

Group chief executive's letter



“

We said that 2017 would be a very important year for BP. We set out ambitious plans for the year and we delivered on them.

”



\$3.4bn

profit attributable to
BP shareholders

Dear fellow shareholder,

In this report last year, BP set out a five-year strategy and promised a story of growth. One year into that five-year plan I am pleased to report that your company has just delivered a significant year of both disciplined execution and exciting growth.

In many ways it was an extraordinary year for BP. Here are some of the headlines:

- Underlying profit \$6.2 billion.
- Upstream production up 12%.
- Record earnings in Downstream.
- Our most successful year for exploration since 2004.
- Group reserves replacement ratio the highest in 10 years.

Of course, we were helped by an improving oil price. But that only tells part of the story. 2017 was a year where we again maintained our improved trend in safety performance for most of our main personal and process safety metrics, although we have seen a slight increase in our tier 1 events. Better safety and improved operational reliability, combined with strong discipline in our cash and capital costs, fed through into our financial performance.

In a complex and uncertain world this may seem like a simple equation – safe and reliable operations plus cost discipline is good for the bottom line. But it works and the numbers prove this.

We plan for the long term and we also measure our progress year on year and quarter by quarter.

We were disappointed that we had to increase the provision relating to claims associated with the Gulf of Mexico spill, although we made real progress during the year in our efforts to close out the remaining claims. The claims facility is now winding down although a number of claims remain to be resolved.

Our five-year plan

As I said, last year we set out our strategic priorities. Simply put, these are designed to meet the dual challenge: to produce more of the affordable energy that the world needs while producing and delivering it in new ways, with fewer emissions, that society wants.

The key to this dual challenge is to recognize that this is not just a race to renewables, it's a race to lower greenhouse gas emissions. So, while we are fully committed to the energy transition that is underway, we also see a lot of uncertainty around the pace and path of how this will unfold.

Our aim is to build a strong and flexible strategy with a high-quality portfolio and the ability to adapt quickly as the pace and path become clearer.

That means in the Upstream we are focused on growing oil and gas in a way that offers us advantages in terms of margin and value, with the reduced emissions in mind.

In the Downstream we continue to develop advantaged manufacturing and marketing businesses that can create value from existing, new and emerging markets.

Above: Chairing the panel of the Oil and Gas Climate Initiative meeting in London.

We are preparing for a low carbon future by investing in new companies and technologies across BP while also leveraging knowledge from the development of our existing Alternative Energy businesses.

And we are modernizing how BP works, using technology and data to work more efficiently and digitizing our processes.

Disciplined execution in 2017

We said that 2017 would be a very important year for BP. We set out ambitious plans for the year and we delivered on them.

We promised to start up seven major projects in the Upstream. We brought these online and under budget for the portfolio as a whole. These projects, along with the six we brought online in 2016, have contributed to a 12% increase in our production. That helps to put us on track to deliver 900,000 barrels of new production per day by 2021. We also strengthened our portfolio with our most successful year of exploration since 2004, sanctioned three exciting new projects in Trinidad, India and the Gulf of Mexico and added 143% reserves replacement for the group.

In the Downstream we promised to grow earnings. In fact, we had our best ever year, with a replacement cost profit of \$7.2 billion, driven by strong earnings growth in our marketing and manufacturing businesses. This came from volume growth in our premium fuels and lubricants, the growth of our successful convenience retail partnerships around the world and strong performance in manufacturing.

Exciting growth opportunities

This is a time of transformational change for our industry. An era of abundant resources and a changing fuel mix mean that we must be competitive today and adapt fast to change for tomorrow. So, we must modernize how we work, embrace new advanced technologies and maintain our downward pressure on costs. We are already in action across BP.

In the Upstream we are growing gas and advantaged oil on many fronts: signing a 25-year extension to our ACG production-sharing agreement★ in Azerbaijan; strengthening our relationship with Petrobras and accessing the prolific Santos basin in Brazil; extending our innovative alliance with Kosmos in West Africa; growing in Norway through our Aker BP joint venture; and adding production from onshore Abu Dhabi following the deepening of our long-term strategic relationship with the Abu Dhabi National Oil Company (ADNOC) at the end of 2016.

In the Downstream we are building competitively advantaged businesses; extending our differentiated retail fuels offer in material new markets such as Mexico, India, Indonesia and China; entering into a new joint venture with DongMing Petrochemical as part of a focused growth strategy in China; renewing and creating new partnerships in lubricants with Renault Nissan, Ford, VW and Volvo.

At the same time, we must look to produce and deliver energy in new ways, with fewer emissions, to help meet the world's climate goals. At BP we have been working on this challenge for over two decades and that has informed our approach today: working to reduce



95.3%

refining availability★

94.7%

Upstream plant reliability★

emissions in our operations; improving the products our customers use to help them reduce their emissions; creating new low carbon businesses and offers that complement our existing portfolio.

In the low carbon space, we entered into a new partnership with Lightsource, a global leader in the development, acquisition and long-term management of large-scale solar projects. In new ventures, we have a pipeline of more than 40 active investments with more than 200 partners looking to exploit opportunities in advanced mobility, bio products, carbon management and low carbon power and storage.

These are a few examples that I believe show we are in great shape to act where we see opportunity to make a real difference to this transition and, at the same time, create value for our shareholders.

Strength in relationships

The world is changing fast and there is a lot of uncertainty of what the future will actually look like. To stay competitive a company needs to be in tune with society. While we are making progress with issues such as gender and ethnicity representation, we recognize we still have more to do. Beyond having the right strategy, to succeed and thrive in uncertainty requires strong and trusting relationships. I am grateful to our partners, host governments and other stakeholders who have stood by us in hard times and continue to work with us to help shape our future and the future energy landscape.

I am also grateful to you, our shareholders who have shown great patience while we stabilized BP and built up our resilience. I hope you see our recent performance as signs that this patience is being rewarded.

And last, but not least, I want to thank the global BP team. I don't believe there is another company of our size and scale that can adapt and manage change better than we can. This spirit of invention and purpose has been alive across BP for over a century and will carry us forward into what, I believe, is a very bright future.

Bob Dudley
Group chief executive
29 March 2018

Above: At the inauguration of the first phase of development of Oman's giant Khazzan gas field.

i More information

Strategy
Page 12

Group performance
Page 21