BP PLC
Form 20-F
April 06, 2017
Table of Contents

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

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

For the fiscal year ended 31 December 2016

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)

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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 February 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due May 2018	New York Stock Exchange
Floating Rate Guaranteed Notes due August 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
Floating Rate Guaranteed Notes due 2021	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**
1.676% 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**
2.112% 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**
3.216% 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**
3.224% Guaranteed Notes due 2024	**New York Stock Exchange**
3.506% Guaranteed Notes due 2025	**New York Stock Exchange**
3.119% Guaranteed Notes due 2026	**New York Stock Exchange**
3.017% Guaranteed Notes due 2027	**New York Stock Exchange**
3.588% Guaranteed Notes due 2027	**New York Stock Exchange**
3.723% Guaranteed Notes due 2028	**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	21,049,696,078
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 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

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   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   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   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

Table of Contents

Table of Contents

The energy we produce serves to power economic growth and lift people out of poverty. In the future, the way heat, light and mobility are delivered will change. We aim to anchor our business in these changing patterns of demand, rather than in the quest for supply. We have a real contribution to make to the world s ambition of a low carbon future.

Contents

Strategic report

Overview

Strategy

Performance

Corporate governance

Financial statements

Additional disclosures

Shareholder information

« **Glossary**

Words with this symbol« are defined in the glossary on page 280.

Cautionary statement

This document should be read in conjunction with the cautionary statement on page 269.

Table of Contents

Table of Contents

« **See Glossary.**

Table of Contents

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.

Caption: Members of the board examine BP operations at Baku in Azerbaijan.

Table of Contents

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

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

$7.5bn

total dividends distributed to BP shareholders

6.0%

ordinary shareholders annual dividend yield«

6.4%

ADS shareholders annual dividend yield

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.

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

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.

Caption: Meeting employees in Brazil.

More information

Corporate governance

Page 51

« **See Glossary.**

Table of Contents

Group chief executive s letter

Dear fellow shareholder,

In 2016 BP started to look forward again. It may have been one of the toughest years we have yet seen in the business environment, with oil prices the lowest since 2004. But it was a year when we turned the challenges into opportunities, finding new ways to compete and grow in a fast-changing industry. Over the last six years, we have been making BP safer, stronger and more resilient. And in 2016 we once again began building for growth and setting a course for a low cost, lower carbon future.

Our results

Our top priority is always safety and in 2016 we continued the progress made in recent years, with 80% fewer serious incidents and a 40% lower injury rate than in 2011. A good safety record is one sign of disciplined operations. Another sign is reliability and here too we have seen improvement, with upstream plant reliability of 95% up from 86% in 2011 and refining availability of 95.3%, maintaining our strong record in recent years.

The good progress that the team made was reflected in the financial results with a return to headline profit in 2016 compared with a significant headline loss in 2015, which reflected our provisioning for Gulf of Mexico settlements. Our underlying replacement cost profit represents resilient performance given the environment of low oil and gas prices and weak refining margins. Net cash provided by our operating activities was $10.7 billion after payments for the oil spill of $6.9 billion.

The work we have done to reduce capital spending and costs played a large part in these results. More than two years ago we recognized that energy prices could be lower for longer . Since then, we have been dedicated to changing the way we work, putting in place cost savings and efficiencies that can be sustained. As a result, our 2016 capital spend was significantly lower than peak levels in 2013. Not only did we meet our 2017 target for cash cost reduction we did so a year ahead of schedule.

Capital discipline is not only about reducing spending, but ensuring that the money we continue to invest is spent well. One example in 2016 was the sanction of the second phase of our Mad Dog operation in the US Gulf of Mexico at a budget of $9 billion less than half the original estimate. This helps make this project highly competitive even in a lower oil price environment.

I am pleased to report that the major liabilities from the Deepwater Horizon accident have been resolved with most of the outstanding governmental and commercial claims clarified. Cash payments were around $7 billion in 2016 which we expect to fall to $4.5-5.5 billion in 2017, $2 billion in 2018 and a little over $1 billion per year thereafter. Our disciplined financial

Caption: The *BP Energy Outlook* Launch

at our headquarters in London, UK.

Table of Contents

framework can accommodate these outflows and, with this resolution, our management team can focus with greater confidence on the future.

Our portfolio

We started the year with a goal to increase production from new projects by 800,000 barrels a day by 2020. During 2016 we remained on track for that goal, and we have increased our ambition to over a million barrels a day by 2021. Given the competitive environment, this goal goes hand in hand with a disciplined focus on costs.

In the Upstream, we launched six major project start-ups, from Algeria to the Gulf of Mexico, and made final investment decisions on a further five. We are maintaining that momentum in 2017 with more significant start-ups scheduled including the Quad 204 development in the UK, the giant Khazzan field in Oman and the West Nile Delta project in Egypt. These projects bring us significant reserves, flowing supplies and lower our per unit cost structure. They reposition our portfolio for the future.

Our future

This was also a year when we set out our strategic priorities for the longer term. They are rooted in society s need to use more energy bringing heat, light and mobility to millions of people while positioning BP for a lower carbon world. These priorities will help us drive progress and respond with agility to external changes whether in supply and demand, oil and gas prices, in environmental policy or in technology.

Competitive upstream portfolio: we will expand the gas portfolio alongside lower cost oil production, managing these cost-effectively.

Market-led Downstream: we will provide a range of fuels and lubricants that help make vehicles more efficient and grow our fuels marketing and lubricants businesses.

Low carbon and venturing: we will broaden our renewable energy and low carbon businesses through reinvestment in the current portfolio, build a dynamic venturing arm, and further our work in tackling climate change.

95.3%

2016 refining availability«

95%

Upstream BP-operated plant reliability«

The Downstream has continued to improve performance and grow with earnings up more than 25% compared with 2014, despite lower industry refining margins. We have enhanced our retail offer to customers rolling out our new fuels with *ACTIVE* technology in 13 countries and building great retail partnerships such as with M&S in the UK, REWE in Germany and, subject to regulatory approvals, Woolworths in Australia. Plus, our partnership with Fulcrum BioEnergy should help bring low carbon jet fuel to the market at scale.

We have announced a number of strategic additions to our portfolio. We broadened our positions in world-class gas fields: in the West African basin through an agreement with Kosmos Energy; in Egypt s Zohr field, thought to be the largest discovered in the Mediterranean; and in Oman s Khazzan development, a giant project that has now become even bigger. These underline our focus on gas, the fastest growing hydrocarbon fuel with the lowest carbon content.

We have also been innovative in terms of business models. In Abu Dhabi, we concluded an agreement to renew an onshore oil concession, stretching to 2050, in exchange for a 2% stake in BP. We have operated there for 75 years and this transaction underscores the value of long-term relationships. In Norway, we combined Det norske s nimble business practices, Aker s industrial experience and our global scale expertise to form Aker BP the country s largest independent oil company. This gives us access to substantive offshore oil and gas resources as well as dividends for shareholders.

Modernizing the whole group: we will be deploying advanced technologies such as robotics and big data analytics to improve and simplify our processes as well as using our trading expertise to maximize the value from our assets.

I am extremely proud of the global BP team. Without the women and men of BP, we would not have been able to preserve and transform the business over the past six years. I am grateful to our partners, host governments, and other stakeholders who have stood by us as we have stabilized BP and built up our resilience. And I say thank you, to you, our shareholders who have afforded us the time and support to take the actions needed to restore BP to a position of strength from which we can grow and prosper in the years ahead.

Since 2010, BP s story has been one of recovery, rebuilding and resilience. Now we are increasingly looking ahead with a spirit of purpose and invention. From 2017, you can expect a story of growth.

Bob Dudley

Group chief executive

6 April 2017

Putting all these initiatives together, we are creating a substantial core of long-term, cost-efficient major projects that can deliver material operating cash flow and earnings for decades to come.

Caption: Speaking with investors at the field trip in Baku, Azerbaijan.

More information

Business model

Page 10

Strategy

Page 14

Performance

Page 21

« **See Glossary.**

Table of Contents

Main image: Sherbino wind farm in Pecos County, Texas.

Inset image: Service station in Chippenham, UK, selling our latest fuels with *ACTIVE* technology.

Lower oil price environment

Oil prices have been substantially lower since 2014, primarily due to oversupply. The market is gradually readjusting, as both demand and supply respond to lower prices. However, the high level of oil inventories suggests this adjustment is likely to take some time.

In line with our refreshed strategy, we test our investments against a range of oil and gas prices to check their profitability over the long term. We take into account current price levels and our long-term outlook.

Importantly, the break-even price of many of our investments is going down as BP and industry suppliers reduce costs to meet market conditions.

Energy consumption by region

(billion tonnes of oil equivalent)

Growing demand for energy

Affordable energy is essential for economic prosperity. Energy provides heat and light for homes, fuel for transportation and power for industry. And everyday objects from plastics to fabrics are derived from oil.

We expect world demand for energy to increase by around 30% between 2015 and 2035 largely driven by rising incomes in emerging economies. The extent of this increase is being curbed by gains in energy efficiency, as there is greater attention around the world on using energy more sustainably.

Energy mix is shifting

New technologies and consumer preferences for low carbon energy are leading to changes in the fuel mix, resulting in a gradual decarbonization. Renewables are the fastest-growing energy source. They are expected to increase at around 7% a year and account for 40% of the growth in power generation over the next two decades. Renewables currently contribute around 3% of total global energy demand, and we estimate that, as a result of rapid improvements in their competitiveness, they will contribute around 10% by 2035.

Over the same period, 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.

By 2035 we think oil will have around a 29% share, with annual growth slowing down over this period. Meanwhile we believe the share of gas will go up slightly to 25% of global energy, placing it ahead of coal and not far behind oil.

BP is gearing up to meet this shifting demand by increasing its gas and renewables activities.

Table of Contents

Advances in technology

Emerging technologies such as improved batteries, solar conversion, electricity storage and autonomous vehicles are accelerating the energy transition. For example, the base case scenario in our *Energy Outlook* suggests that the use of electric vehicles will grow almost one hundred-fold by 2035. That means that about 6% of the cars on the road would be electric, with a reduction in total oil demand of around one million barrels a day. However, a faster mobility revolution including car sharing, ride pooling, autonomous vehicles and electric cars could reduce oil demand by several times that amount.

Our *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.

We prioritize certain new technologies for in-depth analysis based on their fit with our strategy and how soon and likely we think they are to break through technological and commercial barriers. We also invest in start-up companies to understand and participate in these

Emerging greenhouse gas policy and regulation

Governments are putting in place taxes, carbon trading schemes and other measures to limit greenhouse gas (GHG) emissions. We expect around two-thirds of BP s direct emissions will be in countries subject to emissions and carbon policies by 2020.

To help anticipate greater regulatory requirements for GHG emissions, we factor a carbon cost into our own investment decisions and engineering designs for large new projects and those for which emissions costs would be a material part of the project. In industrialized countries, this is currently $40 per tonne of carbon dioxide equivalent, and we also stress test at a carbon price of $80 per tonne.

Our carbon cost, along with energy efficiency considerations, encourages projects to be set up in a way that will have lower GHG emissions.

More information

Challenging global energy markets

Page 20

BP Energy Outlook provides our projections of future energy trends and factors that could affect them out to 2035.

See *bp.com/energyoutlook*

See *bp.com/technologyoutlook*

See *bp.com/sustainability* for performance data, case studies and information on our approach to managing our sustainability impacts.

potentially transformational technologies. See page 12.

Our strategy

Page 14

A changing energy mix

Energy consumption billion tonnes of oil equivalent[a]

Change in CO_2 emissions from 2015

[a] The sum of the fuel shares may not equal 100% due to rounding.

Energy outlook	Base case	Faster transition	Even faster transition
The three scenarios reflect different assumptions about the pace of the energy transition due to factors such as policy and consumer behaviour.	This scenario outlines our view of the most likely path for energy to 2035. The growing world economy will require more energy but consumption will increase less quickly than in the past.	This scenario sees carbon prices in leading economies rise to $100/tonne by 2035 and policy interventions encourage more rapid efficiency gains and fuel switching.	This scenario matches the path of the International Energy Agency s 450 scenario , which aims to limit the global temperature rise to 2ºC.

Table of Contents

How we run our business

From the deep sea to the desert, from rigs to retail, we deliver energy products and services to people around the world. We provide customers with fuel for transport, 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.

Enabling our business model

Safe and reliable operations	Talented people