Group chief executive, Group general counsel, Group head of investor relations
BP p.l.c.
1 St James' Square
London
SW1Y 4PD

16 May 2017

Dear Sir and/or Madam

BP's corporate reporting regarding oil demand forecast to 2035: potential legal risks

We write in relation to information published by BP p.l.c. (**BP**) regarding its base case forecast of oil demand growth over the period to 2035.

ClientEarth are legal experts in climate risk and corporate reporting. We undertake legal research, and work with institutional investors, companies and lawyers in relation to the legal implications of climate change-related risks to companies and the financial system.

In our opinion, there is evidence that suggests that the information in BP's *Annual Report and Form 20-F 2016* (as supported and informed by the *BP Energy Outlook: 2017 edition*):

- does not adequately address downside risks (as identified by independent expert analysis) which would depress oil demand growth; and consequently
- may provide investors with a misleading impression of the future viability of the business.

We will be writing to a number of investors who may acquire, hold or dispose of BP's securities, to inform them of their legal rights, should certain statements be found in the future to have been recklessly or fraudulently prepared and cause loss to shareholders.[1] A copy of that letter to investors is attached.

Forecasts are material to investors

Oil price

As one of the world's largest integrated oil and gas companies, oil is a key commodity for BP. BP's share price is (among other things) related to investor perceptions of future oil demand, and BP's position to take commercial advantage of the oil market. BP's oil demand forecast impacts an assessment of the company's business model and strategy, and is important for nurturing and maintaining investor confidence.[2]

1 An example would be where external statements were found in the future to contradict internal forecasts or knowledge, which were dishonestly withheld from investors. Section 90A of the Financial Services and Markets Act 2000 provides shareholders who acquire, continue to hold or dispose of shares with the right to claim compensation in certain circumstances.
2 Indeed BP recognises the Energy Outlook as part of the shareholder engagement cycle. (BP, 2017. Annual Report and Form 20-F 2016, p.68.)

Prudent assessment of risk

The UK financial regulator asserts that it is not the role of reporting to serve as a marketing tool, and companies should ensure the annual report paints a picture that balances the good with the less good.[3] Equally, it is crucial that capital expenditure on high cost projects with an anticipated life cycle of several decades is subject to robust corporate governance.

Guidance from the UK financial regulator[4] states that analysis of risks should be tailored to the business model, strategy and principal risks and "be undertaken with an appropriate level of prudence, i.e. weighing downside risks more heavily than upside opportunities."[5]

The *Task Force on Climate-related Financial Disclosures* believes that scenario analysis requires a neutral examination of a range of scenarios that cover "a reasonable variety of future outcomes, both favourable and unfavourable."[6]

BP's disclosures regarding oil demand

BP's *Annual Report and Form 20-F 2016* sets out three scenarios for future energy demand and the relative proportions of different fuel types in satisfying that demand. These three scenarios comprise the *Base case*, *Faster transition* and *Even faster transition*. Each scenario reflects different assumptions about factors such as policy and consumer behaviours which affect the pace of the energy transition.

In relation to the base case, BP states: '[t]his scenario outlines our view of the *most likely* path for energy to 2035.'[7] (Own emphasis)

The view of energy demand and the base case forecast of oil demand growth is informed by research and analysis contained in the *BP Energy Outlook: 2017 edition.*

BP's statement that the base case is "the *most likely* path for energy to 2035" is at odds with multiple independent analyses of oil demand growth including some of BP's industry peers. The statement also contrasts with the more evolved scenario analysis by Statoil (which uses three equally likely scenarios - one of which reflects a 50% chance of limiting warming to 2℃) and Total (which uses a scenario consistent a 50% chance of limiting warming to 2℃ as its central - rather than alternative - scenario).[8] In our opinion, it is difficult to understand how a company exercising prudence, and weighing downside risks more heavily than upside opportunities, could come to this conclusion.

3 Stephen Haddrill, 2016. Speech at Climate Disclosure Standards Board - Comply or Explain: Review of FTSE 350 companies. https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Speech-by-Stephen-Haddrill-CEO-CDSB-s-Comply-or.pdf
4 In relation to the UK Corporate Governance Code (which BP states it complies with in all material respects for the purpose of this letter). (BP, Annual Report and Form 20-F 2016, p.68.)
5 Financial Reporting Council, 2014. Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, p.19.
6 Task Force on Climate-related Financial Disclosures, 2016. Recommendations of the Task Force on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/wp-content/uploads/2016/12/16_1221_TCFD_Report_Letter.pdf
7 BP, 2017. Annual Report and Form 20-F 2016, p.9.
8 Oil Change International, Greenpeace, 2017. Forecasting Failure: Why investors should treat oil company energy forecasts with caution. https://secure.greenpeace.org.uk/page/-/ForecastingFailureMarch2017.pdf p.18

Independent evidence regarding oil demand

Emerging view of peak oil demand

In relation to the base case, BP states in the Energy Outlook that demand for oil and other liquids is expected to increase from 95 Mb/d in 2015 to 110 Mb/d in 2035.[9]

This contrasts with an emerging view of oil demand peaking before 2035:

- Shell's CFO Simon Henry has revealed that the company believes oil demand could peak between 5 and 15 years from now.[10]
- OPEC has released forecasts which predict oil demand could peak within 15 years.[11]
- Oil and gas sector experts Wood Mackenzie predicts demand could peak well before 2035.[12]
- Bloomberg New Energy Finance (**BNEF**) founder Michael Liebreich predicts a peak in 2025 and decline in the 2030s.[13]

In addition, the International Energy Agency forecasts a significant drop in oil use in the period to 2035 in order to comply with an energy pathway consistent with a 50% probability of limiting the global increase in temperature to 2ºC (the 450 Scenario).[14]

Growth in market for electric vehicles

A key reason why BP forecasts oil demand growth is because BP does not anticipate significant growth in the EV[15] market. In relation to the base case, BP states in the Energy Outlook that:

- Transport accounts for around 2/3 of the overall demand growth (10 Mb/d) contributing around 1 Mb/d growth at the start but tapering to 0.4 Mb/d growth by 2035.[16]
- EV comprising 6% of the global car fleet in 2035 (100 million EV in 2035 compared to 1.2 million EV in 2015).[17]

This contrasts with independent evidence in relation to EV growth and its impact on oil demand.

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9 BP, 2017. BP Energy Outlook: 2017 edition. https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017.pdf p.27.
10 Bloomberg, Katekey, R., 2016. Energy Giant Shell Says Oil Demand Could Peak in Just Five Years. https://www.bloomberg.com/news/articles/2016-11-02/europe-s-biggest-oil-company-thinks-demand-may-peak-in-5-years
11 Financial Times, Sheppard, D., 2016. Oil demand might peak in just over a decade, says Opec. https://www.ft.com/content/3f007354-a507-11e6-8898-79a99e2a4de6
12 Wood Mackenzie, 2016. The impact of rapid growth in renewables. https://www.woodmac.com/media-centre/12533989
13 Bloomberg, Katekey, R., 2016. Energy Giant Shell Says Oil Demand Could Peak in Just Five Years.
14 International Energy Agency, 2014. World Energy Investment Outlook. p.85.
15 Includes battery electric (BEV), plug-in hybrid electric (PHEV) and fuel cell electric vehicles.
16 BP, 2017. BP Energy Outlook: 2017 edition. p.27.
17 BP, 2017. BP Energy Outlook: 2017 edition, p.47.

BP's forecast for growth in electric vehicles is lower than automotive sector analysis

BNEF's *Global EV Sales Outlook to 2040* predicts 35% of global new car sales and 25% of the global car fleet will be EV. Subsequent public statements by the report authors indicate they now think EV penetration will be faster, despite persistently low oil prices.[18]

Battery costs are a key determinant of the growth profile of the EV market. Most analysts believe EV will achieve cost parity with petrol and diesel cars when battery costs are between $150-300kWh and that this will occur by the mid 2020s:

- BNEF states that cost parity will happen in the next six years.[19]
- Ford says that battery costs will be below $100kWh by 2025.[20]
- Tesla aims to break the $100kWh mark by 2020.[21]
- GM announced that battery costs for its 2016 Chevrolet Bolt had already fallen to $145kWh by October 2015.[22]

Using updated information on projected timescales for cost parity increases the speed of EV market growth. Recent research by Carbon Tracker Initiative and Imperial College using updated battery cost assumptions projects EVs will account for approximately 35% of the global car fleet by 2035 - 5 years before the BNEF prediction above.

BP's forecast for EV growth contrasts with automotive industry ambitions

Of the 5 largest automotive manufacturers[23]:

- Toyota's has a target for a 90% reduction in vehicle emissions by 2050 compared to 2010 and a shift to 100% EV in that period.[24]
- Volkswagen has a target for annual unit sales of 2-3 million EV by 2025 (equivalent to 20-25% of total sales) and >30 new EV models by 2025.[25]
- Hyundai is planning to release 22 hybrids, plug-ins and hydrogen fuel cell vehicles by 2020 to be the 2nd global automotive leader in eco-friendly vehicles.[26]
- GM states that the future is electric[27] and aims for 500,000 vehicles on the road in the US with some form of electrification by 2017 and a 28% CO_2 reduction target for the China fleet by 2020.[28]
- Ford is investing $4.5 billion in EV and will add 13 electric cars and hybrids to its lineup by 2020 (which will represent 40% of Ford's showroom - up from 13% currently).[29]

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18 Bloomberg New Energy Finance, 2016. Liebreich and McCrone: Electric vehicles – It's not just about the car. https://about.bnef.com/blog/liebreich-mccrone-electric-vehicles-not-just-car/
19 Bloomberg, Randall, T., 2016. Here's How Electric Cars Will Cause The Next Oil Crisis. https://www.bloomberg.com/features/2016-ev-oil-crisis/
20 Reuters, Bergin, T., 2016. Why the shift to electric cars may surprise oil groups. http://uk.reuters.com/article/us-oil-autos-projections-factbox-idUKKBN13V18D
21 IEA, 2016. Global EV Outlook 2016. https://www.iea.org/publications/freepublications/publication/Global_EV_Outlook_2016.pdf
22 GM, 2015. 2015 Global Business Conference. http://www.gm.com/content/dam/gm/events/docs/5194074-596155-ChartSet-10-1-2015
23 According to OICA data for 2015. http://www.oica.net/wp-content/uploads/ranking2015.pdf
24 http://www.toyota-global.com/sustainability/environment/challenge2050/6challenges/index.html#ch1
25 http://www.volkswagenag.com/presence/konzern/pdf/Group_Initiatives_Strategy_2025.pdf
26 https://www.hyundai.com/worldwide/en/brand-story/innovation/eco
27 http://media.gm.com/media/us/en/gm/company_info/facilities/assembly/orion.detail.html/content/Pages/news/us/en/2015/may/0507-sustainability-report.html
28 http://www.gmsustainability.com/impacts/fuel-efficiency-emissions.html#product-commitments

Commitments and aspirations for EV sales are apparent for the majority of the next 10 automotive manufacturers ranked by units sold (including Nissan, Honda, Renault, Peugeot-Citroen, BMW and Daimler). These commitments and aspirations from individual automotive manufacturers exist alongside industry initiatives such as the World Economic Forum's *CEO Climate Leadership for Automotive statement*[30] whose signatories are committed to decarbonising automotive transport.

BP's forecast for EV growth is unclear on the impact of regulation

BP's statement that the base case is "the *most likely* path for energy to 2035" does not appear to adequately reflect the impact of existing and new regulations in driving EV growth.

International climate regulation

The transport sector accounts for approximately 23% of energy related greenhouse gas (**GHG**) emissions.[31] The IEA's 2DS scenario (a technology scenario consistent with >50% chance of limiting the global average temperature increase to 2℃) indicates that the transport sector must contribute about 1/5 of the total energy related GHG emissions reductions in 2050.[32]

IEA's 2DS scenario has a target for 140 million EVs in the vehicle stock by 2030[33] - 5 years earlier than BP's forecast of 100 million EVs in the vehicle stock by 2035.

In addition, the Paris Agreement sets a higher level of ambition for holding the increase in the global average temperature to *well below* 2℃ and to pursue efforts to limit the temperature increase to 1.5℃. This means that international policy initiatives will need to be stronger than those envisaged in the 2DS scenario. It is worth noting that these ambitions are far below the market projections for EV growth referred to previously.

National level regulation

National level regulation and policy will also increase EV market growth. Examples include:

- The three largest markets representing 2/3 of global automotive sales have set stronger targets for fuel economy standards: US (54.5 mpg by 2025), EU (56.9 mpg by 2021) and China (47.7 mpg by 2020).[34]
- The *G20 Energy Efficiency Action Plan* established the *Transport Task Group in 2014* to promote cooperation on national vehicle policies for energy efficiency and environmental performance. The group currently includes the US, Australia, Brazil, Canada, China, EU (with Germany, Italy and the UK participating individually), India, Japan, Mexico and Russia.
    - All but two of these countries have adopted vehicle efficiency standards and several have expressed their intent to tighten the standards;

29 https://www.bloomberg.com/news/articles/2016-04-28/ford-plans-long-range-electric-car-to-compete-with-tesla-gm
30 http://www3.weforum.org/docs/Media/WEFUSA_CEOClimateLeadershipforAutomotiveDeclaration.pdf
31 IEA, 2016. Global EV Outlook 2016.
32 IEA, 2016. Global EV Outlook 2016.
33 IEA, 2016. Global EV Outlook 2016.
34 International Council on Clean Transportation, Undated. Passenger car miles per gallon, normalized to CAFE.
http://www.theicct.org/sites/default/files/info-tools/pvstds/chartlibrary/CAFE_mpg_cars_Sept2015.pdf

- Most countries have tailpipe emissions standards either currently implemented or under development; and
- All of the countries submitted INDCs in advance of the Paris Agreement which (with the exception of Mexico and Russia) identified transportation efficiency measures to support the GHG emissions reduction target.[35]

- The Indian government is working on a scheme to provide EVs on zero down payment and is aiming to become 100% EV by 2030.[36]
- A number of European countries (Norway, Sweden, Belgium, Switzerland and the Netherlands) are considering phase out of internal combustion engine car sales by 2030.
- Major cities - Paris, Madrid, Athens and Mexico City - will ban the most polluting cars and vans by 2025 to tackle air pollution.[37]

Potential for future claims

BP's statement that the base case is "the most likely path for energy to 2035" appears in the Annual Report. This is published information and is covered by the shareholder compensation framework set out in S90A and Schedule 10A, Financial Services and Markets Act 2000.

BP's statement that the base case is "the most likely path for energy to 2035" is:

- at odds with a significant amount of independent analyses on oil demand;
- contrasts with the more evolved scenario analysis by Statoil and Total.[38]

It is also difficult to understand how a company exercising prudence, and weighing downside risks more heavily than upside opportunities, could come to this conclusion.

In our opinion, this suggests there is a risk that evidence may arise in the future which demonstrates that a person discharging managerial responsibilities within BP knew or was reckless as to whether this statement was untrue or misleading[39], or knew an omission to be a dishonest concealment of a material fact.[40] We note that disclaimers are unlikely to be effective in the case of recklessness or fraud.[41] Consequently, if investors suffer loss as a result of relying on the statement, there may be grounds for a compensation claim against BP.

Such evidence might include internal memorandum, email correspondence or consultant reports on climate related risks to the company (as in the New York Attorney General's investigation of Peabody Energy Corporation[42]) which prove there was a reckless or dishonest state of mind on

35 International Council on Clean Transportation, 2017. Impacts of World-Class Vehicle Efficiency and Emissions Regulations in Select G20 Countries. http://www.theicct.org/sites/default/files/publications/ICCT_G20-briefing-paper_Jan2017_vF.pdf
36 Economic Times, 2016. India aims to become 100% e-vehicle nation by 2030: Piyush Goyal. http://economictimes.indiatimes.com/industry/auto/news/industry/india-aims-to-become-100-e-vehicle-nation-by-2030-piyush-goyal/articleshow/51551706.cms
37 Guardian, Harvey, F., 2016. Four of world's biggest cities to ban diesel cars from their centres. https://www.theguardian.com/environment/2016/dec/02/four-of-worlds-biggest-cities-to-ban-diesel-cars-from-their-centres
38 Oil Change International, Greenpeace, 2017. Forecasting Failure: Why investors should treat oil company energy forecasts with caution. https://secure.greenpeace.org.uk/page/-/ForecastingFailureMarch2017.pdf p.18
39 Paragraph 3(2), Schedule 10A Financial Services and Markets Act 2000
40 Paragraph 3(3), Schedule 10A Financial Services and Markets Act 2000
41 HIH Casualty and General Insurance Ltd v Chase Manhattan Bank [2003] UKHL 6.
42 https://ag.ny.gov/press-release/ag-schneiderman-secures-unprecedented-agreement-peabody-energy-end-misleading

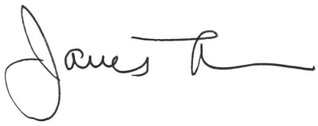
the part of the person discharging managerial responsibilities when preparing the relevant disclosures.

A compensation claim of this type is currently being undertaken in the UK by shareholders in Tesco in relation to certain financial information published by the company in its annual report.[43] We note that ExxonMobil remains under investigation by the New York Attorney General for potential fraudulent disclosures regarding climate risk.[44] This has been acknowledged as a foreseeable risk by leading Australian and English counsel at a recent event considering the legal implications of the energy transition.[45]

We have recommended that your shareholders ask certain questions relating to the above analysis, as set out in the letter at Annex 1.

Please direct any response or inquiries regarding this letter to Alice Garton, Company and Financial Lead, (agarton@clientearth.org) and Jon Bennett, Communications Manager (jbennett@clientearth.org).

Yours faithfully



James Thornton
Chief Executive Officer
ClientEarth

43 http://www.benthameurope.com/en/tesco-plc-overview
44 https://ag.ny.gov/press-release/ag-schneiderman-files-motion-dismiss-and-motion-quash-northern-district-texas-response
45 https://www.lawyersweekly.com.au/news/20852-environmental-litigation-going-to-happen

Annex 1 - Letter to Investors

General Counsel
Investor

16 May 2017

Dear Sir and/or Madam

BP's corporate reporting regarding oil demand forecast to 2035: potential legal risks

ClientEarth are legal experts in climate risk and corporate reporting. We undertake legal research, and work with institutional investors, companies and lawyers in relation to the legal implications of climate change related risks to companies and the financial system.

We are writing to inform you of concerns relating to information published by BP p.l.c. (**BP**) regarding its base case forecast of oil demand growth over the period to 2035. In our opinion, there is evidence to suggest that the information in BP's *Annual Report and Form 20-F 2016* (as supported and informed by the *BP Energy Outlook: 2017 edition*):

- does not adequately address downside risks (as identified by independent expert analysis) which would depress oil demand growth; and consequently
- may provide investors with a misleading impression of the future viability of the business.

We **enclose** a copy of our letter to BP setting out this evidence which was sent to BP last week along with a draft of this letter to investors. In its response, BP did not refute any of the information outlined in our letter.

This letter is being sent to you as an investor who may acquire, hold or dispose of BP p.l.c. (BP) securities to warn you of the risks of relying on the oil demand forecast in BP's published information, and to remind you of your legal rights, should certain statements be found in the future to have been recklessly or fraudulently prepared, and cause you loss.[46]

Legal framework

For BP's securities trading on the Main Market of the London Stock Exchange, the applicable shareholder compensation framework is set out in S90A and Schedule 10A, Financial Services and Markets Act 2000. In summary, it provides shareholders with the right to recover losses they suffer as a result of reliance on misleading information.

BP is liable to pay compensation to an investor who:

46 An example would be where external statements were found in the future to contradict internal forecasts or knowledge, which were dishonestly withheld from investors. Section 90A of the Financial Services and Markets Act 2000 provides shareholders who acquire, continue to hold or dispose of shares with the right to claim compensation in certain circumstances.

- acquires, continues to hold or disposes of BP securities in reliance on “published information”[47]; and
- suffers loss in respect of the BP securities as a result of any untrue or misleading statement in that published information, or the omission from that published information of any matter required to be included in it.[48]

BP may have to pay compensation if a person discharging managerial responsibilities knew or was reckless as to whether a statement was untrue or misleading[49], or knew an omission to be a dishonest concealment of a material fact.[50]

What you can do

As you are aware, investors are bound by legal duties to act in the best interests of their clients or ultimate beneficiaries. These legal duties may extend to how actively you engage with companies and, if reliance on misleading information results in loss, may oblige you to recover such losses through a shareholder compensation framework.[51]

In order to mitigate the risk of loss which may need to be recovered, we recommend that you review your stewardship and engagement with BP (and other companies in this sector). This may include asking the following questions[52]:

- What external datapoints does BP management use in order to assess whether its scenarios properly reflect the speed of technological change? Are there any material datapoints that have not been published? If so, why?
- Does BP management have any other material scenarios, third party reports, or assumptions in relation to future technological and policy developments that have not been published? If so, why?
- Does BP management think that the conclusion that the base case is "the most likely path for energy to 2035" represents a prudent analysis, weighing downside risks more heavily than upside opportunities?
- As a director, are you confident you have exercised reasonable care, skill and diligence in your review of all external information and analysis relevant to your conclusion that the base case is "the most likely path for energy to 2035"?

47 Certain information which BP publishes to the market by recognised information service. (Paragraph 2, Schedule 10A Financial Services and Markets Act 2000)
48 Paragraph 3(1), Schedule 10A Financial Services and Markets Act 2000
49 Paragraph 3(2), Schedule 10A Financial Services and Markets Act 2000
50 Paragraph 3(3), Schedule 10A Financial Services and Markets Act 2000
51Such as the shareholder compensation framework set out in S90A and Schedule 10A, Financial Services and Markets Act 2000.
52 Further questions are available in: Oil Change International, Greenpeace, 2017. Forecasting Failure: Why investors should treat oil company energy forecasts with caution.

Please direct any response or inquiries regarding this letter to Alice Garton, Company and Financial Lead (agarton@clientearth.org) and Jon Bennett, Communications Manager (jbennett@clientearth.org).

Yours faithfully

James Thornton
Chief Executive Officer
ClientEarth

Disclaimer: The information and opinions in this letter are not intended to constitute legal, investment or other professional advice. A decision to invest or divest in any financial instrument should not be made on the basis of the content of this letter and this letter should not be relied upon as a substitute for specific advice relevant to your particular circumstances.