 2013 that, under a licence agreement with BP, continue to operate under the BP brand. Downstream operations also include jet fuel, bunkering, bitumen and lubricants.

On 15 January 2016 BP and Rosneft announced that they had signed definitive agreements to dissolve the German refining joint operation« Ruhr Oel GmbH (ROG). The restructuring, which is expected to be completed in 2016, will result in Rosneft taking ownership of ROG s interests in the Bayernoil, MiRO Karlsruhe and PCK Schwedt refineries. In exchange, BP will take sole ownership of the Gelsenkirchen refinery and the solvent production facility DHC Solvent Chemie.

Rosneft refinery throughputs in 2015 amounted to 1,966mb/d (2014 2,027mb/d, 2013 1,818mb/d).

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Rosneft segment performance

BP s investment in Rosneft is managed and reported as a separate segment under IFRS. The segment result includes equity-accounted earnings, representing BP s 19.75% share of the profit or loss of Rosneft, as adjusted for the accounting required under IFRS relating to BP s purchase of its interest in Rosneft and the amortization of the deferred gain relating to the disposal of BP s interest in TNK-BP. See Financial statements Note 16 for further information.

			$ million
	2015[a]	2014	2013[b]
Profit before interest and tax[c d]	**1,314**	2,076	2,053
Inventory holding (gains) losses«	**(4)**	24	100
RC profit before interest and tax	**1,310**	2,100	2,153
Net charge (credit) for non-operating items«		(225)	45
Underlying RC profit before interest and tax«	**1,310**	1,875	2,198
Average oil marker prices			$ per barrel
Urals (Northwest Europe CIF)	**50.97**	97.23	107.38

[a] The operational and financial information of the Rosneft segment for 2015 is based on preliminary operational and financial results of Rosneft for the three months ended 31 December 2015. Actual results may differ from these amounts.

[b] From 21 March 2013.

[c] BP s share of Rosneft s earnings after finance costs, taxation and non-controlling interests is included in the BP group income statement within profit before interest and taxation.

[d] Includes $16 million (2014 $25 million, 2013 $5 million) of foreign exchange losses arising on the dividend received.

Market price

The price of Urals delivered in North West European (Rotterdam) averaged $50.97/bbl in 2015, $1.42/bbl below dated Brent«. The differential to Brent narrowed marginally from -$1.72/bbl in 2014 as stronger demand from European refineries offset the impact of increased supplies of competing medium sour crude from the Middle East.

Financial results

Replacement cost (RC) profit before interest and tax for the segment for the year ended 31 December 2015 did not include any non-operating items, whereas the 2014 result included a non-operating gain of $225 million, relating to Rosneft s sale of its interest in the Yugragazpererabotka joint venture«.

After adjusting for non-operating items, the decrease in the underlying RC profit before interest and tax compared with 2014 reflected lower oil prices, foreign exchange, and comparatively favourable duty lag effects. The rouble weakened against the US dollar during 2015. This impacts both Rosneft s earnings in roubles and BP s share of the Rosneft result when it is translated to US dollars. Compared with 2013, the 2014 result was affected by an unfavourable duty lag effect, lower oil prices and other items, partially offset by certain foreign exchange effects which had a favourable impact on the result. See also Financial statements Notes 16 and 31 for other foreign exchange effects.

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Rosneft s operations in West Siberia.

Balance sheet

			$ million
	2015	2014	2013
Investments in associates«[e] (as at 31 December)	**5,797**	7,312	13,681

Production and reserves

	2015[a]	2014	2013[f]
Production (net of royalties) (BP share)[c]			
Liquids« (mb/d)			
Crude oil[g]	**809**	816	643
Natural gas liquids	**4**	5	7
Total liquids	**813**	821	650
Natural gas (mmcf/d)	**1,195**	1,084	617
Total hydrocarbons« (mboe/d)	**1,019**	1,008	756
Estimated net proved reserves[h] (net of royalties) (BP share)			
Liquids (million barrels)			
Crude oil[g]	**4,823**	4,961	4,860
Natural gas liquids	**47**	47	115
Total liquids[i]	**4,871**	5,007	4,975
Natural gas[j] (billion cubic feet)	**11,169**	9,827	9,271
Total hydrocarbons (mmboe)	**6,796**	6,702	6,574

[e] See Financial statements Note 16 for further information.

[f] 2013 reflects production for the period 21 March to 31 December, averaged over the full year. Information on BP s share of TNK-BP s production for comparative periods is provided on pages 230 and 231.

[g] Includes condensate.

[h] Because of rounding, some totals may not agree exactly with the sum of their component parts.

[i] Includes 70 million barrels of crude oil in respect of the 1.27% non-controlling interest in Rosneft held assets in Russia including 28 million barrels held through BP s equity-accounted interest in Taas-Yuryakh Neftegazodobycha.

[j] Includes 129 billion cubic feet of natural gas in respect of the 0.23% non-controlling interest in Rosneft held assets in Russia including 5 billion cubic feet held through BP s equity-accounted interest in Taas-Yuryakh Neftegazodobycha.

« Defined on page 256.

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Other businesses

and corporate

Comprises our renewables business, shipping, treasury and corporate activities including centralized functions.

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At our Tropical BioEnergia plant in Brazil we process sugar cane to produce biofuels.

Financial performance

			$ million
	2015	2014	2013
Sales and other operating revenues[a]	**2,048**	1,989	1,805
RC profit (loss) before interest and tax	**(1,768)**	(2,010)	(2,319)
Net (favourable) unfavourable impact of non-operating items«	**547**	670	421
Underlying RC profit (loss) before interest and tax«	**(1,221)**	(1,340)	(1,898)
Capital expenditure and acquisitions	**340**	903	1,050

[a] Includes sales to other segments.

The replacement cost (RC) loss before interest and tax for the year ended 31 December 2015 was $1.8 billion (2014 $2.0 billion, 2013 $2.3 billion). The 2015 result included a net charge for non-operating items of $547 million (2014 $670 million, 2013 $421 million).

After adjusting for these non-operating items, the underlying RC loss before interest and tax for the year ended 31 December 2015 was $1.2 billion, similar to prior year (2014 $1.3 billion, 2013 $1.9 billion).

Renewable energy

BP has the largest operated renewables business among our oil and gas peers. Our activities are focused on biofuels and onshore wind.

Biofuels business model and strategy

Biofuels can be blended into traditional transport fuels without significant engine modifications to existing fuel-delivery systems. BP is working to produce biofuels that are low cost, low carbon, scalable and competitive without subsidies.

Our main activity is in Brazil, where we operate three sugar cane mills producing bioethanol and sugar, and exporting power made from sugar cane waste to the local grid. We use our expertise and technology capabilities to drive continuing improvements in operational efficiency. Our strategy is enabled by:

- **Safe and reliable operations** continuing to drive improvements in personal, process and transport safety.
- **Competitive sourcing** concentrating our efforts in Brazil, which has one of the most cost-competitive biofuel feedstocks currently available in the world.
- **Low carbon** producing bioethanol supported by low-carbon power generated from burning sugar cane waste. These processes reduce life-cycle GHG emissions by around 70% compared with gasoline.
- **Domestic and international markets** selling bioethanol domestically in Brazil and also to international markets such as the US and Europe through our integrated supply and trading function.

We are also investing in the development and commercialization of biobutanol, in conjunction with our partner DuPont. Compared with other biofuels, biobutanol has the potential to be blended with fuels in higher proportions, and be easier to transport, store and manage. We are also investigating a number of chemical applications for this advanced biofuel.

Our performance summary

- We have reduced our recordable injury frequency by more than 60% since the acquisition of Companhia Nacional de Açúcar e Álcool in 2011. For more information, see Safety on page 45.
- We increased our production of ethanol equivalent by 47% compared with 2014 and generated 677GWh of power for Brazil s national grid.
- We divested our interest in Vivergo Fuels a UK-based joint venture« producing bioethanol from wheat in May 2015.
- We are improving our agricultural operational performance with a 36% increase in cane harvester efficiency relative to 2014, and in 2015, we farmed a total planted area of 127,000 hectares.

BP Brazil biofuels production

(million litres of ethanol equivalent)

Wind

We are among the top wind energy producers in the US. Our focus is on safe operations and optimizing performance.

BP holds interests in 16 onshore wind farms in the US, and BP is the operator of 14 of these. Our net generating capacity« from this portfolio, based on our financial stake, was 1,556 megawatts (MW) of electricity at 31 December 2015.

BP also runs two wind farms in our refinery sites in the Netherlands, operating on a much smaller scale and managed by our Downstream segment, with 32MW of generating capacity.

Our net share of wind generation for 2015 was 4,424GWh, compared with 4,617GWh a year ago. Lower power generation was primarily a result of less windy weather across the US in 2015.

See our Sustainability Report or *bp.com/renewables* for additional information on our renewable energy activities.

Shipping

The primary purpose of BP s shipping and chartering activities is the safe transportation of the group s hydrocarbon products using a combination of BP-operated, time-chartered and spot-chartered vessels. Surplus capacity may also be used to transport third-party products. All vessels conducting BP shipping activities are subject to our health, safety, security and environmental requirements. At 31 December 2015, our fleet included four vessels supporting operations in Alaska, 44 BP-operated and 40 time-chartered vessels for our deep-sea, international oil and gas shipping operations. In addition 28 deep-sea oil tankers and six LNG tankers are on order and planned for delivery into the BP-operated fleet between 2016 and 2019. The first of these new vessels, the *British Respect* oil tanker, was formally named at a ceremony in November.

Treasury

Treasury manages the financing of the group centrally, with responsibility for managing the group s debt profile, share buyback programmes and dividend payments, while ensuring liquidity is sufficient to meet group requirements. It also manages key financial risks including interest rate, foreign exchange, pension and financial institution credit risk. From locations in the UK, US and Singapore, treasury provides the interface between BP and the international financial markets and supports the financing of BP s projects around the world. Treasury trades foreign exchange and interest-rate products in the financial markets, hedging group exposures and generating incremental value through optimizing and managing cash flows and the short-term investment of operational cash balances. Trading activities are underpinned by the compliance, control and risk management infrastructure common to all BP trading activities. For further information, see Financial statements Note 28.

Insurance

The group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. Some risks are insured with third parties and reinsured by group insurance companies. This approach is reviewed on a regular basis and if specific circumstances require such a review.

Outlook

Other businesses and corporate annual charges, excluding non-operating items, are expected to be around $1.2 billion in 2016.

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BP shipping reached a centenary of maritime achievement in April 2015.

Gulf of Mexico oil spill

BP reached agreements resolving the largest remaining liabilities.

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Shrimpers off the coast of Grand Isle in Louisiana.

Key events

BP reached agreements in principle with the United States federal government and five Gulf states in July to settle all federal and state claims arising from the Deepwater Horizon accident and oil spill (the incident). In addition, BP also settled the vast majority of claims made by local government entities.

The United States lodged a proposed Consent Decree with the district court in October to resolve all United States and Gulf states natural resource damage claims and all Clean Water Act penalty claims. At the same time, BP entered a Settlement Agreement with the Gulf states for economic, property and other losses.

The proposed Consent Decree and the Settlement Agreement are conditional on each other and neither will become effective unless the court provides final approval of the Consent Decree.

The final submission deadline for claims under the 2012 Plaintiffs Steering Committee settlements was 8 June 2015.

By the end of 2015, the cumulative pre-tax income statement charge as a result of the incident amounted to $55.5 billion. This excludes amounts that BP does not consider possible to measure reliably at this time.

Federal and state settlements

On 2 July 2015 BP announced that BP Exploration & Production Inc. (BPXP) had reached agreements in principle to settle all federal and state claims arising from the incident. The United States is expected to file a motion with the court to enter the Consent Decree as a final settlement around the end of March, which the court will then consider. Subject to final court approval, payments under the terms of the agreements will be made at a rate of around $1.1 billion a year for the majority of the 18-year payment period.

See Legal proceedings on page 237 for further details including a summary of what is not covered by the proposed Consent Decree and the Settlement Agreement. For additional details on the financial impacts see Financial statements Note 2.

Plaintiffs Steering Committee settlements

The Plaintiffs Steering Committee (PSC) was established to act on behalf of individual and business plaintiffs in the multi-district litigation proceedings in federal court in New Orleans (MDL 2179). In 2012 BP reached settlements to resolve the substantial majority of legitimate individual and business claims and medical claims stemming from the incident. Approximately $2.3 billion was paid out under the PSC settlements during 2015. Claims continue to be assessed and paid.

The medical benefits class action settlement provides for claims to be paid to qualifying class members. The deadline for submitting claims under the settlement was 12 February 2015.

Securities litigation and other legal proceedings

The multi-district litigation proceedings pending in federal court in Houston (MDL 2185), including a purported class action on behalf of purchasers of American depositary shares under US federal securities law, are continuing. A jury trial is scheduled to begin in July 2016.

In MDL 2179, claims by individuals and businesses that opted out of the PSC settlements or whose claims were excluded from them, including claims for recovery of losses allegedly resulting from the 2010 federal deepwater drilling moratoria and the related permitting processes, are continuing.

BP is subject to additional legal proceedings in connection with the incident. For more information see Legal proceedings on page 237.

Environmental restoration

In April 2011 BP committed to provide $1 billion in early restoration funding to expedite recovery of natural resources injured as a result of the incident. By the end of 2015 BP had provided approximately $762 million to support restoration projects, with the remaining $238 million expected to be funded in 2016. The federal and state settlements referred to above include more than $7 billion to resolve all natural resource damage claims, which is in addition to this $1 billion.

In May 2010 BP committed $500 million over 10 years to fund independent scientific research through the Gulf of Mexico Research Initiative. BP had contributed $278 million to the programme by the end of 2015.

See *bp.com/gulfofmexico* for further information on environmental and economic restoration.

Process safety and ethics monitors

Two independent monitors an ethics monitor and a process safety monitor were appointed under the terms of the criminal plea agreement BP reached with the US government in 2012. Under the terms of the agreement, BP is taking additional actions to further enhance ethics and compliance and the safety of its drilling operations in the Gulf of Mexico.

The ethics monitor delivered an initial report early in 2015. He delivered a second report later in the year under a separate administrative agreement with the US Environmental Protection Agency. Recommendations from the two reports largely relate to BP s ethics and compliance programme and code of conduct, including its implementation and enforcement. The recommendations have been agreed and BP is now in the process of implementing them. The ethics monitor is meanwhile conducting a follow-up review as the next phase of his engagement.

The process safety monitor reviews and provides recommendations concerning BPXP s process safety and risk management procedures for deepwater drilling in the Gulf of Mexico. BPXP is the BP group company that conducts exploration and production operations in the Gulf of Mexico. The process safety monitor also submitted a report in 2015. Following discussions between BPXP, the process safety monitor and the US Department of Justice, the recommendations have now been finalized and implementation by BPXP is underway.

Financial update

The group income statement for 2015 includes a pre-tax charge of $12.0 billion in relation to the incident. The charge for the year reflects the amounts provided for the proposed Consent Decree; the Settlement Agreement with the five Gulf states and local government claims as described above; additional provisions made for business economic loss claims under the PSC settlement and other items. As at 31 December 2015, the total cumulative charges recognized to date amounted to $55.5 billion. The total amounts that will ultimately be paid by BP in relation to all the obligations relating to the incident are subject to uncertainty, and the ultimate exposure and cost to BP and the timing of such costs will be dependent on many factors, including in relation to any new information or future developments. These could have a material impact on our consolidated financial position, results and cash flows.

BP has provided for spill response costs, environmental expenditure, litigation and claims and Clean Water Act penalties that can be measured reliably. There continues to be uncertainty regarding the extent and timing of the remaining costs and liabilities not covered by the proposed Consent Decree and Settlement Agreement, including:

- Claims asserted in civil litigation, including any further litigation by parties excluded from, or parties who opted out of, the PSC settlement, and the private securities litigation pending in MDL 2185.

- The cost of business economic loss claims under the PSC settlement not yet processed or processed but not yet paid (except where an eligibility notice has been issued before the end of the month following the balance sheet date and is not subject to appeal by BP within the claims facility).

- Any obligation that may arise from securities-related litigation.

Payments made out of the $20-billion Deepwater Horizon Oil Spill Trust (the Trust) during 2015 totalled $3.2 billion. As at 31 December 2015, the aggregate cash balances in the Trust and the associated qualified settlement funds amounted to $1.4 billion, nearly all of which was committed to specific purposes including the seafood compensation fund and natural resource damage early restoration projects. As of January 2016, payments in respect of claims and other costs previously funded from the Trust are now being made by BP.

More details regarding the impacts and uncertainties relating to the Gulf of Mexico oil spill can be found in Risk factors on page 53, Legal proceedings on page 237 and Financial statements Note 2.

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Corporate responsibility

We believe we have a positive role to play in shaping the long-term future of energy.

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At our US Whiting refinery we have invested in new equipment to reduce air emissions and implemented a monitoring system to provide air quality information to the local community.

Safety

We continue to promote deep capability and a safe operating culture across BP.

Our operating management system (OMS) sets out BP s principles for good operating practice.

By the end of 2015 we had completed all 26 recommendations from BP s internal investigation regarding the Deepwater Horizon accident, the Bly Report.

52% of the 353 million hours worked by BP in 2015 were carried out by contractors.

Process safety events

(number of incidents)

Recordable injury frequency

(workforce incidents per 200,000 hours worked)

[a] API and OGP 2015 data reports are not available until May 2016.

Additional information on our safety, environmental and social performance is available in our sustainability report. Case studies, country reports and an interactive tool for health, safety and environmental data can be found at *bp.com/sustainability*

Group safety performance

In 2015 BP reported one workforce fatality in Turkey that occurred when a ceiling collapsed during renovations at a recently acquired retail site. We deeply regret the loss of this life and continue to focus efforts on eliminating injuries and fatalities in our workplaces.

Personal safety performance

	2015	2014	2013
Recordable injury frequency (group)[b]	**0.24**	0.31	0.31
Day away from work case frequency[c] (group)[b]	**0.061**	0.081	0.070
Severe vehicle accident rate[d]	**0.112**	0.132	0.122

[b] Incidents per 200,000 hours worked.

[c] Incidents that resulted in an injury where a person is unable to work for a day (shift) or more.

[d] Number of vehicle incidents that result in death, injury, a spill, a vehicle rollover, or serious disabling vehicle damage per one million kilometres travelled.

Process safety performance

		2015	2014	2013
Tier 1 process safety events«		**20**	28	20
Tier 2 process safety events		**83**	95	110
Loss of primary containment	number of all incidents[e]	**235**	286	261
Loss of primary containment	number of oil spills[f]	**146**	156	185

Number of oil spills to land and water	**55**	63	74
Volume of oil spilled (thousand litres)	**432**	400	724
Volume of oil unrecovered (thousand litres)	**142**	155	261

[e] Does not include either small or non-hazardous releases.
[f] Number of spills greater than or equal to one barrel (159 litres, 42 US gallons).
We report our safety performance using industry metrics, including the American Petroleum Institute (API) recommended practice 754. These include tier 1 process safety events, defined as a loss of primary containment causing harm to a member of the workforce, costly damage to equipment or exceeding defined quantities. Tier 2 events are those of lesser consequence than tier 1.

We seek to record all losses of primary containment regardless of the volume of the release, and to report externally on losses over a severity threshold. These include unplanned or uncontrolled releases from pipes, containers or vehicles within our operational boundary, excluding releases of non-hazardous substances such as water.

We have seen improvements in our process safety performance over the past five years. This has been true across our upstream and downstream businesses, with fewer tier 1 process safety events, fewer leaks and spills and fewer recordable injuries. At the same time, the reliability of our rigs and refineries has improved. We believe this shows that the rigour needed to produce safe operations tends also to produce reliable operations. We will maintain our focus on systematic safety management, including self-verification and testing the effectiveness of our risk mitigation measures.

Our figures for loss of primary containment in 2014 and 2015 include increased reporting due to the introduction of enhanced automated monitoring for remote sites in our US Lower 48 business. Using a like-for-like approach with prior years   reporting, our 2015 loss of primary containment figure is 208 (2014 246).

Managing safety

We are working to continuously improve personal and process safety and operational risk management across BP. Process safety is the application of good design and engineering principles, as well as robust operating and

« Defined on page 256.

maintenance practices, to avoid accidents. Our approach builds on our experience, including learning from incidents, operations audits, annual risk reviews and sharing lessons learned with our industry peers.

BP-operated businesses are responsible for identifying and managing operating risks and bringing together people with the right skills and competencies to address them. They are required to carry out self-verification and are also subject to independent scrutiny and assurance. Our safety and operational risk team works alongside BP-operated businesses to provide oversight and technical guidance, while our group audit team visits sites on a risk-prioritized basis, including third-party drilling rigs, to check how they are managing risks.

Each business segment has a safety and operational risk committee, chaired by the business head, to oversee the management of safety and operational risk in their respective areas of the business. In addition the group operations risk committee facilitates the group chief executive s oversight of safety and operational risk management across BP.

The board s safety, ethics and environment assurance committee (SEEAC) receives updates from the group chief executive and the head of safety and operational risk on the management of the highest priority risks. SEEAC also receives updates on BP s process and personal safety performance, and the monitoring of major incidents and near misses across the group. See Our management of risk on page 51 and SEEAC s report on page 71.

Operating management system

BP s OMS is a group-wide framework designed to help us manage risks and drive performance improvements in BP-operated businesses. It brings together BP requirements on health, safety, security, the environment, social responsibility and operational reliability, as well as related issues such as maintenance, contractor relations and organizational learning, into a common management system.

We review and amend our group requirements within OMS from time to

time to reflect BP s priorities and experience or changing external regulations. Any variations in the application of OMS in order to meet local regulations or circumstances are subject to a governance process.

OMS also helps us improve the quality of our activities. All businesses covered by OMS undertake an annual performance improvement cycle and assess alignment with the applicable requirements of the OMS framework. Recently acquired operations need to transition to OMS. See page 45 for information about contractors and joint arrangements.

Security and crisis management

The scale and spread of BP s operations means we must prepare for a range of potential business disruptions and emergency events. We monitor for, and aim to guard against, hostile actions that could cause harm to our people or disrupt our operations, including physical and digital threats and vulnerabilities.

Cyber attacks present a risk to the security of our information, IT systems and operations. We maintain a range of defences to help prevent and respond to this threat, including a 24-hour monitoring centre in the US and employee cyber awareness programmes.

We also maintain disaster recovery, crisis and business continuity management plans and work to build day-to-day response capabilities to support local management of incidents. See page 47 for information on BP s approach to oil spill preparedness and response.

Upstream safety

Key safety metrics 2011-2015

Safety performance

		2015	2014	2013
Recordable injury frequency		**0.21**	0.23	0.32
Day away from work case frequency		**0.034**	0.051	0.068
Loss of primary containment incidents	number	**153**	187	143

Safer drilling

Our global wells organization is responsible for planning and executing our wells operations across the world. It is also responsible for establishing standards on compliance, risk management, contractor management, performance indicators, technology and capability for our well operations.

Completing the Bly Report recommendations

We have completed all 26 recommendations made by BP s investigation into the Deepwater Horizon accident, the Bly Report, aimed at further reducing risk across our global drilling activities.

Our group audit team has verified closure of the recommendations.

See *bp.com/26recommendations* for the Bly Report recommendations.

The BP board appointed Carl Sandlin as independent expert in 2012 to provide an objective assessment of BP s global progress in implementing the recommendations from the Bly Report. He also provided process safety observations and his views on the organizational effectiveness and culture of the global wells organization.

Over the period of his appointment Mr Sandlin met regularly with wells organization leadership and reviewed the standards and practices developed to complete the recommendations. He made three visits to each of the regional wells teams with active drilling operations, meeting key personnel and drilling contractors on site.

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Mr Sandlin s engagement came to a close in February 2016 after he reported to SEEAC that all 26 Bly Report recommendations had been closed out to his satisfaction. He stated that the idea of safety as a top priority is firmly ingrained throughout the global wells organization and noted an increase in the degree of rigour and engagement at all levels. Mr Sandlin recommended the organization build on the foundations established by the recommendations and maintain its focus on continuous improvement in the areas of safety culture, self-verification and training.

Safety performance

	2015	2014	2013
Recordable injury frequency	**0.26**	0.34	0.25
Day away from work case frequency	**0.092**	0.121	0.063
Severe vehicle accident rate	**0.09**	0.09	0.10
Loss of primary containment incidents number	**66**	82	101

We take measures to prevent leaks and spills at our refineries and other downstream facilities throughout the design, maintenance and operation of our equipment. We focus on managing the highest priority risks associated with our storage, handling and processing of hydrocarbons. We also seek to provide safe locations, emergency procedures and other mitigation measures in the event of a release, fire or explosion.

Process safety expert

Duane Wilson s three-year term as a board appointed process safety expert for our downstream activities came to a close during 2015. Mr Wilson provided an independent perspective on the progress that BP s fuels, lubricants and petrochemicals businesses have made toward becoming industry leaders in process safety performance. Before leaving, he shared his thoughts on possible areas for ongoing emphasis, such as risk management, progress measurement and leadership.

Other businesses and corporate safety

We report on the combined safety performance of our biofuels, wind and shipping businesses, as well as treasury and corporate activities, including centralized functions.

Safety performance

	2015	2014	2013
Recordable injury frequency	**0.29**	0.44	0.47
Day away from work case frequency	**0.077**	0.067	0.092
Severe vehicle accident rate	**0.35**	0.48	0.41
Loss of primary containment incidents number	**16**	17	17

Safety in our biofuels business

We have been working to deliver safe and reliable operations in our Brazilian biofuels business since our acquisition of Companhia Nacional de Açúcar e Álcool in 2011. We have done this by introducing a more systematic approach to personal, process and transportation safety. For example, we have segregated pedestrian access from several areas where we operate machinery in our agricultural operations, reducing the likelihood of injury to our workforce.

Working with contractors and partners

BP, like our industry peers, rarely works in isolation we need to work with contractors, suppliers and partners to carry out our operations. In 2015 52% of the 353 million hours worked by BP were carried out by contractors.

Our ability to be a safe and responsible operator depends in part on the capability and performance of those who help us carry out our operations. We therefore work with our supply chain on areas such as safety, operational performance, anti-bribery and corruption, money laundering and human rights, and aim to have suitable provisions in our contracts with contractors, suppliers and partners.

We seek to work with companies that share our commitment to ethical, safe and sustainable working practices. We expect and encourage our contractors and their employees to act in a way that is consistent with our code of conduct. Our OMS includes requirements and practices for working with contractors.

Contractors

We seek to set clear and consistent expectations of our contractors. Our standard model contracts include health, safety, security and environmental requirements, and most now include human rights requirements. Bridging documents are necessary in some cases to define how our safety management system and those of our contractors co-exist to manage risk on a site.

Our partners in joint arrangements

We have a group framework for identifying and managing BP s exposure related to safety, operational, and bribery and corruption risk from our participation in non-operated joint arrangements«.

Typically, our level of influence or control over a joint arrangement is linked to the size of our financial stake compared with other participants. In some joint arrangements we act as the operator. Our OMS applies to the operations of joint arrangements only where we are the operator.

In other cases, one of our partners may be the designated operator or the operator may be an incorporated joint arrangement company owned by BP and other companies. In those cases, our OMS does not apply as the management system to be used by the operator, but is generally available as a reference point when engaging with operators and co-venturers.

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The Ocean Victory drilling rig in the Juniper field, Trinidad.

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Environment and society

Throughout the life cycle of our projects and operations, we aim to manage the environmental and social impacts of our presence.

Managing our impacts

We review our management of material issues such as climate change, water, how we work with communities and human rights. This includes examining emerging risks and actions taken to mitigate them. We identify areas for improvement and work to address these where appropriate.

Our operating sites can have a lifespan of several decades and our operations are expected to work to reduce their impacts and risks. This starts in early project planning and continues through operations and decommissioning.

Our operating management system (OMS) includes practices that set out requirements and guidance for how we identify and manage environmental and social impacts. The practices apply to our major projects«, projects that involve new access and those that could affect an international protected area.

In the planning stages of these projects we complete a screening process to identify the most significant potential environmental and social impacts. We completed this process for five projects in 2015. Following screening, projects are required to carry out impact assessments, identify mitigation measures and implement these in project design, construction and operations.

BP s environmental expenditure in 2015 totalled $8,017 million (2014 $4,024 million, 2013 $4,288 million), including charges related to the Gulf of Mexico oil spill. For a breakdown of environmental expenditure see page 233.

Climate change

Meeting the climate challenge requires efforts by all governments, companies and consumers. We believe governments must lead by providing a clear, stable and effective climate policy framework, including putting a price on carbon one that treats all carbon equally.

We expect that greenhouse gas (GHG) policy will have an increasing impact on our businesses, operating costs and strategic planning, but may also offer opportunities for the development of lower-carbon technologies and businesses. There is a growing number of emission pricing schemes globally, including in Europe, California and China, additional monitoring regulations in the US, and more focus on reducing flaring and methane

emissions in many jurisdictions.

We are focusing on ways to reduce GHG emissions, including working to improve the energy efficiency of our operations and our products. Around half of our current upstream portfolio is natural gas, which produces about half as much carbon dioxide (CO_2) as coal per unit of power generated, and we operate renewable businesses in biofuels and onshore wind.

We currently require larger projects, and those for which emissions costs would be a material part of the project, to apply a standard carbon cost to the projected GHG emissions over the life of the project. In industrialized countries, our standard cost assumption is currently $40 per tonne of CO_2 equivalent. We use this cost as part of the economic evaluation of the investment.

We seek to address potential climate change impacts on our new projects in the design phase. We have guidance for existing operations and projects on how to assess potential climate risks and impacts to enable mitigation steps to be incorporated into project planning, design and operations.

We are also working with our peers. For example, we are an active participant in the Oil and Gas Climate Initiative, a voluntary, CEO-led industry initiative that aims to catalyse meaningful action on climate change through best practice sharing and collaboration. We also joined with seven other oil and gas companies calling on the UN and governments to put a price on carbon.

See *bp.com/climatechange* for more information about our activities.

Greenhouse gas emissions

We report on direct and indirect GHG emissions on a carbon dioxide-equivalent (CO_2e) basis. Direct emissions include CO_2 and methane from the combustion of fuel and the operation of facilities, and indirect emissions include those resulting from the purchase of electricity, heat, steam or cooling.

Our approach to reporting GHG emissions broadly follows the IPIECA/ API/IOGP Petroleum Industry Guidelines for Reporting GHG Emissions. We calculate emissions based on the fuel consumption and fuel properties for major sources rather than the use of generic emission factors. We do not include nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride as they are not material and it is not practical to collect this data.

Greenhouse gas emissions (MteCO_2e)

	2015	2014	2013
Operational control[a]			
Direct emissions	**51.4**[c]	54.1	
Indirect emissions	**7.0**	7.5[d]	
BP equity share[b]			
Direct emissions	**48.9**[c]	48.6	50.3
Indirect emissions	**6.9**	6.8[e]	6.7[f]

[a] Operational control data comprises 100% of emissions from activities that are operated by BP, going beyond the IPIECA guidelines by including emissions from certain other activities such as contracted drilling activities. Data for emissions on an operational control basis was not available prior to 2014. In 2014 we changed our GHG reporting boundary from a BP equity-share basis to an operational control basis.

[b] BP equity share comprises our share of BP s consolidated entities and equity accounted entities, other than BP s share of TNK-BP and Rosneft.

[c] The 2015 figure reflects our update of the global warming potential for methane from 21 to 25, in line with IPIECA s guidelines.

[d] The reported 2014 figure of 7.2Mte has been amended to 7.5Mte.

[e] The reported 2014 figure of 6.6Mte has been amended to 6.8Mte.

[f] The reported 2013 figure of 6.6Mte has been amended to 6.7Mte.

In 2015 we updated the global warming potential for methane from 21 to 25. Without this update, our reported direct emissions would have been lower, primarily due to divestments in Alaska.

The ratio of our total GHG emissions reported on an operational control basis to gross production was 0.24teCO_2e/te production in 2015 (2014 0.25teCO_2e/te). Gross production comprises upstream production, refining throughput and petrochemicals produced.

See *bp.com/greenhousegas* for more information about our GHG management and performance.

Oil spill preparedness and response

We are working to continuously improve how we control, contain and clean up oil spills should they occur. Our requirements for oil spill preparedness and response planning, and crisis management incorporate what we have learned over many years of operation.

We updated our oil spill response plan requirements in 2012 to incorporate learnings from the Deepwater Horizon accident. Revised response plans include elements such as specialized modelling techniques to help predict the impact of potential spills, provision of stockpiles of dispersant, and the use of technologies like aerial and underwater robotic vehicles for environmental monitoring. This is a substantial piece of work and BP-operated businesses with the potential to spill oil are on track to complete updates by the end of 2016.

We continue to investigate and test whether emerging technologies can enhance our oil spill response capability. For example, in the Middle East, we have trialled the use of satellite imagery as a way to identify oil spills on land and track clean-up response time.

We seek to work collaboratively with government regulators in planning for oil spill response, with the aim of improving any potential future response. For example, in 2015 we participated in response exercises with government regulators in regions such as Angola, the UK and US.

See page 43 for information on volume of oil spilled by our operations in 2015, including volume of oil unrecovered.

Water

BP recognizes the importance of managing fresh water use and water discharges in our operations and we review our water risks annually. We use industry-standard risk assessment tools, such as the IPIECA Global Water Tool and the World Resources Institute Aqueduct Global Water Atlas, to identify potential quantity, quality and regulatory risks across all our operated assets. We are assessing different technology approaches for optimizing water consumption and wastewater treatment performance. For example, we have evaluated different approaches for reducing fresh water use in our purified terephthalic acid operations, such as wastewater recycling and sea water cooling.

We monitor the increasing number of regulations pertaining to freshwater withdrawals and water discharge quality where we operate. This has led to investments in our wastewater treatment plants at our refineries in Europe and the US.

See *bp.com/water* for information about our approach to water.

Unconventional gas and hydraulic fracturing

Natural gas resources, including unconventional gas, have an increasingly important role in supplying lower-carbon fuel to meet the world s growing energy needs. BP is working to responsibly develop and produce natural gas from unconventional resources including shale gas, tight gas« and coalbed methane. We have unconventional gas operations in Oman and the US and we are evaluating unconventional gas opportunities in other countries.

Some stakeholders have raised concerns about the potential environmental and community impacts of hydraulic fracturing during unconventional gas development. BP seeks to apply responsible well design and construction, surface operation and fluid handling practices to mitigate these risks.

Water and sand constitute on average 99.5% of the injection material used in hydraulic fracturing. Some of the chemicals that are added to this, when used in certain concentrations, are classified as hazardous by the relevant regulatory authorities. BP works with service providers to minimize their use where possible. We list the chemicals we use in the fracturing process in material safety data sheets at each site. We also submit data on chemicals used at our hydraulically fractured wells in the US, to the extent allowed by our suppliers who own the chemical formulas at *fracfocus.org* or other state-designated websites.

We are working to minimize air pollutant and GHG emissions, such as methane, at our operating sites. For example, in the US we use a process called green completions at our gas operations. This process captures natural gas that would otherwise be flared or vented during the completion and commissioning of wells.

Our US Lower 48 onshore business s approach is to operate in line with industry standards developed within the context of the highly regulated US environment.

See *bp.com/unconventionalgas* for information about our approach to unconventional gas and hydraulic fracturing.

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Teams from BP Angola taking part in a shoreline oil spill response exercise the first international oil company event of its type in the country.

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Canada s oil sands

BP is involved in three oil sands lease areas in Canada. Sunrise, operated by Husky Energy, began producing oil in early 2015 and is currently producing approximately 20,000 barrels per day. Pike, operated by Devon Energy, is at the design stage. Terre de Grace, which is BP-operated, is currently under appraisal for development.

Our decision to invest in Canadian oil sands activities takes into consideration GHG emissions, impacts on the land, water use, local communities and commercial viability.

See *bp.com/oilsands* for information on BP s investments in Canada s oil sands.

Human rights

We are committed to conducting our business in a manner that respects the rights and dignity of all people. We respect internationally recognized human rights as set out in the International Bill of Human Rights and the International Labour Organization s Declaration on Fundamental Principles and Rights at Work. We set out our commitments in our human rights policy. Our code of conduct references the policy, requiring employees to report any human rights abuse in our operations or in those of our business partners.

We are delivering our human rights policy by implementing the relevant sections of the United Nations Guiding Principles on Business and Human Rights (the Guiding Principles) and incorporating them into the processes and policies that govern our business activities.

We are progressing towards alignment with the Guiding Principles using a risk-based approach. This includes working across functions and businesses in areas such as identifying and addressing human rights risks and impacts, community and workforce grievance mechanisms, and contracted workforce, working and living conditions and recruitment processes.

In 2015 our actions included:

- Development and delivery of guidance, tools and training courses to increase human rights awareness across the business.
- Inclusion of human rights clauses in an increasing number of our supplier contracts.
- Evaluation of our community grievance mechanisms against the Guiding Principles began at key sites to identify areas for improvement.
- Continued implementation of the Voluntary Principles on Security and Human Rights, with periodic internal assessments to identify areas for improvement.

See *bp.com/humanrights* for more information about our approach to human rights.

Enterprise and community development

We run programmes to help build the skills of businesses and to develop the local supply chain in a number of locations. In Indonesia, for example, we have supported the foundation of local businesses, providing community members with technical and hands-on training. In the UK we support an apprenticeship programme in the North Sea run by one of our contractors. The programme provides training on the skills required for the safe and reliable operation of our offshore assets.

BP s community investments support development that meets local needs and are relevant to our business activities. We contributed $67 million in social investment in 2015.

See *bp.com/society* for more information about our social contribution.

Business ethics and transparency

Our code of conduct defines our commitment to high ethical standards.

Our values

Our values represent the qualities and actions we wish to see in BP, they guide the way we do business and the decisions we make. We use these values as part of our recruitment, promotion and individual performance assessment processes.

See *bp.com/values* for more information.

The BP code of conduct

Our code of conduct is based on our values and clarifies the principles and expectations for everyone who works at BP. It applies to all BP employees, officers and members of the board.

Employees, contractors or other third parties who have a question about our code of conduct or see something they feel to be unsafe, unethical or potentially harmful can get help through OpenTalk, a confidential helpline operated by an independent company.

A total of 1,158 people contacted OpenTalk with concerns or enquiries in 2015 (2014 1,114, 2013 1,121). The most common concerns related to the people section of the code. This includes treating people fairly, with dignity and giving everyone equal opportunity; creating a respectful, harassment-free workplace; and protecting privacy and confidentiality.

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Staff taking part in BP s code of conduct training in Brazil.

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We take steps to identify and correct areas of non-conformance and take disciplinary action where appropriate. In 2015 our businesses dismissed 132 employees for non-conformance with our code of conduct or unethical behaviour (2014 157, 2013 113). This excludes dismissals of staff employed at our retail service stations.

See *bp.com/codeofconduct* for more information.

In addition to our code of conduct, we have policies on a variety of related issues, including anti-bribery and corruption, political donations and human rights.

Anti-bribery and corruption

Bribery and corruption are significant risks in the oil and gas industry. We have a responsibility to our employees, our shareholders and the countries and communities in which we do business to be ethical and lawful in all our dealings. Our code of conduct explicitly prohibits engaging in bribery and corruption in any form.

Our group-wide anti-bribery and corruption policy applies to all BP-operated businesses. The policy governs areas such as the inclusion of appropriate clauses in contracts, risk assessments and training. We provide training to those employees for whom we believe it is most relevant, for example, depending on the nature or location of their role or in response to specific incidents.

Lobbying and political donations

We do not use BP funds or resources to support any political candidate or party. Employees rights to participate in political activity are governed by the applicable laws in the countries in which we operate. For example, in the US, BP provides administrative support to the BP employee political action committee (PAC) to facilitate employee involvement and to assess whether contributions comply with the law and satisfy all necessary reporting requirements.

Tax and financial transparency

BP is committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. BP supports efforts to increase public trust in tax systems. We engage in initiatives to simplify and improve tax regimes to encourage investment and economic growth.

BP will start to disclose information on payments to governments on a country-by-country and project basis in 2016. The disclosure is required under the revenue transparency provisions contained in the EU Accounting Directive, which was recently brought into effect in UK law. We are awaiting the finalization and adoption of SEC rules under the US Dodd-Frank Act.

As a founding member of the Extractive Industries Transparency Initiative (EITI), BP works with governments, non-governmental organizations and international agencies to improve transparency and disclosure of payments to governments. We support governments efforts towards EITI certification in countries where we operate and have worked with many countries on implementation of their EITI commitments, including Australia, Azerbaijan, Indonesia, Iraq, Norway, Trinidad & Tobago, the UK and US.

See *bp.com/tax* for BP s approach to tax.

Employees

BP s performance depends on having a highly skilled, motivated and talented workforce that reflects the diversity of the societies in which we operate.

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An employee at our service station in Twyford, UK. We are increasing the footprint of our retail presence in many European countries and actively recruiting in these markets.

BP employees

Number of employees at 31 December[a]	**2015**	2014	2013
Upstream	**21,700**	24,400	24,700
Downstream	**44,800**	48,000	48,000
Other businesses and corporate	**13,300**	12,100	11,200
Total	**79,800**	84,500	83,900
Service station staff	**15,600**	14,400	14,100
Agricultural, operational and seasonal workers in Brazil	**4,800**	5,300	4,300
Total excluding service station staff and workers in Brazil	**59,400**	64,800	65,500

[a] Reported to the nearest 100. For more information see Financial statements Note 34.

We aim to develop the capabilities of our workforce with a focus on the skills required to maintain safe and reliable operations. As we adapt to the current low oil price environment, we are reducing activity and simplifying the way we work. Some of this has resulted in job losses. Our employee headcount at the end of 2015 was 4,700 lower than the previous year.

Our total upstream workforce including employees and contractors is now 20% smaller than it was in 2013, with a reduction of around 4,000 expected in 2016. We are aiming for an upstream workforce of approximately 20,000 by the end of 2016. We expect to reduce our downstream workforce roles by more than 5,000 by the end of 2017 compared with 2014, excluding service station staff and the reallocation of around 2,000 global business services staff from Downstream to Other businesses and corporate in 2015. By the end of 2015, we had already achieved a reduction of more than 2,000.

The group people committee, chaired by the group chief executive, has overall responsibility for key policy decisions relating to employees and governance of BP s people management processes. In 2015 the committee discussed longer-term people priorities, reward, progress in our diversity and inclusion programme, employee engagement, and improvements to our training and development programmes.

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Attracting and retaining the right people

The complex projects we work on require a wide range of specialist skills from the capability to explore for new sources of energy through to those required for transporting and distributing hydrocarbons safely around the world. We have a bias towards building capability and promoting from within the organization and complement this with selective external recruitment. In 2015 90% of senior leadership roles were recruited from within BP.

We decided to maintain graduate recruitment in 2015, albeit at a reduced level, with a total of 298 graduates joining BP during the year (2014 670, 2013 814). We have worked to maintain our visibility in the graduate job market to help us attract the best recruits, and provide them with high quality early development opportunities. For the second consecutive year BP was the highest ranked energy-sector company in the UK in *The Times Top 100 Graduate Employers.*

In 2015 46% of our graduate intake were women and 41% were from outside the UK and US.

Building in-house capability

We provide a broad range of development opportunities for our people from on-the-job learning and mentoring through to online and classroom-based courses.

Through our internal academies, we provide leading technical, functional, compliance and leadership learning opportunities. We have six academies, focusing on our operating management system, petrotechnical skills, downstream, midstream, leadership, and functional skills, including finance and legal.

Diversity

As a global business, we aim for a workforce representative of the societies in which we operate. We set out our ambitions for diversity and our group people committee reviews performance on a quarterly basis.

Our aim is for women to represent at least 25% of group leaders our most senior managers by 2020 and we are actively seeking qualified female candidates for our board.

For more information on the composition of our board, see page 56.

Workforce by gender

Numbers as at 31 December	**Male**	Female	Female %
Board directors	**12**	3	20%
Group leaders	**350**	81	19%
Subsidiary directors	**1,099**	179	14%
All employees	**54,581**	25,234	32%

A total of 23% of our group leaders came from countries other than the UK and US at the end of 2015 (2014 22%, 2013 22%). We have continued to increase the number of local leaders and employees in our operations so that they reflect the communities in which we operate. This is monitored at a local, business and national level.

Inclusion

Our goal is to create an environment of inclusion and acceptance. For our employees to be motivated and perform to their full potential, and for the business to excel, our people need to be treated with respect and dignity and without discrimination.

We aim to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees regardless of ethnicity, national origin, religion, gender and gender identity, age, sexual orientation, marital status, disability, or any other characteristic protected by applicable laws. Where existing employees become disabled, our policy is to provide continued employment and training wherever possible.

Employee engagement

Managers hold regular team and one-to-one meetings with their staff, complemented by formal processes through works councils in parts of Europe. We seek to maintain constructive relationships with labour unions.

Each year, we conduct a survey to gather employees views on a wide range of business topics and identify areas where we can improve. We track how engaged employees are with our strategic priorities using our group priorities index, based on questions about their perception of BP as a business and how it is managed in terms of leadership and standards. This measure fell to 69% in 2015 (2014 72%, 2013 72%).

Our survey results show a strong increase in understanding and use of the code of conduct to guide behaviour and that employees remain clear about compliance with safety procedures, standards and requirements.

However, as expected in the current low oil price environment, the proportion of employees responding that they feel more confident about BP s future than they did the previous year has declined. We also saw a decline in scores related to development and career opportunities.

We understand that employees have concerns about the consequences of the lower oil price. We have established additional communications channels to help address these concerns and support employees through our restructuring processes. For example, our executive team has been holding additional face-to-face town hall meetings. In our upstream business we have introduced a dedicated inbox for queries and regular listening sessions between frontline staff and management, with a commitment to follow up on any issues raised.

Share ownership

We encourage employee share ownership and have a number of employee share plans in place. For example, under our ShareMatch plan, which operates in more than 50 countries, we match BP shares purchased by our employees. We also operate a group-wide discretionary share plan, which allows employee participation at different levels globally and is linked to the company s performance.

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Our management of risk

BP manages, monitors and reports on the principal risks and uncertainties that can impact our ability to deliver our strategy of meeting the world s energy needs responsibly while creating long-term shareholder value; these risks are described in the Risk factors on page 53.

Our management systems, organizational structures, processes, standards, code of conduct and behaviours together form a system of internal control that governs how we conduct the business of BP and manage associated risks.

BP s risk management system

BP s risk management system and policy is designed to be a consistent and clear framework for managing and reporting risks from the group s operations to the board. The system seeks to avoid incidents and maximize business outcomes by allowing us to:

- Understand the risk environment, and assess the specific risks and potential exposure for BP.
- Determine how best to deal with these risks to manage overall potential exposure.
- Manage the identified risks in appropriate ways.
- Monitor and seek assurance of the effectiveness of the management of these risks and intervene for improvement where necessary.
- Report up the management chain and to the board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.

Our risk management activities

Day-to-day risk management management and staff at our facilities, assets and functions identify and manage risk, promoting safe, compliant and reliable operations. BP requirements, which take into account applicable laws and regulations, underpin the practical plans developed to help reduce risk and deliver strong, sustainable performance. For example, our operating management system (OMS)« integrates BP requirements on health, safety, security, environment, social responsibility, operational reliability and related issues.

Business and strategic risk management our businesses and functions integrate risk into key business processes such as strategy, planning, performance management, resource and capital allocation, and project appraisal. We do this by using a standard framework for collating risk data, assessing risk management activities, making further improvements and planning new activities.

Oversight and governance functional leadership, the executive team, the board and relevant committees provide oversight to identify, understand and endorse management of significant risks to BP. They also put in place systems of risk management, compliance and control to mitigate these risks. Executive committees set policy and oversee the management of significant risks, and dedicated board committees review and monitor certain risks throughout the year.

BP s group risk team analyses the group s risk profile and maintains the group risk management system. Our group audit team provides independent assurance to the group chief executive and board, as to whether the group s system of internal control is adequately designed and operating effectively to respond appropriately to the risks that are significant to BP.

Risk governance and oversight

Key risk governance and oversight committees include the following:

Executive committees

g Executive team meeting for strategic and commercial risks.

g Group operations risk committee for health, safety, security, environment and operations integrity risks.

g Group financial risk committee for finance, treasury, trading and cyber risks.

g Group disclosure committee for financial reporting risks.

g Group people committee for employee risks.

g Group ethics and compliance committee for legal and regulatory compliance and ethics risks.

g Resource commitment meeting for investment decision risks.

Board and its committees

g BP board.

g Audit committee.

g Safety, ethics and environment assurance committee.

g Geopolitical committee.

g Gulf of Mexico committee.

Risk governance
For further information on risk management and internal control, see board and committee reports on page 64.

Risk management processes

As part of BP s annual planning process, we review the group s principal risks and uncertainties. These may be updated throughout the year in response to changes in internal and external circumstances.

We aim for a consistent basis of measuring risk to allow comparison on a like-for-like basis, taking into account potential likelihood and impact, and to inform how we prioritize specific risk management activities and invest resources to manage them.

Our risk profile

The nature of our business operations is long term, resulting in many of our risks being enduring in nature. Nonetheless, risks can develop and evolve over time and their potential impact or likelihood may vary in response to internal and external events.

We identify those risks as having a high priority for particular oversight by the board and its various committees in the coming year. Those identified for 2016 are listed on page 52. These may be updated throughout the year in response to changes in internal and external circumstances. The oversight and management of other risks is undertaken in the normal course of business throughout the business and in executive and board committees.

There can be no certainty that our risk management activities will mitigate or prevent these, or other risks, from occurring.

Further details of the principal risks and uncertainties we face are set out in Risk factors on page 53.

« Defined on page 256.

Risks for particular oversight by the board and its committees in 2016

The risks for particular oversight by the board and its committees in 2016 have been reviewed and updated. These risks remain the same as in 2015 other than the Gulf of Mexico oil spill and major project« delivery risks, which are no longer considered to require this additional oversight in 2016. Financial resilience has been added to the high priority risks for particular oversight in 2016. This update reflects the proposed settlements between BP, the United States government and the five Gulf Coast states with respect to federal and state claims arising from the oil spill, as well as current market conditions. Both the Gulf of Mexico oil spill and major project delivery risks will continue to be monitored as appropriate by the board and its committees in the normal course of risk oversight and management.

Strategic and commercial risks

Financial resilience

External market conditions can impact our financial performance. Supply and demand and the prices achieved for our products can be affected by a wide range of factors including political developments, technological change, global economic conditions and the influence of OPEC.

We actively manage this risk through BP s diversified portfolio, our financial framework, liquidity stress testing, regular reviews of market conditions and our planning and investment processes.

For more information on our financial framework see page 18, Our strategy on page 13, Our markets in 2015 on page 24 and Liquidity and capital resources on page 219.

Geopolitical

The diverse locations of our operations around the world expose us to a wide range of political developments and consequent changes to the economic and operating environment. Geopolitical risk is inherent to many regions in which we operate, and heightened political or social tensions or changes in key relationships could adversely affect the group.

We seek to actively manage this risk through development and maintenance of relationships with governments and stakeholders and becoming trusted partners in each country and region. In addition, we closely monitor events and implement risk mitigation plans where appropriate. We established a new board committee focusing on geopolitical risk in 2015.

Cybersecurity

The threats to the security of our digital infrastructure continue to evolve rapidly and, like many other global organizations, our reliance on computers and network technology is increasing. A cybersecurity breach could have a significant impact on business operations.

We seek to manage this risk through a range of measures, which include cybersecurity standards, ongoing monitoring of threats and testing of cyber response procedures and equipment. We collaborate closely with governments, law enforcement agencies and industry peers to understand and respond to new and emerging cyber threats. Campaigns and presentations on topics such as email phishing and protecting our information and equipment have helped to raise employee awareness of these issues.

Safety and operational risks

Process safety, personal safety and environmental risks

The nature of the group s operating activities exposes us to a wide range of significant health, safety and environmental risks such as incidents associated with releases of hydrocarbons when drilling wells, operating facilities and transporting hydrocarbons.

Our OMS helps us manage these risks and drive performance improvements. It sets out the rules and principles which govern key risk management activities such as inspection, maintenance, testing, business continuity and crisis response planning and competency development. In addition, we conduct our drilling activity through a global wells organization in order to promote a consistent approach for designing, constructing and managing wells.

For more information on safety and our OMS see page 43.

Security

Hostile acts such as terrorism or piracy could harm our people and disrupt our operations. We monitor for emerging threats and vulnerabilities to manage our physical and information security.

Our central security team provides guidance and support to our businesses through a network of regional security advisers who advise and conduct assurance with respect to the management of security risks affecting our people and operations. We also maintain disaster recovery, crisis and business continuity management plans. We continue to monitor threats globally and, in particular, the situation in the Middle East and North Africa.

Compliance and control risks

Ethical misconduct and legal or regulatory non-compliance

Ethical misconduct or breaches of applicable laws or regulations could damage our reputation, adversely affect operational results and shareholder value, and potentially affect our licence to operate.

Our code of conduct and our values and behaviours, applicable to all employees, are central to managing this risk. Additionally, we have various group requirements and training covering areas such as anti-bribery and corruption, anti-money laundering, competition/anti-trust law and international trade regulations. We seek to keep abreast of new regulations and legislation and plan our response to them. We offer an independent confidential helpline, OpenTalk, for employees, contractors and other third parties. Under the terms of the 2012 criminal settlement with the US Department of Justice and the 2014 settlement with the US Environmental Protection Agency, an ethics monitor is reviewing and providing recommendations concerning BP s ethics and compliance programme.

Find out more about our code of conduct and our business ethics on page 48, and the ethics monitor on page 42.

Trading non-compliance

In the normal course of business, we are subject to risks around our trading activities which could arise from shortcomings or failures in our systems, risk management methodology, internal control processes or employees.

We have specific operating standards and control processes to manage these risks, including guidelines specific to trading, and seek to monitor compliance through our dedicated compliance teams. We also seek to maintain a positive and collaborative relationship with regulators and the industry at large.

For further information see Upstream gas marketing and trading activities on page 33, Downstream supply and trading on page 36 and Financial statements Note 28.

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Risk factors

The risks discussed below, separately or in combination, could have a material adverse effect on the implementation of our strategy, our business, financial performance, results of operations, cash flows, liquidity, prospects, shareholder value and returns and reputation.

Strategic and commercial risks

Prices and markets our financial performance is subject to fluctuating prices of oil, gas, refined products, technological change, exchange rate fluctuations, and the general macroeconomic outlook.

Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply from new oil and gas sources, technological change, global economic conditions and the influence of OPEC can impact supply and demand and prices for our products. Decreases in oil, gas or product prices could have an adverse effect on revenue, margins, profitability and cash flows. If significant or for a prolonged period, we may have to write down assets and re-assess the viability of certain projects, which may impact future cash flows, profit, capital expenditure and ability to maintain our long-term investment programme. Conversely, an increase in oil, gas and product prices may not improve margin performance as there could be increased fiscal take, cost inflation and more onerous terms for access to resources. The profitability of our refining and petrochemicals activities can be volatile, with periodic over-supply or supply tightness in regional markets and fluctuations in demand.

Exchange rate fluctuations can create currency exposures and impact underlying costs and revenues. Crude oil prices are generally set in US dollars, while products vary in currency. Many of our major project development costs are denominated in local currencies, which may be subject to fluctuations against the US dollar.

Access, renewal and reserves progression our inability to access, renew and progress upstream resources in a timely manner could adversely affect our long-term replacement of reserves.

Delivering our group strategy depends on our ability to continually replenish a strong exploration pipeline of future opportunities to access and produce oil and natural gas. Competition for access to investment opportunities, heightened political and economic risks in certain countries where significant hydrocarbon basins are located and increasing technical challenges and capital commitments may adversely affect our strategic progress. This, and our ability to progress upstream resources and sustain long-term reserves replacement, could impact our future production and financial performance.

Major project« delivery failure to invest in the best opportunities or deliver major projects successfully could adversely affect our financial performance.

We face challenges in developing major projects, particularly in geographically and technically challenging areas. Operational challenges and poor investment choice, efficiency or delivery at any major project that underpins production or production growth could adversely affect our financial performance.

Geopolitical we are exposed to a range of political developments and consequent changes to the operating and regulatory environment.

We operate and may seek new opportunities in countries and regions where political, economic and social transition may take place. Political instability, changes to the regulatory environment or taxation, international sanctions, expropriation or nationalization of property, civil strife, strikes, insurrections, acts of terrorism and acts of war may disrupt or curtail our operations or development activities. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

Events in or relating to Russia, including further trade restrictions and other sanctions, could adversely impact our income and investment in Russia. Our ability to pursue business objectives and to recognize production and reserves relating to Russia could also be adversely impacted.

Liquidity, financial capacity and financial, including credit, exposure failure to work within our financial framework could impact our ability to operate and result in financial loss.

Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. Trade and other receivables, including overdue receivables, may not be recovered and a substantial and unexpected cash call or funding request could disrupt our financial framework or overwhelm our ability to meet our obligations.

An event such as a significant operational incident, legal proceedings or a geopolitical event in an area where we have significant activities, could reduce our credit ratings. This could potentially increase financing costs and limit

access to financing or engagement in our trading activities on acceptable terms, which could put pressure on the group s liquidity. Credit rating downgrades could trigger a requirement for the company to review its funding arrangements with the BP pension trustees and may cause other impacts on financial performance. In the event of extended constraints on our ability to obtain financing, we could be required to reduce capital expenditure or increase asset disposals in order to provide additional liquidity. See Liquidity and capital resources on page 219 and Financial statements Note 28.

Joint arrangements« and contractors we may have limited control over the standards, operations and compliance of our partners, contractors and sub-contractors.

We conduct many of our activities through joint arrangements, associates« or with contractors and sub-contractors where we may have limited influence and control over the performance of such operations. Our partners and contractors are responsible for the adequacy of the resources and capabilities they bring to a project. If these are found to be lacking, there may be financial, operational or safety risks for BP. Should an incident occur in an operation that BP participates in, our partners and contractors may be unable or unwilling to fully compensate us against costs we may incur on their behalf or on behalf of the arrangement. Where we do not have operational control of a venture, we may still be pursued by regulators or claimants in the event of an incident.

Digital infrastructure and cybersecurity breach of our digital security or failure of our digital infrastructure could damage our operations and our reputation.

A breach or failure of our digital infrastructure due to intentional actions such as attacks on our cybersecurity, negligence or other reasons, could seriously disrupt our operations and could result in the loss or misuse of data or sensitive information, injury to people, disruption to our business, harm to the environment or our assets, legal or regulatory breaches and potentially legal liability. These could result in significant costs or reputational consequences.

Climate change and carbon pricing public policies could increase costs and reduce future revenue and strategic growth opportunities.

Changes in laws, regulations and obligations relating to climate change could result in substantial capital expenditure, taxes and reduced profitability. In the future, these could potentially impact our assets, revenue generation and strategic growth opportunities.

Competition inability to remain efficient, innovate and retain an appropriately skilled workforce could negatively impact delivery of our strategy in a highly competitive market.

Our strategic progress and performance could be impeded if we are unable to control our development and operating costs and margins, or to sustain, develop and operate a high-quality portfolio of assets efficiently. We could be adversely affected if competitors offer superior terms for access rights or licences, or if our innovation in areas such as exploration, production, refining or manufacturing lags the industry. Our performance could also be negatively impacted if we fail to protect our intellectual property.

Our industry faces increasing challenge to recruit and retain skilled and experienced people in the fields of science, technology, engineering and mathematics. Successful recruitment, development and retention of specialist staff is essential to our plans.

Crisis management and business continuity potential disruption to our business and operations could occur if we do not address an incident effectively.

Our business and operating activities could be disrupted if we do not respond, or are perceived not to respond, in an appropriate manner to any major crisis or if we are not able to restore or replace critical operational capacity.

Insurance our insurance strategy could expose the group to material uninsured losses.

BP generally purchases insurance only in situations where this is legally and contractually required. We typically bear losses as they arise rather than spreading them over time through insurance premiums. This means uninsured losses could have a material adverse effect on our financial position, particularly if they arise at a time when we are facing material costs as a result of a significant operational event which could put pressure on our liquidity and cash flows.

« Defined on page 256.

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Safety and operational risks

Process safety, personal safety, and environmental risks we are exposed to a wide range of health, safety, security and environmental risks that could result in regulatory action, legal liability, increased costs, damage to our reputation and potentially denial of our licence to operate.

Technical integrity failure, natural disasters, human error and other adverse events or conditions could lead to loss of containment of hydrocarbons or other hazardous materials, as well as fires, explosions or other personal and process safety incidents, including when drilling wells, operating facilities and those associated with transportation by road, sea or pipeline.

There can be no certainty that our operating management system or other policies and procedures will adequately identify all process safety, personal safety and environmental risks or that all our operating activities will be conducted in conformance with these systems. See Safety on page 43.

Such events, including a marine incident, or inability to provide safe environments for our workforce and the public while at our facilities, premises or during transportation, could lead to injuries, loss of life or environmental damage. We could as a result face regulatory action and legal liability, including penalties and remediation obligations, increased costs and potentially denial of our licence to operate. Our activities are sometimes conducted in hazardous, remote or environmentally sensitive locations, where the consequences of such events could be greater than in other locations.

Drilling and production challenging operational environments and other uncertainties can impact drilling and production activities.

Our activities require high levels of investment and are often conducted in extremely challenging environments which heighten the risks of technical integrity failure and the impact of natural disasters. The physical characteristics of an oil or natural gas field, and cost of drilling, completing or operating wells is often uncertain. We may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions and compliance with governmental requirements.

Security hostile acts against our staff and activities could cause harm to people and disrupt our operations.

Acts of terrorism, piracy, sabotage and similar activities directed against our operations and facilities, pipelines, transportation or digital infrastructure could cause harm to people and severely disrupt business and operations. Our activities could also be severely affected by conflict, civil strife or political unrest.

Product quality supplying customers with off-specification products could damage our reputation, lead to regulatory action and legal liability, and potentially impact our financial performance.

Failure to meet product quality standards could cause harm to people and the environment, damage our reputation, result in regulatory action and legal liability, and impact financial performance.

Compliance and control risks

US government settlements our settlements with legal and regulatory bodies in the US announced in November 2012 in respect of certain charges related to the Gulf of Mexico oil spill may expose us to further penalties, liabilities and private litigation or could result in suspension or debarment of certain BP entities.

Settlements with the US Department of Justice (DoJ) and the US Securities and Exchange Commission (SEC) impose significant compliance and remedial obligations on BP and its directors, officers and employees, including the appointment of an ethics monitor, a process safety monitor and an independent third-party auditor. Failure to comply with the terms of these settlements could result in further enforcement action by the DoJ and the SEC, expose us to severe penalties, financial or otherwise, and subject BP to further private litigation, each of which could impact our operations and have a material adverse effect on the group s reputation and financial performance. Failure to satisfy the requirements or comply with the terms of the administrative agreement with the US Environmental Protection Agency (EPA), under which BP agreed to a set of safety and operations, ethics and compliance and corporate governance requirements, could result in suspension or debarment of certain BP entities.

Regulation changes in the regulatory and legislative environment could increase the cost of compliance, affect our provisions and limit our access to new exploration opportunities.

Governments that award exploration and production interests may impose specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field and possibly, nationalization, expropriation, cancellation or non-renewal of contract rights. Royalties and taxes tend to be high compared with those of other commercial activities, and in certain jurisdictions there is a degree of uncertainty relating to tax law interpretation and changes. Governments may change their fiscal and regulatory frameworks in

response to public pressure on finances, resulting in increased amounts payable to them or their agencies.

Such factors could increase the cost of compliance, reduce our profitability in certain jurisdictions, limit our opportunities for new access, require us to divest or write down certain assets or curtail or cease certain operations, or affect the adequacy of our provisions for pensions, tax, decommissioning, environmental and legal liabilities. Potential changes to pension or financial market regulation could also impact funding requirements of the group.

Following the Gulf of Mexico oil spill, there have been cases of additional oversight and more stringent regulation of BP and other companies oil and gas activities in the US and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, which could result in increased compliance costs. In addition, we may be subjected to a higher number of citations and level of fines imposed in relation to any alleged breaches of safety or environmental regulations, which could result in increased costs.

Ethical misconduct and non-compliance ethical misconduct or breaches of applicable laws by our businesses or our employees could be damaging to our reputation, and could result in litigation, regulatory action and penalties.

Incidents of ethical misconduct or non-compliance with applicable laws and regulations, including anti-bribery and corruption and anti-fraud laws, trade restrictions or other sanctions, or non-compliance with the recommendations of the ethics monitor appointed under the terms of the DoJ and EPA settlements, could damage our reputation, result in litigation, regulatory action and penalties.

Treasury and trading activities ineffective oversight of treasury and trading activities could lead to business disruption, financial loss, regulatory intervention or damage to our reputation.

We are subject to operational risk around our treasury and trading activities in financial and commodity markets, some of which are regulated. Failure to process, manage and monitor a large number of complex transactions across many markets and currencies while complying with all regulatory requirements could hinder profitable trading opportunities. There is a risk that a single trader or a group of traders could act outside of our delegations and controls, leading to regulatory intervention and resulting in financial loss and potentially damaging our reputation. See Financial statements Note 28.

Reporting failure to accurately report our data could lead to regulatory action, legal liability and reputational damage.

External reporting of financial and non-financial data, including reserves estimates, relies on the integrity of systems and people. Failure to report data accurately and in compliance with applicable standards could result in regulatory action, legal liability and damage to our reputation.

Gulf of Mexico oil spill

There continues to be uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Gulf of Mexico oil spill not covered by the proposed Consent Decree and the Settlement Agreement.

The proposed Consent Decree between the United States, the five Gulf Coast states and BP and the Settlement Agreement between BP and the Gulf Coast states will, subject to these becoming effective, settle all federal and state claims arising from the 2010 Gulf of Mexico oil spill. The proposed Consent Decree and the Settlement Agreement are conditional upon each other and neither will become effective until there is final approval of the Consent Decree. There continues to be uncertainty regarding the extent and timing of the remaining costs and liabilities relating to the Gulf of Mexico oil spill not covered by the proposed Consent Decree and the Settlement Agreement. For items not covered by the proposed Consent Decree and the Settlement Agreement and for further information, see Financial statements Note 2 and Legal proceedings (page 237).

The Strategic report was approved by the board and signed on its behalf by David J Jackson, company secretary on 4 March 2016.

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Board of directors
As at 4 March 2016

See BP s board governance principles relating to director independence on page 244.

Board biographies

See *bp.com/governance*

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Carl-Henric Svanberg

Chairman

Tenure

Appointed 1 September 2009

Outside interests

Chairman of AB Volvo

Age 63 **Nationality** Swedish

Career

Carl-Henric Svanberg became chairman of the BP board on 1 January 2010.

He spent his early career at Asea Brown Boveri and the Securitas Group, before moving to the Assa Abloy Group as president and chief executive officer.

From 2003 until 31 December 2009, when he left to join BP, he was president and chief executive officer of Ericsson, also serving as the chairman

Career

Bob Dudley became group chief executive on 1 October 2010.

Bob joined Amoco Corporation in 1979, working in a variety of engineering and commercial posts. Between 1994 and 1997, he worked on corporate development in Russia. In 1997 he became general manager for strategy for Amoco and in 1999, following the merger between BP and Amoco, was appointed to a similar role in BP.

Between 1999 and 2000, he was executive assistant to the group chief executive, subsequently becoming group vice president for BP s renewables and alternative energy activities. In 2002 he became group vice president responsible for BP s upstream businesses in Russia, the Caspian region, Angola, Algeria and Egypt.

From 2003 to 2008 he was president and chief executive officer of TNK-BP. On his return to BP in 2009 he was

Career

Dr Brian Gilvary was appointed chief financial officer on 1 January 2012.

He joined BP in 1986 after obtaining a PhD in mathematics from the University of Manchester. Following a variety of roles in the Upstream, Downstream and trading in Europe and the US, he became Downstream s chief financial officer and commercial director from 2002 to 2005. From 2005 to 2009 he was chief executive of the integrated supply and trading function, BP s commodity trading arm. In 2010 he was appointed deputy group chief financial officer with responsibility for the finance function.

He was a director of TNK-BP over two periods, from 2003 to 2005 and from 2010 until the sale of the business and acquisition of Rosneft equity in 2013.

Brian will also take on accountability for integrated supply and trading and shipping during 2016.

SEEAC with that of the audit committee, to provide a cohesive and robust overview of business risks.

His experience of business in the US and its regulatory environment has greatly assisted the work of the Gulf of Mexico committee and is an asset to the geopolitical committee.

Alan Boeckmann

Independent non-executive director

Tenure

Appointed 24 July 2014

Outside interests

Non-executive director of Sempra Energy

Non-executive director of Archer Daniels Midland

Age 67 **Nationality** American

of Sony Ericsson Mobile Communications AB. He was a non-executive director of Ericsson between 2009 and 2012. He was appointed chairman and a member of the board of AB Volvo in April 2012.

He is a member of the External Advisory Board of the Earth Institute at Columbia University and a member of the Advisory Board of Harvard Kennedy School. He is also the recipient of the King of Sweden s medal for his contribution to Swedish industry.

Relevant skills and experience

Carl-Henric Svanberg is a highly experienced leader of global corporations. He has served as both chief executive officer and chairman to high profile businesses, giving him a deep understanding of international strategic and commercial issues. His experience allows him to co-ordinate the diverse range of knowledge and skills provided by the board.

Bob Dudley

Group chief executive

appointed to the BP board and oversaw the group s activities in the Americas and Asia. Between 23 June and 30 September 2010 he served as the president and chief executive officer of BP s Gulf Coast Restoration Organization in the US. He was appointed a director of Rosneft in 2013 following BP s acquisition of a stake in Rosneft.

Relevant skills and experience

Bob Dudley has spent his whole career in the oil and gas industry. He has held senior management roles in Amoco and BP and as the chief executive officer of TNK-BP from 2003 to 2008.

Over the five years that he has been group chief executive, Bob has transformed BP into a safer, stronger and simpler business. By focusing the group s approach on value not volume and operating through a set of consistent values, Bob has guided BP s recovery to a position of greater resilience, to enable it to continue delivering results in an uncertain economic environment.

Dr Brian Gilvary

Relevant skills and experience

Dr Brian Gilvary has spent his entire career with BP. He has a strong knowledge of finance and trading, a deep understanding of BP s assets and businesses and has very broad experience of the business as a whole.

Brian has been instrumental in transforming BP s capital structure and operational costs during its recovery and as it adjusts to a low oil price environment, while ensuring the group is capable of meeting new opportunities going forward.

Paul Anderson

Independent non-executive director

Tenure

Appointed 1 February 2010

Outside interests

No external appointments

Career

Alan Boeckmann retired as non-executive chairman of Fluor Corporation in February of 2012, ending a 35-year career with the company. Between 2002 and 2011, he held the post of chairman and chief executive officer and was president and chief operating officer from 2001 to 2002. His tenure with the company included responsibility for global operations. As chairman and CEO, he refocused the company on engineering, procurement, construction and maintenance services.

After graduating from the University of Arizona with a degree in electrical engineering, he joined Fluor in 1974 as an engineer and worked in a variety of domestic and international locations, including South Africa and Venezuela.

Alan was previously a non-executive director of BHP Billiton and the Burlington Santa Fe Corporation and has served on the boards of the American Petroleum Institute and the National Petroleum Council. He

Tenure

Appointed to the board 6 April 2009

Outside interests

Non-executive director of Rosneft

Member of Tsinghua Management University Advisory Board, Beijing, China

Member of BritishAmerican Business International Advisory Board

Member of UAE/UK CEO Forum

Member of the Emirates Foundation Board of Trustees

Member of the World Economic Forum (WEF) International Business Council

Chair of the WEF Oil and Gas Climate Initiative

Member of the Russian Geographical Society Board of Trustees

Fellow of the Royal Academy of Engineering

Age 60 **Nationality** American

Chief financial officer

Tenure

Appointed to the board 1 January 2012

Outside interests

Visiting professor at Manchester University

External advisor to director general (spending and finance), HM Treasury Financial Management Review Board

Nominated for appointment by the AGM as a non-executive director of L Air Liquide S.A. from May 2016

Member of the 100 Group Committee

GB Age Group triathlete

Age 54 **Nationality** British

Age 70 **Nationality** American

Career

Paul Anderson was formerly chief executive at BHP Billiton and Duke Energy, where he also served as chairman of the board. Having previously been chief executive officer and managing director of BHP Limited and then BHP Billiton Limited and BHP Billiton Plc, he rejoined these latter two boards in 2006 as a non-executive director, retiring in January 2010. Previously he served as a non-executive director of BAE Systems PLC and on a number of boards in the US and Australia, and was also chief executive officer of Pan Energy Corp.

Relevant skills and experience

Paul Anderson has spent his career in the energy industry working with global organizations, and brings the skills of an experienced chairman and chief executive officer to the board. As chairman of the SEEAC since 2012, he has maintained the board s focus on safety and broader non-financial issues. This year he has worked with Brendan

was also a board member and trustee of the Eisenhower Medical Center in Rancho Mirage, California and the Advisory Board of Southern Methodist University s Cox School of Business.

He led the formation of the World Economic Forum s Partnering Against Corruption Initiative in 2004.

Relevant skills and experience

Alan Boeckmann has been a chairman and chief executive officer in the worldwide engineering and construction industry and in the energy sector. He brings deep experience to the board and in his roles on the SEEAC and Gulf of Mexico committee, not only from his profession as an engineer but also of international project management and procurement.

Alan joined the remuneration committee in 2015.

Nelson to integrate the
oversight of the

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Admiral Frank Bowman

Independent non-executive director

Tenure

Appointed 8 November 2010

Outside interests

President of Strategic Decisions, LLC

Director of Morgan Stanley Mutual Funds

Director of Naval and Nuclear Technologies, LLP

Age 71 **Nationality** American

Career

Frank L Bowman served for more than 38 years in the US Navy, rising to the rank of Admiral. He commanded the nuclear submarine *USS City of Corpus Christi* and the submarine tender *USS Holland.* After promotion to flag officer, he served on the joint staff as director of political-military affairs and as the chief of naval personnel.

Antony Burgmans

Independent non-executive director

Tenure

Appointed 5 February 2004

Outside interests

Member of the supervisory board of SHV Holdings NV

Chairman of the supervisory board of TNT Express

Chairman of Akzo Nobel NV

Age 69 **Nationality** Dutch

Career

Antony Burgmans joined Unilever in 1972, holding a succession of marketing and sales posts, including the chairmanship of PT Unilever Indonesia from 1988 until 1991.

American plc, the global mining group, operating in 45 countries with 150,000 employees, and was chairman of De Beers s.a. and Anglo Platinum Limited. She stepped down from these roles in April 2013.

Relevant skills and experience

Cynthia Carroll has led multiple large complex global businesses in the extractive industries. This has required deep strategic and operational involvement. In leading these businesses a high level of interaction with governments, the media, special interest groups and other stakeholders has been needed.

Cynthia is an experienced former chief executive who has spent all of her career in the extractive industries, having trained as a petroleum geologist. Her leadership experience related to enhancing safety in the mining industry brings a strong contribution to the work of the SEEAC, as does her understanding of business strategy in an industry with a long capital return cycle. Her international experience with

Professor Dame Ann Dowling

Independent non-executive director

Tenure

Appointed 3 February 2012

Outside interests

President of the Royal Academy of Engineering

Deputy vice-chancellor and Professor of Mechanical Engineering at the University of Cambridge

Member of the Prime Minister s Council for Science and Technology

Non-executive director of the Department for Business, Innovation & Skills (BIS)

Age 63 **Nationality** British

Career

He served over eight years as director of the Naval Nuclear Propulsion Program where he was responsible for the operations of more than one hundred reactors aboard the US navy s aircraft carriers and submarines. He holds two masters degrees in engineering from the Massachusetts Institute of Technology.

After his retirement as an Admiral in 2004, he was president and chief executive officer of the Nuclear Energy Institute until 2008. He served on the BP Independent Safety Review Panel and was a member of the BP America External Advisory Council. He was appointed Honorary Knight Commander of the British Empire in 2005. He was elected to the US National Academy of Engineering in 2009.

Frank is a member of the CNA military advisory board and has participated in studies of climate change and its impact on national security. Additionally he was co-chair of a National Academies study investigating the implications of climate change for naval forces.

Relevant skills and experience

Frank Bowman brings exceptional experience in safety issues arising from his

In 1991, he was appointed to the board of Unilever, becoming business group president, ice cream and frozen foods Europe in 1994, and chairman of Unilever s Europe committee, co-ordinating its European activities. In 1998, he became vice chairman of Unilever NV and in 1999, chairman of Unilever NV and vice chairman of Unilever PLC. In 2005 he became non-executive chairman of Unilever NV and Unilever PLC until his retirement in 2007. During his career he has lived and worked in London, Hamburg, Jakarta, Stockholm and Rotterdam.

Relevant skills and experience

Antony Burgmans is an experienced chairman and chief executive who spent his executive career at Unilever where he developed skills in production, distribution and marketing.

His experience of consumer facing business has meant that he has been able to provide the board with deep insight in the fields of reputation, brand, culture and values. He has served on the board for 12 years and has made a major contribution to the SEEA and remuneration

governments is an asset to the geopolitical committee.

Ian Davis

Independent non-executive director

Tenure

Appointed 2 April 2010

Outside interests

Chairman of Rolls-Royce Holdings plc

Non-executive director of Majid Al Futtaim Holding LLC

Non-executive director of Johnson & Johnson Inc

Non-executive director of Teach for All

Age 64 **Nationality** British

Career

Ian Davis is senior partner emeritus of McKinsey & Company. He was a partner at McKinsey for 31 years until 2010 and served as chairman and

Dame Ann Dowling is a deputy vice-chancellor at the University of Cambridge, where she was appointed a professor of mechanical engineering in the department of engineering in 1993. She was head of the department of engineering at the University of Cambridge from 2009 to 2014. Her research is in fluid mechanics, acoustics and combustion, and she has held visiting posts at MIT and at Caltech. She was appointed director of the University Gas Turbine Partnership with Rolls-Royce in 2001, and chairman in 2009. Between 2003 and 2008 she chaired the Rolls-Royce propulsion and power systems advisory board and now chairs BP s technical advisory committee.

She is a fellow of the Royal Society and the Royal Academy of Engineering and is a foreign associate of the US National Academy of Engineering and the French Academy of Sciences. She has honorary degrees from nine universities, including the University of Oxford, Imperial College London and the KTH Royal Institute of Technology, Stockholm.

time with the US Navy and the Nuclear Energy Institute, coupled with direct knowledge of BP s safety goals from his work on the BP Independent Safety Review Panel. He also has a broad perspective of systems and of people from the many other roles throughout his career.

He has built on this experience with the Gulf of Mexico and SEEA committees since 2010 and his background and experience of US and global political and regulatory systems are valuable assets to the geopolitical committee.

committees and latterly through chairing the geopolitical committee.

Cynthia Carroll

Independent non-executive director

Tenure

Appointed 6 June 2007

Outside interests

Chair of Vedanta Resources Holding Ltd

Non-executive director of Hitachi Ltd

Age 59 **Nationality** American

Career

Cynthia began her career as a petroleum geologist with Amoco Production company in Denver, Colorado, after completing a masters degree in geology. In 1989 she joined Alcan (Aluminum Company of Canada) and ran a packaging company, led a global bauxite,

managing director between 2003 and 2009.

Ian has a MA in Politics, Philosophy and Economics from Balliol College, University of Oxford.

Relevant skills and experience

Ian Davis brings the skills of a managing director with significant financial and strategic experience to the board. He has worked with and advised global organizations and companies in a wide variety of sectors including oil and gas and the public sector, enabling him to draw on knowledge of diverse issues and outcomes to assist the board. His role in the Cabinet Office, from which he stepped down in March 2016, gives him a unique perspective on government affairs.

He has chaired the Gulf of Mexico committee since its formation and has led the board s oversight of the response in the Gulf.

She was elected President of the Royal Academy of Engineering in September 2014. In December 2015 she was appointed to the Order of Merit, which is in the sole gift of the Queen and limited to just 24 members.

Relevant skills and experience

Dame Ann Dowling is an internationally respected leader in engineering research and the practical application of new technology in industry. The department of engineering at Cambridge University that she led is one of the leading centres for engineering research worldwide, and her contribution has been widely recognized by universities around the world. She chairs BP s technical advisory committee and makes a significant contribution to the work of the SEEAC.

Dame Ann became chair of the remuneration committee in 2015 and has spent time with key shareholders to listen and reflect their views in the work of the committee.

alumina and speciality chemicals business and later was president and chief executive officer of the Primary Metal Group, responsible for operations in more than 20 countries. In 2007 she became chief executive of Anglo

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Brendan Nelson

Independent non-executive director

Tenure

Appointed 8 November 2010

Outside interests

Non-executive director and chairman of the group audit committee of The Royal Bank of Scotland Group plc

Member of the Financial Reporting Review Panel

Age 66 **Nationality** British

Career

Brendan Nelson is a chartered accountant. He was made a partner of KPMG in 1984. He served as a member of the UK board of KPMG from 2000 to 2006, subsequently being appointed vice chairman until his retirement in 2010. At KPMG International he held a number of senior positions including global chairman, banking and global chairman, financial services.

March 2011. He was formerly a director of a number of listed South African companies, including Johnnic Holdings (formerly a subsidiary of the Anglo American group of companies), Nedbank Group, Bidvest Group and Alexander Forbes.

Relevant skills and experience

Phuthuma Nhleko has had a wide-ranging career in infrastructure, banking and telephony as well as the extractive industries. This broad experience leading multinational companies, particularly in emerging markets, enables him to contribute strongly to the board and geopolitical committee on strategic matters. His commercial experience also gives him insight into financial issues relevant to the audit committee.

Paula Rosput Reynolds

Independent non-executive director

Tenure

Paula has led several groups through restructuring and mergers so can contribute knowledge and experience to the board when considering simplification and value creation.

Sir John Sawers

Independent non-executive director

Tenure

Appointed 14 May 2015

Outside interests

Chairman and partner of Macro Advisory Partners LLP

Visiting professor at King s College London

Governor, Ditchley Foundation

Age 60 **Nationality** British

Career

Andrew Shilston

Senior independent non-executive director

Tenure

Appointed 1 January 2012

Outside interests

Chairman of Morgan Advanced Materials plc

Non-executive director of Circle Holdings plc

Age 60 **Nationality** British

Career

Andrew Shilston trained as a chartered accountant before joining BP as a management accountant. He subsequently joined Abbott Laboratories before moving to Enterprise Oil plc in 1984 at the time of flotation. In 1989 he became treasurer of Enterprise Oil and was appointed finance director in 1993. After

He served for six years as a member of the Financial Services Practitioner Panel and in 2013 was the president of the Institute of Chartered Accountants of Scotland.

Relevant skills and experience

Brendan Nelson s career in audit and finance makes him ideally suited to chair the audit committee and to act as its financial expert. He held a range of senior leadership roles at KPMG giving him broad management and business experience. His specialism in the financial services industry allows him to contribute insight into the challenges faced by global businesses by regulatory frameworks.

Brendan brings related input from his role as the chair of the audit committee of a major bank and as a member of the Financial Reporting Review Panel.

Phuthuma Nhleko

Independent non-executive director

Tenure

Appointed 14 May 2015

Outside interests

Non-executive director of BAE Systems Ltd

Non-executive director of TransCanada Corporation

Non-executive director of Siluria Technologies

Age 59 **Nationality** American

Career

Paula Rosput Reynolds is the former chairman, president and chief executive officer of Safeco Corporation, a Fortune 500 property and casualty insurance company that was acquired by Liberty Mutual Insurance Group in 2008. She also served as vice-chair and chief restructuring officer for American International Group (AIG) for a period after the US government became the financial sponsor from 2008 to 2009.

Previously Paula was an executive in the energy industry. She was chairman, president and

John Sawers spent 36 years in public service in the UK, working on foreign policy, international security and intelligence.

John was Chief of the Secret

Intelligence Service, MI6, from 2009 to 2014, a period of international upheaval and growing security threats as well as closer public scrutiny of the intelligence agencies. Prior to that, the bulk of his career was in diplomacy, representing the British government around the world and leading negotiations at the UN, in the European Union and in the G8. He was the UK ambassador to the United Nations (2007-09), political director and main board member of the Foreign Office (2003-07), special representative in Iraq (2003), ambassador to Egypt (2001-03) and foreign policy advisor to the Prime Minister (1999-2001). Earlier in his career, he was posted to Washington, South Africa, Syria and Yemen.

John is now chairman of Macro Advisory Partners, a firm which advises clients on the intersection of policy, politics and markets.

the sale of Enterprise Oil to Shell in 2002, in 2003 he became finance director of Rolls-Royce plc until his retirement in December 2011.

He has served as a non-executive director on the board of Cairn Energy plc where he chaired the audit committee.

Relevant skills and experience

Andrew Shilston is a highly knowledgeable director with wide experience from roles in finance, from several positions as a chief financial officer, and the oil and gas industry in general. His deep understanding of commercial issues has assisted the board in its work in overseeing the group s strategy and in particular the evaluation of capital projects, while his financial skills are an asset to both the audit and remuneration committees.

As senior independent director he has overseen the evaluation of the chairman and led the external evaluation of the board in 2015.

Appointed 1 February 2011

Outside interests

Non-executive director and chairman of MTN Group Ltd

Chairman of the Pembani Group

Age 55 **Nationality** South African

Career

Phuthuma Nhleko began his career as a civil engineer in the US and as a project manager for infrastructure developments in southern Africa. Following this he became a senior executive of the Standard Corporate and Merchant Bank in South Africa. He later held a succession of directorships before joining MTN Group, a pan-African and Middle Eastern telephony group represented in 21 countries, as group president and chief executive officer in 2002. During his tenure at the MTN Group he led a number of substantial mergers and acquisitions transactions.

He stepped down as group chief executive of MTN Group at the end of

chief executive officer of AGL Resources Inc., an operator of natural gas infrastructure in the US. Prior to this, she led a subsidiary of Duke Energy Corporation that was a merchant operator of electricity generation. She commenced her energy career at PG&E Corp.

She currently chairs the board of the Fred Hutchinson Cancer Research Center in Seattle, Washington. In 2014 Paula was awarded the National Association of Corporate Directors (US) Lifetime Achievement Award.

Relevant skills and experience

Paula Rosput Reynolds has had a long career leading global companies in the energy and financial sectors. Her experience with international and US companies gives her insight into strategic and regulatory issues, and her financial background is an asset to the audit committee.

Relevant skills and experience

Sir John Sawers deep experience of international political and commercial matters is an asset to the board in navigating the complex issues faced by a modern global company. His management of reform at MI6 also complements BP s focus on value and simplification.

As a former UK government representative, Sir John brings knowledge and skills related to analysing and negotiating on a worldwide basis, which are invaluable to the geopolitical and SEEA committees.

David Jackson

Company secretary

Tenure

Appointed 2003

David Jackson, a solicitor, is a director of BP Pension Trustees Limited.

The ages of the board are correct as at 4 March 2016.

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Executive team

As at 4 March 2016

Rupert Bondy

Current position

Group general counsel

Executive team tenure

Appointed 1 May 2008

Outside interests

Non-executive director, Indivior PLC

Age 54 **Nationality** British

Career

Rupert Bondy is responsible for legal and compliance matters across the BP group.

Career

Tufan Erginbilgic was appointed chief executive, Downstream on 1 October 2014.

Prior to this, Tufan was the chief operating officer of the fuels business, accountable for BP s fuels value chains worldwide, the global fuels businesses and the refining, sales and commercial optimization functions for fuels. Tufan joined Mobil in 1990 and BP in 1997 and has held a wide variety of roles in refining and marketing in Turkey, various European countries and the UK.

In 2004 he became head of the European fuels business. Tufan took up leadership of BP s lubricant business in 2006 before moving to head the group chief executive s office. In 2009 he became chief operating officer for the eastern hemisphere fuels value chains and lubricants businesses.

Bob Fryar

Prior to this, Bob was chief executive of BP Angola and also held several management positions in Trinidad, including chief operating officer for Atlantic LNG and vice president of operations. Bob has also served in a variety of engineering and management positions in onshore US and deepwater Gulf of Mexico.

During 2016 Bob will also take on accountability for remediation management.

Andy Hopwood

Current position

Chief operating officer, strategy and regions, Upstream

Executive team tenure

Appointed 1 November 2010

Outside interests

No external appointments

Katrina Landis

Current position

Executive vice president, corporate business activities

Executive team tenure

Appointed 1 May 2013

Outside interests

Independent director of Alstom SA

Founding member of Alstom s Ethics, Compliance and Sustainability Committee

Member of Earth Day Network s Global Advisory Committee

Ambassador to the US Department of Energy s US Clean Energy Education & Empowerment program

Age 56 **Nationality** American

Rupert began his career as a lawyer in private practice. In 1989 he joined US law firm Morrison & Foerster, working in San Francisco and London, and from 1994 he worked for UK law firm Lovells in London. In 1995 he joined SmithKline Beecham as senior counsel for mergers and acquisitions and other corporate matters. He subsequently held positions of increasing responsibility and, following the merger of SmithKline Beecham and GlaxoWellcome to form GlaxoSmithKline, was appointed senior vice president and general counsel of GlaxoSmithKline in 2001.

In April 2008 he joined the BP group, and he became the group general counsel in May 2008.

Tufan Erginbilgic

Current position

Chief executive, Downstream

Executive team tenure

Appointed 1 October 2014

Outside interests

Current position

Executive vice president, safety and operational risk

Executive team tenure

Appointed 1 October 2010

Outside interests

No external appointments

Age 52 **Nationality** American

Career

Bob Fryar is responsible for strengthening safety, operational risk management and the systematic management of operations across the BP group. He is group head of safety and operational risk, with accountability for group-level disciplines including engineering, health, safety, security and the environment. In this capacity, he looks after the group-wide operating management system implementation and capability programmes.

Bob has 30 years experience in the oil and

Age 58 **Nationality** British

Career

Andy Hopwood is responsible for BP s upstream strategy, portfolio, and leadership of its global regional presidents.

Andy joined BP in 1980, spending his first 10 years in operations in the North Sea, Wytch Farm, and Indonesia. In 1989 Andy joined the corporate planning team formulating BP s upstream strategy, and subsequent portfolio rationalization. Andy held commercial leadership positions in Mexico and Venezuela, before becoming the Upstream s planning manager.

Following the BP-Amoco merger, Andy spent time leading BP s businesses in Azerbaijan, Trinidad & Tobago, and onshore North America. In 2009, he joined the upstream executive team as head of portfolio and technology and in 2010 was appointed executive vice president, exploration and production.

Career

Katrina Landis is responsible for BP s integrated supply and trading activities, renewable energy activities, shipping, technology and remediation management.

Katrina began her career with BP in 1992 in Anchorage, Alaska and held a variety of senior roles. She was chief executive officer of BP s integrated supply and trading Oil Americas from 2003 to 2006, group vice president of BP s integrated supply and trading from 2007 to 2008, and chief operating officer of BP Alternative Energy from 2008 to 2009. She was then appointed chief executive officer of BP Alternative Energy in 2009.

In May 2013, she became executive vice president, corporate business activities. Since mid-2010 she has served as an independent director of Alstom SA, a world leader in transport infrastructure, power generation and transmission, and is a founding member of Alstom s ethics, compliance and

Independent non-executive director of GKN plc

Member of the Turkish-British Chamber of Commerce & Industry Board of Directors

Age 56 **Nationality** British and Turkish

gas industry, having joined Amoco Production Company in 1985.
Between 2010 and 2013, Bob was executive vice president of the production division and was accountable for safe and compliant exploration and production operations and stewardship of resources across all regions.

sustainability committee.

Katrina will step down from her executive vice president role in May 2016 and will retire from BP in July 2016.

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Bernard Looney

Current position

Chief operating officer, production

Executive team tenure

Appointed 1 November 2010

Outside interests

Fellow of the Royal Academy of Engineering

Member of the Stanford University Graduate School of Business Advisory Council

Fellow of the Energy Institute

Age 45 **Nationality** Irish

Career

Bernard Looney is responsible for BP s operated production, with specific accountability for drilling, operations, engineering, procurement and supply chain management, and health, safety and

Lamar McKay

Current position

Chief executive, Upstream

Executive team tenure

Appointed 16 June 2008

Outside interests

Member of Mississippi State University Dean s Advisory Council

Age 57 **Nationality** American

Career

Lamar McKay is responsible for the Upstream segment which consists of exploration, development and production. Lamar started his career in 1980 with Amoco and held a range of technical and leadership roles.

Dev Sanyal

Current position

Executive vice president, strategy and regions

Executive team tenure

Appointed 1 January 2012

Outside interests

Independent non-executive director of Man Group plc

Member of the Accenture Global Energy Board

Member of the Board of Advisors of the Fletcher School of Law and Diplomacy

Vice Chairman of the Centre for China in the World Economy, Tsinghua University

Age 50 **Nationality** British and Indian

Career

Helmut Schuster

Current position

Executive vice president, group human resources

Executive team tenure

Appointed 1 March 2011

Outside interests

Non-executive director of Ivoclar Vivadent AG, Germany

Age 55 **Nationality** Austrian

Career

Helmut Schuster became group human resources (HR) director on 1 March 2011. He completed his post graduate diploma in international relations and his PhD in economics at the University of Vienna and then began his career working for Henkel in a marketing capacity. Since environment in the Upstream.

Bernard joined BP in 1991 as a drilling engineer, working in the North Sea, Vietnam and the Gulf of Mexico. In 2005 he became senior vice president for BP Alaska, before moving in 2007 to be head of the group chief executive s office.

In 2009 he became the managing director of BP s north sea business in the UK and Norway. At the same time, Bernard became a member of the Oil & Gas UK Board. He became executive vice president, developments, in October 2010 and took up his current role in February 2013.

During 2016 Bernard will take on the role of chief executive, upstream, in addition to maintaining his current portfolio.

During 1998 to 2000, he worked on the BP-Amoco merger and served as head of strategy and planning for the exploration and production business. In 2000 he became business unit leader for the central North Sea. In 2001 he became chief of staff for exploration and production, and subsequently for BP s deputy group chief executive. Lamar became group vice president, Russia and Kazakhstan in 2003. He served as a member of the board of directors of TNK-BP between February 2004 and May 2007.

In 2007 he was appointed executive vice president, BP America. In 2008 he became executive vice president, special projects where he led BP s efforts to restructure the governance framework for TNK-BP. In 2009 Lamar was appointed chairman and president of BP America, serving as BP s chief representative in the US. In January 2013, he became chief executive, Upstream.

During 2016 Lamar will take on the role of deputy group chief executive. In addition to assuming some of the group chief executive s duties he will be accountable for group

Dev Sanyal is responsible for the Europe and Asia regions and functionally for group strategy and long-term planning, risk management, government and political affairs, policy and group integration.

Dev joined BP in 1989 and has held a variety of international roles in London, Athens, Istanbul, Vienna and Dubai. He was general manager, former Soviet Union and eastern Europe, prior to being appointed chief executive, BP Eastern Mediterranean Fuels in 1999.

In November 2003 he was appointed chief executive officer of Air BP International. In June 2006 he was appointed head of the group chief executive s office. He was appointed group vice president and group treasurer in 2007. During this period, he was also chairman of BP Investment Management Ltd and was accountable for the group s aluminium interests.

During 2016 Dev will take on the role of chief executive, alternative energy and executive vice president, regions.

joining BP in 1989 Helmut has held a number of leadership roles. He has worked in BP in the US, UK and continental Europe and within most parts of refining, marketing, trading, and gas and power.

Before taking on his current role his portfolio of responsibilities as a vice president, HR included the refining and marketing segment of BP, and corporate and functions. That role saw him leading the people agenda for roughly 60,000 people across the globe and included businesses such as petrochemicals, fuels value chains, lubricants and functional experts across the group. He is also a non-executive director of BP Europa SE.

The executive team represents the principal executive leadership of the BP group. Its members include BP s executive directors (Bob Dudley and Dr Brian Gilvary whose biographies appear on page 57) and the senior management listed left.

strategy and long-term planning, safety and operational risk, group technology and will also focus on various corporate governance activities including ethics and compliance.

The ages of the executive team are correct as at 4 March 2016.

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Introduction from the chairman

The membership and work of the board have continued to evolve during 2015. This has been driven by several factors, not least the challenging oil price environment which now dominates our industry. In the years following the Deepwater Horizon accident, the workload of the board, as I have previously reported, increased substantially in response to the issues with which the company was faced. While the number of our meetings has decreased, we still face evolving challenges and I am grateful to Bob, his executive colleagues and my fellow directors for the work that they have done. The commitment required of all of us certainly has not reduced with the number of meetings.

This means that we have to keep refreshed the way in which we work, the matters that we discuss and the decisions that we take. It remains our goal to keep our board time clear for strategic thinking while asking the committees to undertake much of the core tasks of monitoring and oversight. We need to ensure that we have the right skills round the board table to carry out these tasks.

External interest in what boards do increases year on year and it is for this reason that we set out, in the following detail, a description of our activities. Our agendas are prepared in such a way that we have the time to discuss the key issues of the moment without affecting the proper oversight of those matters with which we have to deal. As will be seen from the reports of the committees, directors have visited a number of BP s facilities during the year. This is a key part not only of building our understanding of the business but also testing the mood and the morale of our people in these difficult times.

As we look to the future, it is vital that the work of the board evolves with the business. We cannot be working to one rhythm while the business works to another. It is all too easy for a board to work to a historic schedule created to address past challenges. For this reason I am pleased that this year we have carried out a fully externally facilitated evaluation. We are reflecting on the conclusions which are set out elsewhere; it is important that we keep on learning. However, behind all of this an effective board has to keep asking itself two key questions: are we talking about the right things and are we adding value?

It is some time since we reviewed our governance policies. We will be doing this in 2016. The results of our evaluation will be part of this process. Prompted by changes to the Governance Code, we have further focused on risk and our systems of internal control. This has been a valuable process for the board. After what seems almost annual changes to the Code, I welcome the FRC s decision that this will not be reviewed again until 2019, enabling the UK governance landscape to settle and establish. I am however looking forward to BP being able to contribute to the FRC s work on succession and culture, which both remain key issues for any board.

Carl-Henric Svanberg

Chairman

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The board in 2015

Board membership

On 1 January 2016 the board had 15 directors the chairman, two executive directors and 12 independent non-executive directors (NEDs).

NEDs are expected to be independent in character and judgement and free from any business or other relationship that could materially interfere with exercising that judgement. It is the board s view that all NEDs, with the exception of the chairman, are independent. See page 244 for a description of BP s board governance principles relating to director independence.

The board benefits significantly from the diverse balance of background, gender, skills and experience represented by the NEDs. There are three female directors on the board and three directors from non-UK/US backgrounds.

Director	Key skills and experience
Paul Anderson	Oil and gas industry experience; leading a global business
Alan Boeckmann	Engineering, construction and procurement; leading a global business
Admiral Frank Bowman	Safety, technology, engineering and risk management
Antony Burgmans	Food and consumer goods; leading a global business
Cynthia Carroll	Oil, gas and extractive industry experience; leading a global business
Professor Dame Ann Dowling	Engineering, technology and education
Ian Davis	Strategy, advisory and consulting
Brendan Nelson	Audit, financial services and trading

Phuthuma Nhleko	Civil engineering, telecoms and banking
Paula Rosput Reynolds	Energy industry; leading a global business
Sir John Sawers	International affairs
Andrew Shilston	Oil and gas industry experience; finance
Carl-Henric Svanberg	Manufacturing and telecoms; leading a global business

The board is satisfied that there is no compromise to the independence of, and nothing to give rise to conflicts of interest for, those directors who serve together as directors on the boards of outside entities or who hold other external appointments. The nomination committee keeps the other interests of the NEDs under review to ensure that the effectiveness of the board is not compromised.

Succession

Paula Rosput Reynolds joined the board in May 2015 as a non-executive director. She is a member of the audit committee and the chairman s committee.

Sir John Sawers also joined the board in May 2015 as a non-executive director. He is a member of the safety, ethics and environment assurance committee, the geopolitical committee and the chairman s committee.

George David, a non-executive director, retired from the board at the annual general meeting on 16 April 2015.

Professor Dame Ann Dowling became the chair of the remuneration committee when Antony Burgmans stood down from the role in July 2015. Andrew Shilston and Alan Boeckmann joined the remuneration committee after the 2015 annual general meeting.

Antony Burgmans became chair of the newly formed geopolitical committee in September 2015. Antony Burgmans will step down from the board at the 2016 AGM after 12 years of service as a non-executive director. Sir John Sawers will then take the chair of the geopolitical committee.

Phuthuma Nhleko will step down from the board at the 2016 AGM after five years of service due to external business commitments.

Board meetings

There were 13 board meetings in 2015, of which two were carried out by teleconference. All directors attended every meeting for which they were eligible, with the following exceptions:

Phuthuma Nhleko did not attend the board meeting scheduled at short notice on 15 June due to prior commitments.
Antony Burgmans, Cynthia Carroll, Brendan Nelson, Paula Rosput Reynolds and Sir John Sawers did not attend the board meeting scheduled at short notice on 23 June due to prior commitments.
Phuthuma Nhleko did not attend the board meeting on 3 December due to urgent business commitments.

Board evaluation

Each year BP undertakes a review of the board, its committees and individual directors. The chairman s performance is evaluated by the chairman s committee and his evaluation is led by the senior independent director.

The evaluation operates on a three-year cycle, with one externally led evaluation followed by two subsequent years of internal evaluations carried out using a questionnaire prepared by an external facilitator.

Activity following prior year evaluation

An evaluation was carried out at the end of 2014 by means of a questionnaire, facilitated by an external consultant (Lintstock). The evaluation concluded that reports from the business and on major projects were robust and informative. In a changing economic and geopolitical climate, the board was keen to ensure that it managed its time to allow appropriate levels of discussion by balancing the board s monitoring activities with discussion on strategic matters: this has been achieved by agenda planning during the year. The evaluation highlighted the future role of technology in delivering BP s strategy: briefings on this topic were planned into the board s agenda, including a technology presentation with respect to climate change.

2015 evaluation

For 2015 an externally facilitated evaluation was held in addition to, and to an extent based on, the established annual questionnaire process. Following a selection process led by the senior independent director, Bvalco was engaged as the external evaluator. The results of the annual questionnaire process were shared with the external evaluator who conducted a series of interviews with each director, members of the executive team and those who attended or supported the board. Interviews were focused on evaluating the effectiveness and performance of the board, and separately that of the chairman. In addition to these interviews, the evaluators reviewed the board agendas and materials for the past year and observed a board meeting.

The evaluation tested key areas of the board s work including its participation in the formation of strategy, succession and composition, and its oversight of business performance, risk and governance processes. The effectiveness of the committees in alleviating the oversight task of the board was also tested and focus was given to whether the board added value.

Results of the board evaluation and feedback from these interviews were collectively discussed by the board at its meeting in January 2016, with the results of the chairman s evaluation discussed by the chairman s committee.

The evaluation concluded:

Recognizing the current state of the market and important developments for the company during the year, there was a continued desire to ensure an effective strategy process that focused on the long term and which acknowledged the important role of the board in this process.
Good progress had been made in succession for the board; going forward this would continue to be built on.
The board was seen to have a collaborative and inclusive environment. To build on this further, the board agreed to try and put more of their monitoring tasks into the committees to allow more time for broader discussions at the board.

Committee work was seen as being of a high quality. Given the breadth of topics covered by the committees, further steps should be taken to ensure that where appropriate all directors could access information and attend external visits for those committees of which they were not members.

It was noted that the board governance principles would be reviewed and amended to capture these conclusions, where appropriate, and to reflect the current roles and practices within the board.

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Board activity

The board s activities are structured to enable the directors to fulfil their role, in particular with respect to strategy, risk, performance and monitoring.

Board focus in 2015

Strategy

The board discussed strategy or strategic elements at every full meeting. The board also reviewed the *BP Energy Outlook,* updated in February 2015, which looks at long-term energy trends and develops projections for world energy markets over the next two decades.

In January the executive team presented the 2015 annual plan to describe how the strategy should be implemented. The board met for two days in Houston in September to review the strategy in depth.

Risk

During the year the board, either directly or through its committees, regularly reviewed the processes whereby risks are identified, evaluated and managed. The effectiveness of the group s system of internal control and risk management was also assessed.

The board considered the allocation of group risks between the monitoring committees (the audit, SEEA, and Gulf of Mexico committees, and from September, the geopolitical committee) and the board itself, and confirmed the schedule for oversight of these risks. The group risks reviewed by the board during 2015 included risks associated with the delivery of major projects«, particularly in the Upstream, and geopolitical risk associated with BP s operations around the world. For 2016 the group risks allocated to the board for review include financial resilience (which examines how the group is able to respond to a volatile oil and gas price environment) and cybersecurity (with the audit committee and SEEAC reviewing elements of cybersecurity risk in their work over the year). The group risks allocated to the committees for review over the year are outlined in the reports of the committees on pages 68-72.

Further information on BP s system of risk management is outlined in Our management of risk on page 51.

Performance

The board reviews financial and operational performance at each meeting. It receives regular updates on the group s performance for the year across a range of metrics as well as the latest view on expected full-year delivery against external scorecard measures. Updates are also given on various components of value delivery for BP s business.

The board reviews the quarterly and full-year results, including reviewing shareholder distribution policy. Both the 2014 and 2015 annual reports were assessed in terms of the directors obligations and appropriate regulatory requirements.

Monitoring

All meetings include a report from the chair of each committee that has met since the last meeting. These are supplemented with feedback on board and committee site visits, including a deep dive on exploration at the upstream learning centre in Sunbury in May.

The board monitors employee opinion via an annual pulse survey which includes measurement of how the BP values are incorporated into daily culture around our global operations.

The board received an update in December on BP s reputation in the US and UK compared with competitors, based on the results of our 2015 reputation research across a number of consistent reputational attributes measured over time.

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Training and induction

To help develop an understanding of BP s business, the board continues to build its knowledge through briefings and field visits. In 2015 the board received training on ethics and compliance, and the introduction of the new longer-term viability statement. The board met local management and external stakeholders at its board meetings in Sunbury and Houston.

NEDs are expected to attend at least one field visit per year. In 2015 the audit committee visited the cybersecurity centre in Houston and members of the SEEAC visited BP s operations in Trinidad, Oman and Rotterdam. After each visit, the board or appropriate committee was briefed on the impressions gained by the directors during the visit.

The two new NEDs, Paula Rosput Reynolds and Sir John Sawers followed a structured induction process. This included one-to-one meetings with management and the external auditors and also covered the board committees that they joined.

Director induction programme

Board and governance

g BP s board governance model, directors duties, interests and potential conflicts.

Business introduction

g BP s business.

g Upstream (exploration, development, production, overview of our operations).

g Downstream (refining, marketing and lubricants).

g Strategy and planning.

g BP s performance relative to its competitors.

Functional input

g Finance and tax.

- Controls, external auditors and internal audit.
- Human resources.
- Ethics and compliance.
- Safety and operational risk (S&OR), BP s operating management system (OMS) and environmental performance.
- Research and technology.
- Trading.

After completing the induction, the directors are asked for feedback on the process to help further improve it going forward.

Shareholder engagement

The company operates an active investor relations programme and the board receives feedback on shareholder views through results of an anonymous investor audit and reports from management and those directors who met with shareholders over the year.

Shareholder engagement cycle 2015

January	g	*BP Energy Outlook* presentation
February	g	Fourth quarter results
	g	Investor roadshows with the group chief executive and chief financial officer
March	g	Engagement on remuneration and governance issues
	g	Chairman and board committee chairs meeting
	g	UKSA private shareholders meeting
	g	SRI roadshow following the launch of *BP Sustainability Report 2014*
April	g	Annual general meeting
	g	First quarter results
	g	*BP s response to lower oil prices* launch
June	g	*BP Statistical Review of World Energy* launch
July	g	Second quarter results
	g	Investor roadshows with the group chief executive and chief financial officer
	g	Institutional Investors Group on Climate Change meeting
August	g	Engagement with UKSA private shareholder panel on BP s 2014 financial reports
September	g	Oil and gas sector conferences
October	g	Third-quarter results and medium-term outlook

November	g	SRI annual meeting
	g	*BP Technology Outlook* launch
	g	Meetings with investors on remuneration (into December)
December	g	*Medium-Term Outlook* launched on *bp.com*

« Defined on page 256.

Institutional investors

Senior management regularly meets with institutional investors through roadshows, group and one-to-one meetings and events for socially responsible investors (SRIs).

During the year the chairman and remuneration committee chair held individual investor meetings to discuss strategy, the board s view on BP s performance, governance and remuneration. In March the chairman and all board committee chairs held an annual investor event. This meeting enabled BP s largest shareholders to hear about the work of the board and its committees and for NEDs to engage with investors.

In November the chairman and members of the executive team met with socially responsible investors as part of BP s annual SRI meeting. The meeting examined a number of operational and strategic issues, including how the board looks at risk and strategy, the group s approach to operational risk, context for the sector and BP in terms of oil price and energy supply-demand, operating and energy performance in the Upstream, and BP s response to the shareholder resolution.

See *bp.com/investors* for investor presentations, including the group s financial results and information on the work of the board and its committees.

Private investors

BP held a further event for private investors in conjunction with the UK Shareholders Association (UKSA) in 2015. The chairman and head of investor relations made presentations on BP s annual results, strategy and the work of the board. The shareholders asked questions on BP s activities and performance. Later in the year, the UKSA met with the company to give feedback on BP s 2014 financial reports.

AGM

Voting levels decreased slightly in 2015 to 62.28% (of issued share capital, including votes cast as withheld), compared to 63.13% in 2014 and 64.24% in 2013. Each year the board receives a report after the AGM giving a breakdown of the votes and investor feedback on their voting decisions to inform the board on any issues arising.

UK Corporate Governance Code compliance

BP complied throughout 2015 with the provisions of the UK Corporate Governance Code (the Code) except in the following aspects:

B.3.2	Letters of appointment do not set out fixed-time commitments since the schedule of board and committee meetings is subject to change according to the demands of business and other events. Our letters of appointment set a general guide of a time commitment between 30-40 days per year. All directors are expected to demonstrate their commitment to the work of the board on an ongoing basis. This is reviewed by the nomination committee in recommending candidates for annual re-election.
D.2.2	The remuneration of the chairman is not set by the remuneration committee. Instead the chairman s remuneration is reviewed by the remuneration committee which makes a recommendation to the board as a whole for final approval, within the limits set by shareholders. This wider process enables all board

members to discuss and approve the chairman s remuneration, rather than solely the members of the remuneration committee.

International advisory board

BP s international advisory board (IAB) advises the chairman, group chief executive and the board on geopolitical and strategic issues relating to the company. This group meets once or twice a year and between meetings IAB members remain available to provide advice and counsel when needed.

The IAB is chaired by BP s previous chairman, Peter Sutherland. Its membership in 2015 comprised Kofi Annan, Lord Patten of Barnes, Josh Bolten, President Romano Prodi, Dr Ernesto Zedillo and Dr Javier Solana. The chairman and chief executive attend meetings of the IAB. Issues discussed during the year included emerging geopolitical issues that could impact BP s business, developments in the Middle East and Latin America, the effects of migration in Europe and the 2016 US election.

How the board works

The board operates within a system of governance that is set out in the BP board governance principles. These principles define the role of the board, its processes and its relationship with executive management.

This system is reflected in the governance of the group s subsidiaries. See *bp.com/governance* for the board governance principles.

Role of the board

The board is responsible for the overall conduct of the group s business and the directors have duties under both UK company law and BP s Articles of Association.

The primary tasks of the board include:	
g	Active consideration and direction of long-term strategy and approval of the annual plan.
g	Monitoring of BP s performance against the strategy and plan.
g	Obtaining assurance that the principal risks and uncertainties to BP are identified and that systems of risk management and control are in place to mitigate such risk.
g	Board and executive management succession.

The board seeks to set the tone from the top for BP by working with management to agree BP values and considering specific issues including health, safety, the environment and reputation.

Key roles and responsibilities

The chairman

Carl-Henric Svanberg

Provides leadership of the board.
Acts as main point of contact between the board and management.
Speaks on board matters to shareholders and other parties.
Ensures that systems are in place to provide directors with accurate, timely and clear information to enable the board to operate effectively.

Is responsible for the integrity and effectiveness of the BP board s system of governance.

The group chief executive

Bob Dudley

Is responsible for day-to-day management of the group and executes strategy.
Chairs the executive team (ET), the membership of which is set out on pages 60 to 61.

The senior independent director

Andrew Shilston

Acts as an internal sounding board for the chairman.
Serves as intermediary for other directors with the chairman when necessary.
Is available to shareholders if they have concerns that cannot be addressed through normal channels.
Leads the chairman s evaluation.

Neither the chairman nor the senior independent director are employed as an executive of the group.

Appointment and time commitment

The chairman and NEDs have letters of appointment; there is no term limit on a director s service, as BP proposes all directors for annual re-election by shareholders (a practice followed since 2004).

While the chairman s appointment letter sets out the time commitment expected of him, letters of appointment for NEDs do not set a fixed-time commitment, but instead set a general guide of between 30-40 days per year. The time required of directors may fluctuate depending on demands of BP business and other events, and they are expected to allocate sufficient time to BP to perform their duties effectively and make themselves available for all regular and ad-hoc meetings.

Executive directors are permitted to take up one external board appointment, subject to the agreement of the chairman. Fees received for an external appointment may be retained by the executive director and are reported in the annual report on remuneration (see page 76).

Board diversity

BP recognizes the importance of diversity, including gender diversity, at the board and all levels of the group. We are committed to increasing diversity across our operations and have a wide range of activities to support the development and promotion of talented individuals, regardless of gender and ethnic background.

The board operates a policy that aims to promote diversity in its composition. Under this policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the board, with directors asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the board.

Implementation of this policy is monitored through agreed metrics. During its annual evaluation, the board considered diversity as part of the review of its performance and effectiveness.

We continue to support the UK government s review of gender diversity on boards, undertaken by Lord Davies in 2011, and maintain an aspiration to increase female representation to 25%. At the end of 2015, there were three female directors (2014 2, 2013 2) on our board of 15. Our nomination committee remains mindful of diversity in considering potential candidates for appointment to the board.

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Committee reports

Audit committee

Chairman s introduction

2015 was another active year for the audit committee. We took the opportunity of the new UK Corporate Governance Code reporting requirements to take a fresh look at the company s risk management processes. This involved reviewing the group s principal risks, considering scenarios that might impact the company s longer-term viability and debating the categorization of what would constitute significant failings and weaknesses in our system of internal control.

The committee continued to build its understanding of BP s business, including how key risks are identified and mitigated and how segments and functions are performing to achieve the group s strategy. To complement the presentations received in the board room, the committee met employees on several site visits including trading floors in Houston and London and the group s cybersecurity monitoring centre.

During 2015 the committee s membership evolved, with our longest-serving member George David retiring in April and Paula Rosput Reynolds joining us in May. I would like to thank George for his insight and challenge during his tenure and to welcome Paula, who brings broad financial and corporate knowledge from her business career. The skills and experience of our committee membership remain strong and I believe that the committee has performed effectively over the year.

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 system 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	
Brendan Nelson (chair)	Member since November 2010; committee chair since April 2011
George David	Member from February 2008 to April 2015
Phuthuma Nhleko	Member since February 2011
Paula Rosput Reynolds	Member since May 2015
Andrew Shilston	Member since February 2012

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. The board is satisfied that Mr Nelson is the audit committee member with recent and relevant financial experience as outlined in the UK Corporate Governance Code. 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. 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 Mr Nelson may be regarded as an audit committee financial expert as defined in Item 16A of Form 20-F.

Meetings and attendance

There were 11 committee meetings in 2015, of which three were carried out by teleconference and five were joint meetings with the SEEAC. All directors attended every meeting for which they were eligible, with the following exceptions:

- George David did not attend the teleconference on 25 February 2015 due to prior commitments.
- Phuthuma Nhleko did not attend the committee meeting on 23 April 2015 due to a clash with the AGM of another company.
- Paula Rosput Reynolds did not attend the committee meeting on 23 September 2015 due to a conflicting board meeting.

Meetings are also attended by the chief financial officer, group controller, chief accounting officer, head of group audit and external auditor.

Activities during the year

Training

The committee held a learning event on changes to the UK Corporate Governance Code and received technical updates during the year from the chief accounting officer on developments in financial reporting and accounting policy.

Financial disclosure

The committee reviewed the quarterly, half-year and annual financial statements with management, focusing on the integrity and clarity of disclosure, compliance with relevant legal and financial reporting standards and the application of critical accounting policies and judgements.

The committee jointly reviewed with the SEEAC whether the *BP Annual Report and Form 20-F 2015* was fair, balanced and understandable and provided the information necessary for shareholders to assess the group s position and performance, business model and strategy. The two committees considered the processes underpinning the compilation and assurance of the report in relation to financial and non-financial management information. Following this joint review, the full board reviewed the report as a whole including tone, balance, language and consistency between the narrative sections and financial statements. Part of the board s evaluation included a review of the company s internal processes that form the group s reporting governance framework.

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Areas of audit committee focus in 2015

*Undertaken jointly with the SEEAC.

Significant areas of accounting judgement considered by the committee during the year

	Key issues/judgements in financial reporting	Audit committee review
Oil and natural gas accounting	BP uses judgement and estimations when accounting for oil and gas exploration, appraisal and development expenditure and determining the group s estimated oil and gas reserves.	The committee reviewed judgemental aspects of oil and gas accounting such as intangible asset balances relating to exploration and appraisal activities as part of the company s quarterly due-diligence process. It also examined the governance framework for the oil and gas reserves process, training for staff and developments in regulations and controls. Significant exploration write-offs during the year were disclosed in the relevant quarter.
Recoverability of asset carrying values	Determination as to whether and how much an asset is impaired involves management judgement and estimates on highly uncertain matters such as future pricing or discount rates. Judgements are also required in assessing the recoverability of overdue receivables and deciding whether a provision is required.	The committee reviewed the discount rates for impairment testing as part of its annual process and examined the assumptions for long-term oil and gas prices and refining margins. It received updates from management at each quarter relating to market forward prices used for impairment testing and considered whether any further impairment indicators were present. The committee also reviewed management s approach to reviewing the carrying values of upstream assets following further falls in market forward prices. Significant impairments during the year were disclosed as non-operating items« in the relevant quarter.
Accounting for interests in other entities	BP exercises judgement when assessing the level of control obtained in a transaction to acquire an interest in another entity and when determining the fair value of assets acquired and liabilities assumed, and the level of control which continues to be exercised going forward.	The committee continued to reveiw the accounting for BP s investment in Rosneft including the judgement on whether the group has significant influence over Rosneft. During the year the committee received reports from management and the external auditor that assessed the extent of BP s influence, including participation in decision

		making through the election of two BP nominees to the Rosneft board. It also assessed other factors, including the signing of binding agreements for BP to complete the purchase of a 20% interest in Taas-Yuryakh Neftegazodobycha, a Rosneft subsidiary«.
The group s trading activities	BP uses judgement when estimating the fair value of some derivative instruments in cases where there is an absence of liquid market pricing information for example, relating to supply and trading activities.	The committee received a detailed briefing on the group s trading risk, controls and compliance and visited BP s trading floors in Houston and London. The committee considered the controls in place to prevent unauthorized trading activity and received information on the valuation of the group s derivative instrument and the financial models that are used.
Provisions and contingencies	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 in the long term and the requirements that will have to be met when a removal event occurs are uncertain. Judgement is applied when estimating issues such as settlement dates, technology and legal requirements.	The committee received briefings on the group s decommissioning, environmental remediation and litigation provisioning, including key assumptions used, the governance framework applied (covering accountabilities and controls), discount rates and the movement in provisions over time.

« Defined on page 256.

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Accounting judgements and estimates (continued)

	Key issues/judgements in financial reporting	Audit committee review
Gulf of Mexico oil spill	Judgement was applied during the year around the significant uncertainties over provisions and contingencies relating to the incident.	The committee regularly discussed BP s provisioning for and the disclosure of contingent liabilities relating to the Gulf of Mexico oil spill with management and the external auditors, including as part of the review of BP s stock exchange announcement at each quarter end. The committee examined the provisions booked as a result of the agreements in principle signed in July. In instances where a reliable estimate could not be made of the provision required, the committee considered management s conclusions and monitored developments while considering the impact on the financial statements and other disclosures.
Pensions and other post-retirement benefits	Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including discount rates, inflation and life expectancy.	The committee examined the assumptions used by management as part of its annual reporting process.
Taxation	Computation of the group s tax expense and liability, provisioning for potential tax liabilities and the level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by management judgement.	The committee reviewed the judgements exercised on tax provisioning as part of its annual review of key provisions.

Risk reviews

The group risks allocated to the audit committee for monitoring in 2015 included those associated with trading activities, compliance with applicable laws and regulations and security threats against BP s digital infrastructure. The committee held in-depth reviews of these group risks over the year. It also examined the group s information technology risks, its governance of the tax function and the use of financial models including their associated controls framework. The committee further considered the financial group (or principal) risks identified for 2016 and the group s process to assess, mitigate and monitor them. BP s principal risks are listed on page 53. For 2016, the board has agreed that the committee will monitor cybersecurity, trading activities and compliance with applicable laws and regulations.

Other reviews

During the year the committee reviewed succession and development of the group s finance function, including an overview of the demographics and key capability challenges for finance staff. The group s Downstream segment was reviewed to examine the financial performance and strategic priorities of the individual fuels, lubricants and petrochemicals businesses, including key areas of financial risk management.

Internal control and risk management

The committee reviewed the group s system of internal control and risk management throughout the year, holding a joint meeting with the SEEAC to discuss key audit findings and management s actions. The committee reviewed the scope, activity and effectiveness of the group audit function and met privately with the head of group audit and his leadership team during the year.

During the year the committee examined the requirements of the revised UK Corporate Governance Code in relation to the assessment and reporting of longer-term viability, risk management and internal control. The committee looked at key elements of BP s risk management process, including the reporting and categorisation of risk across the group, and jointly with the SEEAC examined what might constitute a significant failing or weakness in the system of internal control. The two committees also reviewed the modelling undertaken to stress test different financial and operational events and considered the appropriate period for which the company was viable.

The committee received quarterly reports on the findings of group audit, on significant allegations and investigations and on key ethics and compliance issues; a joint meeting was held with the SEEAC to discuss the annual report certifying compliance with the BP code of conduct. The two committees also met to discuss future programmes for the group audit and ethics and compliance functions. The committee held a private meeting with the group ethics and compliance officer during the year.

External audit

The external auditors set out their audit strategy, identifying key risks to be considered during the year including longer-term oil and gas prices, the group s cost outlook, the capital framework in a lower oil price environment, discount rate assumptions, considerations around impairments, estimation of oil and gas reserves and resources, decommissioning, valuation of exploration assets, accounting for BP s investment in the Rosneft subsidiary Taas, deferred taxation, estimation of the group s pension obligations, the recovery of receivables and management of change.

The committee received updates during the year on the audit process, including how the auditors had independently considered the group s assumptions on these issues.

The audit committee reviews the fee structure, resourcing and terms of engagement for the external auditor annually. Fees paid to the external auditor for the year were $51 million (2014 $53 million), of which 6% was for non-assurance work (see Financial statements Note 35). Non-audit or non-audit related assurance fees were $3 million (2014 $5 million). The $2-million reduction in non-audit fees relates primarily to decreases in tax advisory and other assurance services. Non-audit or non-audit related assurance services consisted of tax compliance services, tax advisory services, other assurance services and services relating to corporate finance transactions. 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.

The effectiveness of the audit process was evaluated through two surveys one completed by committee members only and the second by those BP personnel impacted by the audit. The surveys used a set of criteria to measure the auditors performance against the quality commitment set out in their annual audit plan. This included the robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service and value added advice.

Overall the 2015 evaluation concluded that the external auditor

performance had either improved or remained consistent in key areas with the previous year. Areas with high scores included independence, objectivity and the quality of delivery of the audit. Areas of suggested focus for the auditors included audit team turnover and more liaison between BP s own audit function and the external auditors, with the intent that improved planning could prevent duplication. There was also feedback that the technical knowledge and experience of the audit team remained strong.

The committee held private meetings with the external auditors during the year and the chair met privately with the external auditor before each meeting.

Auditor appointment and independence

The committee considers the reappointment of the external auditor each year before making a recommendation to the board and shareholders. It 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. The current lead partner has been in place since the start of 2013.

Audit tendering

During the year the committee reviewed the group s position on its audit services contract and examined a number of options regarding the timing of tendering for BP s external audit, including the mandatory rotation of the group s audit firm, taking into account the UK Corporate Governance Code and the reforms of the audit market by the Competition and Markets Authority (CMA) and the European Union.

The committee concluded that the best interests of the group and its shareholders would be served by utilizing the transition arrangements outlined by the Financial Reporting Council and retaining BP s existing audit firm until the conclusion of the term of its current lead partner. The committee intends that the audit contract will be put out to tender in 2016 so that a decision can be taken and communicated to shareholders at BP s AGM in 2017. It is expected that the new audit services contract would be effective from 2018.

BP has complied throughout 2015 with the provisions of The Statutory Audit Services Order 2014, issued by the CMA.

Non-audit services

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) and UK Auditing Practices Board (APB).

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. A two-tier system for approval of audit-related and non-audit work operates. For services relating to accounting, auditing and financial reporting matters, internal accounting and risk management control reviews or non-statutory audit, the committee has agreed to pre-approve these services up to an annual aggregate level. 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 245.

During the year, the committee reviewed the group s policy on audit-related and non-audit services and it was determined that transfer-pricing services should be moved into the category of work requiring approval from the audit committee chairman or the full committee.

Committee review

The audit committee undertakes an annual evaluation of its performance and effectiveness. In late 2015 the committee used an online survey and externally facilitated interviews to examine governance issues such as committee processes and support, the work of the committee and priorities for change. The review concluded that the committee had

performed effectively. Areas of focus arising from the evaluation included continuing broader segment and business reviews in the committee s 2016 agenda, examining how areas of overlap between the committee and the SEEAC in terms of financial and operational risk could be managed and suggestions for further committee training and committee visits.

Safety, ethics and environment assurance committee (SEEAC)

Chairman s introduction

The SEEAC has continued to monitor closely and provide constructive challenge to management in the drive for safe and reliable operations at all times. This included the committee receiving individual reports on the company s management of highest priority group risks in marine, wells, pipelines, explosion or release at our facilities, and major security incidents. The committee also undertook a number of field visits as well as maintaining its schedule of regular meetings with executive management.

We received final reports from the independent experts we engaged in Upstream (Carl Sandlin) and Downstream (Duane Wilson). They provided valuable insights and advice on many aspects of process safety and we are grateful to them for their work.

We were pleased to welcome Sir John Sawers to the committee in July. John brings valuable experience and insight from his time in government service.

Paul Anderson

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 risk are appropriate in design and effective in 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.

At a joint meeting with the audit committee, the SEEAC reviewed the general auditor s report on the system of internal control and risk management for the year in preparation for the board s report to shareholders. In that meeting the committees also reviewed the group audit programme for the year ahead to ensure both committees endorsed the coverage. The committees worked together, through their chairs and secretaries, to ensure that the agendas did not overlap or omit coverage of any key risks during the year.

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Members	
Paul Anderson (chairman)	Member since February 2010; committee chair since December 2012
Alan Boeckmann	Member since September 2014
Frank Bowman	Member since November 2010
Antony Burgmans	Member since February 2004
Cynthia Carroll	Member since June 2007
Ann Dowling	Member since February 2012
John Sawers	Member since July 2015

Meetings and attendance

There were six committee meetings in 2015, plus an additional five joint meetings with the audit committee. All directors attended every meeting for which they were eligible, with the following exceptions:

- Alan Boeckmann did not attend the committee meeting on 13 May 2015 due to prior commitments.
- Cynthia Carroll did not attend the committee meeting on 2 December 2015 due to a conflicting board meeting.

In addition to the committee membership, 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 was briefed on the other meetings by the chair and secretary to the committee), as did the group general counsel and group ethics and compliance officer. The committee scheduled private sessions for the committee members only (without the presence of executive management) at the conclusion of each meeting to discuss any issues arising and the quality of the meeting.

Activities during the year

Safety, operations and environment

The committee received regular reports from the S&OR 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. Operational risk and performance forms a large part of the committee s agenda.

During the year the committee received specific and separate reports on the company s management of risks in marine, wells, pipelines, explosion or release at our facilities and major security incidents. The committee reviewed these risks and their risk management and mitigation in depth with relevant executive management.

Independent expert Upstream

Mr Carl Sandlin continued in his role as an independent expert to provide further oversight regarding the implementation of the Bly Report recommendations. He formally reported directly to the SEEAC twice in 2015 and presented detailed reports on his work, including reporting on a number of visits made to company operations around the world; he also met in private with the chair and other members of the committee during the year. He reported that all 26 recommendations in the Bly Report were completed by the end of 2015. He gave his final report to the SEEAC in January 2016 and his engagement ceased in February 2016. We thank him for his work with the committee since 2012.

Process safety expert   Downstream

Mr Duane Wilson finalized his engagement with the committee in his role as process safety expert for the Downstream segment. He completed his work with segment management to monitor and advise on the process safety culture and learnings across the segment. He submitted his final report to the SEEAC in January 2015 and completed his engagement in April 2015. The committee thanks him for his work, including on process safety culture.

Reports from group audit, group ethics and compliance and the business integrity functions

The committee received quarterly reports from each of these functions. In addition, both the head of group audit and the group ethics and compliance officer met in private with the chairman and other members of the committee during the year.

Field trips

In June members of the committee visited Trinidad to examine both the offshore facilities (the Cassia platform) and the onshore liquefied natural gas terminal (Atlantic LNG). In November the chairman and other committee members visited operations at the Khazzan gas field development in Oman; in December the chairman and other members of the committee and the board visited the Rotterdam refinery in the Netherlands. In all cases, the visiting committee members received briefings on operations, the status of local operating management system« (OMS) implementation and risk management and mitigation. Committee members then reported back in detail about each visit to the committee and subsequently to the board.

Committee review

For its 2015 evaluation, the committee examined its performance and effectiveness through a questionnaire and interviews by external facilitators. 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.

SEEAC focus in 2015

*Undertaken jointly with the audit committee.

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The evaluation results were generally positive. Committee members considered that the committee 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 considered that the field trips remained an important element of its work, in particular as such trips gave committee members the opportunity to examine how risk management is being embedded in businesses and facilities, including management culture. An area of focus for 2016 will be examining areas of overlap across the committee and the audit committee in terms of how financial and operational risk could be better managed.

Gulf of Mexico committee

Chairman s introduction

The Gulf of Mexico committee continued to oversee the group s response to the Deepwater Horizon accident, ensuring the company fulfils all its legitimate obligations while protecting and defending the interests of the group. The major development in the year was the execution of agreements in principle with the United States and five Gulf states (Alabama, Florida, Louisiana, Mississippi and Texas) on 2 July. These agreements, subject to final court approval of the proposed Consent Decree, resolve all Clean Water Act penalties, natural resource damage claims and various economic loss claims pursued by the Gulf states.

Assuming that the Consent Decree order is approved by the court as anticipated, we intend to recommend to the board that the committee ceases its activities and is stood down at the end of the first quarter of 2016. Reporting of remaining proceedings will be made directly to the board or other committees as appropriate thereafter.

Ian Davis

Committee chair

Role of the committee

The committee was formed in July 2010 to oversee the management and mitigation of legal and licence to operate risks arising out of the Deepwater Horizon accident and oil spill. Its work is integrated with that of the board, which retains ultimate accountability for oversight of the group s response to the accident.

Key responsibilities

- Oversee the legal strategy for litigation, investigations and suspension/ debarment actions arising from the accident and its aftermath, including the strategy connected with settlements and claims.
- Review the environmental work to remediate or mitigate the effects of the oil spill in the waters of the Gulf of Mexico and on the affected shorelines.
- Oversee management strategy and actions to restore the group s reputation in the US.

Review compliance with government settlement agreements arising out of the Deepwater Horizon accident and oil spill, including the SEC Consent Order, the Department of Justice plea agreement and the EPA administrative agreement. This is done in co-ordination with other committees and board oversight.

Members	
Ian Davis (chair)	Member since July 2010; committee chair since July 2010
Paul Anderson	Member since July 2010
Alan Boeckmann	Member since September 2014
Frank Bowman	Member since February 2012
George David	Member from July 2010 to April 2015

George David ceased to be a member of the committee when he retired from the board in April 2015.

Meetings and attendance

There were five committee meetings in 2015, including one by teleconference. All directors attended every meeting for which they were eligible, with the exception of George David who did not attend the committee meeting called at short notice on 9 February 2015 due to a prior commitment.

Gulf of Mexico committee focus in 2015

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Geopolitical committee

Chairman s introduction

I am pleased to report on the work of this committee that was formed during 2015. I have been asked to chair this committee until the 2016 AGM, when I will retire from the board and Sir John Sawers will take the chair.

Antony Burgmans

Committee chair

Role of the committee

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

Key responsibilities

- To monitor the company s identification and management of major and correlated geopolitical risk and to 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 that can be jeopardized;
  - 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.
- To review the company s activities in the context of political and economic developments on a regional basis and to advise the board on these elements in its consideration of BP s strategy and the annual plan.

Members	
Antony Burgmans (chair)	Member and committee chair since September 2015
Paul Anderson	Member since September 2015
Frank Bowman	Member since September 2015
Cynthia Carroll	Member since September 2015
Phuthuma Nhleko	Member since September 2015
John Sawers	Member since September 2015
Andrew Shilston	Member since September 2015

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

Activities during the year

The committee met twice during the year. During those meetings it considered:

- The committee s terms of reference.
- An overview of the company s current geopolitical risks.
- The relationship of the committee with the International Advisory Board.
- The effect of the oil price on geopolitical matters.
- The company s relationships with national oil companies.
- The company s relationships in specific countries and regions.

Chairman s and nomination committees

Chairman s introduction

I am pleased to report on the two board committees that I chair. Both actively sought to develop the membership of the board and its governance during the year.

Carl-Henric Svanberg

Committees chair

Chairman s committee

Role of the committee

To provide a forum for matters to be discussed among 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 the succession plan for the group chief executive, the 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 who join the committee at the date of their appointment to the board. The chief executive attends the committee when requested.

Activities during the year

The committee met seven times in the year. During the year the committee:

- Monitored the progress of the Gulf of Mexico litigation and, in particular, considered the proposals which led to the Agreements in Principle to settle federal and state claims and claims made by local government entities.
- Reviewed BP s strategy in light of the continuing decline in oil prices.
- Considered the succession and organization of the executive team.
- Evaluated the performance of the chairman and chief executive.

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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 under review the mix of knowledge, skills and experience of the board to ensure the orderly succession of directors.
- Review the outside directorship/commitments of non-executive directors.

Members	
Carl-Henric Svanberg (chair)	Member since September 2009; committee chair since January 2010
Paul Anderson	Member since April 2012
Cynthia Carroll	Member from May 2011 to May 2015
Antony Burgmans	Member since May 2011
Ann Dowling	Member since May 2015
Ian Davis	Member since August 2010
Brendan Nelson	Member since April 2012
Andrew Shilston	Member since May 2015, but attended previously as senior independent director

During the year Ann Dowling and Andrew Shilston joined the committee and Cynthia Carroll stood down.

Activities during the year

In 2014 the committee had previously identified Paula Reynolds and Sir John Sawers as candidates to join the board; they then both joined in May 2015. With the total number of the board standing at 15, the committee met once during the year to carry out a broader review of board composition and skills in light of BP s strategy and the potential sequencing of board retirements. The committee focused on non-executive membership of the board as executive succession is considered in the chairman s committee.

By most standards the board would be considered large. The committee notes that as Antony Burgmans and Phuthuma Nhleko will be standing down at the 2016 AGM, the optimum size of the board should be considered together with the skills relevant for the board and its committees. The committee was of the view that the current board is well balanced with an appropriate breadth of skills. Industry experience needs to be maintained as does the balance between former chief executives and those with different functional and sectoral expertise. The need to maintain diversity in all forms remains a major consideration for a board in a global business and the committee reviewed how potential appointments meet the board s aspirations on diversity, inclusiveness and meritocracy. The committee also remained mindful of BP s commitment to Lord Davies report and work on women on boards.

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Directors   remuneration report

The Chairman   s Statement (which forms part of the Directors   Remuneration Report) is located on pages 22-23. Please refer to this for an overview from Professor Dame Ann Dowling on the performance and pay outcomes for 2015.

2015 annual report on remuneration

Highlights of the year

Strong safety and operational performance in a difficult environment

Responded early and decisively to lower oil price environment.

Excellent safety standards with continuous improvement over the past three years, leading to improvements in reliability and operations.

Strong operating cash flow« and underlying replacement cost profit relative to plan.

Net investment (organic)« managed aggressively to reflect   lower for longer   oil price environment.

Executive directors   pay outcomes reflect strong operating performance relative to plan.

Alignment between executives and shareholders with the majority of executive director remuneration paid in equity with lengthy retention requirements.

Remuneration policy

Throughout this report, the word policy refers to the directors remuneration policy approved by shareholders at the company s annual general meeting on 10 April 2014. As shown below, BP s strategy is reflected in the measures adopted by the committee in 2016 for the executive directors and the metrics and targets are designed to assess performance against that strategy. Net investment (organic) has been removed as a measure for 2016. The same measures and targets are used for the wider management. A summary of the policy is located on pages 88-89 and the full policy is available at *bp.com/remuneration* and is set out in the *BP Annual Report and Form 20-F 2013.* The committee has again reviewed the terms of the executive directors remuneration and confirmed

that malus and clawback provisions exist in all terms save the cash element of the annual bonus. It will consider this on the next occasion that it reviews the remuneration policy. Separate sections of this report contain information pertaining to executive and non-executive directors. The remuneration of executive directors is set by the remuneration committee under delegated powers from the board. The committee makes a recommendation to the board for the remuneration of the chairman. The remuneration of non-executive directors is set by the board based on a recommendation from the chairman, the group chief executive and the company secretary.

Strategic priorities

2016 bonus and equity plans supporting BP s strategic priorities

Short term: annual bonus		Long term: performance share plan
Safety and operational risk	Value	Relative total shareholder return
Loss of primary containment	Operating cash flow	Cumulative operating cash flow
Process safety tier 1 events	Underlying replacement cost profit	Strategic imperatives:
Recordable injury frequency	Corporate and functional costs	Relative reserves replacement ratio
	Major project delivery	Safety and operational risk
		Major project delivery

Creating long-term shareholder value

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Executive directors

Total remuneration summary 2015

The table below shows the total remuneration received by executive directors in 2015 and reflects the following:

Salary no increases were granted for 2015, in line with the group-wide salary freeze. The last increase was in July 2014.

Annual bonus the key focus for 2015 was safe and reliable operations, delivery of strong operating cash flow relative to plan and major projects within the year. This resulted in **a final overall group score of 1.70 but limited to 1.50 for executive directors**.

Deferred bonus 2012 deferred bonus was conditional on safety and environmental sustainability performance over the period 2013 through to 2015. There was strong and consistent delivery against this hurdle and **2012 deferred and matching shares vested in full**.

Performance shares vesting was based one third on relative total shareholder return (TSR), one third on operating cash flow and one third on strategic imperatives including safety and operational risk (S&OR), relative reserves replacement ratio (RRR) and major project delivery«. TSR performance was third amongst the oil majors. There was strong performance related to operating cash flow and the strategic imperatives. On a preliminary assessment **77.6% of the 2013-2015 award is expected to vest**.

Pension pension figures reflect the UK requirements to show 20 times the increase in accrued pension over the year for defined benefit plans, as well as the company match to retirement savings plans and any cash paid in lieu. The UK requirement overstates the true increase in value of Bob Dudley s US pension (see page 82 for explanation).

Single figure table of remuneration of executive directors in 2015 (audited)

Remuneration is reported in the currency received by the individual

	Bob Dudley thousand		Dr Brian Gilvary thousand	
Annual remuneration	**2015**	2014	**2015**	2014
Salary	**$1,854**	$1,827	**£732**	£721
Annual cash bonus[a]	**$1,391**	$1,005	**£549**	£396
Benefits	**$119**	$114	**£53**	£51
Total	**$3,364**	$2,946	**£1,334**	£1,168
Vested equity				
Deferred bonus and match[b]	**$2,603**	$3,401	**£1,272**	£0

Performance shares	**$7,116**[c]	$7,020[d]	**£2,223**[c]	£2,185[d]
Total	**$9,719**	$10,421	**£3,495**	£2,185
Total remuneration	**$13,083**	$13,367	**£4,829**	£3,353
Pension				
Pension and retirement savings value increase[e]	**$6,519**	$3,023	**£0**	£21
Cash in lieu of future accrual	**N/A**	N/A	**£256**	£252
Total including pension	**$19,602**	$16,390	**£5,085**	£3,626

[a] This reflects the amount of bonus paid in cash with the deferred portion as set out in the conditional equity table below.

[b] Value of vested deferred bonus and matching shares. The amounts reported for 2015 relate to the 2012 annual bonus deferred over three years, which vested on 9 February 2016 at the market price of £3.34 for ordinary shares and $28.95 for ADSs and include re-invested dividends on shares vested. The amounts reported for 2014 relate to the 2011 annual bonus.

[c] Represents the assumed vesting of shares in 2016 following the end of the relevant performance period, based on a preliminary assessment of performance achieved under the rules of the plan and includes re-invested dividends on shares vested. In accordance with UK regulations, the vesting price of the assumed vesting is the average market price for the fourth quarter of 2015 which was £3.72 for ordinary shares and $33.81 for ADSs. The final vesting will be confirmed by the committee in second quarter 2016 and provided in the 2016 Directors remuneration report.

[d] In accordance with UK regulations, in the 2014 single figure table, the performance outcome value was based on an estimated vesting at an assumed share price of £4.27 for ordinary shares and $40.74 for ADSs. In May 2015, after the external data became available, the committee reviewed the relative reserves replacement ratio position and assessed that the group was in first place relative to the other oil majors. This resulted in an adjustment to the final vesting from 60.5% to 63.8%. On 7 May 2015, 167,824 ADSs for Bob Dudley and 478,090 shares for Brian Gilvary vested at prices of $41.83 and £4.57 respectively. The 2014 values for the total vesting have increased by $628,746 for Bob Dudley and £280,827 for Brian Gilvary.

[e] Represents (1) the annual increase net of inflation in accrued pension multiplied by 20 as prescribed by UK regulations, and (2) in the case of Bob Dudley only, the aggregate value of the company match under his US retirement savings arrangements. Full details are set out on page 82. In Bob Dudley s case, the 2014 amount has been restated to reflect the revised disclosure of Mr Dudley s participation in the US retirement savings arrangements.

Conditional equity to vest in future years, subject to performance

		Bob Dudley		Dr Brian Gilvary	
Deferred bonus in respect of bonus year		**2015**[a]	2014	**2015**[a]	2014
Total deferred bonus	Value (thousand)	**$2,781**	$2,010	**£1,097**	£793
Total deferred converted to shares	Shares	**551,784**	294,108	**318,042**	176,576
Total matched shares	Shares	**551,784**	294,108	**318,042**	176,576
Vesting date		**Feb 2019**	Feb 2018	**Feb 2019**	Feb 2018
Release date[b]		**Feb 2022**	Feb 2021	**Feb 2022**	Feb 2021
Performance share element		**2015-2017**	2014-2016	**2015-2017**	2014-2016
Potential maximum shares		**1,501,770**	1,304,922	**685,246**	605,544
Vesting date		**Feb 2018**	Feb 2017	**Feb 2018**	Feb 2017
Release date		**Feb 2021**	Feb 2020	**Feb 2021**	Feb 2020

[a] It is anticipated that the 2015 deferred bonus award will be made in May 2016.

[b] Deferred shares are released at vesting with the exception of matched shares which normally have a further three-year retention period.

« Defined on page 256.

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Total remuneration in more depth

The committee, in seeking a fair outcome for pay, has for many years sought to ensure that variable pay is based primarily on true underlying performance and is not driven by factors over which the directors have no control. Accordingly, the committee normalizes for changes in oil and gas price and refining margins. Other factors such as major divestments and

contributions to the Gulf of Mexico restoration made in the year are also taken into consideration. In the light of the substantial drop in the price of oil during the three-year plan, the committee has been focused on ensuring that its approach to normalization has been consistent with our previous approach.

Salary and benefits

Base salary

No increases were granted to executive directors for 2015, in line with the group-wide salary freeze, therefore the 2015 salaries remained unchanged from 1 July 2014: $1,854,000 for Bob Dudley and £731,500 for Dr Brian Gilvary.

2016 implementation

The committee reviewed executive directors salaries in January 2016. Given the continuing low oil price environment, no increases will be applied to executive directors salaries for 2016.

Benefits

Executive directors received car-related benefits, security assistance, insurance and medical benefits.

Annual bonus

Framework

The committee determined performance measures and their weightings for the 2015 annual bonus at the beginning of the performance year. The 2015 bonus plan was set in the context of the group s strategy and short-term imperatives. It focused on two key priorities: safety and value. Targets for each measure were challenging but realistic and were set in the context of the current price and industry environment. Targets for the value measures were based upon the annual plan. Threshold and maximum were set on a linear scale around the target.

Continued improvement in safety performance remains a key focus area and a group priority, particularly given the need to simplify the business. Safety made up 30% of total bonus. Safety measures included loss of primary containment, tier 1 process safety events« and recordable injury frequency. Challenging targets were set, both to build on the improving trend of the last three years and to continue to reduce the number of safety events.

[a] Adjusted in accordance with the treatment of the LOPC KPI on page 20. Full LOPC is 235.

[b] Recordable injury frequency excludes biofuels.

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Value measures made up 70% of total bonus. In order to simplify and reflect both the current short-term imperatives and the 2015 priorities in the group s annual plan, the number of value measures was reduced from six in 2014 to five in 2015. These measures were more heavily weighted on operating cash flow and underlying replacement cost profit. The economic environment was taken into account by looking at capital and cost discipline and these were reflected through two measures net investment (organic) and corporate and functional cost management. As in previous years, delivery of major projects remained a key focus area.

Bob Dudley and Dr Brian Gilvary s annual bonus was based 100% on these group-wide measures. Under the policy, one third of the total bonus is paid in cash. A director is required to defer a further third in BP shares and the final third is paid either in cash or voluntarily deferred in BP shares at the individual s election. Deferred shares are matched on a one-for-one basis, and both deferred and matched shares vest after three years depending on an assessment by the committee of safety and environmental sustainability over the three-year period.

2015 outcomes

In January 2016, the committee considered the group s performance during 2015 against the measures and targets set out in the 2015 annual cash bonus table.

As the table reflects, BP had an excellent year for safety and operational performance in a difficult environment.

The company s decision in late 2014 to plan for a lower for longer oil price meant that the leadership acted early and decisively to respond to the low oil price environment. Strong and continually improving safety standards have led to higher reliability and improved operations, contributing directly to better financial outcomes. Cost reduction and net investment have been managed so as not to compromise future growth. Major projects have been delivered on time, improving forthcoming performance.

Safety performance was again very encouraging, resulting in maximum scores for all three measures tier 1 process safety events, loss of primary containment and recordable injury frequency.

Operating cash flow for the company was $19.1 billion, well ahead of the board s approved plan of the target of $17.2 billion. This target was normalized upwards since the actual oil price during the year was higher than original plan assumptions. Underlying replacement cost profit of $5.9 billion was also significantly ahead of the target of $4.2 billion, again normalized similar to the above. Through greater simplification and efficiency across all functions, corporate and functional costs were reduced by 17.6% against a targeted reduction of 5.9%. Capital discipline was demonstrated through a reduction in the net investment (organic) of 27% against a planned reduction of 18%. Four major projects were successfully delivered in 2015, as planned.

Based on these results, the overall group performance score was 1.91. The committee, as is its normal practice, considered this result in the context of the performance of the group, shareholder feedback, input from the board and other committees, as well as the circumstances in the wider environment. Overall, management delivered very well in terms of what they could control. The committee agreed with the group chief executive s view that the dramatic dynamics in the market during the year also needed to be recognized. He proposed a lower score and the committee agreed that this reflected a balanced assessment of the year. A final group score of 1.70 was agreed and applied to BP s wider management group. In the case of executive directors, our approved policy limits bonus to a group score of 1.50.

The overall annual bonus for executive directors was determined by multiplying the reduced score of 1.5 by the on-target bonus level of 150% of salary. Both Bob Dudley and Dr Brian Gilvary deferred two thirds of their 2015 annual bonus. As a result Bob Dudley s and Dr Brian Gilvary s bonuses, including the portion deferred, are shown below.

Annual bonus summary

	Overall bonus	Paid in cash	Deferred in BP shares
Bob Dudley	$4,171,500	$1,390,500	$2,781,000
Dr Brian Gilvary	£1,645,875	£548,625	£1,097,250

2016 implementation

For 2016, 100% of Bob Dudley s and Dr Brian Gilvary s bonus will be based on group results.

For the 2016 annual bonus the committee will continue to focus on the two overall themes of safety and value. Safety will continue to have a 30% weight in the overall bonus plan. The value measures are key to short-term performance within the group and will have an overall weight of 70%.

Continued improvement in safety remains a group priority and is fully reflected in the measures. As in 2015, the safety targets are anchored on a realistic and achievable improvement from the average of the previous three years.

The value measures have been decreased from 5 in 2015 to 4 in 2016, increasing the weight on operating cash flow and underlying replacement cost profit and removing the net investment measure. Targets for each measure are challenging but realistic and have been set in the context of the current environment. As usual they will be normalized at year end to reflect changes in oil and gas price and refining margins.

Safety and value targets will be disclosed retrospectively in the 2016 remuneration report to the extent that they are no longer considered commercially sensitive. The full set of 2016 short-term measures are set out in the diagram on page 76.

Deferred bonus

2015 outcomes

Both Bob Dudley and Dr Brian Gilvary deferred two thirds of their 2012 annual bonus in accordance with the terms of the policy then in place.

The three-year performance period concluded at the end of 2015. The committee reviewed safety and environmental sustainability performance over this period and sought the input of the safety, ethics and environment assurance committee (SEEAC). Over the three-year period 2013-15 safety performance showed steady improvement on a range of measures. All performance hurdles were met and the group-wide operating management system« is now sufficiently embedded throughout the organization to continue driving improvement in environmental as well as safety areas.

Following the committee s review, full vesting of the deferred and matched shares for the 2012 deferred bonus was approved, as shown in the following table (as well as in the single figure table on page 77).

2012 deferred bonus vesting

Name	Shares deferred	Vesting agreed	Total shares including dividends	Total value at vesting
Bob Dudley	458,760	100%	539,424	$2,602,721
Dr Brian Gilvary	315,260	100%	380,905	£1,272,223

Details of the deferred bonus awards made to the executive directors in early 2015, in relation to 2014 annual bonuses, were set out in last year s report. A summary of these awards is included on page 86.

2016 implementation

The committee has determined that the safety and environmental sustainability hurdle will continue to apply to shares deferred from the 2015 bonus. All matched shares that vest in 2019 will, after sufficient shares have been sold to pay tax, be subject to an additional three-year retention period before being released to the individual in 2022. This further reinforces long-term shareholder alignment and the nature of the group s business.

« Defined on page 256.

Performance shares

Framework

Performance shares were conditionally awarded to each executive director in 2013. Maximum awards under the policy were granted representing five-and-a-half-times salary for Bob Dudley and four-times salary for Dr Brian Gilvary. Vesting of these awards was subject to delivering targets set over the three-year performance period.

One third of the award was based on relative total shareholder return (TSR), one third on operating cash flow and one third on three strategic imperatives: relative reserves replacement ratio (RRR), safety and operational risk (S&OR) and major projects delivery, all equally weighted. Performance against each of these measures was designed to be aligned with group strategy and key performance indicators (KPIs). Some measures appear in both the annual cash bonus and performance shares scorecards as they serve to track in-year performance as well as growth/improvement over a three-year period.

Relative TSR represents the change in value of a BP shareholding between the average of the fourth quarter of 2012 and the fourth quarter of 2015 compared to other oil majors (dividends are re-invested). RRR represents organic reserves added over the three-year performance period divided by the reserves extracted. This ratio is ranked against like-for-like organic RRR for other oil major peers.

The 2013-15 comparator group for relative TSR (33.3% weight) and relative RRR (11.1% weight) was Chevron, ExxonMobil, Shell and Total. The number of conditional shares that would vest for each of the relative performance measures for first, second and third place was set at the start of 2013 and equals 100%, 70% and 35% respectively. This reflects the approved rules applicable to the 2013-2015 plan. No shares would vest for fourth or fifth place.

Operating cash flow represented a further one third of the award. BP s approved policy specifically states that: operating cash flow has been identified as a core measure of strategic performance of the company. Targets reflected agreed plans and normal operating assumptions.

For S&OR, improvement targets were set. For major project delivery, the committee set a number of projects expected to be delivered over three years. In reviewing project delivery the committee reviews the cost and any delays to the original schedule.

2015 outcomes

The committee considered the performance of the group over the three-year period of the plan and the specific achievements against each of the targets set for the measures. The results are summarized in the table below.

Relative TSR, representing a third of the award, was in third place versus the comparator group resulting in 35% vesting. Consequently 11.7% of the overall shares for this measure will vest. The significant weight associated with this measure aligns the actual value delivered to executive directors with that to shareholders.

Operating cash flow represented a further one third of the award. In considering measures and targets for performance share awards BP has historically adopted a normalized or like-for-like approach reflecting changes in oil and gas prices. This avoids windfall gains or penal losses in periods of extreme volatility. The target set in 2013 for 2015 operating cash flow was $35 billion based on the plan assumptions relating to oil and gas price and refining margins at that time. This target was reviewed at the start of 2015 in the light of divestments and plan assumptions relating to environment, principally oil and gas prices and refining margins. Consistent with its previous practice the committee normalized the operating cash flow target. Based on the above assumptions, adjusting for major divestments and for contributions to the Gulf of Mexico restoration made in the year, the operating cash flow target was set at $17.7 billion. A scale comprising threshold and maximum figures was set around the target on a linear basis. The actual 2015 operating cash flow was $19.1 billion, equalling the maximum set and resulting in vesting of 33.3% of all shares for this measure.

[a] This represents a preliminary assessment.
[b] Adjusted in accordance with the treatment of the LOPC KPI on page 20. Full LOPC is 235.
[c] RIF excludes biofuels.

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Strategic imperatives represented the final third. These included relative RRR, S&OR, and major project delivery, each weighted equally.

Preliminary assessment of BP s relative RRR indicated a positive outcome with an expected first place amongst the comparator group. The final ranking will be determined once the actual results for 2015 have been published by other comparator companies. For the purposes of this report, and in accordance with the UK regulations, first place has been assumed. Any adjustment to this will be reported in next year s annual report on remuneration. Based on a provisional first place assessment, 11.1% of the overall shares for this measure are expected to vest.

S&OR has improved significantly over the 2013-15 period, with a downward trend over the period in tier 1 process safety events (53%), recordable injury frequency (30%), and loss of primary containment (28%). The operating management system continued to mature and there has been a continual rise in assessed conformance levels. Consequently 10.4% of overall shares will vest for the safety measures.

Fifteen major projects were delivered over the three years well ahead of plan and resulting in full vesting for this measure. As a result, 11.1% of overall shares will vest.

As in past years, the committee also considered the true underlying operational and financial performance of the group during the period and whether any other factors should be taken into account. Following this review, the committee assessed that a preliminary 77.6% vesting was a fair reflection of the overall performance, pending confirmation of the relative reserves replacement ratio result. This will result in the vesting shown in the table below.

The vested shares for current executive directors are subject to a further three-year retention period before they will be released to the individuals in 2019.

2013-2015 performance shares preliminary outcome

	Shares awarded	Shares vested including dividends	Value of vested shares
Bob Dudley	1,384,026	1,262,868	$7,116,261
Dr Brian Gilvary	637,413	597,628	£2,223,176

2012-2014 final outcomes confirmation

Last year it was reported that the committee had made a preliminary assessment of second place for the relative RRR in the 2012-2014 performance shares element. In May 2015 the committee reviewed the results for all comparator companies as published in their reports and

accounts and assessed that BP was in first place relative to other oil majors and that the full 11.1% of shares would vest for this performance measure as opposed to 7.8% for second place. This resulted in a final overall vesting of 63.8% (versus 60.5% as preliminarily outlined in the 2014 report) for the entire award. This change is reflected in the single figure table on page 77.

2016 implementation

Consistent with application of policy and our previous approach, shares are expected to be awarded in March 2016 to the maximum value allowed under the policy, five-and-a-half-times salary for Bob Dudley and four-times salary for Dr Brian Gilvary. These will be awarded under the performance share element of the EDIP and will be subject to a three-year performance period. Those shares that vest are subject, after tax, to an additional three-year retention period. The 2016-2018 performance share element will be assessed over three years based on the following measures: relative TSR (one third); cumulative operating cash flow (one third); and strategic imperatives (one third) including relative RRR; S&OR; and major project delivery, all equally weighted.

These measures continue to be aligned with BP s strategic priorities of safe, reliable and compliant operations, competitive project execution, disciplined financial choices and sources of future growth. The committee agreed targets and scales for measures that will be used to assess performance at the end of the three-year performance period and these will be disclosed retrospectively, to the extent that they are no longer commercially sensitive.

For S&OR the committee will study annual results based on outcomes from the annual cash bonus for the period 2016 to 2018 and make a determination of the three-year outcome. Similarly for operating cash flow the committee, at the end of the period, will make a determination of the three-year outcome by comparing the cumulative actual annual results against the cumulative actual annual targets.

TSR and RRR will be assessed on a relative basis compared with the other oil majors Chevron, ExxonMobil, Shell and Total with the following vesting schedule.

Relative performance ranking BP s ranking place versus oil majors	Vesting percentage for each relative performance measure
First	100%
Second	80%
Third	25%
Fourth or fifth	Nil

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Pension

Framework

Executive directors are eligible to participate in group pension schemes that apply in their home countries which follow national norms in terms of structure and levels.

US pension and retirement savings

Bob Dudley participates in US pension and retirement savings plans. These involve a combination of tax-qualified and non-qualified plans, consistent with applicable US tax regulations. Benefits payable under non-qualified plans are unfunded and therefore paid from corporate assets.

Details of the pension plans in which Mr Dudley participates are as follows. The BP Retirement Accumulation Plan (US pension plan) is a US tax-qualified plan that features a cash-balance formula and includes grandfathering provisions under final average pay formulas for certain employees of companies acquired by BP (including Amoco) who participated in these predecessor company pension plans. The TNK-BP Supplemental Retirement Plan is based on the same calculation as the benefit under the US pension plan but reflecting service and earnings at TNK-BP.

The BP Excess Compensation (Retirement) Plan (ECRP) provides a supplemental benefit which is the difference between (1) the benefit accrual under the US Pension Plan and the TNK-BP Supplemental Retirement Plan without regard to the Internal Revenue Service (IRS) compensation limit (including for this purpose base salary, cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP), and (2) the actual benefit payable under the US pension plan and the TNK-BP Supplemental Retirement Plan, applying the IRS compensation limit. The benefit calculation under the Amoco formula includes a reduction of 5% per year if taken before age 60.

The BP Supplemental Executive Retirement Benefit Plan (SERB) is a non-qualified supplemental plan which provides a benefit of 1.3% of final average earnings (including, for this purpose, base salary plus cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP) for each year of service (without regard for tax limits) less benefits paid under all other BP (US) qualified and non-qualified pension arrangements. The benefit payable under SERB is unreduced at age 60 but reduced by 5% per year if separation occurs before age 60.

Mr Dudley also participates in US retirement savings plans on the same terms as those available to all eligible US employees. These savings plans provide benefits to employees on or after their retirement. These are provided through a tax-qualified plan and a non-qualified plan. The BP Employee Savings Plan (ESP) is a US tax-qualified section 401(k) plan to which both Mr Dudley and BP contribute within limits set by US tax regulations. The BP Excess Compensation (Savings) Plan (ECSP) is a non-qualified, unfunded plan under which BP provides a notional match in respect of eligible pay that exceeds the limit under the ESP. Mr Dudley does not contribute to the ECSP. For the purposes of the plans, eligible pay includes base salary, cash bonus and bonus deferred into a compulsory or voluntary award under the deferred matching element of the EDIP. Under both plans, participants are entitled to make investment elections, involving an investment in the relevant fund in the case of the ESP and a notional investment (the return on which would be delivered by BP under its unfunded commitment) in the case of the ECSP.

These retirement savings arrangements pre-date Mr Dudley s appointment as a director and are grandfathered as a pre-27 June 2012 obligation for the purposes of the remuneration policy approved by shareholders in April 2014. The cost to the company has been fully provided for within the amounts disclosed for pensions and other post-retirement benefits in the financial statements. Previous remuneration reports have not disclosed details of Mr Dudley s participation in these arrangements but following a review, BP has determined that disclosure of the company s contribution to these plans should now be included in this report.

UK pension

Dr Brian Gilvary participates in a UK final salary pension plan in respect of service prior to 1 April 2011. This plan provides a pension relating to length of pensionable service and final pensionable salary. The disclosure of total pension includes any cash in lieu of additional accrual that is paid to individuals in the UK plan who have exceeded the annual allowance or lifetime allowance under UK regulations, and have chosen to cease future accrual of pension. Dr Gilvary falls into this category and in 2015 received a cash supplement of 35% of salary in lieu of future service accrual.

In the event of retirement before age 60, the following early retirement terms would apply:

- On retirement between 55 and 60, in circumstances approved by the committee, an immediate unreduced pension in respect of the proportion of benefit for service up to 30 November 2006, and subject to such reduction as the plan actuary certifies in respect of the period of service after 1 December 2006. The plan actuary has, to date, applied a reduction of 3% per annum for each year retirement precedes 60 in respect of the period of service from 1 December 2006 up to the leaving date; however a greater reduction can be applied in other circumstances.

- On leaving before age 55, in circumstances approved by the committee, a deferred pension payable from 55 or later, with early retirement terms if it is paid before 60 as set out above.

Irrespective of this, on leaving in circumstances of total incapacity, an immediate unreduced pension is payable from his leaving date.

2015 outcomes

Mr Dudley participates in the US pension and retirement savings plans described above. The pension plans are aimed at an overall accrual rate of 1.3% of final earnings (which include salary and bonus), for each year of service. In 2015, Mr Dudley s accrued pension increased, net of inflation, by $309,000. This increase has been reflected in the single figure table on page 77 by multiplying it by a factor of 20 in accordance with the requirements of the UK regulations (giving $6,176,000). The committee will continue to make the required disclosures in accordance with the UK regulations; however, given the issues and differences set out below, it would note that around 14 would be a typical annuity factor in the US compared with the factor of 20 upon which the UK regulations are based.

In relation to the retirement savings plans, Mr Dudley made pre-tax and post-tax contributions in 2015 to the ESP totalling $26,500 (2014: $26,000). For 2015 the total value of BP matching contributions in respect of Mr Dudley to the ESP and notional matching contributions to the ECSP was $341,000, 7% of eligible pay (2014: $374,000, 7% of eligible pay). After adjusting for investment gains within his accumulating unfunded ECSP account (aggregating the unfunded arrangements relating to his overall service with BP and TNK-BP) the amount included in the single figure table on page 77 is $343,000. The equivalent figure for 2014 has been restated (an increase of $427,000) to reflect the revised disclosure treatment.

Dr Gilvary participates in the UK pension arrangements described above. In 2015 Dr Gilvary s accrued pension did not increase and therefore net of inflation it reduced. In accordance with the requirements of the UK regulations, the value shown in the single figure table on page 77 is zero. He has exceeded the lifetime allowance under UK pension legislation and, in accordance with the policy, receives a cash supplement of 35% of salary, which has been separately identified in the single figure table on page 77.

The committee continues to keep under review the increase in the value of pension benefits for individual directors. There are significant differences in calculation of pensions between the UK and the US. US pension benefits are not subject to cost of living adjustments after retirement as they are in the UK.

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Remuneration committee

Members	
Professor Dame Ann Dowling (chair)	Member since July 2012; committee chair since May 2015
Antony Burgmans	Member since May 2009; committee chair from May 2011 to May 2015
Alan Boeckmann	Member since May 2015
George David	Member from May 2009 to April 2015
Ian Davis	Member since July 2010
Andrew Shilston	Member since May 2015

2015 was a year of transition for the committee as the membership evolved. Dame Ann Dowling took the chair from Antony Burgmans after the May meeting. George David stood down from the board in April, Alan Boeckmann and Andrew Shilston joined the committee.

Carl-Henric Svanberg and Bob Dudley attend meetings of the committee except for matters relating to their own remuneration. The group chief executive (GCE) is consulted on the remuneration of the other executive director and the executive team and on matters relating to the performance of the group. The group human resources director normally attends meetings of the committee, and other executives may attend relevant parts of those meetings. The committee consults other relevant committees of the board, for example the SEEAC, on issues relating to the exercise of its judgement or discretion.

Key tasks of the remuneration committee

Determine the policy for the chairman and the executive directors (the policy) for inclusion in the remuneration policy for all directors as required by the regulations.

Review and determine as appropriate the terms of engagement, remuneration and termination of employment of the chairman and the executive directors in accordance with the policy, and be responsible for compliance with all remuneration issues relating to the chairman and the executive directors required by the regulations.

Prepare for the board an annual report to shareholders on the implementation of the policy, so far as it relates to the chairman and the executive directors, as required by the regulations.

Approve the principles of any equity plan for which shareholder approval is to be sought.

Approve the terms of the remuneration (including pension and termination arrangements) of the executive team as proposed by the GCE.

Approve changes to the design of remuneration as proposed by the GCE, for the group leaders of the company.

Monitor implementation of remuneration for group leaders to ensure alignment and proportionality.

Engage such independent consultants or other advisers as the committee may from time to time deem necessary, at the expense of the company.

In these tasks, regulations means regulations made from time to time under the Companies Act 2006, the UK Corporate Governance Code adopted by the Financial Reporting Council and the UK Listing Authority s Listing Rules in relation to the remuneration of directors of quoted companies.

Activities during the year

During the year, the committee met five times. Key discussions and decision items are shown in the table below.

Remuneration committee 2015 meetings

	Jan	May	Jul	Sept	Dec
Strategy and policy					
Review and approve directors remuneration report (DRR) for 2015 AGM	■				
Consider DRR votes from 2015 AGM		■			
Review committee tasks and operation					■
Review of BP remuneration strategy		■			
Salary review					
Executive directors	■				■
Executive team and leadership group	■				■
Annual bonus					
Assess performance	■		■		■
Determine bonus for 2014	■				
Agree measures and targets for 2015	■				
Review measures for 2016			■	■	
Consider measures and targets for 2016					■
Long-term equity plan					
Assess performance	■	■	■		■
Determine vesting of 2012-2014 plan	■	■			
Determine vesting of 2011 deferred bonus	■				
Agree measures, targets and awards for 2015-2017 plan	■				
Review measures for 2016-2018 plan			■	■	■
Consider measures and targets for 2016-2018 plan					■
Other items					
Review principles for target setting		■	■	■	■

and disclosure
Other issues as required
Independence and advice

Independence

The board considers all committee members to be independent with no personal financial interest, other than as shareholders, in the committee s decisions.

Advice

During 2015 David Jackson, the company secretary, who is employed by the company and reports to the chairman of the board, acted as secretary to the remuneration committee. The company secretary periodically reviews the independence of the committee s advisers.

Gerrit Aronson, an independent consultant, is the committee s independent adviser with experience of advising a number of companies in the UK and Europe. He is engaged directly by the committee. Advice and services on particular remuneration matters were also received from other external advisers appointed by the committee.

Willis Towers Watson provided information on the global remuneration market, principally for benchmarking purposes. Freshfields Bruckhaus Deringer LLP provided legal advice on specific compliance matters to the committee. Both firms provide other advice in their respective areas to the group.

Total fees or other charges (based on an hourly rate) paid in 2015 to the above advisers for the provision of remuneration advice to the committee as set out above (save in respect of legal advice) are as follows:

Gerrit Aronson £130,000

Willis Towers Watson £38,309

Committee review

The board evaluation process for 2015 included a separate questionnaire on the work of the remuneration committee. The results were analysed by an external consultant and discussed at the committee s meeting in January 2016. As part of the broader external evaluation described elsewhere, any issues relating to the committee or its work were discussed by the board in January 2016.

Shareholder engagement

The committee values its dialogue with major shareholders on remuneration matters. During the year, the committee s chair and the company secretary held individual meetings with several larger shareholders to ascertain their views and discuss important aspects of the committee s policy and its implementation. They also met key proxy advisers. These meetings supplemented a group meeting of major shareholders with all committee chairs and the chairman of the board which took place in March 2015, and a regular dialogue between the chairman and shareholders. Throughout the year this engagement provided the committee with an important and direct perspective of shareholder views and, together with the voting results on remuneration matters at the AGM, was considered when making decisions.

Against the background of the encouraging vote that had taken place at the April AGM and the dialogue with shareholders around the meeting, the committee has noted the shareholders support for the approach taken regarding retrospective disclosure of targets but notes they wish for still more.

Accordingly we have this year added additional retrospective disclosure on targets and scales for both annual bonus and long-term performance shares. During the year, Dame Ann Dowling met with a number of the larger shareholders and those who advise them. These have been constructive meetings and they will be built on in the current year, to aid the preparation of a revised remuneration policy for the chairman and the executive directors to be presented to shareholders at the AGM in 2017.

The board s annual report on remuneration was approved by shareholders at the 2015 AGM. The votes on the report are shown below.

2015 AGM directors remuneration report vote results

Year	% vote for	% vote against	Votes withheld
2015	88.8%	11.2%	305,297,190

The committee s remuneration policy was approved by shareholders at the 2014 AGM. The votes on the policy are shown below.

2014 AGM directors remuneration policy vote results

Year	% vote for	% vote against	Votes withheld
2014	96.4%	3.6%	125,217,443

The shareholder approved policy now governs the remuneration of the directors for a period of three years expiring in 2017.

See *bp.com/remuneration* for a copy of the approved policy.

External appointments

The board supports executive directors taking up appointments outside the company to broaden their knowledge and experience. Each executive director is permitted to accept one non-executive appointment, from which they may retain any fee. External appointments are subject to agreement by the chairman and reported to the board. Any external appointment must not conflict with a director s duties and commitments to BP. Details of appointments during 2015 are shown below.

Director	Appointee company	Additional position held at appointee company	Total fees
Bob Dudley	Rosneft[a]	Director	0

[a] Bob Dudley holds this appointment as a result of the company s shareholding in Rosneft.

Historical data and statistics

Historical TSR performance

This graph shows the growth in value of a hypothetical £100 holding in BP p.l.c. ordinary shares over seven years, relative to a hypothetical £100 holding in the FTSE 100 Index of which the company is a constituent. The values of the hypothetical £100 holdings at the end of the seven-year period were £99.06 (2014: £107.45) and £190.42 (2014: £194.77) respectively.

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History of CEO remuneration

Year	CEO	Total remuneration thousand[a]	Annual bonus % of maximum	Performance share vesting % of maximum
2009	Hayward	£6,753	89[b]	17.5
2010[c]	Hayward	£3,890	0	0
	Dudley	$8,057	0	0
2011	Dudley	$8,439	67	16.7
2012	Dudley	$9,609	65	0
2013	Dudley	$15,086	88	45.5
2014	Dudley	$16,390	73	63.8
2015	Dudley	$19,602	100	77.6

[a] Total remuneration figures include pension. For Bob Dudley this has been restated since 2010 in accordance with the principles explained on page 82, to include the value of the company s contribution to his US retirement savings arrangements. The total figure is also affected by share vesting outcomes and these numbers represent the actual outcome for the periods up to 2011 or the adjusted outcome in subsequent years where a preliminary assessment of the performance for EDIP was made. For 2015, the preliminary assessment has been reflected.

[b] 2009 annual bonus did not have an absolute maximum and so is shown as a percentage of the maximum established in 2010.

[c] 2010 figures show full year total remuneration for both Tony Hayward and Bob Dudley, although Bob Dudley did not become CEO until October 2010.

Relative importance of spend on pay (million)

[a] Total remuneration reflects overall employee costs. See Financial statements Note 34 for further information.

[b] Capital investment reflects organic capital expenditure«.

[c] See Financial statements Note 30 for further information.

[d] Dividends includes both scrip dividends as well as those paid in cash. See Financial statements Note 9 for further information.

Percentage change in CEO remuneration

Comparing 2015 to 2014	Salary	Benefits	Bonus
% change in CEO remuneration	1.5%	4.4%	38.4%
% change in comparator group remuneration	0%[a]	0%[b]	27.9%

a

The comparator group comprises some 31% of BP s global employee population being professional/managerial grades of employees based in the UK and US and employed on more readily comparable terms.

[b] There was no change in employee benefits level.

Directors shareholdings

Executive directors are required to develop a personal shareholding of five times salary within a reasonable period of time from appointment. It is the stated intention of the policy that executive directors build this level of personal shareholding primarily by retaining those shares that vest in the deferred bonus and performance share plans which are part of the EDIP. In assessing whether the requirement has been met, the committee takes account of the factors it considers appropriate, including promotions and vesting levels of these share plans, as well as any abnormal share price fluctuations. The table below shows the status of each of the executive directors in developing this level. These figures include the value as at 22 February 2016 from the directors interests shown below plus the assumed vesting of the 2013-2015 performance shares and is consistent with the figures reported in the single figure table on page 77.

	Appointment date	Value of current shareholding	% of policy achieved
Bob Dudley	October 2010	$12,478,540	135
Dr Brian Gilvary	January 2012	£3,559,733	97

The committee is satisfied that all executive directors shareholdings meet the policy requirement.

The figures below indicate and include all beneficial and non-beneficial interests of each executive director of the company in shares of BP (or calculated equivalents) that have been disclosed to the company under the Disclosure and Transparency Rules (DTRs) as at the applicable dates.

Current directors	Ordinary shares or equivalents at 1 Jan 2015	Ordinary shares or equivalents at 31 Dec 2015	Change from 31 Dec 2015 to 22 Feb 2016	Ordinary shares or equivalents total at 22 Feb 2016
Bob Dudley[a]	738,858	1,554,198	285,366	1,839,564
Dr Brian Gilvary	545,217	903,856	201,710	1,105,566

[a] Held as ADSs.

The following table shows both the performance shares and the deferred bonus element awarded under the EDIP. These figures represent the maximum possible vesting levels. The actual number of shares/ADSs that vest will depend on the extent to which performance conditions have been satisfied over a three-year period.

Current directors	Performance	Performance	Change from	Performance

	shares at 1 Jan 2015	shares at 31 Dec 2015	31 Dec 2015 to 22 Feb 2016	shares total at 22 Feb 2016
Bob Dudley[a]	5,227,500	5,536,950	(458,760)	5,078,190
Dr Brian Gilvary	2,375,957	2,789,921	(315,260)	2,474,661

[a] Held as ADSs.

At 22 February 2016, the following directors held the numbers of options under the BP group share option schemes over ordinary shares or their calculated equivalent set out below. None of these are subject to performance conditions. Additional details regarding these options can be found on page 87.

Current director	Options
Dr Brian Gilvary	504,191

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

There are no directors or other members of senior management who own more than 1% of the ordinary shares in issue. At 22 February 2016, all directors and other members of senior management as a group held interests of 17,529,149 ordinary shares or their calculated equivalent, 8,761,779 performance shares or their calculated equivalent and 6,039,841 options over ordinary shares or their calculated equivalent under the BP group share option schemes. Senior management comprises members of the executive team. See pages 60-61 for further information.

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Deferred shares (audited)[a]

				Deferred share element interests			Interests vested in 2015 and	
				Potential maximum deferred shares			Number of ordinary shares	
Bonus year	Type	Performance period	Date of award of deferred shares	At 1 Jan 2015	Awarded 2015	At 31 Dec 2015	vested	Vesting date
2011	Comp	2012-2014	08 Mar 2012	109,206			126,444[c]	11 Feb 2015
	Vol	2012-2014	08 Mar 2012	109,206			126,444[c]	11 Feb 2015
	Mat	2012-2014	08 Mar 2012	218,412			252,894[c]	11 Feb 2015
2012	Comp	2013-2015	11 Feb 2013	114,690		114,690	134,856[c]	9 Feb 2016
	Vol	2013-2015	11 Feb 2013	114,690		114,690	134,856[c]	9 Feb 2016
	Mat	2013-2015	11 Feb 2013	229,380		229,380	269,712[c]	9 Feb 2016
2013[d]	Comp	2014-2016	12 Feb 2014	149,628		149,628		
	Mat	2014-2016	12 Feb 2014	149,628		149,628		
2014[e]	Comp	2015-2017	11 Feb 2015		147,054	147,054		
	Vol	2015-2017	11 Feb 2015		147,054	147,054		
	Mat	2015-2017	11 Feb 2015		294,108	294,108		
2011	DAB[f]	2012-2014	15 Mar 2012	73,624			84,491[c]	15 Jan 2015
2012	Comp	2013-2015	11 Feb 2013	78,815		78,815	95,226[c]	9 Feb 2016
	Vol	2013-2015	11 Feb 2013	78,815		78,815	95,226[c]	9 Feb 2016
	Mat	2013-2015	11 Feb 2013	157,630		157,630	190,453[c]	9 Feb 2016
2013[d]	Comp	2014-2016	12 Feb 2014	96,653		96,653		
	Mat	2014-2016	12 Feb 2014	96,653		96,653		
2014[e]	Comp	2015-2017	11 Feb 2015		88,288	88,288		
	Vol	2015-2017	11 Feb 2015		88,288	88,288		
	Mat	2015-2017	11 Feb 2015		176,576	176,576		
ecutive directors								
2011	Comp	2012-2014	08 Mar 2012	80,652			95,196[c]	11 Feb 2015
	Vol	2012-2014	08 Mar 2012	80,652			95,196[c]	11 Feb 2015
	Mat	2012-2014	08 Mar 2012	161,304			190,393[c]	11 Feb 2015
2012	Comp	2013-2015	11 Feb 2013	80,648		80,648	97,441[c]	9 Feb 2016
	Vol	2013-2015	11 Feb 2013	80,648		80,648	97,441[c]	9 Feb 2016
	Mat	2013-2015	11 Feb 2013	107,531[g]		107,531[g]	129,922[c]	9 Feb 2016
2013[d]	Comp	2014-2016	12 Feb 2014	100,563		100,563		
	Mat	2014-2016	12 Feb 2014	33,521[g]		33,521[g]		
2011	Comp	2012-2014	08 Mar 2012	91,638			106,104[c]	11 Feb 2015
	Vol	2012-2014	08 Mar 2012	91,638			106,104[c]	11 Feb 2015
	Mat	2012-2014	08 Mar 2012	91,638[g]			106,104[c]	11 Feb 2015

2012	Comp	2013-2015	11 Feb 2013	97,278	97,278	114,384[c]	9 Feb 2016
	Vol	2013-2015	11 Feb 2013	97,278	97,278	114,384[c]	9 Feb 2016
	Mat	2013-2015	11 Feb 2013	32,424[g]	32,424[g]	38,124[c]	9 Feb 2016

Comp = Compulsory.

Vol = Voluntary.

Mat = Matching.

DAB = Deferred Annual Bonus Plan.

[a] Since 2010, vesting of the deferred shares has been subject to a safety and environmental sustainability hurdle, and this will continue. If the committee assesses that there has been a material deterioration in safety and environmental performance, or there have been major incidents, either of which reveal underlying weaknesses in safety and environmental management, then it may conclude that shares should vest only in part, or not at all. In reaching its conclusion, the committee will obtain advice from the SEEAC. There is no identified minimum vesting threshold level.

[b] Bob Dudley and Dr Byron Grote received awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.

[c] Represents vestings of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes reinvested dividends on the shares vested. The market price of each share used to determine the total value at vesting on the vesting dates of 15 January 2015, 11 February 2015 and 9 February 2016 were £3.93, £4.46 and £3.34 respectively and for ADSs on 11 February 2015 and 9 February 2016 were $40.35 and $28.95 respectively.

[d] The face value has been calculated using the market price of ordinary shares on 12 February 2014 of £4.87.

[e] The market price at closing of ordinary shares on 11 February 2015 was £4.46 and for ADSs was $40.35. The sterling value has been used to calculate the face value.

[f] Dr Brian Gilvary was granted the shares under the DAB prior to his appointment as a director. The vesting of these shares is not subject to further performance conditions and he receives deferred shares at each scrip payment date as part of his election choice.

[g] All matching shares have been pro-rated to reflect actual service during the performance period and these figures have been used to calculate the face value.

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Performance shares (audited)

			Share element interests			Interests vested in 2014 and 2015		
			Potential maximum performance shares[a]			Number of ordinary		£
	Performance period	Date of award of performance shares	At 1 Jan 2015	Awarded 2015	At 31 Dec 2015	shares vested	Vesting date	Face value of the award
ob Dudley[b]	2012-2014	08 Mar 2012	1,343,712			1,006,944[c]	7 May 2015[d]	
	2013-2015	11 Feb 2013	1,384,026		1,384,026	1,262,868[c]	May 2016	
	2014-2016[e]	12 Feb 2014	1,304,922		1,304,922			6,354,970
	2015-2017[e]	11 Feb 2015		1,501,770	1,501,770			6,697,894
r Brian Gilvary	2012-2014	08 Mar 2012	624,434			478,090[c]	7 May 2015[d]	
	2013-2015	11 Feb 2013	637,413		637,413	597,628[c]	May 2016	
	2014-2016[e]	12 Feb 2014	605,544		605,544			2,948,999
	2015-2017[e]	11 Feb 2015		685,246	685,246			3,056,197
ormer executive irectors								
ain Conn	2012-2014	08 Mar 2012	660,633			505,805[c]	7 May 2015[d]	
	2013-2015	11 Feb 2013	463,126		463,126	434,220[c]	May 2016	
	2014-2016[e]	12 Feb 2014	220,043		220,043[f]			1,071,609
r yron Grote[b]	2012-2014	08 Mar 2012	414,468			310,596[c]	7 May 2015[d]	
	2013-2015	11 Feb 2013	142,278		142,278[f]	129,816[c]	May 2016	

[a] For awards under the 2012-2014, 2013-2015, 2014-2016 and 2015-2017 plans, performance conditions are measured one third on TSR against ExxonMobil, Shell, Total and Chevron; one third on operating cash flow; and one third on a balanced scorecard of strategic imperatives. Each performance period ends on 31 December of the third year. There is no identified overall minimum vesting threshold level but to comply with UK regulations a value of 44.4%, which is conditional on the TSR, operating cash flow and each of the strategic imperatives reaching the minimum threshold, has been calculated.

[b] Bob Dudley and Dr Byron Grote received awards in the form of ADSs. The above numbers reflect calculated equivalents in ordinary shares. One ADS is equivalent to six ordinary shares.

[c] Represents vestings of shares made at the end of the relevant performance period based on performance achieved under rules of the plan and includes reinvested dividends on the shares vested. The market price of each share at the vesting date of 7 May 2015 was £4.57 and for ADSs was $41.83. For the assumed vestings dated May 2016 a price of £3.72 per ordinary share and $33.81 per ADS has been used. These are the average prices from the fourth quarter of 2015.

[d]

The 2012-2014 award vested on 7 May 2015, which resulted in an increase in value at vesting of £297,110 for Iain Conn and $193,922 for Byron Grote. Details for Bob Dudley and Brian Gilvary can be found in the single figure table on page 77.

[e] The market price at closing of ordinary shares on 12 February 2014 was £4.87 and for ADSs was $48.38, and on 11 February 2015 was £4.46 and for ADSs was $40.35.

[f] Potential maximum of performance shares element has been pro-rated to reflect actual service during the performance period and these figures have been used to calculate the face value.

Share interests in share option plans (audited)

ion type	At 1 Jan 2015	Granted	Exercised	At 31 Dec 2015	Option price	Market price at date of exercise	Date from which first exercisable
BP 2011	500,000			500,000	£3.72		07 Sep 2014
SAYE	4,191			4,191	£3.68		01 Sep 2016
ve directors							
SAYE	2,005[a]		2,005		£3.68	£4.47	01 Jan 2015

The closing market prices of an ordinary share and of an ADS on 31 December 2015 were £3.54 and $31.26 respectively.

During 2015 the highest market prices were £4.84 and $43.60 respectively and the lowest market prices were £3.23 and $29.38 respectively.

BP 2011 = BP 2011 plan. These options were granted to Dr Brian Gilvary prior to his appointment as a director and are not subject to performance conditions.

SAYE = Save As You Earn all employee share scheme.

[a] In accordance with the rules, potential maximum shares were pro-rated with a shorter exercise period and the option was exercised on 11 June 2015.

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Remuneration policy table

This is a summary of the remuneration policy as set out in the 2014 directors   remuneration report and approved by shareholders.

Element and purpose	Operation and opportunity
Salary and benefits Provides base-level fixed remuneration to reflect the scale and dynamics of the business, and to be competitive with the external market.	Salaries are normally set in the home currency of the executive director and reviewed annually. Salary levels and total remuneration of oil and other top European multinationals, and related US corporations, are considered by the committee. Internally, increases for the group leaders as well as all employees in relevant countries are considered.
Annual bonus Provides a variable level of remuneration dependent on short-term performance against the annual plan.	Total overall bonus (before any deferral) is based on performance relative to measures and targets reflected in the annual plan, which in turn reflects BP s strategy. On-target bonus is 150% of salary with 225% as maximum.

Deferred bonus	A third of the annual bonus is required to be deferred and up to a further third can be deferred voluntarily. This deferred bonus is awarded in shares.
Reinforces the long-term nature of the business and the importance of sustainability, linking a further part of remuneration to equity.	Deferred shares are matched on a one-for-one basis, and both deferred and matched shares vest after three years depending on an assessment by the committee of safety and environmental sustainability over the three-year period.
Performance shares	Shares up to a maximum value of five and a half times salary for the group chief executive and four times salary for the other executive directors can be awarded annually.
Ties the largest part of remuneration to long-term performance. The level varies according to performance relative to measures linked directly to strategic priorities.	Vesting of shares after three years is dependent on performance relative to measures and targets reflecting BP s strategy.
Pension	Executive directors participate in the company pension schemes that apply in their home country.
Recognizes competitive practice in home country.	Current UK executive directors remain on a defined benefit

		pension plan and receive a cash supplement of 35% of salary in lieu of future service accrual when they exceed the annual allowance set by legislation.	

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Performance framework

Salary increases will be in line with all employee increases in the UK and US and limited to within 2% of average increase for the group leaders. Benefits reflect home country norms. The current package of benefits will be maintained, although the taxable value may fluctuate.	Salary increases are not directly linked to performance. However a base-line level of personal contribution is needed in order to be considered for a salary increase and exceptional sustained contribution may be grounds for accelerated salary increases.	
Achieving annual plan objectives equates to on-target bonus. The level of threshold payout for minimum performance varies according to the nature of the measure in question.	Specific measures and targets are determined each year by the remuneration committee. A proportion will be based on safety and operational risk management and is likely to include measures such as loss of primary containment, recordable injury frequency and tier 1 process safety events.	flow, replacement cost operating profit and cost management, as well as operating measures such as major project delivery, Downstream net income per barrel and Upstream unplanned deferrals. The specific metrics chosen each year will be set out and explained in the annual report on remuneration.

	The principal measures of annual bonus will be based on value creation and may include financial measures such as operating cash	
Where shares vest, additional shares representing the value of reinvested dividends are added. Before being released, all matched shares that vest after the three-year performance period are subject (after tax) to an additional three-year retention period.	Both deferred and matched shares must pass an additional hurdle related to safety and environmental sustainability performance in order to vest. If there has been a material deterioration in safety and environmental metrics, or there have been major incidents revealing underlying weaknesses in safety and environmental management then the committee, with advice	from the safety, ethics and environmental assurance committee, may conclude that shares vest in part, or not at all. All deferred shares are subject to clawback provisions if they are found to have been granted on the basis of materially misstated financial or other data.
Where shares vest, additional shares representing the value of reinvested dividends are added. Before being released, those shares that vest after the three-year performance period are subject (after tax) to an additional three-year retention period.	Performance shares will vest on the following three performance measures: Total shareholder return relative to other oil majors. Operating cash flow. Strategic imperatives. Measures based on relative performance to oil majors will vest 100%, 80%, 25% for first, second and third place finish respectively and 0% for fourth or fifth position.	deemed to be more aligned to strategic priorities. These are explained in the annual report on remuneration. The committee may exercise judgement to adjust vesting outcomes if it concludes that the formulaic approach does not reflect the true underlying performance of the company s business or is inconsistent with shareholder benefits. All performance shares are subject to clawback provisions if they are found to have been granted on the

	The committee identifies the specific strategic imperatives to be included every year and may also alter the other measures if others are	basis of materially misstated financial or other data.
Current US executive directors participate in transition arrangements related to heritage plans of Amoco and Arco and normal defined benefit plans that apply to executives with an accrual rate of 1.3% of final earnings (salary plus bonus) for each year of service.	Pension in the UK is not directly linked to performance. Pension in the US includes bonus in determining benefit level.	

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Non-executive directors

This section of the directors remuneration report completes the directors annual report on remuneration with details for the chairman and non-executive directors (NEDs). The board s remuneration policy for the NEDs was approved at the 2014 AGM. This policy was implemented during 2014. There has been no variance of the fees or allowances for the chairman and the NEDs during 2015.

Chairman

Basic fee

Remuneration is in the form of cash fees, payable monthly. Remuneration practice is consistent with recognized best practice standards for a chairman s remuneration and as a UK-listed company, the quantum and structure of the chairman s remuneration will primarily be compared against best UK practice.

Operation and opportunity

The quantum and structure of chairman s remuneration is reviewed annually by the remuneration committee, which makes a recommendation to the board.

Benefits and expenses

The chairman is provided with support and reasonable travelling expenses.

Operation and opportunity

The chairman is provided with an office and full time secretarial and administrative support in London and a contribution to an office and secretarial support in Sweden. A chauffeured car is provided in London, together with security assistance. All reasonable travelling and other expenses (including any relevant tax) incurred in carrying out his duties is reimbursed.

The maximum remuneration for non-executive directors is set in accordance with the Articles of Association.

Fee structure

The table below shows the fee structure for the chairman in place since 1 May 2013. He is not eligible for committee chairmanship and membership fees or intercontinental travel allowance. He has the use of a fully maintained office for company business, a chauffeured car and security advice in London. He receives a contribution to an office and secretarial support as appropriate to his needs in Sweden.

	Fee level £ thousand
Chairman	785

The table below shows the fees paid for the chairman for the year ending 31 December 2015.

2015 remuneration (audited)

£ thousand		Fees		Benefits[a]		Total
	2015	2014	2015	2014	2015	2014
Carl-Henric Svanberg	785	785	38	37	823	822

[a] Benefits include travel and other expenses relating to the attendance at board and other meetings. Amounts disclosed have been grossed up using a tax rate of 45%, where relevant, as an estimation of tax due.

Chairman s interests

The figures below include all the beneficial and non-beneficial interests of the chairman in shares of BP (or calculated equivalents) that have been disclosed under the DTRs as at the applicable dates. The chairman s holdings represented as a percentage against policy achieved are 944%.

Chairman	Ordinary shares or equivalents at 1 Jan 2015	Ordinary shares or equivalents at 31 Dec 2015	Change from 31 Dec 2015 to 22 Feb 2016	Ordinary shares or equivalents total at 22 Feb 2016
Carl-Henric Svanberg	1,076,695	2,076,695		2,076,695

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Non-executive directors

Basic fee

Remuneration is in the form of cash fees, payable monthly. Remuneration practice is consistent with recognized best practice standards for non- executive directors remuneration and as a UK-listed company, the quantum and structure of NED director remuneration will primarily be compared against best UK practice.

Operation

The quantum and structure of NEDs remuneration is reviewed by the chairman, the group chief executive and the company secretary who make a recommendation to the board; the NEDs do not vote on their own remuneration.

Remuneration for non-executive directors is reviewed annually.

Committee fees and allowances

Intercontinental allowance

The NEDs receive an allowance to reflect the global nature of the Company s business. The allowance is payable for transatlantic or equivalent intercontinental travel for the purpose of attending a board or committee meeting or site visits.

Operation

The allowance will be paid in cash following each event of intercontinental travel.

Committee chairmanship fee

Those NEDs who chair a committee receive an additional fee. The committee chairmanship fee reflects the additional time and responsibility in chairing a committee of the board, including the time spent in preparation and liaising with management.

Committee membership fee

NEDs receive a fee for each committee on which they sit other than as a chairman. The committee membership fee reflects the time spent in attending and preparation for a committee of the board.

Operation

Fees for committee chairmanship and membership are determined annually and paid in cash.

The senior independent director (SID)

In the light of the SID s broader role and responsibilities, the SID is paid a single fee and is entitled to other fees relating to committees whether as chair or member.

Operation

The fee for the SID will be determined from time to time, and is paid in cash monthly.

Benefits and expenses

The NEDs are provided with support and reasonable travelling expenses.

Operation

NEDs are reimbursed for all reasonable travelling and subsistence expenses (including any relevant tax) incurred in carrying out their duties.

Professional fees

Fees will be reimbursed in the form of cash, payable following assistance.

Operation

The reimbursement of professional fees incurred by non-executive directors based outside the UK in connection with advice and assistance on UK tax compliance matters.

The maximum remuneration for non-executive directors is set in accordance with the Articles of Association.

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Fee structure

The table below shows the fee structure for non-executive directors from 1 May 2014:

	Fee level £ thousand
Senior independent director[a]	120
Board member	90
Audit, geopolitical, Gulf of Mexico, remuneration and SEEA committees chairmanship fees[b]	30
Committee membership fee[c]	20
Intercontinental travel allowance	5

[a] The senior independent director is eligible for committee chairmanship fees and intercontinental travel allowance plus any committee membership fees.
[b] Committee chairmen do not receive an additional membership fee for the committee they chair.
[c] For members of the audit, geopolitical, Gulf of Mexico, SEEA and remuneration committees.

2015 remuneration (audited)

£ thousand	Fees		Benefits[a]		Total	
	2015	2014	2015	2014	2015	2014
Paul Anderson	177	175	28	48	205	223
Alan Boeckmann	178	70	14	17	192	87
Admiral Frank Bowman	177	165	12	17	189	182
Antony Burgmans	149	150	19	9	168	159
Cynthia Carroll	127	125	68	66	195	191
George David[b]	60	185	15	18	75	203
Ian Davis	145	150	3	5	148	155
Professor Dame Ann Dowling[c]	141	140	1	11	142	151
Brendan Nelson	125	125	11	16	136	141
Phuthuma Nhleko	167	150	11	9	178	159
Paula Rosput Reynolds[d]	93		56		149	
Sir John Sawers[d]	85		0		85	
Andrew Shilston	165	150	3	8	168	158

[a] Benefits include travel and other expenses relating to the attendance at board and other meetings. Amounts disclosed have been grossed up using a tax rate of 45%, where relevant, as an estimation of tax due.
[b] Retired on 16 April 2015.
[c] In addition, Professor Dame Ann Dowling received £25,000 for chairing and being a member of the BP technology advisory council.

[d] Appointed on 14 May 2015.

Non-executive director interests

The figures below indicate and include all the beneficial and non-beneficial interests of each non-executive director of the company in shares of BP (or calculated equivalents) that have been disclosed to the company under the DTRs as at the applicable dates.

	Ordinary shares or equivalents at 1 Jan 2015	Ordinary shares or equivalents at 31 Dec 2015	Change from 31 Dec 2015 to 22 Feb 2016	Ordinary shares or equivalents total at 22 Feb 2016	Value of current shareholding	% of policy achieved
Paul Anderson	30,000[a]	30,000[a]		30,000[a]	$151,500	110
Alan Boeckmann	43,890[a]	44,772[a]		44,772[a]	$226,099	164
Admiral Frank Bowman	16,320[a]	24,864[a]		24,864[a]	$125,563	91
Antony Burgmans	10,156	10,156		10,156	£36,257	40
Cynthia Carroll	10,500[a]	10,500[a]		10,500[a]	$53,025	39
George David[b]	579,000[a]					
Ian Davis	22,420	23,854		23,854	£85,159	95
Professor Dame Ann Dowling	22,320	22,320		22,320	£79,682	89
Brendan Nelson	11,040	11,040		11,040	£39,413	44
Phuthuma Nhleko						0
Paula Rosput Reynolds[c]		52,200[a]		52,200[a]	$263,610	192
Sir John Sawers[c]		13,528		13,528	£48,295	54
Andrew Shilston	15,000	15,000		15,000	£53,550	45

[a] Held as ADSs.
[b] Retired on 16 April 2015.
[c] Appointed on 14 May 2015.

Past directors

Sir Ian Prosser (who retired as a non-executive director of BP in April 2010) was appointed as a director and non-executive chairman of BP Pension Trustees Limited on 1 October 2010. During 2015, he received £100,000 for this role.

This directors remuneration report was approved by the board and signed on its behalf by David J Jackson, company secretary on 4 March 2016.

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Consolidated financial statements of the BP group

Report of Independent Registered Public Accounting Firm

The board of directors and shareholders of BP p.l.c.

We have audited the accompanying group balance sheets of BP p.l.c. as of 31 December 2015 and 31 December 2014, and the related group income statement, group statement of comprehensive income, group statement of changes in equity and group cash flow statement for each of the three years in the period ended 31 December 2015. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the group financial position of BP p.l.c. at 31 December 2015 and 31 December 2014, and the group results of its operations and its cash flows for each of the three years in the period ended 31 December 2015, in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BP p.l.c. s internal control over financial reporting as of 31 December 2015, based on criteria established in the UK Financial Reporting Council s Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and our report dated 4 March 2016 expressed an unqualified opinion.

/s/ Ernst & Young LLP

London, United Kingdom

4 March 2016

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Consolidated financial statements of the BP group

Report of Independent Registered Public Accounting Firm

The board of directors and shareholders of BP p.l.c.

We have audited BP p.l.c. s internal control over financial reporting as of 31 December 2015, based on criteria established in the UK Financial Reporting Council s Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. BP p.l.c. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s report on internal control on page 244. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BP p.l.c. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2015, based on the UK Financial Reporting Council s Guidance.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the group balance sheets of BP p.l.c. as of 31 December 2015 and 2014, and the related group income statement, group statement of comprehensive income, group statement of changes in equity and group cash flow statement for each of the three years in the period ended 31 December 2015, and our report dated 4 March 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

London, United Kingdom

4 March 2016

Consent of independent registered public accounting firm

We consent to the incorporation by reference of our reports dated 4 March 2016, with respect to the group financial statements of BP p.l.c., and the effectiveness of internal control over financial reporting of BP p.l.c., included in this Annual Report and Form 20-F for the year ended 31 December 2015 in the following Registration Statements:

Registration Statement on Form F-3 (File Nos. 333-208478 and 333-208478-01) of BP Capital Markets p.l.c. and BP p.l.c.; and Registration Statements on Form S-8 (File Nos. 333-67206, 333-79399, 333-103924, 333-123482, 333-123483, 333-131583, 333-131584, 333-132619, 333-146868, 333-146870, 333-146873, 333-173136, 333-177423, 333-179406, 333-186462, 333-186463, 333-199015, 333-200794, 333-200795, 333-207188 and 333-207189) of BP p.l.c.

/s/ Ernst & Young LLP

London, United Kingdom

4 March 2016

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Group income statement

For the year ended 31 December $ million

	Note	2015	2014	2013
Sales and other operating revenues	5	**222,894**	353,568	379,136
Earnings from joint ventures after interest and tax	15	**(28)**	570	447
Earnings from associates after interest and tax	16	**1,839**	2,802	2,742
Interest and other income	6	**611**	843	777
Gains on sale of businesses and fixed assets	4	**666**	895	13,115
Total revenues and other income		**225,982**	358,678	396,217
Purchases	18	**164,790**	281,907	298,351
Production and manufacturing expenses[a]		**37,040**	27,375	27,527
Production and similar taxes	5	**1,036**	2,958	7,047
Depreciation, depletion and amortization	5	**15,219**	15,163	13,510
Impairment and losses on sale of businesses and fixed assets	4	**1,909**	8,965	1,961
Exploration expense	7	**2,353**	3,632	3,441
Distribution and administration expenses		**11,553**	12,266	12,611
Profit (loss) before interest and taxation		**(7,918)**	6,412	31,769
Finance costs[a]	6	**1,347**	1,148	1,068
Net finance expense relating to pensions and other post-retirement benefits	23	**306**	314	480
Profit (loss) before taxation		**(9,571)**	4,950	30,221
Taxation[a]	8	**(3,171)**	947	6,463
Profit (loss) for the year		**(6,400)**	4,003	23,758
Attributable to				
BP shareholders		**(6,482)**	3,780	23,451
Non-controlling interests		**82**	223	307
		(6,400)	4,003	23,758
Earnings per share cents				
Profit (loss) for the year attributable to BP shareholders				
Basic	10	**(35.39)**	20.55	123.87
Diluted	10	**(35.39)**	20.42	123.12

[a] See Note 2 for information on the impact of the Gulf of Mexico oil spill on these income statement line items.

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Group statement of comprehensive income[a]

For the year ended 31 December $ million

	Note	2015	2014	2013
Profit (loss) for the year		**(6,400)**	4,003	23,758
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Currency translation differences		**(4,119)**	(6,838)	(1,608)
Exchange gains (losses) on translation of foreign operations reclassified to gain or loss on sale of businesses and fixed assets		**23**	51	22
Available-for-sale investments marked to market		**1**	(1)	(172)
Available-for-sale investments reclassified to the income statement			1	(523)
Cash flow hedges marked to market	29	**(178)**	(155)	(2,000)
Cash flow hedges reclassified to the income statement	29	**249**	(73)	4
Cash flow hedges reclassified to the balance sheet	29	**22**	(11)	17
Share of items relating to equity-accounted entities, net of tax		**(814)**	(2,584)	(24)
Income tax relating to items that may be reclassified	8	**257**	147	147
		(4,559)	(9,463)	(4,137)
Items that will not be reclassified to profit or loss				
Remeasurements of the net pension and other post-retirement benefit liability or asset	23	**4,139**	(4,590)	4,764
Share of items relating to equity-accounted entities, net of tax		**(1)**	4	2
Income tax relating to items that will not be reclassified	8	**(1,397)**	1,334	(1,521)
		2,741	(3,252)	3,245
Other comprehensive income		**(1,818)**	(12,715)	(892)
Total comprehensive income		**(8,218)**	(8,712)	22,866
Attributable to				
BP shareholders		**(8,259)**	(8,903)	22,574
Non-controlling interests		**41**	191	292
		(8,218)	(8,712)	22,866

[a] See Note 31 for further information.

Group statement of changes in equity[a]

$ million

	Share capital and capital reserves	Treasury shares	Foreign currency translation reserve	Fair value reserves	Profit and loss account	BP shareholders equity	Non-controlling interests	Total equity
At 1 January 2015	**43,902**	**(20,719)**	**(3,409)**	**(897)**	**92,564**	**111,441**	**1,201**	**112,642**
Profit (loss) for the year					**(6,482)**	**(6,482)**	**82**	**(6,400)**

Other comprehensive income			**(3,858)**	**74**	**2,007**	**(1,777)**	**(41)**	**(1,818)**
Total comprehensive income			**(3,858)**	**74**	**(4,475)**	**(8,259)**	**41**	**(8,218)**
Dividends[b]					**(6,659)**	**(6,659)**	**(91)**	**(6,750)**
Share-based payments, net of tax		**755**			**(99)**	**656**		**656**
Share of equity-accounted entities changes in equity, net of tax					**40**	**40**		**40**
Transactions involving non-controlling interests					**(3)**	**(3)**	**20**	**17**
At 31 December 2015	**43,902**	**(19,964)**	**(7,267)**	**(823)**	**81,368**	**97,216**	**1,171**	**98,387**
At 1 January 2014	43,656	(20,971)	3,525	(695)	103,787	129,302	1,105	130,407
Profit (loss) for the year					3,780	3,780	223	4,003
Other comprehensive income			(6,934)	(202)	(5,547)	(12,683)	(32)	(12,715)
Total comprehensive income			(6,934)	(202)	(1,767)	(8,903)	191	(8,712)
Dividends[b]					(5,850)	(5,850)	(255)	(6,105)
Repurchases of ordinary share capital					(3,366)	(3,366)		(3,366)
Share-based payments, net of tax	246	252			(313)	185		185
Share of equity-accounted entities changes in equity, net of tax					73	73		73
Transactions involving non-controlling interests							160	160
At 31 December 2014	43,902	(20,719)	(3,409)	(897)	92,564	111,441	1,201	112,642
At 1 January 2013	43,513	(21,054)	5,128	1,775	89,184	118,546	1,206	119,752
Profit (loss) for the year					23,451	23,451	307	23,758
Other comprehensive income			(1,603)	(2,470)	3,196	(877)	(15)	(892)
Total comprehensive income			(1,603)	(2,470)	26,647	22,574	292	22,866
Dividends[b]					(5,441)	(5,441)	(469)	(5,910)
Repurchases of ordinary share capital					(6,923)	(6,923)		(6,923)
Share-based payments, net of tax	143	83			247	473		473
Share of equity-accounted entities changes in equity, net of tax					73	73		73
Transactions involving non-controlling interests							76	76
At 31 December 2013	43,656	(20,971)	3,525	(695)	103,787	129,302	1,105	130,407

[a] See Note 31 for further information.
[b] See Note 9 for further information.

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Group balance sheet

At 31 December			$ million
	Note	**2015**	2014
Non-current assets			
Property, plant and equipment	11	**129,758**	130,692
Goodwill	13	**11,627**	11,868
Intangible assets	14	**18,660**	20,907
Investments in joint ventures	15	**8,412**	8,753
Investments in associates	16	**9,422**	10,403
Other investments	17	**1,002**	1,228
Fixed assets		**178,881**	183,851
Loans		**529**	659
Trade and other receivables	19	**2,216**	4,787
Derivative financial instruments	29	**4,409**	4,442
Prepayments		**1,003**	964
Deferred tax assets	8	**1,545**	2,309
Defined benefit pension plan surpluses	23	**2,647**	31
		191,230	197,043
Current assets			
Loans		**272**	333
Inventories	18	**14,142**	18,373
Trade and other receivables	19	**22,323**	31,038
Derivative financial instruments	29	**4,242**	5,165
Prepayments		**1,838**	1,424
Current tax receivable		**599**	837
Other investments	17	**219**	329
Cash and cash equivalents	24	**26,389**	29,763
		70,024	87,262
Assets classified as held for sale	3	**578**	
		70,602	87,262
Total assets		**261,832**	284,305
Current liabilities			
Trade and other payables	21	**31,949**	40,118
Derivative financial instruments	29	**3,239**	3,689
Accruals		**6,261**	7,102
Finance debt	25	**6,944**	6,877
Current tax payable		**1,080**	2,011
Provisions	22	**5,154**	3,818
		54,627	63,615
Liabilities directly associated with assets classified as held for sale	3	**97**	
		54,724	63,615
Non-current liabilities			
Other payables	21	**2,910**	3,587
Derivative financial instruments	29	**4,283**	3,199
Accruals		**890**	861

Finance debt	25	**46,224**	45,977
Deferred tax liabilities	8	**9,599**	13,893
Provisions	22	**35,960**	29,080
Defined benefit pension plan and other post-retirement benefit plan deficits	23	**8,855**	11,451
		108,721	108,048
Total liabilities		**163,445**	171,663
Net assets		**98,387**	112,642
Equity			
BP shareholders equity	31	**97,216**	111,441
Non-controlling interests	31	**1,171**	1,201
Total equity	31	**98,387**	112,642

C-H Svanberg Chairman

R W Dudley Group Chief Executive

4 March 2016

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Group cash flow statement

For the year ended 31 December				$ million
	Note	**2015**	2014	2013
Operating activities				
Profit (loss) before taxation		**(9,571)**	4,950	30,221
Adjustments to reconcile profit (loss) before taxation to net cash provided by operating activities				
Exploration expenditure written off	7	**1,829**	3,029	2,710
Depreciation, depletion and amortization	5	**15,219**	15,163	13,510
Impairment and (gain) loss on sale of businesses and fixed assets	4	**1,243**	8,070	(11,154)
Earnings from joint ventures and associates		**(1,811)**	(3,372)	(3,189)
Dividends received from joint ventures and associates		**1,614**	1,911	1,391
Interest receivable		**(247)**	(276)	(314)
Interest received		**176**	81	173
Finance costs	6	**1,347**	1,148	1,068
Interest paid		**(1,080)**	(937)	(1,084)
Net finance expense relating to pensions and other post-retirement benefits	23	**306**	314	480
Share-based payments		**321**	379	297
Net operating charge for pensions and other post-retirement benefits, less contributions and benefit payments for unfunded plans	23	**(592)**	(963)	(920)
Net charge for provisions, less payments		**11,792**	1,119	1,061
(Increase) decrease in inventories		**3,375**	10,169	(1,193)
(Increase) decrease in other current and non-current assets		**6,796**	3,566	(2,718)
Increase (decrease) in other current and non-current liabilities		**(9,328)**	(6,810)	(2,932)
Income taxes paid		**(2,256)**	(4,787)	(6,307)
Net cash provided by operating activities		**19,133**	32,754	21,100
Investing activities				
Capital expenditure		**(18,648)**	(22,546)	(24,520)
Acquisitions, net of cash acquired		**23**	(131)	(67)
Investment in joint ventures		**(265)**	(179)	(451)
Investment in associates		**(1,312)**	(336)	(4,994)
Proceeds from disposals of fixed assets	4	**1,066**	1,820	18,115
Proceeds from disposals of businesses, net of cash disposed	4	**1,726**	1,671	3,884
Proceeds from loan repayments		**110**	127	178
Net cash used in investing activities		**(17,300)**	(19,574)	(7,855)
Financing activities				
Net issue (repurchase) of shares			(4,589)	(5,358)
Proceeds from long-term financing		**8,173**	12,394	8,814
Repayments of long-term financing		**(6,426)**	(6,282)	(5,959)
Net increase (decrease) in short-term debt		**473**	(693)	(2,019)
Net increase (decrease) in non-controlling interests		**(5)**	9	32
Dividends paid				
BP shareholders	9	**(6,659)**	(5,850)	(5,441)

Non-controlling interests	**(91)**	(255)	(469)
Net cash used in financing activities	**(4,535)**	(5,266)	(10,400)
Currency translation differences relating to cash and cash equivalents	**(672)**	(671)	40
Increase (decrease) in cash and cash equivalents	**(3,374)**	7,243	2,885
Cash and cash equivalents at beginning of year	**29,763**	22,520	19,635
Cash and cash equivalents at end of year	**26,389**	29,763	22,520

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Notes on financial statements

1. Significant accounting policies, judgements, estimates and assumptions

Authorization of financial statements and statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the BP group for the year ended 31 December 2015 were approved and signed by the group chief executive and chairman on 4 March 2016 having been duly authorized to do so by the board of directors. BP p.l.c. is a public limited company incorporated and domiciled in England and Wales. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), IFRS as adopted by the European Union (EU) and in accordance with the provisions of the UK Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the group s consolidated financial statements for the years presented. The significant accounting policies and accounting judgements, estimates and assumptions of the group are set out below.

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with IFRS and IFRS Interpretations Committee (IFRIC) interpretations issued and effective for the year ended 31 December 2015. The accounting policies that follow have been consistently applied to all years presented.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest million dollars ($ million), except where otherwise indicated.

Significant accounting policies: use of judgements, estimates and assumptions

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for BP management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual outcomes could differ from the estimates and assumptions used. The accounting judgements and estimates that could have a significant impact on the results of the group are set out in boxed text below, and should be read in conjunction with the information provided in the Notes on financial statements. The areas requiring the most significant judgement and estimation in the preparation of the consolidated financial statements are: accounting for interests in other entities; oil and natural gas accounting, including the estimation of reserves; the recoverability of asset carrying values; derivative financial instruments, including the application of hedge accounting; provisions and contingencies, in particular provisions and contingencies related to the Gulf of Mexico oil spill; pensions and other post-retirement benefits; and taxation.

Basis of consolidation

The group financial statements consolidate the financial statements of BP p.l.c. and its subsidiaries drawn up to 31 December each year. Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Intra-group balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to BP shareholders.

Interests in other entities

Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination s synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill arising on business combinations prior to 1 January 2003 is stated at the previous carrying amount under UK generally accepted accounting practice, less subsequent impairments.

Goodwill may also arise upon investments in joint ventures and associates, being the surplus of the cost of investment over the group s share of the net fair value of the identifiable assets and liabilities. Such goodwill is recorded within the corresponding investment in joint ventures and associates.

Interests in joint arrangements

The results, assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting as described below.

Certain of the group s activities, particularly in the Upstream segment, are conducted through joint operations. BP recognizes, on a line-by-line basis in the consolidated financial statements, its share of the assets, liabilities and expenses of these joint operations incurred jointly with the other partners, along with the group s income from the sale of its share of the output and any liabilities and expenses that the group has incurred in relation to the joint operation.

Interests in associates

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting as described below.

Significant estimate or judgement: accounting for interests in other entities

Judgement is required in assessing the level of control obtained in a transaction to acquire an interest in another entity; depending upon the facts and circumstances in each case, BP may obtain control, joint control or significant influence over the entity or arrangement. Transactions which give BP control of a business are business combinations. If BP obtains joint control of an arrangement, judgement is also required to assess whether the arrangement is a joint operation or a joint venture. If BP has neither control nor joint control, it may be in a position to exercise significant influence over the entity, which is then accounted for as an associate.

Since 21 March 2013, BP has owned 19.75% of the voting shares of OJSC Oil Company Rosneft (Rosneft), a Russian oil and gas company. The Russian federal government, through its investment company OJSC Rosneftegaz, owned 69.5% of the voting shares of Rosneft at 31 December 2015. BP uses the equity method of accounting for its investment in Rosneft because under IFRS it is considered to have significant influence. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control. IFRS identifies several indicators that may provide evidence of significant influence, including representation on the board of directors of the investee and participation in policy-making processes. BP s group chief executive, Bob Dudley, has been a member of the board of directors of

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1. Significant accounting policies, judgements, estimates and assumptions continued

Rosneft since 2013 and he is a member of the Rosneft board s Strategic Planning Committee. During 2015, a second BP-nominated director, Guillermo Quintero, was elected to the Rosneft board. BP also holds the voting rights at general meetings of shareholders conferred by its 19.75% stake in Rosneft. In management s judgement, the group has significant influence over Rosneft, as defined by the relevant accounting standard, and the investment is, therefore, accounted for as an associate. BP s share of Rosneft s oil and natural gas reserves is included in the estimated net proved reserves of equity-accounted entities.

The equity method of accounting

Under the equity method, the investment is carried on the balance sheet at cost plus post-acquisition changes in the group s share of net assets of the entity, less distributions received and less any impairment in value of the investment. Loans advanced to equity-accounted entities that have the characteristics of equity financing are also included in the investment on the group balance sheet. The group income statement reflects the group s share of the results after tax of the equity-accounted entity, adjusted to account for depreciation, amortization and any impairment of the equity-accounted entity s assets based on their fair values at the date of acquisition. The group statement of comprehensive income includes the group s share of the equity-accounted entity s other comprehensive income. The group s share of amounts recognized directly in equity by an equity-accounted entity is recognized directly in the group s statement of changes in equity.

Financial statements of equity-accounted entities are prepared for the same reporting year as the group. Where material differences arise, adjustments are made to those financial statements to bring the accounting policies used into line with those of the group.

Unrealized gains on transactions between the group and its equity-accounted entities are eliminated to the extent of the group s interest in the equity-accounted entity.

The group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

The group ceases to use the equity method of accounting from the date on which it no longer has joint control over the joint venture or significant influence over the associate, or when the interest becomes classified as an asset held for sale.

Segmental reporting

The group s operating segments are established on the basis of those components of the group that are evaluated regularly by the group chief executive, BP s chief operating decision maker, in deciding how to allocate resources and in assessing performance.

The accounting policies of the operating segments are the same as the group s accounting policies described in this note, except that IFRS requires that the measure of profit or loss disclosed for each operating segment is the measure that is provided regularly to the chief operating decision maker. For BP, this measure of profit or loss is replacement cost profit before interest and tax which reflects the replacement cost of inventories sold in the period and is arrived at by excluding inventory holding gains and losses from profit. Replacement cost profit for the group is not a recognized measure under IFRS. For further information see Note 5.

Foreign currency translation

In individual subsidiaries, joint ventures and associates, transactions in foreign currencies are initially recorded in the functional currency of those entities at the spot exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot exchange rate on the balance sheet date. Any resulting exchange differences are included in the income statement, unless hedge accounting is applied. Non-monetary assets and liabilities, other than those measured at fair value, are not retranslated subsequent to initial recognition.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries, joint ventures, associates, and related goodwill, are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries, joint ventures and associates are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries, joint ventures and associates are translated into US dollars are taken to a separate component of equity and reported in the statement of comprehensive income. Exchange gains and losses arising on long-term intra-group foreign currency borrowings used to finance the group s non-US dollar investments are also taken to other comprehensive income. On disposal or partial disposal of a non-US dollar functional currency subsidiary, joint venture or associate, the related cumulative exchange gains and losses recognized in equity are reclassified to the income statement.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale, and actions required to complete the plan of sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Intangible assets

Intangible assets, other than goodwill, include expenditure on the exploration for and evaluation of oil and natural gas resources, computer software, patents, licences and trademarks and are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life, other than capitalized exploration and appraisal costs as described below, are amortized on a straight-line basis over their expected useful lives. For patents, licences and trademarks, expected useful life is the shorter of the duration of the legal agreement and economic useful life, and can range from three to 15 years. Computer software costs generally have a useful life of three to five years.

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1. Significant accounting policies, judgements, estimates and assumptions continued

The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Oil and natural gas exploration, appraisal and development expenditure

Oil and natural gas exploration, appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting as described below.

Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalized within intangible assets and are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations, and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Lower value licences are pooled and amortized on a straight- line basis over the estimated period of exploration. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to property, plant and equipment.

Exploration and appraisal expenditure

Geological and geophysical exploration costs are recognized as an expense as incurred. Costs directly associated with an exploration well are initially capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well costs are written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. If it is determined that development will not occur then the costs are expensed.

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an intangible asset. When proved reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment.

Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service and unsuccessful development or delineation wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the accounting policy for property, plant and equipment.

Significant estimate or judgement: oil and natural gas accounting

The determination of whether potentially economic oil and natural gas reserves have been discovered by an exploration well is usually made within one year of well completion, but can take longer, depending on the complexity of the geological structure. Exploration wells that discover potentially economic quantities of oil and natural gas and are in areas where major capital expenditure (e.g. an offshore platform or a pipeline) would be required before production could begin, and where the economic viability of that major capital expenditure depends on the successful completion of further exploration work in the area, remain capitalized on the balance sheet as long as additional exploration or appraisal work is under way or firmly planned.

It is not unusual to have exploration wells and exploratory-type stratigraphic test wells remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and natural gas field is performed or while the optimum development plans and timing are established. All such carried costs are subject to regular technical, commercial and management review on at least an annual basis to confirm the continued intent to develop, or otherwise extract value from, the discovery. Where this is no longer the case, the costs are immediately expensed.

One of the facts and circumstances which indicate that an entity should test such assets for impairment is that the period for which the entity has a right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed. BP has leases in the Gulf of Mexico making up a prospect, some with terms which were scheduled to expire at the end of 2013 and some with terms which were scheduled to expire at the end of 2014. A significant proportion of our capitalized exploration and appraisal costs in the Gulf of Mexico relate to this prospect. This prospect requires the development of subsea technology to ensure that the hydrocarbons can be extracted safely. BP is in negotiation with the US Bureau of Safety and Environmental Enforcement in relation to seeking extension of these leases so that the discovered hydrocarbons can be developed. BP remains committed to developing this prospect and expects that the leases will be renewed and, therefore, continues to carry the capitalized costs on its balance sheet.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of any decommissioning obligation, if any, and, for assets that necessarily take a substantial period of time to get ready for their intended use, finance costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs.

Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programmes are capitalized and amortized over the period to the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs are expensed as incurred.

Oil and natural gas properties, including related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortized over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortized over total proved reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Other property, plant and equipment is depreciated on a straight-line basis over its expected useful life. The typical useful lives of the group s other property, plant and equipment are as follows:

Land improvements	15 to 25 years
Buildings	20 to 50 years
Refineries	20 to 30 years
Petrochemicals plants	20 to 30 years
Pipelines	10 to 50 years
Service stations	15 years
Office equipment	3 to 7 years
Fixtures and fittings	5 to 15 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

Significant estimate or judgement: estimation of oil and natural gas reserves

The determination of the group s estimated oil and natural gas reserves requires significant judgements and estimates to be applied and these are regularly reviewed and updated. Factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity, drilling of new wells, and commodity prices all impact on the determination of the group s estimates of its oil and natural gas reserves. BP bases its proved reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and regulatory requirements.

The estimation of oil and natural gas reserves and BP s process to manage reserves bookings is described in Supplementary information on oil and natural gas on page 169, which is unaudited. Details on BP s proved reserves and production compliance and governance processes are provided on page 228.

Estimates of oil and natural gas reserves are used to calculate depreciation, depletion and amortization charges for the group s oil and gas properties. The impact of changes in estimated proved reserves is dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Oil and natural gas reserves also have a direct impact on the assessment of the recoverability of asset carrying values reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by changes in depreciation expense or an immediate write-down of the property s carrying value.

The 2015 movements in proved reserves are reflected in the tables showing movements in oil and natural gas reserves by region in Supplementary information on oil and natural gas (unaudited) on page 169. Information on the carrying amounts of the group s oil and natural gas properties, together with the amounts recognized in the income statement as depreciation, depletion and amortization is contained in Note 11 and Note 5 respectively.

Impairment of property, plant and equipment, intangible assets, and goodwill

The group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the group s business plans, changes in the group s assumptions about commodity prices, low plant utilization, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the group makes an estimate of the asset s or CGU s recoverable amount. Individual assets are grouped into CGUs for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU s recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

The business segment plans, which are approved on an annual basis by senior management, are the primary source of information for the determination of value in use. They contain forecasts for oil and natural gas production, refinery throughputs, sales volumes for various types of refined products (e.g. gasoline and lubricants), revenues, costs and capital expenditure. As an initial step in the preparation of these plans, various assumptions regarding market conditions, such as oil prices, natural gas prices, refining margins, refined product margins and cost inflation rates are set by senior management. These assumptions take account of existing prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the group and not applicable to entities in general.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to the lower of its recoverable amount and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment reversals are recognized in profit or loss. After a reversal, the depreciation charge is adjusted in future periods to allocate the asset s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of cash-generating units to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs to which goodwill has been allocated is compared with its recoverable amount. Where the recoverable amount of the group of CGUs is less than the carrying amount (including goodwill), an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Significant estimate or judgement: recoverability of asset carrying values

Determination as to whether, and by how much, an asset, CGU, or group of CGUs containing goodwill is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for global or regional market supply-and-demand conditions for crude oil, natural gas and refined products.

For oil and natural gas properties, the expected future cash flows are estimated using management s best estimate of future oil and natural gas prices and production and reserves volumes. Judgement is also required when determining the appropriate grouping of assets into a CGU or the appropriate grouping of CGUs for impairment testing purposes.

The estimated future level of production in all impairment tests is based on assumptions about future commodity prices, production and development costs, field decline rates, current fiscal regimes and other factors.

Fair value less costs of disposal may be determined based on similar recent market transaction data or, where recent market transactions for the asset are not available for reference, using discounted cash flow techniques. Where discounted cash flow analyses are used to calculate fair value less costs of disposal, accounting judgements are made about the assumptions market participants would use when pricing the asset, CGU or group of CGUs containing goodwill and the test is performed on a post-tax basis. The post-tax discount rate used is based upon the cost of funding the group derived from an established model. Adjustments are made, where applicable, to take into account any specific risks relating to the country where the cash-generating unit is located. In 2015 the discount rate used to determine recoverable amounts based on fair value less costs of disposal was 7% (2014 8%), with a 2% premium added in higher-risk countries.

When estimating the fair value of our Upstream assets, assumptions reflect all reserves that a market participant would consider when valuing the asset, which are usually broader in scope than the reserves used in a value-in-use test. Discounted cash flow analyses used to calculate fair value less costs of disposal use market prices for the first five years and long-term price assumptions that are consistent with the assumptions used by the group for investment appraisal purposes thereafter. The long-term price assumptions used in such tests are $90 per barrel for Brent in 2021 (2014 $97 per barrel in 2020) and $5.60/mmBtu for Henry Hub in 2021 (2014 $6.00/mmBtu in 2020), both inflated at a rate of 2% per annum for the remaining life of the asset (2014 2.5%). These long-term assumptions are derived from the $80 per barrel real oil price and $5/mmBtu real Henry Hub assumptions used for investment appraisal. In the current price environment, the market prices used for the first five years of both value-in-use and fair value less costs of disposal impairment tests are particularly volatile. Market prices used for the first five years of both value-in-use and fair value less costs of disposal impairment tests performed at the year end are shown in the table below:

Price assumptions for the first five years	**as at 31 December**

					2015
	2016	**2017**	**2018**	**2019**	**2020**
Brent oil price ($/bbl)	**40**	**47**	**52**	**54**	**56**
Henry Hub natural gas price ($/mmBtu)	**2.38**	**2.76**	**2.90**	**3.03**	**3.18**

					as at 31 December 2014
	2015	2016	2017	2018	2019
Brent oil price ($/bbl)	61	69	73	76	77
Henry Hub natural gas price ($/mmBtu)	3.11	3.53	3.82	4.00	4.15

For value-in-use calculations, future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The pre-tax discount rate is derived from the cost of funding the group calculated using an established model, and is adjusted, where applicable, to take into account any specific risks relating to the country where the cash-generating unit is located. In 2015 the discount rate used to determine recoverable amounts based on value in use was 11% (2014 12%), with a 2% premium added in higher-risk countries. The discount rates applied in assessments of impairment are reassessed each year. Reserves assumptions for value-in-use tests are restricted to proved and probable reserves.

For value-in-use calculations relating to Upstream assets, prices for oil and natural gas used for future cash flow calculations are based on market prices for the first five years (consistent with those shown in the table above) and the group s flat nominal long-term price assumptions thereafter. As at 31 December 2015, the group s long-term flat nominal price assumptions were $90 per barrel for Brent and $6.50/mmBtu for Henry Hub (2014 $90 per barrel and $6.50/mmBtu). These long-term price assumptions are subject to periodic review.

Irrespective of whether there is any indication of impairment, BP is required to test annually for impairment of goodwill acquired in a business combination. The group carries goodwill of approximately $11.6 billion on its balance sheet (2014 $11.9 billion), principally relating to the Atlantic Richfield, Burmah Castrol, Devon Energy and Reliance transactions. In testing goodwill for impairment, the group uses the approach described above to determine recoverable amount. If there are low oil or natural gas prices, refining margins or marketing margins for an extended period, the group may need to recognize goodwill impairment charges.

The recoverability of intangible exploration and appraisal expenditure is covered under Oil and natural gas exploration, appraisal and development expenditure above.

Details of impairment charges and reversals recognized in the income statement are provided in Note 4 and details on the carrying amounts of assets are shown in Note 11, Note 13 and Note 14.

Inventories

Inventories, other than inventories held for trading purposes, are stated at the lower of cost and net realizable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realizable value is determined by reference to prices existing at the balance sheet date, adjusted where the sale of inventories after the reporting period gives evidence about their net realizable value at the end of the period.

Inventories held for trading purposes are stated at fair value less costs to sell and any changes in fair value are recognized in the income statement.

Supplies are valued at the lower of cost on a weighted average basis and net realizable value.

Leases

Finance leases are capitalized at the commencement of the lease term at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the

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1. Significant accounting policies, judgements, estimates and assumptions continued

liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Financial assets

Financial assets are recognized initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. This category of financial assets includes trade and other receivables. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Held-to-maturity financial assets

Held-to-maturity financial assets are measured at amortized cost, using the effective interest method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income, except for impairment losses, and, for available-for-sale debt instruments, foreign exchange gains or losses, interest recognized using the effective interest method, and any changes in fair value arising from revised estimates of future cash flows, which are recognized in profit or loss.

Impairment of loans and receivables

The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the financial asset s original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in the income statement.

Significant estimate or judgement: recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. Factors considered include the credit rating of the counterparty, the amount and timing of anticipated future payments and any possible actions that can be taken to mitigate the risk of non-payment. See Note 28 for information on overdue receivables.

Financial liabilities

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortized cost

All other financial liabilities are initially recognized at fair value, net of transaction costs. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in interest and other income and finance costs respectively.

This category of financial liabilities includes trade and other payables and finance debt, except finance debt designated in a fair value hedge relationship.

Derivative financial instruments and hedging activities

The group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices, as well as for trading purposes. These derivative financial instruments are recognized initially at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Contracts to buy or sell a non-financial item (for example, oil, oil products, gas or power) that can be settled net in cash, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group s expected purchase, sale or usage requirements, are accounted for as financial instruments. Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the income statement.

If, at inception of a contract, the valuation cannot be supported by observable market data, any gain or loss determined by the valuation methodology is not recognized in the income statement but is deferred on the balance sheet and is commonly known as day-one gain or loss . This deferred gain or loss is recognized in the income statement over the life of the contract until substantially all the remaining contract term can be valued using observable market data at which point any remaining deferred gain or loss is recognized in the income statement. Changes in valuation subsequent to the initial valuation are recognized immediately through the income statement.

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1. Significant accounting policies, judgements, estimates and assumptions continued

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging exposure to changes in the fair value of a recognized asset or liability
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to either a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in fair value of a hedging derivative is recognized in profit or loss. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss. The group applies fair value hedge accounting when hedging interest rate risk and certain currency risks on fixed rate borrowings.

If the criteria for hedge accounting are no longer met, or if the group revokes the designation, the accumulated adjustment to the carrying amount of a hedged item at such time is then amortized to profit or loss over the remaining period to maturity.

Cash flow hedges

The effective portion of the gain or loss on a cash flow hedging instrument is recognized within other comprehensive income, while the ineffective portion is recognized in profit or loss. Amounts taken to other comprehensive income are reclassified to the income statement when the hedged transaction affects profit or loss.

Where the hedged item is a non-financial asset or liability, such as a forecast foreign currency transaction for the purchase of property, plant and equipment, the amounts recognized within other comprehensive income are reclassified to the initial carrying amount of the non-financial asset or

liability. Where the hedged item is an equity investment, the amounts recognized in other comprehensive income remain in the separate component of equity until the hedged cash flows affect profit or loss. Where the hedged item is recognized directly in profit or loss, the amounts recognized in other

comprehensive income are reclassified to production and manufacturing expenses, except for cash flow hedges of variable interest rate risk which are reclassified to finance costs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized within other comprehensive income remain in equity until the forecast transaction occurs and are reclassified to the income statement or to the initial carrying amount of a non-financial asset or liability as above.

Significant estimate or judgement: application of hedge accounting

The decision as to whether to apply hedge accounting within subsidiaries, and by equity-accounted entities, can have a significant impact on the group s financial statements. Cash flow and fair value hedge accounting is applied to certain finance debt-related instruments in the normal course of business and cash flow hedge accounting is applied to certain highly probable foreign currency transactions as part of the management of currency risk. See Note 16, Note 28 and Note 29 for further information.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The group categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or BP s assumptions about pricing by market participants.

Significant estimate or judgement: valuation of derivatives

In some cases the fair values of derivatives are estimated using internal models due to the absence of quoted prices or other observable, market-corroborated data. This applies to the group s longer-term derivative contracts. The majority of these contracts are valued using models with inputs that include price curves for each of the different products that are built up from available active market pricing data and modelled using the maximum available external pricing information. Additionally, where limited data exists for certain products, prices are determined using historic and long-term pricing relationships. Price volatility is also an input for options models.

Changes in the key assumptions could have a material impact on the fair value gains and losses on derivatives recognized in the income statement. For more information see Note 29.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the group currently has a legally enforceable right to set off the recognized amounts; and the group intends to either settle on a net basis or realize the asset and settle the liability simultaneously. A right of set off is the group s legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Provisions, contingencies and reimbursement assets

Provisions are recognized when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized within finance costs. A provision is discounted using either a nominal discount rate of 2.75% (2014 2.75%) or a real discount rate of 0.75% (2014 0.75%), as appropriate. Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

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1. Significant accounting policies, judgements, estimates and assumptions continued

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the group, or present obligations where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

Where the group makes contributions into a separately administered fund for restoration, environmental or other obligations, which it does not control, and the group s right to the assets in the fund is restricted, the obligation to contribute to the fund is recognized as a liability where it is probable that such additional contributions will be made. The group recognizes a reimbursement asset separately, being the lower of the amount of the associated restoration, environmental or other provision and the group s share of the fair value of the net assets of the fund available to contributors.

Significant estimate or judgement: provision relating to the Gulf of Mexico oil spill

Detailed information on the Gulf of Mexico oil spill, including the financial impacts, is provided in Note 2.

During 2015, BP signed agreements in principle, which were subject to execution of definitive agreements, to settle all federal and state claims and claims made by more than 400 local government entities. Further detail is provided in Note 2. Certain agreements are subject to approval by the court of a Consent Decree. A provision for amounts payable under these agreements has, therefore, been recognized. The agreements significantly reduce the uncertainties faced by BP following the Gulf of Mexico oil spill in 2010. However, there continues to be uncertainty regarding the outcome or resolution of current or future litigation and the extent and timing of costs relating to the incident not covered by these agreements.

The provision recognized is the reliable estimate of expenditures required to settle certain present obligations at the end of the reporting period. There are future expenditures, however, for which it is not possible to measure the obligation reliably. These are not provided for, are disclosed as contingent liabilities, and are described in Note 2. Contingent liabilities are disclosed in relation to business economic loss (BEL) claims under the Plaintiffs Steering Committee (PSC) settlement, securities-related litigation, other litigation, including claims from parties excluded from or who opted out of the PSC settlement, and under the settlement agreements with Anadarko and MOEX and other agreements.

Management believes that no reliable estimate can currently be made of any BEL claims not yet processed or processed but not yet paid, except where an eligibility notice has been issued and is not subject to appeal by BP within the claims facility. The submission deadline for BEL claims passed on 8 June 2015; no further claims can be submitted. A significant number of BEL claims have been received but have not yet been processed and it is not possible to quantify the total value of the claims. A revised policy for the matching of revenue and expenses for BEL claims was introduced in May 2014 and, of the claims assessable under the new policy, the majority have not yet been determined at this time. For this and other reasons set out in Note 2, we are unable to reliably estimate future trends of the number and proportion of claims that will be determined to be eligible, nor can we reliably estimate the value of such claims. A provision for such BEL claims will be established when these uncertainties are sufficiently reduced and a reliable estimate can be made of the liability.

Decommissioning

Liabilities for decommissioning costs are recognized when the group has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil and natural gas production or transportation facilities, this liability will be recognized on construction or installation. Similarly, where an obligation exists for a well, this liability is recognized when it is drilled. An obligation for decommissioning may also crystallize during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using the real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately 17 years.

An amount equivalent to the decommissioning provision is recognized as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset.

Environmental expenditures and liabilities

Environmental expenditures that are required in order for the group to obtain future economic benefits from its assets are capitalized as part of those assets. Expenditures that relate to an existing condition caused by past operations that do not contribute to future earnings are expensed.

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognized is the best estimate of the expenditure required to settle the obligation. Provisions for environmental liabilities have been estimated using existing technology, at current prices and discounted using a real discount rate. The weighted average period over which these costs are generally expected to be incurred is estimated to be approximately five years.

Significant estimate or judgement: provisions

The group holds provisions for the future decommissioning of oil and natural gas production facilities and pipelines at the end of their economic lives. The largest decommissioning obligations facing BP relate to the plugging and abandonment of wells and the removal and disposal of oil and natural gas platforms and pipelines around the world.

Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. BP believes that the impact of any reasonably foreseeable change to these provisions on the group s results of operations, financial position or liquidity will not be material. If oil and natural gas production facilities and pipelines are sold to third parties and the subsequent owner is unable to meet their decommissioning obligations, judgement must be used to determine whether BP is then responsible for decommissioning, and if so the extent of that responsibility. The timing and amounts of future cash flows are subject to significant uncertainty. Any changes in the expected future costs are reflected in both the provision and the asset.

1. Significant accounting policies, judgements, estimates and assumptions continued

Decommissioning provisions associated with downstream and petrochemicals facilities are generally not recognized, as the potential obligations cannot be measured, given their indeterminate settlement dates. The group performs periodic reviews of its downstream and petrochemicals long-lived assets for any changes in facts and circumstances that might require the recognition of a decommissioning provision.

The provision for environmental liabilities is estimated based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Other provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgement to existing facts and circumstances, which can be subject to change. Since the cash outflows can take place many years in the future, the carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

The timing and amount of future expenditures are reviewed annually, together with the interest rate used in discounting the cash flows. The interest rate used to determine the balance sheet obligation at the end of 2015 was a real rate of 0.75% (2014 0.75%), which was based on long-dated US government bonds.

Provisions and contingent liabilities relating to the Gulf of Mexico oil spill are discussed in Note 2. Information about the group s other provisions is provided in Note 22. As further described in Note 32, the group is subject to claims and actions. The facts and circumstances relating to particular cases are evaluated regularly in determining whether a provision relating to a specific litigation should be recognized or revised. Accordingly, significant management judgement relating to provisions and contingent liabilities is required, since the outcome of litigation is difficult to predict.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the group. Deferred bonus arrangements that have a vesting date more than 12 months after the balance sheet date are valued on an actuarial basis using the projected unit credit method and amortized on a straight-line basis over the service period until the award vests. The accounting policies for share-based payments and for pensions and other post-retirement benefits are described below.

Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which equity instruments are granted and is recognized as an expense over the vesting period, which ends on the date on which the employees become fully entitled to the award. A corresponding credit is recognized within equity. Fair value is determined by using an appropriate, widely used, valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). Non-vesting conditions, such as the condition that employees contribute to a savings-related plan, are taken into account in the grant-date fair value, and failure to meet a non-vesting condition, where this is within the control of the employee is treated as a cancellation and any remaining unrecognized cost is expensed.

Cash-settled transactions

The cost of cash-settled transactions is recognized as an expense over the vesting period, measured by reference to the fair value of the corresponding liability which is recognized on the balance sheet. The liability is remeasured at fair value at each balance sheet date until settlement, with changes in fair value recognized in the income statement.

Pensions and other post-retirement benefits

The cost of providing benefits under the group s defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period to determine current service cost and to the current and prior periods to determine the present value of the defined benefit obligation. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognized immediately when the company becomes committed to a change.

Net interest expense relating to pensions and other post-retirement benefits, which is recognized in the income statement, represents the net change in present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year, and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year.

Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest described above) are recognized within other comprehensive income in the period in which they occur and are not subsequently reclassified to profit and loss.

The defined benefit pension plan surplus or deficit recognized in the balance sheet for each plan comprises the difference between the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) and the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and, in the case of quoted securities, is the published bid price. Defined benefit pension plan surpluses are only recognized to the extent they are recoverable, typically by way of refund.

Contributions to defined contribution plans are recognized in the income statement in the period in which they become payable.

Significant estimate or judgement: pensions and other post-retirement benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events, including estimated retirement dates, salary levels at retirement, mortality rates, determination of discount rates for measuring plan obligations and net interest expense and assumptions for inflation rates.

These assumptions are based on the environment in each country. The assumptions used may vary from year to year, which would affect future net income and net assets. Any differences between these assumptions and the actual outcome also affect future net income and net assets.

Pension and other post-retirement benefit assumptions are reviewed by management at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end and hence the surpluses and deficits recorded on the group s balance sheet, and pension and other post-retirement benefit expense for the following year. The assumptions used are provided in Note 23.

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1. Significant accounting policies, judgements, estimates and assumptions continued

The discount rate and inflation rate have a significant effect on the amounts reported. A sensitivity analysis of the impact of changes in these assumptions on the benefit expense and obligation is provided in Note 23.

In addition to the financial assumptions, we regularly review the demographic and mortality assumptions. Mortality assumptions reflect best practice in the countries in which we provide pensions and have been chosen with regard to the latest available published tables adjusted where appropriate to reflect the experience of the group and an extrapolation of past longevity improvements into the future. A sensitivity analysis of the impact of changes in the mortality assumptions on the benefit expense and obligation is provided in Note 23.

Income taxes

Income tax expense represents the sum of current tax and deferred tax. Interest and penalties relating to income tax are also included in the income tax expense.

Income tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax is recognized in other comprehensive income or directly in equity.

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it is determined in accordance with the rules established by the applicable taxation authorities. It therefore excludes items of income or expense that are taxable or deductible in other periods as well as items that are never taxable or deductible. The group s liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill
- where the deferred tax liability arises on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, where the group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Significant estimate or judgement: income taxes

The computation of the group s income tax expense and liability involves the interpretation of applicable tax laws and regulations in many jurisdictions throughout the world. The resolution of tax positions taken by the group, through negotiations with relevant tax authorities or through litigation, can take several years to complete and in some cases it is difficult to predict the ultimate outcome. Therefore, judgement is required to determine provisions for income taxes.

In addition, the group has carry-forward tax losses and tax credits in certain taxing jurisdictions that are available to offset against future taxable profit. However, deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the unused tax losses or tax credits can be utilized. Management judgement is exercised in assessing whether this is the case.

To the extent that actual outcomes differ from management s estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information see Note 8.

Judgement is also required when determining whether a particular tax is an income tax or another type of tax (for example a production tax). Accounting for deferred tax is applied to income taxes as described above, but is not applied to other types of taxes; rather such taxes are recognized in the income statement on an appropriate basis.

Customs duties and sales taxes

Customs duties and sales taxes which are passed on to customers are excluded from revenues and expenses. Assets and liabilities are recognized net of the amount of customs duties or sales tax except:

- Customs duties or sales taxes incurred on the purchase of goods and services which are not recoverable from the taxation authority are recognized as part of the cost of acquisition of the asset.
- Receivables and payables are stated with the amount of customs duty or sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included within receivables or payables in the balance sheet.

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1. Significant accounting policies, judgements, estimates and assumptions continued

Own equity instruments Treasury shares

The group s holdings in its own equity instruments are shown as deductions from shareholders equity at cost. Treasury shares represent BP shares repurchased and available for specific and limited purposes. For accounting purposes, shares held in Employee Share Ownership Plans (ESOPs) to meet the future requirements of the employee share-based payment plans are treated in the same manner as treasury shares and are, therefore, included in the financial statements as treasury shares. Consideration, if any, received for the sale of such shares is also recognized in equity, with any difference between the proceeds from sale and the original cost being taken to the profit and loss account reserve. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of equity shares. Shares repurchased under the share buy-back programme which are immediately cancelled are not shown as treasury shares, but are shown as a deduction from the profit and loss account reserve in the group statement of changes in equity.

Revenue

Revenue arising from the sale of goods is recognized when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that title passes, and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Physical exchanges are reported net, as are sales and purchases made with a common counterparty, as part of an arrangement similar to a physical exchange. Similarly, where the group acts as agent on behalf of a third party to procure or market energy commodities, any associated fee income is recognized but no purchase or sale is recorded. Additionally, where forward sale and purchase contracts for oil, natural gas or power have been determined to be for trading purposes, the associated sales and purchases are reported net within sales and other operating revenues whether or not physical delivery has occurred.

Generally, revenues from the production of oil and natural gas properties in which the group has an interest with joint operation partners are recognized on the basis of the group s working interest in those properties (the entitlement method). Differences between the production sold and the group s share of production are not significant.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in the income statement in the period in which they are incurred.

Impact of new International Financial Reporting Standards

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

Not yet adopted

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the group.

IFRS 9 Financial Instruments will supersede IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.

IFRS 15 Revenue from Contracts with Customers provides a single model for accounting for revenue arising from contracts with customers and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 Revenue .

The IASB has issued IFRS 16 Leases which provides a new model for lease accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 and is expected to have a significant effect on the group s financial statements, significantly increasing the group s recognized assets and liabilities and potentially affecting the presentation and timing of recognition of charges in the income statement. Information on the group s leases currently classified as operating leases, which are not recognized on the balance sheet, is provided in Note 27.

BP does not expect to adopt IFRS 9 or IFRS 15 before 1 January 2018 and has not yet determined its date of adoption for IFRS 16. The group has not yet completed its evaluation of the effect of adoption of these standards. The EU has not yet adopted IFRS 9, IFRS 15 or IFRS 16.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the group.

2. Significant event Gulf of Mexico oil spill

As a consequence of the Gulf of Mexico oil spill in April 2010, BP continues to incur costs and has also recognized liabilities for certain future costs. Liabilities of uncertain timing or amount, for which no provision has been made, have been disclosed as contingent liabilities.

The cumulative pre-tax income statement charge since the incident amounts to $55.5 billion. For more information on the types of expenditure included in the cumulative income statement charge, see *Impact upon the group income statement* below. The cumulative income statement charge does not include amounts for obligations that BP considers are not possible, at this time, to measure reliably. For further information, including developments in relation to business economic loss claims under the Plaintiffs Steering Committee (PSC) settlement, see *Provisions and contingent liabilities* below.

On 2 July 2015, agreements in principle to settle all federal and state claims and claims made by more than 400 local government entities were signed. These agreements in principle were subject to execution of definitive agreements, including a Consent Decree with the United States and Gulf states with respect to the Clean Water Act penalty and natural resource damages and other claims, a Settlement Agreement with five Gulf states with respect to state claims for economic loss, property damage and other claims, and resolution to BP s satisfaction of the economic loss, property damage and other claims with more than 400 local government entities. The proposed Consent Decree between the United States, the Gulf states and BP was available for public comment until early December 2015 and is subject to final court approval. The Consent Decree and Settlement Agreement with the five Gulf states are conditional upon each other and neither will become effective unless there is final court approval of the Consent Decree. The United States is expected to file a motion with the court to enter the Consent Decree as a final settlement around the end of

March, which the court will then consider. During 2015, the Settlement Agreement with the five Gulf states was executed. BP has accepted releases received from the vast majority of local government entities and payments required under those releases were made during 2015. For more information on the proposed Consent Decree and Settlement Agreement see Legal proceedings on page 238.

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2. Significant event Gulf of Mexico oil spill continued

The agreements described above (the Agreements) significantly reduce the uncertainties faced by BP following the Gulf of Mexico oil spill in 2010. There continues to be uncertainty regarding the outcome or resolution of current or future litigation and the extent and timing of costs relating to the incident not covered by the Agreements. The total amounts that will ultimately be paid by BP in relation to the incident will be dependent on many factors, as discussed under *Provisions and contingent liabilities* below, including in relation to any new information or future developments. These uncertainties could have a material impact on our consolidated financial position, results and cash flows.

The impacts of the Gulf of Mexico oil spill on the income statement, balance sheet and cash flow statement of the group are included within the relevant line items in those statements and are shown in the table below.

			$ million
	2015	2014	2013
Income statement			
Production and manufacturing expenses	**11,709**	781	430
Profit (loss) before interest and taxation	**(11,709)**	(781)	(430)
Finance costs	**247**	38	39
Profit (loss) before taxation	**(11,956)**	(819)	(469)
Less: Taxation	**3,492**	262	73
Profit (loss) for the period	**(8,464)**	(557)	(396)
Balance sheet			
Current assets			
Trade and other receivables	**686**	1,154	
Current liabilities			
Trade and other payables	**(693)**	(655)	
Accruals	**(40)**		
Provisions	**(3,076)**	(1,702)	
Net current assets (liabilities)	**(3,123)**	(1,203)	
Non-current assets			
Other receivables		2,701	
Non-current liabilities			
Other payables	**(2,057)**	(2,412)	
Accruals	**(186)**	(169)	
Provisions	**(13,431)**	(6,903)	
Deferred tax	**5,200**	1,723	
Net non-current assets (liabilities)	**(10,474)**	(5,060)	
Net assets (liabilities)	**(13,597)**	(6,263)	
Cash flow statement			
Profit (loss) before taxation	**(11,956)**	(819)	(469)
Finance costs	**247**	38	39
Net charge for provisions, less payments	**11,296**	939	1,129
(Increase) decrease in other current and non-current assets		(662)	(1,481)

Increase (decrease) in other current and non-current liabilities	**(732)**	(792)	(618)
Pre-tax cash flows	**(1,145)**	(1,296)	(1,400)

The impact on net cash provided by operating activities, on a post-tax basis, amounted to an outflow of $1,130 million (2014 outflow of $9 million and 2013 outflow of $73 million).

Trust fund

BP established the Deepwater Horizon Oil Spill Trust (the Trust), funded in the amount of $20 billion, to satisfy legitimate individual and business claims, state and local government claims resolved by BP, final judgments and settlements, state and local response costs, and natural resource damages and related costs. Fines and penalties are not covered by the trust fund. The funding of the Trust was completed in 2012. The obligation to fund the $20-billion trust fund, adjusted to take account of the time value of money, was recognized in full in 2010 and charged to the income statement.

BP s rights and obligations in relation to the $20-billion trust fund are accounted for in accordance with IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds . An asset has been recognized representing BP s right to receive reimbursement from the trust fund. We use the term reimbursement asset to describe this asset. BP does not actually receive any reimbursements from the trust fund, instead payments are made directly from the trust fund, and BP is released from its corresponding obligation. This is the portion of the estimated future expenditure provided for that will be settled by payments from the trust fund. During 2014, cumulative charges to be paid by the Trust reached $20 billion. Subsequent additional costs, over and above those provided within the $20 billion, are expensed to the income statement as incurred.

At 31 December 2015, $686 million of the provisions and payables are eligible to be paid from the Trust. The reimbursement asset is recorded within Trade and other receivables on the balance sheet, all of which is classified as current, as payment of all amounts covered by the remaining reimbursement asset may be requested during 2016. During 2015, $3,022 million of provisions and $147 million of payables were paid from the Trust.

At 31 December 2015, the remaining cash in the Trust not allocated for specific purposes was $25 million. This unallocated amount was exhausted in January 2016 and BP commenced paying claims and other costs not covered by the specific-purpose cash balances. The total cash remaining in the Trust and associated qualifying settlement funds, amounting to $1.4 billion, includes $0.7 billion in the seafood compensation fund, $0.2 billion held for natural resource damage early restoration projects and $0.5 billion held in relation to certain other specified costs under the PSC settlement.

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2. Significant event Gulf of Mexico oil spill continued

Other payables

BP reached an agreement with the US government in 2012, which was approved by the court in 2013, to resolve all federal criminal claims arising from the incident. At 31 December 2015, $2,432 million remains in Other payables in relation to this agreement, of which $530 million falls due in 2016. In addition, Other payables at 31 December 2015 includes the remaining $219 million for BP s commitment to fund the Gulf of Mexico Research Initiative, which is a 10-year research programme to study the impact of the incident on the marine and shoreline environment of the Gulf of Mexico.

Provisions and contingent liabilities

Provisions

BP has recorded provisions relating to the Gulf of Mexico oil spill in relation to environmental expenditure (including spill response costs), litigation and claims, and Clean Water Act penalties that can be measured reliably at this time.

Movements in each class of provision during the year and cumulatively since the incident are presented in the tables below.