Chairman’s letter

Dear fellow shareholder,

2016 was a year of change on many fronts. The global community witnessed further challenges raised by economic, political and social forces, and many nations experienced internal stresses and tensions, which remain present. In the energy world, our world, it has been a period of transition. From a 12-year low in oil prices, to digital technologies that are transforming how we work, and the drive to a lower carbon economy, our team has had to manage through a period of uncertainty, complexity and volatility.

Against this backdrop, we have shown great resilience and character: we returned to profit and maintained our dividend. We had a good year in a tough environment. We have set a new strategic direction for BP – and we have a great team carrying it out.

The record since 2010

BP’s performance in 2016 was based on the foundations rebuilt following the 2010 Deepwater Horizon accident – an event that could have put the very existence of our company at risk.

Over the past six years, Bob Dudley and his team have steered the business through the recovery from the crisis of 2010 and then through the response to lower oil and gas prices.

During that period, safety has improved significantly. The portfolio has been strengthened. Operating cash flow has remained strong. The dividend has been restored and increased. Investment for growth has continued, while capital and costs have been controlled. The relationships on which we depend have been deepened. And all of this has been done while managing a charge of $63 billion for the 2010 accident, for which the major liabilities have now been clarified and for which we have a plan to manage the remaining payments and residual litigation. All of this sets a firm base for the future, which is bound to have its own challenges.

2016 performance and shareholder distributions

In 2016 the team has again focused on the careful stewardship of shareholders’ investments.

We continued making progress in safety performance, with serious incidents and injury rates falling. We delivered strong cash flow, disciplined capital spending and lower costs. We met our cost reduction target a year early. New major projects took shape. And we have continued to invest in opportunities for future growth, securing a set of innovative portfolio additions as well as divesting non-strategic assets.

This performance enabled us to maintain the dividend at 10 cents per ordinary share through 2016 and the board’s policy remains to grow sustainable free cash flow and distributions to shareholders.

Looking ahead

We can now look forward and outward, and the board and executive team have set out BP’s strategic priorities for the future.
Our refreshed strategy is designed to ensure BP is ‘good for all seasons’ in an uncertain environment. It enables us to compete in a world of volatile oil and gas prices, changing customer preferences and of course, the transition to a lower carbon future.

As our BP Energy Outlook 2035 predicts, the growth in consumption of oil will gradually slow and likely peak. This is a result of slowing demand growth, not limited supply, as was once thought. In a world of longer-term abundance, oil prices are likely to remain under pressure. Focus will shift to greater efficiency and low-cost production. Gas will grow as a cleaner alternative to coal. Advanced fuels and lubricants will help motorists reduce emissions. Renewable energy will grow rapidly to become commercial at scale.

As a global business, we plan to play our part in this energy transition. Our strategy provides BP with greater agility – combining lower cost oil production, increasing gas supply, greater market-led downstream activities, and growing renewables and venturing businesses.

We are also proud to be playing a leading role among our peers through the Oil and Gas Climate Initiative, where Bob’s chairmanship has seen an unprecedented convergence of national and international energy companies to act on this issue.

Remuneration
At the 2016 AGM, we heard a clear message from shareholders on executive pay. During the past year we have sought to address these concerns, recognizing they reflect the concerns of society more broadly.

The decisions we have taken, and for which we seek shareholder approval, mark a significant break from past policy. The total pay for executive directors in 2016 is much reduced compared to 2015.

The policy we propose for 2017 and beyond is a simpler approach to executive remuneration and reduces the total amount executive directors can earn compared with the previous policy. Executive reward will be driven even more closely than before by the company’s performance and shareholder returns. I particularly want to emphasize that the future remuneration of senior management will be directly linked to the delivery of our new strategic priorities, including BP’s contribution to the longer-term transition in supplying lower carbon energy to drive the global economy.

This new approach aims to take account of shareholder concerns on the level of executive pay while recognizing the clear need for a global business like BP to attract and retain the best talent. With those two primary considerations in mind, my fellow board members and I believe the new policy to be appropriate, balanced and responsive to all those we serve as a business.

Governance and the board
Today’s world presents a range of risks – operational, commercial, geopolitical, environmental and financial. On the board, we aim to maintain the breadth and depth of experience needed to fulfil our critical role of monitoring and managing those risks, working with the executive team.

In 2016 Nils Andersen joined us as a non-executive director, bringing considerable insight gained in the energy, shipping and consumer goods industries. He has led major companies, including as chief executive of A.P. Møller-Mærsk A/S and Carlsberg A/S.

Cynthia Carroll and Andrew Shilston are standing down as directors at the forthcoming AGM. On behalf of the board I thank them for the substantial contributions they have made to our work both in the board and its committees over the years in some difficult times.

The board is proposing that Melody Meyer is elected as a director at the AGM. Melody has had an extensive career in the global oil and gas industry with Chevron and will bring experience of safe and efficient operations and world class projects. We continue to work to increase the diversity of the board as this enhances independent thinking and healthy challenge.

Conclusion
BP is a global business operating in over 70 countries. To do this effectively over the long term, we need the trust of our shareholders that we will deliver value, but also the trust of the societies where we work – both at home and across the world.

I believe this report, along with our Sustainability Report, demonstrates BP’s progress in working for all stakeholders, shareholders, customers, partners, governments, employees and communities.

Bob and his team have guided BP from a time of crisis in 2010 to a position where we have sound prospects for greater value creation and growth in the years ahead. Please join me in thanking Bob and his team for their exceptional stewardship of BP. Thank you to the board and to all our employees – and thank you all for your continued support.

We are now beginning a new journey.

Carl-Henric Svanberg
Chairman
6 April 2017