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Draft for ETM review

November 2010 Main Board Pre-read

Strategy Discussion

Module 3: What's next?

Issued: November 2010

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Module 3: - What's next?

Strategic modules based on risk and optionality

Contents:

- Strategic framework and participation strategy
- Deepwater exploration and production
- Access and Exploration
- Russia – country risk and opportunity, why it is important to BP?
- Refining and Marketing
- Alternative Energy
- Financial framework

Appendix – to be delivered by hand on the day

- Strategic conclusion and key options
- February 2011 analyst's presentation

Future strategic framework

* We continue to aspire to be one of the World's great companies; able to compete effectively through clearly defined business models that build on deep capability and distinctive technology and prepared to engage broadly with Society;
* The company must have safety and operational risk at its core; the threat of any repeat failure threatens the company;
* We will continue to be an energy company focused on hydrocarbons providing mobility, power and heat; while actively participating in the transition to a low carbon economy through profitable alternative energy resource plays;
* The portfolio will focus on value and growth, capability & risk, the capacity to invest competitively and reflecting the energy and technology pathways.
* The core portfolio must be defined by high value, material, competitive asset positions, where we have distinctive, competitive capability and a history or potential to deliver top quartile competitive performance.
* The company should be able to grow through the efficient deployment of capital benchmarked against focused competitor activity;
* The financial framework, defined by a conservative capital structure that provides optionality and is resilient to future shocks; competitive focused capital re-investment to create sustainable competitive advantage; and a re-positioned distribution policy in line with 'through cycle' operating performance while offering the opportunity to re-orient Total Shareholder Return to capital appreciation.

Key strategic takeaways from Module 1

- Oil is the dominant transport fuel and demand is driven by population and GDP growth
- Natural gas and R&M are different to oil with different markets, the importance of value chain integration and no direct role for OPEC/cartels
- Policy and technology are increasingly important demand side factors; technology is incremental, but relentless - there are no sudden game changers
- Exposure to growth, leverage to oil price and efficiency of execution have been the main drivers of differential value creation;
- We assume that oil prices are stable in $60-90/bbl range to 2015 with OPEC able to manage a price floor more effectively than capping price
- Gas markets remain regional with increasing LNG-based arbitrage and some indexation to oil, but could ultimately be determined by coal plus carbon;
- Demand for energy will continue to grow, but there will be increasing interfuel competition in both transport and power - energy policy will encourage substitution of hydrocarbons in OECD countries.

Key strategic takeaways from Module 2

- The MC252 incident has destroyed value for BP developed over decades, it remains a threat to BP's license to operate and leaves the company vulnerable to interference through political, regulatory or commercial channels;
- The incident has changed the context of risk in deepwater exploration and production by the scale and consequence of the operational and environmental failure;
- As a consequence, BP's system of internal control will benefit from clearer allocation of risk and better defined levels of risk tolerance through to the businesses and delivered through a reinforcement of OMS; the governance will require improved and transparent reporting, as well as audit and assurance to the executive management and non-executive.
- BP will also be required to materially increase its financial resilience;
- There has been a profound shift in the context of political risk for BP in the US, where BP must deliver on its commitments.
- Beyond safe and reliable operations the challenge is one of value and how to close the gap to NAV; all own control or other options must be considered;
- The greatest risk to the current business model is the exclusion of BP from deepwater exploration and production, and the Gulf of Mexico in particular.

Proposed participation strategies

- Grow access to and ownership of material, high quality, fungible, price-leveraged oil production irrespective of location, subject to strategy (both organic and inorganic) and limited by capacity and capability:
    - Deepwater E&P is a source of growth and technology leverage/capability;
    - Mature field management and EOR is a secure source of value with technology leverage and capability;
    - Biofuels is an alternative resource play for liquid hydrocarbons bounded regionally by policy and technology and where BP has growing capability.
- Gas as a core lower carbon energy is underweight in the portfolio, grow access and ownership of gas production with access to a global clearing price (and a bias to Asia Pacific markets), mindful of the integrated value chain and a bias for LNG capacity to fully leverage the pricing arbitrage opportunity;
    - Grow low carbon power (Wind and Solar) as complementary and alternative investments to North American Gas into US power.
- Hold/invest in feedstock advantaged, highly upgraded, dual fuel capable integrated fuels value chains, where possible in supply deficit legacy markets; shift participation and capital over time from established to growth markets;
- Retain, leverage and grow advantaged international businesses of Lubes (Castrol), Acetyls, Aromatics and Global Fuels (Air and Marine).

Phase 1 strategy – delivering stability; restoring trust and value

- *A safer, more risk aware business – organisational transparency – with greater focus on capability, governance and risk mitigation;*
- *A high graded, higher quality portfolio – both upstream and downstream (with further potential for future shrink to grow 'value');*
- *Competitive reinvestment into core portfolio and advantaged business models with a bias towards capital growth to create shareholder value;*
- *Re-establish BP's capability and (US) licence to operate in deepwater exploration and production as a key source of growth and technical advantage;*
- *More investment into Exploration and Access as a core capability for medium term optionality and growth;*
- *A prudent financial framework based on an internally targeted "AA" capital structure, accretive re-investment to deliver capital and value growth and appropriate distributions;*
- *Offer investor "Spice" or optionality as a foreshadow of management thinking (and Phase 2): leverage partnerships (non-operatorship), access to distinctive third-party capability or creating unique and transparent business propositions through IPO or other market structured..*

Developing a strategic framework that will re-build BP will be a two stage process; the first phase is "Stabilisation"

Developing the strategy in two phases will allow a clear message to be developed based on stabilisation as the platform for the February Analyst's presentation.

- **"Stabilisation"** – organisation and response, framing the long term future environment and the basis for strategy, re-state the role and purpose of BP.
  - 4Q results and underlying performance: guidance on portfolio, capital and performance expectations;
  - Restate components of the strategic story and the role of the IOC consider further transparency into the asset base.
- **Managing the liability** – safety and risk, governance, organisation, learning the lessons – specific actions underway.
  - Risk in the portfolio – stance and perspectives on risk and risk mitigation?
  - Organisation and business model; incentivisation and reward, capability and track record
  - US Update and GCRC status.

"Earning and maintaining trust is central to the license to operate in society, crucial to that is re-establishing confidence in our ability to manage risk: BP must succeed in both." Bob Dudley, October 2010

- **Re-instatement of a dividend** – re-establishing a clear financial framework based on an internal "AA" capital structure, accretive re-investment proposition, distributions policy.
  - Raise the question of value (verses volume) – how do we think about value going forward: capital growth verses distributions etc.
- **The value proposition, including hints (or announcements) about future value options – link to a Stage 2 process**
  - Clarity on E&P strategy (shrink to grow) – focus on core and quality portfolio with competitive re-investment;
  - Deepwater operations – learning and leveraging deep capability;
  - Investing in the future – increasing spend on access and exploration;
  - Role, unique potential and managing risk in Russia;
  - Role and purpose of R&M and progress on further recovery, quality as strategy, a northern tier refinery strategy in the US, exposure to quality earnings and Asian growth;
  - "Spice" for the investment story based on disposals (and clear direction on proceeds): deleveraging US refinery operations and leverage: (the Asian IPO of Chemicals?);

Strategy phase 2 – Issues to develop post February 2011, there may be more…

- How to grow value – evolving the business model
    - Full assessment of the key possible portfolio interventions
    - BP's strategic relationship with Gas
    - Heavy Oil and integration with the FVC
    - Trading – optionality and growth?
- Geopolitical risk and relationships:
    - Major basin (NOC) access and business model
    - Diversifying risk through partnership
- Value and Sustainability
    - Managing declining demand in refining and marketing
    - Policy and sustainability – aligning strategy with external positions
    - The role and shape of AE
- Capability review and strategy
- Long Term Technology strategy
- Renewing the vision, values and purpose – re-engaging with Society.

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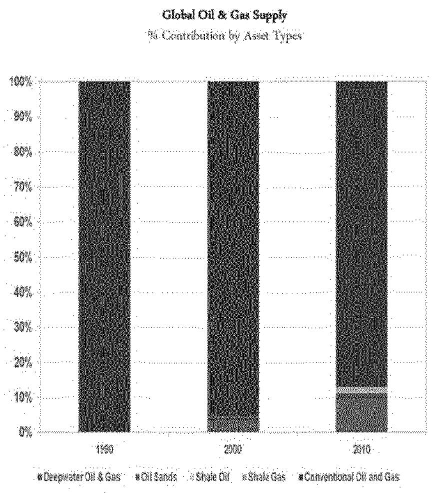
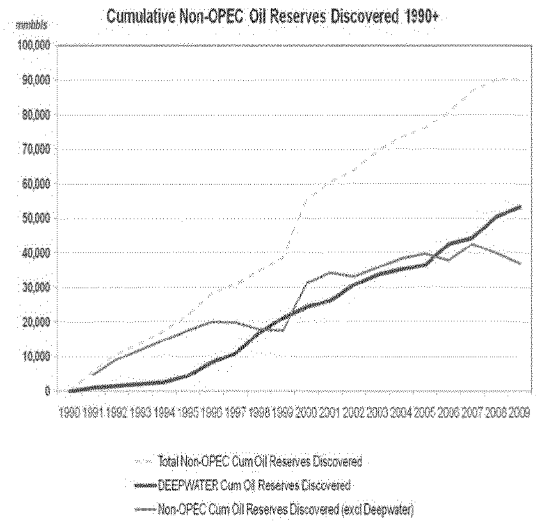
Deepwater

- Importance and remaining potential;
- Competition;
- Industry frontiers and evolution;
- BP footprint and contribution;
- Risks and capability.

The deepwater is an increasingly important part of the global supply picture...

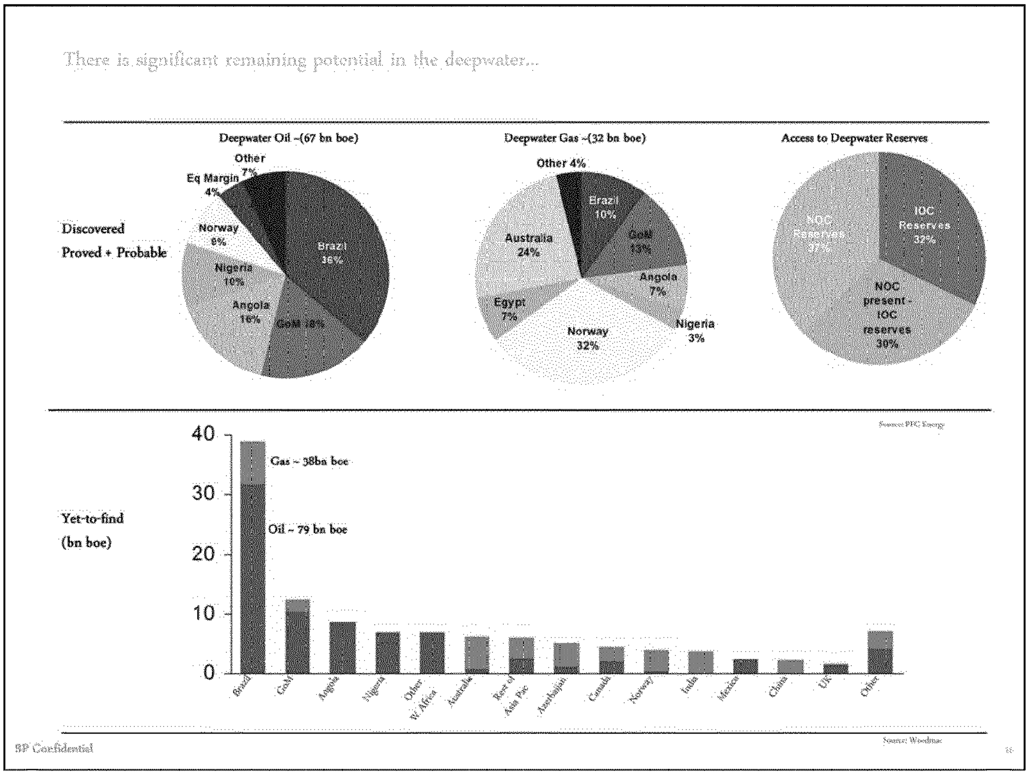




Source: PFC Energy

…and has been the primary source of sustained non-OPEC reserve additions post-1990.

- There is no uniform definition of what constitutes deep water. Definitions generally range from 600 to 2,000 ft. or more (~183 m - 610 m). Deepwater is assumed as 1,000 ft
- The DW has been a primary source of growth and now accounts for 10% of global oil & gas supply
- Deepwater has helped compensate for stagnant non-OPEC liquids production; DW oil production has almost trebled in the last decade growing from 2.5 mmbpd to ca. 8 mmbpd in 2009 (total 82 mmbpd)
- If DW oil production was viewed as its own "country", it would exceed that of every other country except Saudi Arabia, Russia and the United States
- Deepwater oil discoveries are increasingly important to the reserve base and have been on an upward trend. From 2006 to 2009, DW discoveries accounted for around 50% of discoveries. Developing these discoveries is a critical component if supply is to keep pace with higher oil demand
- Discoveries in deep water and subsequent development have made this component of supply increasingly important for meeting global oil demand as well as local and regional energy demand, energy security and the revenue needs of governments


There is significant remaining potential in the deepwater...
Deepwater Oil ~(67 bn boe)
Deepwater Gas ~(32 bn boe)
Access to Deepwater Reserves
Discovered
Proved + Probable
Other 7%
Eq Margin 4%
Norway 8%
Nigeria 10%
Angola 16%
GoM 18%
Brazil 36%
Other 4%
Brazil 10%
GoM 13%
Angola 7%
Nigeria 3%
Norway 32%
Egypt 7%
Australia 24%
IOC Reserves 32%
NOC present - IOC reserves 30%
NOC Reserves 37%
Source: PFC Energy
Yet-to-find
(bn boe)
40
30
20
10
0
Gas ~ 38bn boe
Oil ~ 79 bn boe
Brazil
GoM
Angola
Nigeria
Other W. Africa
Australia
Rest of Asia Pac
Azerbaijan
Canada
Norway
India
Mexico
China
UK
Other
Source: Woodmac
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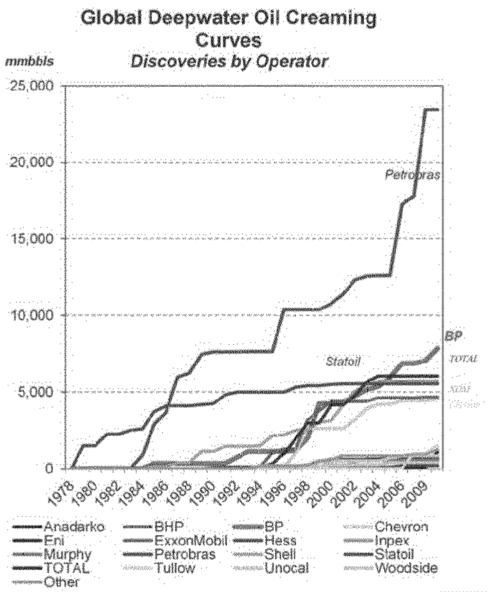
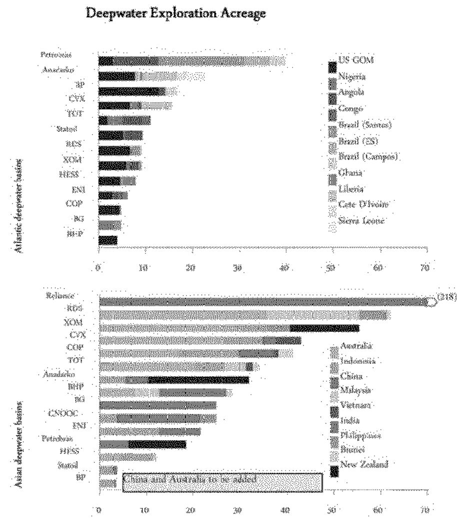
...and success is dependant on quality and securing early access.

- 100 bn boe proved + probable resources have been discovered to date, around 70% deepwater oil and 30% deepwater gas
- Deepwater oil dominated by three provinces – Brazil, GOM and West Africa (Angola and Nigeria). Gas dominated by Norway and Australia
- Full cycle returns achieved in leading deepwater provinces since 1990 have averaged ca 19% compared to industry typical range of 10 – 12%*
- Deepwater oil generally more easily monetized than gas with high rate reservoirs, global market leading to higher returns
- Deepwater gas economics depend on destination gas market and opportunity to create downstream value through marketing
- Yet-to-find resource estimates in deepwater vary from ~120 to greater than 150 bn boe, predominately in Brazil, GoM, and West Africa
- Terms tend to get tighter in later licensing rounds, especially following initial exploration success, e.g. current Brazil terms less favourable than those relating to Devon transaction

* Source: Woodmac

IOCs have been joined by new entrants...



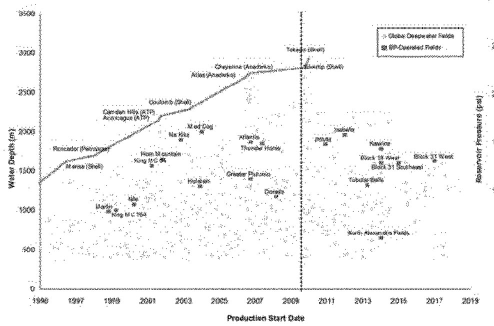


Source: Woodmac. Acreage expressed in km²

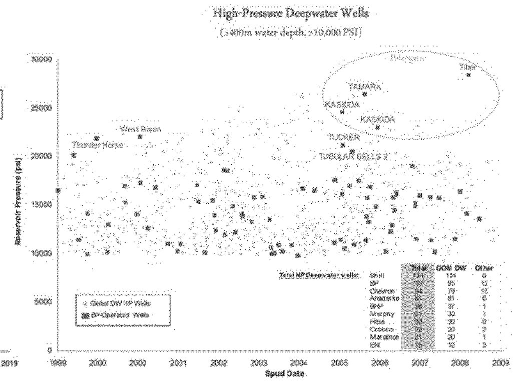
...but how many will survive going forward?

- To date, the growth in deepwater has been driven by a relatively small universe of players
- Around 40% of the discovered volumes have been made by Petrobras, with BP (20%), the other supermajors (10-14% each) and Statoil (13%) contributing around 50%
- More recently, the relative attractiveness of the deepwater has encouraged many smaller new entrants
- Some of these have made discoveries, such as Tullow in Ghana and Devon in Brazil, and several hold significant acreage positions
- Technology is a key differentiator for the development of deepwater resources
- Given the financial, technical and operating capability required to successfully develop the deepwater, it is likely that some of these smaller players with large acreage positions may ultimately adopt the same approach as Devon and seek to exit or significantly reduce their equity

Industry frontier is getting deeper and increasingly more complex…



Note: future fields include probable developments only; other potential developments include fields in water depths up to 2900m

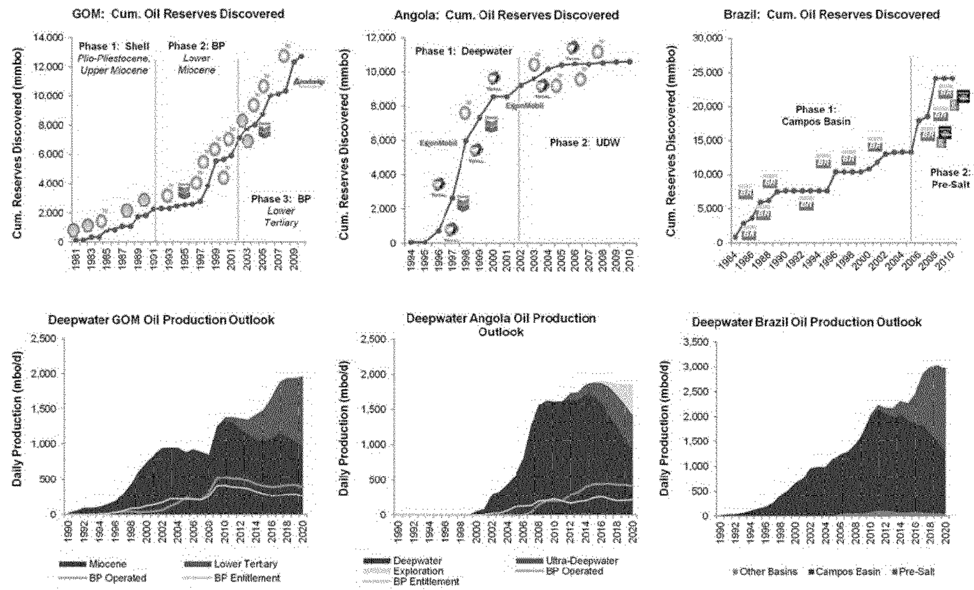


Note: Rushmore Reviews is a 3rd party D&C benchmarking service which BP participates in. Data only includes those companies which actively contribute to the service.

...although BP is not an outlier.

- During the last decade, the industry frontier has become deeper and increasingly more complex, especially in the GoM Paleogene
- BP operates a significant number of deepwater developments, and these are within the industry frontier
- BP, Chevron and Petrobras are at the frontier of exploration and development in the Paleogene
- Petrobras operated Chinook/Cascade will start-up in late 2010/early 2011
- Chevron's Jack/St. Malo is scheduled to start-up in 2014

The evolution of deepwater has been in distinct phases with a few operators responsible for the largest discoveries...



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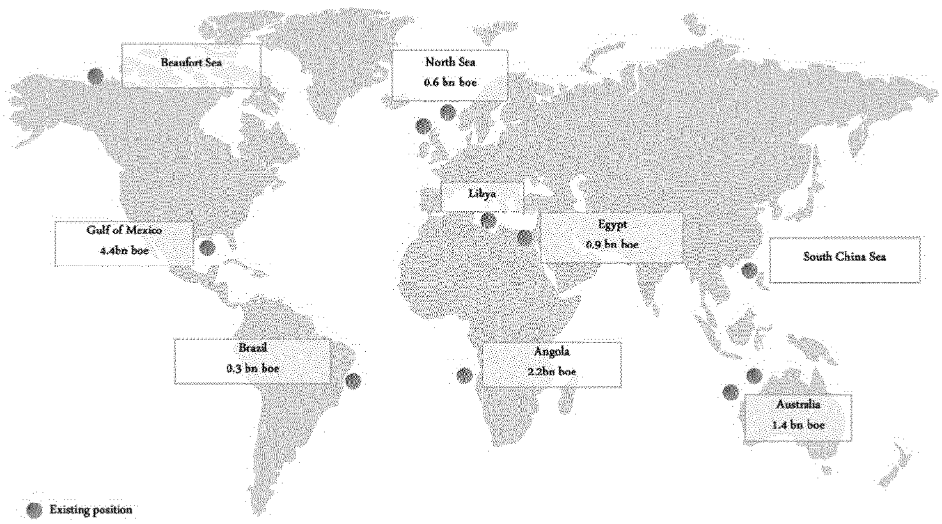
Source: PFC Energy

...BP has a genuine advantage in the Gulf of Mexico, less so in Angola (and would be a starter in Brazil).

- In the US, the deepwater was pioneered by Shell in the Plio-Pleistocene & Upper Miocene trend, but BP has emerged as the leading player since the mid-90's through the focus on Middle & Lower Miocene; since the Mid-2000s+ BP has led the transition to the Lower Tertiary (accounting for more than 30% of discovered volumes to date)
- US GoM deepwater development has led to an increase in domestic production for the first time in almost two decades, as it has offset substantial declines in onshore/shallow oil production. Pre-Macondo, BP was forecasted to operate ~26% of ALL deepwater GoM production over 2010-2020
- In Brazil Petrobras has maintained a de-facto monopoly in the deepwater and is transitioning to the Pre-Salt play in the Santos Basin
- NON RESPONSIVE

BP has a broad global footprint...



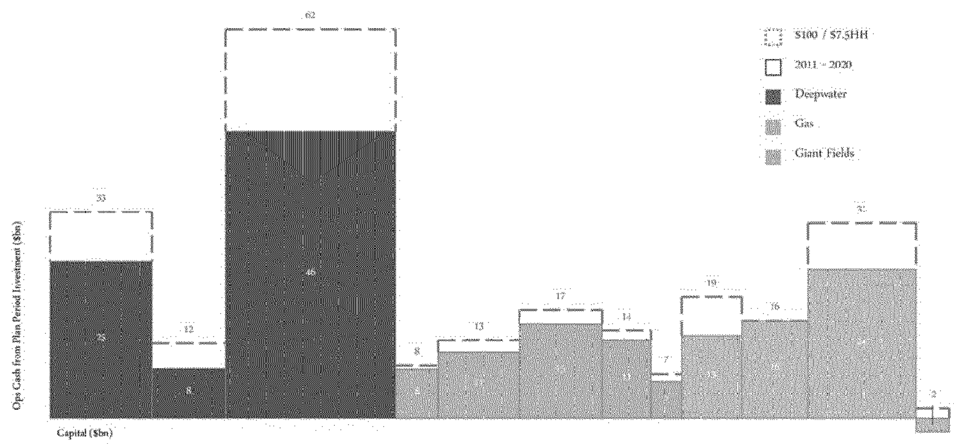
Water depth >= 1,000ft. Resources based on 2009 SPIDER.

...our deepwater portfolio priorities are...

- GoM
  - Restart four drilling rigs in key hubs
  - Complete tail divestment programme to focus capability
- Brazil
  - Complete appraisal of Devon Transaction
- NON RESPONSIVE
- Egypt – West Nile Gas start-up in 2014
- Beaufort Sea – signed joint operating agreement with Imperial/Exxon
- South China Sea – 40% interest in block 42/05 in the South China Sea

Note: see stand alone walk-in appendix for specific strategic options

Deepwater contributes significant operating cash flow in this decade...

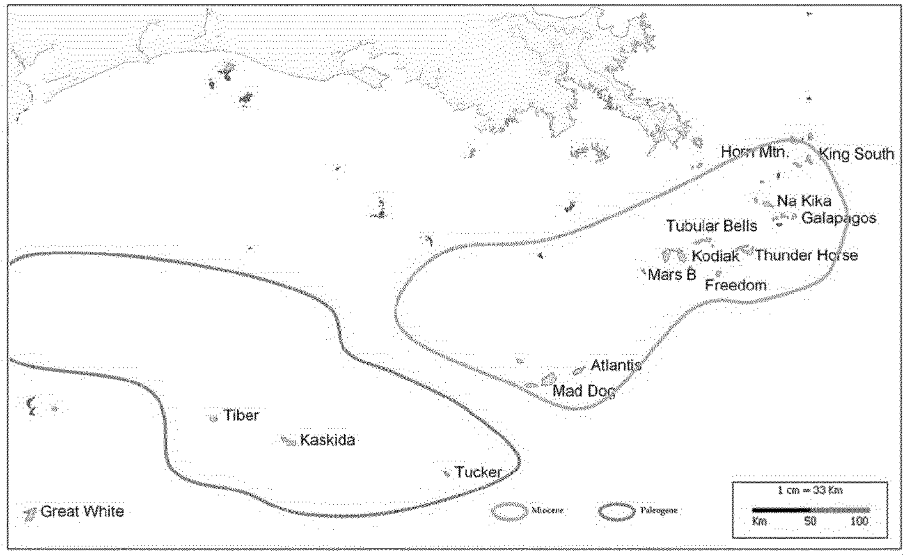


	[redacted]	Brazil	GoM	Egypt	Asia Pac	NAG	Trinidad	Oman	[redacted]	Iraq	North Sea	Heavy Oil
2011 – 2020 Capital ($bn)		6	31	8	15	15	9	5		12	19	6
Cash/ Investment Ratio		*1.4*	*1.5*	*1.0*	*0.7*	*1.0*	*1.4*	*1.0*		*1.3*	*1.2*	*-0.3*

...and has significant price leverage.

- Over the next decade we will invest around $160bn, which will generate around $180bn of operating cash flow at $75/boe and a further $50bn of operating cash flow at $100
- We will invest 38% in Deepwater Oil (Angola, Brazil and GoM), which will generate 44% of operating cash at $75/bbl, and has 55% of the operating cash upside at $100/bbl

Gulf of Mexico restart: the moratorium has been lifted...



... but we will establish our own very clear restart criteria.

- Restart criteria
  - activity and pace
  - capability
  - contractor management
- Four drilling rigs operating on existing hubs
  - productive, high rate wells
- Programme approach to abandon idle wells, in line with BOEM Notice to Lessees
- Continue to divest tail assets (Devon tail sold to Marubeni in 2Q) to increase focus of organisational capability on core activity set
- Develop strategy for exploitation of Paleogene
  - preserve resources and licenses (~6bn boe opportunity)
  - lead industry in management of operational risk
  - develop 20k exploration and production technology
  - manage immediate timing issue on Kaskida

Specific risks associated with the Deepwater have been re-evaluated following MC252...

Facility Major Accidents

Severity Level	Likelihood of Risk Event					
	1	2	3	4	5	6
A	8	9	10	11	12	13
B	7	8	9	10	11	12
C	6	7	8	9	10	11
D	5	6	7	8	9	10
E	4	5	6	7	8	9
F	3	4	5	6	7	8

Drilling & Completions

Severity Level	Likelihood of Risk Event					
	1	2	3	4	5	6
A	8	9	10	11	12	13
B	7	8	9	10	11	12
C	6	7	8	9	10	11
D	5	6	7	8	9	10
E	4	5	6	7	8	9
F	3	4	5	6	7	8

GOM | Angola | [illegible] | Rest of Segment

Oil Spill Response

Severity Level	Likelihood of Risk Event					
	1	2	3	4	5	6
A	8	9	10	11	12	13
B	7	8	9	10	11	12
C	6	7	8	9	10	11
D	5	6	7	8	9	10
E	4	5	6	7	8	9
F	3	4	5	6	7	8

Pipeline & Risers

Severity Level	Likelihood of Risk Event					
	1	2	3	4	5	6
A	8	9	10	11	12	13
B	7	8	9	10	11	12
C	6	7	8	9	10	11
D	5	6	7	8	9	10
E	4	5	6	7	8	9
F	3	4	5	6	7	8

...and EVP endorsed risk mitigation plans are in place for all Group level risks.

- 40% of Group level risks relate to the Deepwater.
- The key categories of risks relating to the Deepwater are:
  - Facility major accidents
  - Loss of well control
  - Riser failure
  - Oil spill response
- Risks unique to DW include remote operations, weight of risers, subsea wellhead. These can be exacerbated by:
  - Uncertain geology – salt diapers obscuring seismic, pore pressure tolerances
  - High pressure/high temperature – bigger subsea equipment and risers
  - Prolific well flow rates
  - Hurricanes and loop currents (Gulf of Mexico)
- Although the consequences of failure are greatest in the GOM, so too is local industry capability to manage risk and respond.
- Operational risks are more skewed to the downside than in other O&G operations, with the highest premium being placed on subsea reliability.
- As part of this year's risk management process, which had higher intensity following the MC252 incident, each Group level risk has a mitigation plan which is formally endorsed by the relevant Division EVP and which will be included in the Division Annual Operating Plan
- These risks will be reviewed with MBAC in November

In addition to managing our specific Deepwater risks...

- Capability
- Contractor management
- Technology

...we will strengthen our systematic risk management capability.

Capability

- Building organizational capability supply through recruitment and redeployment; growth since July 2010 from 1400 to 1650 (+ 18%);
- Optimizing capability demand through activity natural pace/deferral and efficiencies through Global Projects Organization (i.e. Global Subsea Hardware Team);
- Building internal subsea design and engineering capability;
- Capability growth of 700 (400 BP / 300 Agency) by end 2011 required to underpin activity plans. 90% of growth is focused on deepwater delivery from Angola, Azerbaijan, Egypt, GoM and North Sea;
- Supported by Global Learning Center.

Contractor management

- Developments Division project to focus on Contracting Strategy with the objective of reducing risk in the Supply Chain;
- Longer term strategic global relationships with fewer Contractors;
- Increased auditing of Contractors and increase in Supplier Quality Management resources;
- Risk review of all current contracts with priority on Deepwater Rigs and Cementing Services;
- New rigor to Supplier Management: Clarity of roles, Quarterly and Bi-Annual Performance Reviews including increased Executive Level interaction.

Technology

- Full review of technology programmes to strengthen linkage to Deepwater, for example:
  - 20 ksi technology development for paleogene;
  - Developing technology to improve the reliability of critical subsea equipment, especially Blow Out Preventers (BOPs).

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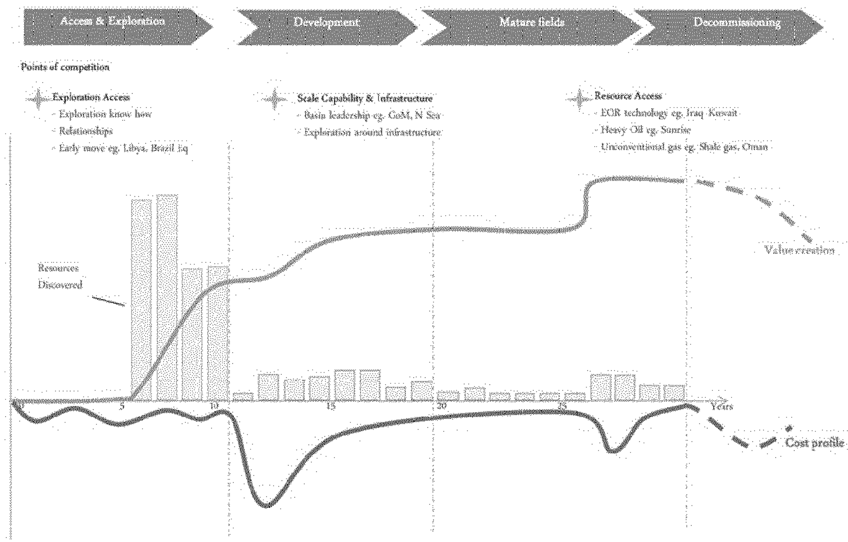
Access and Exploration

- Upstream business model
- Exploration
  - Global resource potential, IOC discovery track record and access
  - Competitive positioning
  - BP track record and future possibilities
  - Governance process
- Forward access opportunities

Note: Please see walk-in appendix for specific strategic options

The greatest value creation occurs at the front end of the exploration and production life cycle...



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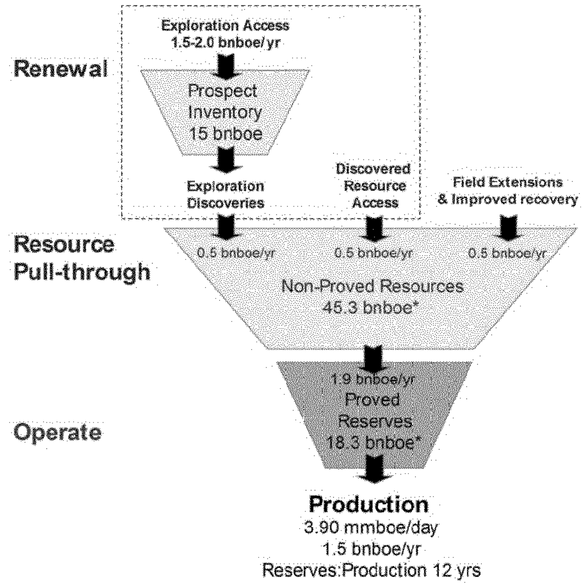
SOURCE: Group Strategy

…access and exploration are the key point of competition, but opportunities exist to differentiate across the life cycle.

- **Access and exploration** is a BP core area of competitive advantage. It offers the greatest value creation relative to cost; dominated by opening Frontiers through relationships with host governments, financial and technical capability. Competitive change during the past decade is Independents exploring with a higher risk tolerance and NOC's with greater political leverage in Access.
- **Development** builds scale, infrastructure and leadership through significant capital investment largely by IOC's. Operational risk is highest and returns ca. 12-15% IRR; re-negotiation of key terms marks the transition from exploration to development; development choices are the next portfolio defining moments.
- **Mature fields/EOR** is a core competence of BP in Alaska, Russia, Middle East and the North Sea. Focused on redevelopment and managing field decline; incremental resource pull through creates relatively low risk value; increased cost and risk associated with technology is a developing area
- **Decommissioning** costs are typically fully provided for during production, but represent significant cash outlay at the end of field life.
- **Technology and relationships** are the key differentiators to deliver a top quartile margin along the entire value chain.

Three ways for BP to renew – exploration access, direct resource access and reserves growth



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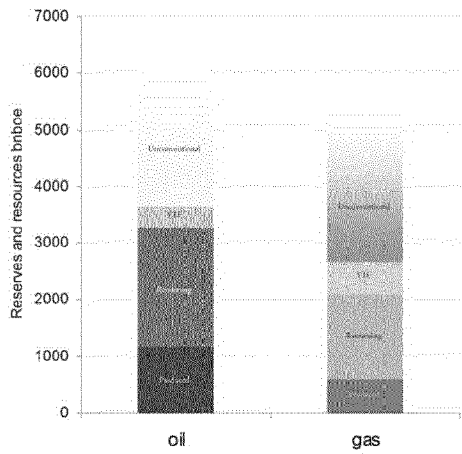
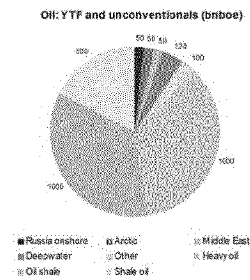
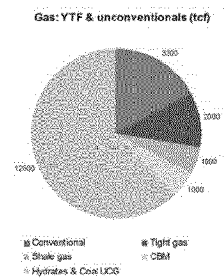
There is significant resource potential in both oil and gas...







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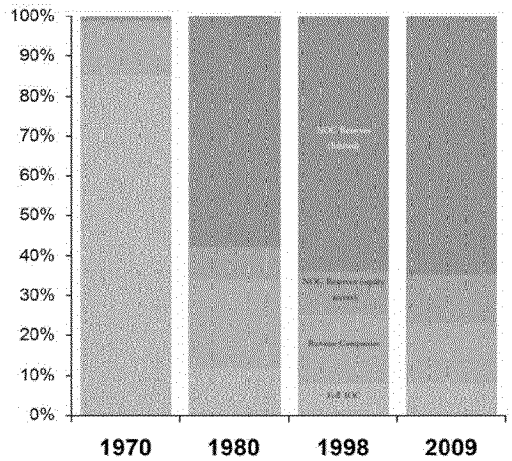
SOURCE: BP [illegible] IHS

… but the most prolific countries are dominated by host NOCs

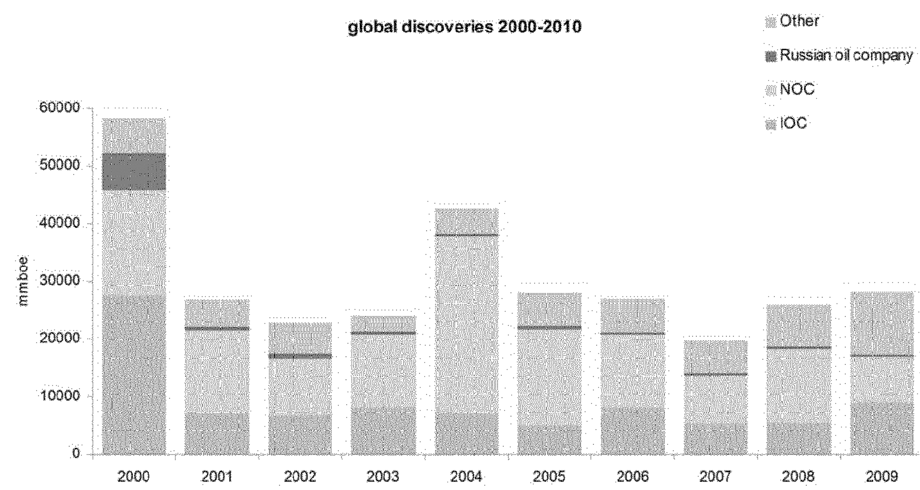
Access to the world's oil reserves



- The most prolific countries recently – Brazil, Iran and China – are dominated by incumbent NOCs
- NOCs currently extending reach outside their home countries through M&A activity although NOCs are yet to demonstrate significant exploration success internationally

SOURCE: PFC Energy; Oil & Gas Journal; BP Statistical Review

The Industry continues to find ~25bnboe per annum...



Note:
IOCs: BP, Chevron, CoP, Shell, Total, XoM plus ~30 other companies
NOCs ~100 companies including Petrobras and Statoil
Others: ~900 companies

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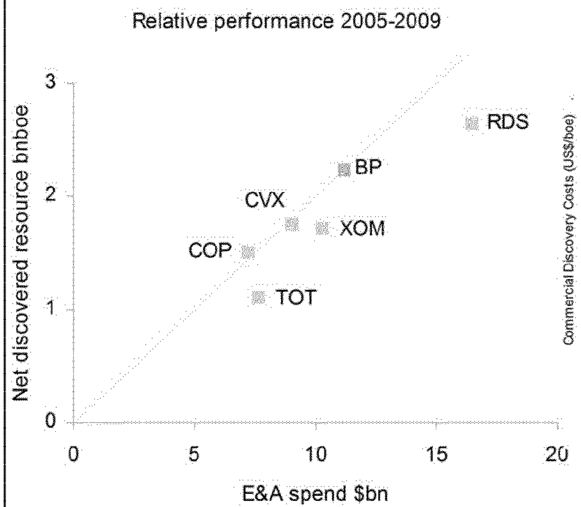
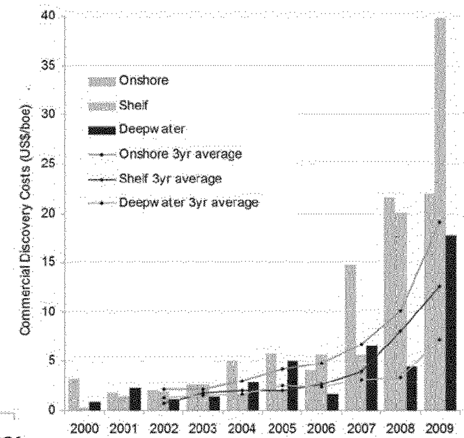
SOURCE: IHS

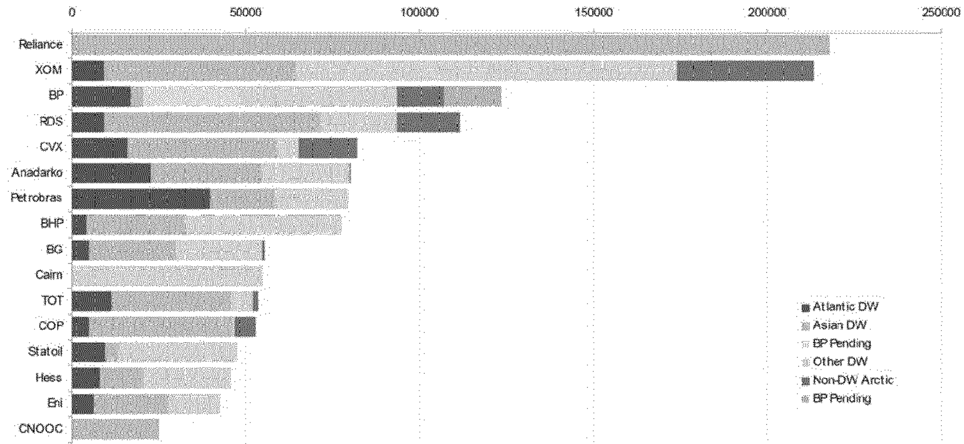
…with BP competitive among its peers in an environment where unit discovery costs are increasing but deepwater retains its unit discovery cost advantage





Industry continues to access and current acreage in high potential areas will determine exploration outcome in next 3 – 5 years

Acreage holding in key provinces (km²)



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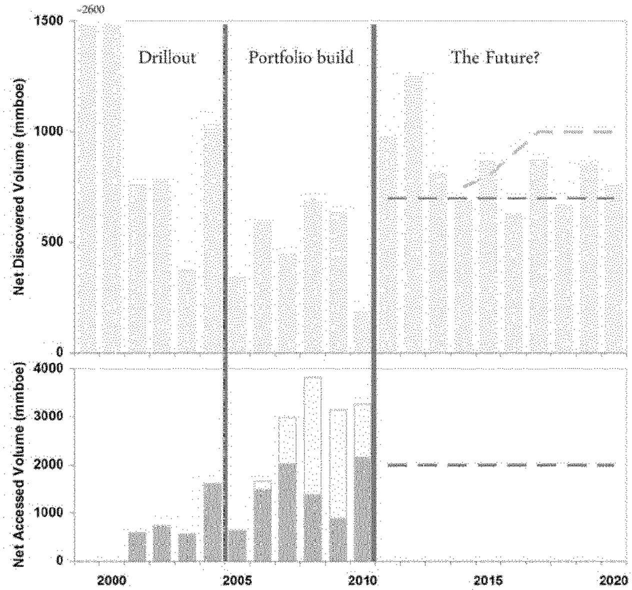
SOURCE: WoodMac

The two phases of BP's portfolio development since the mergers provides the basis for a future...



1999 - 2004

- Strong drillout based on existing deep positions in Deepwater (Angola & GoM), Giant Fields (Azerbaijan, Kazakhstan) and Gas (Trinidad, Egypt)
- Limited new access

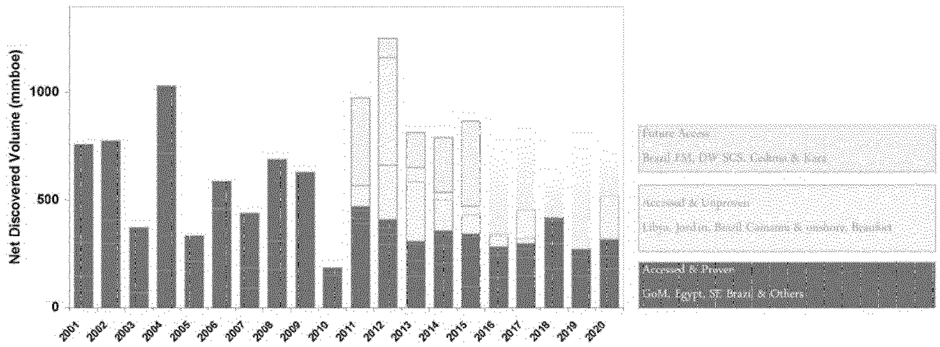
2005 -2010

- Reduced drillout based on GoM and Egypt as the other heartland exploration portfolios became overly mature
- Reloading of the hopper with increased seismic spend; accelerated new access in both exploration (~8bnboe risked PI) and direct (~7bnboe) resource

The future

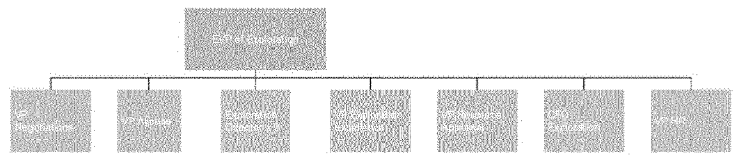
- Plan should deliver 700mmboe pa; additional access and increased seismic spend now may unlock added volumes later in this decade

...where sustained delivery is possible but conditional on continued access and successful exploration

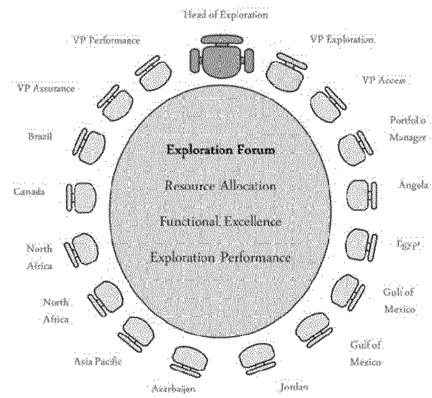


- 750mmboe pa is achievable....but continued access needed to sustain long term delivery
- GoM and Egypt critical to underpinning near term delivery
- Brazil (Campos and EM), Libya and DW SCS provide additional near term delivery potential
- Jordan is a one year boost to volumes in 2012
- Ceduna (Australia) and Kara could be major contributors for renewal in the medium term
- Libya success would allow possibility of additional spend in 2012 – 2016
- Options for renewal post-2015 need to be identified, screened and accessed

...strengthened by the new Divisional structure



- Single point accountability
- Advised by the bigger brain of the Exploration Forum
- Rigorous Common Process supported by Central Exploration Excellence Team
- Renew and develop capability
- Investment in key technologies



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Forward access opportunities

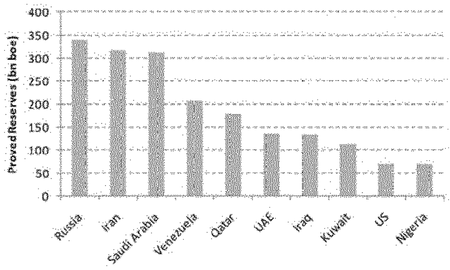
Intentionally blank

Russia

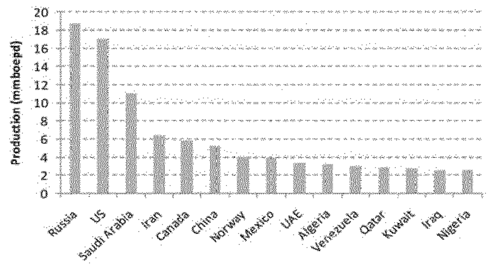
- Russia in context; core resource optionality;
- TNK-BP;
- Competitive landscape.

Russia offers unique access to the world's largest hydrocarbon reserves and production base

Russia has the world's biggest proven reserve base...



...and is the world's largest hydrocarbon producer



* Russia contains 74 billion barrels of proven oil reserves and 44 tcm of proven gas reserves, giving it the world's largest hydrocarbon reserves base
* Russia is currently the largest global oil producer and is the second largest gas producer after the US
* In contrast with many other resource-owning countries, Russia offers International Oil Companies (IOC's) access to its resource base, albeit with certain partnership restrictions on strategic reserves

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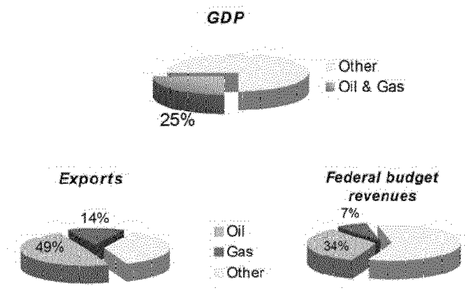
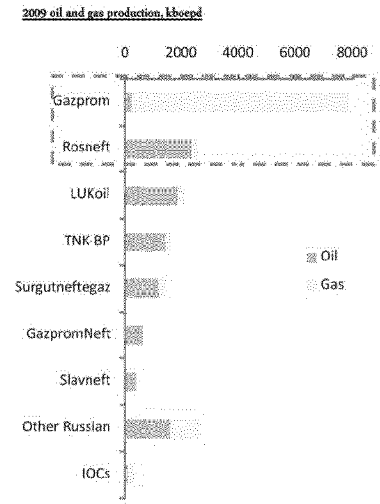
Source: BP Statistical Review

The Oil and Gas sector is the backbone of the Russian economy and is dominated by the two state companies

The Oil and Gas sector is crucial for the Russian economy…



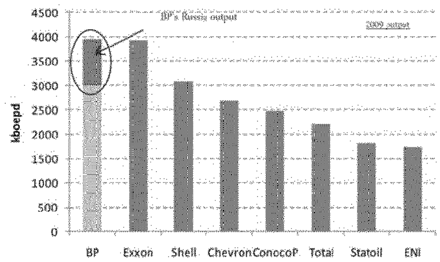
Source: Ministry of Finance, Central Bank



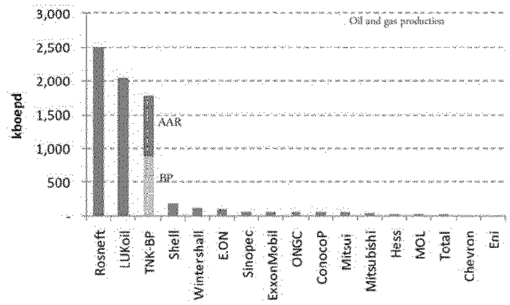
- The oil and gas sector is the single biggest part of the Russian economy and the largest contributor to government's federal budget
- The industry is also crucial for Russia's trade balance

BP has a unique position in Russia that gives it a significant competitive advantage

Russia contributes 25% of BP's production



BP is the largest IOC producer in Russia



- BP has a unique 50% stake in Russia's 3rd largest oil company, which gives it by far the most significant IOC presence in Russia
- TNK-BP contributed 25% of BP's 2009 output
- TNK-BP has generated almost $15bn in cash dividends on an original investment of $8.6 bn
- BP has also built a strong relationship with Rosneft, Russia's National Oil Company (NOC) and its largest oil producer

NON RESPONSIVE

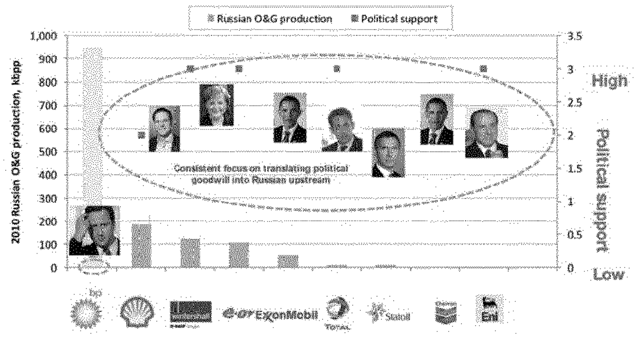
[redacted]

BP has built a strong foundation in Russia based on a set of key principles adapted to the domestic environment

- Development of a broad and diverse set of long term relationships with key government and industry players
  - *Moscow-based BP team and material social investment program*
- Commitment to Russia's energy future and patience in pursuing our strategy
  - *Technology transfer and Projects Academy at Skolkovo*
- Vigilance and responsiveness to Russia core needs
  - *Support for education, research, and culture*
- Seek reciprocity to ensure positive balance of interests in core relationships
  - *Balanced governance in TNK-BP; sale of international assets to TNK-BP*
- Diversification of portfolio in Russia
  - *Partnership on Sakhalin, equity stake, and Arctic studies with Rosneft*

BP is facing a significant threat from IOC competitors with growth ambitions in Russia and strong support from their governments

Who will be the preferred IOC partner for the next 20 years?



- Chevron has recently agreed a Black Sea joint venture with Rosneft
- Eni now has a JV with Novatek and GazpromNeft
- Shell are partners with Gazprom on Sakhalin and seeking Yamal regional access
- TOTAL and Exxon-Mobil are discussing the Arctic and the Black Sea with Rosneft in competition with BP

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BP has managed Russia's persistent business risks, but now faces an emerging competitor risk

Persistent Russia Risks

- Difficult business environment
- Uncertainty around electoral cycles
- Constraints imposed by Natural Monopolies
- Unpredictable fiscal environment
- Partner status and influence
- Strategic alignment with partners

Managed by BP through application of Key Principles

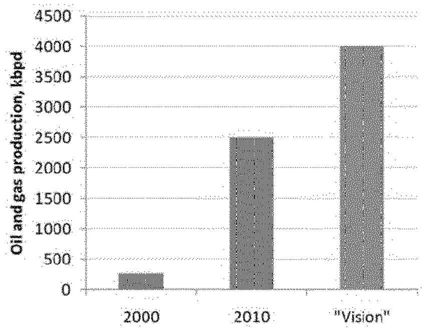
Emerging Competitor Risk

- IOC competitors, backed by their governments, responding aggressively to newly emerging opportunity set

BP must respond creatively to maintain competitive advantage

As one of Russia's two NOCs, Rosneft offers favoured access to growth opportunities in Russia

Rosneft aspires to become "the super-NOC"



Rosneft needs capital, expertise and technology to achieve its goal. Who will help Rosneft to reach its target?

- Rosneft's state ownership has allowed it to access material growth opportunities
- Rosneft has stated its target to rival the majors and to produce 3-4mmboe/d
- By law, Rosneft and Gazprom have preferential access rights to future Russian strategic assets
- Rosneft is therefore a key partner for IOCs with growth aspirations in the Russian oil sector
- BP enjoys a long term relationship with Rosneft (Sakhalin projects, Arctic protocol).
- BP owns a 1.25% stake in Rosneft acquired during the 2006 IPO

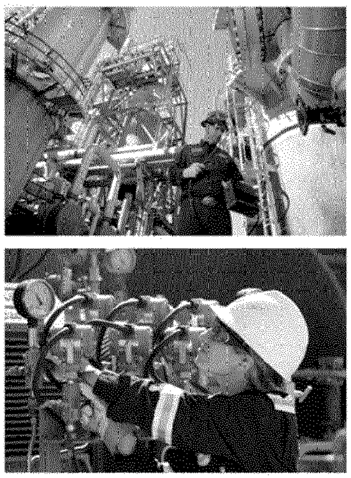
Refining & Marketing

- Where have we been?
  - R&M turnaround and performance
- Portfolio Strategy;
  - Summary of previous discussions

Where have we been?

R&M turnaround and performance

R&M turnaround – the Five Priorities



- Safe operations and OMS
- Behaviours and core processes
- Restoring missing revenues and earnings momentum
- Business simplification
- Repositioning cost efficiency

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The agenda we set out in 2008 across these 5 dimensions is enduring.

1.1 Safe and reliable operations remain the no. 1 priority. In 2009 we had one of
the best years in terms of safety performance, with many of our personal
1.2 and process safety measures comparing favourably with industry peers and
no workforce fatalities. This is very encouraging and is down to the
tremendous efforts of the team and our focus on process safety, training,
targeted risk-reduction programs and our Operating Management System
1.3 (OMS). To date we have completed the roll-out of OMS at all our operated
refining and petrochemical sites.

We have been focusing a lot on improving core processes and behaviours
associated with engendering a stronger performance culture in the
1.4 organization. Turnover in senior management has approached 50% as we
focused on getting the right people with the right skills into the right roles.
We have redefined our executive processes and functional guidelines to
drive clarity of roles and responsibilities across the Segment.

On financial performance we set ourselves a challenge to close the gap vs our peers by the end of 2011, through a focus on restoring missing revenues, business simplification and repositioning cost efficiency. I am very pleased to say we have already exceeded our original targets in this respect, two years ahead of what we were originally aiming for. In Phase 1 of the Downstream turnaround we have closed the $3.5-4bn competitive gap that I outlined 2 years ago.

But this doesn't mean the journey is complete and I am excited by the prospect of delivering material further performance from this portfolio over the next three years, even in these challenging times.

The journey to "Winning Sustainably"

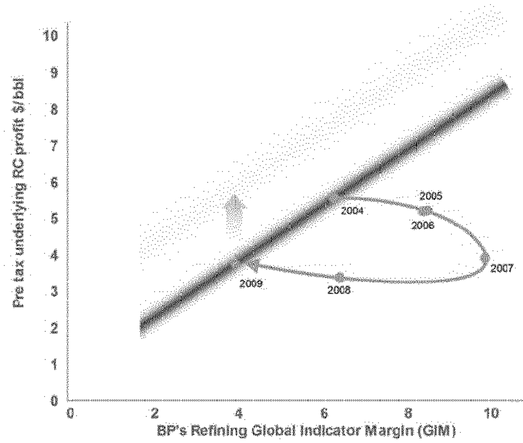
External Promises

- $2bn earnings growth ✓
  - $1.5bn of cost efficiency improvement
  - Back to 2004 TCC
  - Refining profitable in 2009 margin environment

Boundaries

- Approaching 10% ROACE
- $4bn cash flow ✓
- Net Investment around depreciation ✓

✓



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•Deliver a Business plan that:

Ensures the **continued safe and reliable operations** of all R&M's assets and facilities

Fundamentally drives improvement of the SPU's **competitive position** by the end of 2012

Focuses on **activities** and driving improvements to key **operating metrics**

Sets up the business to be able to deliver this **sustainably** post 2012

•Provide this in a clear and compelling manner which will allow SET:

to **optimise** resources and make appropriate **interventions** across R&M

Agree the R&M plan for **endorsement** by the BP Board that underpins R&M's internal and external commitments

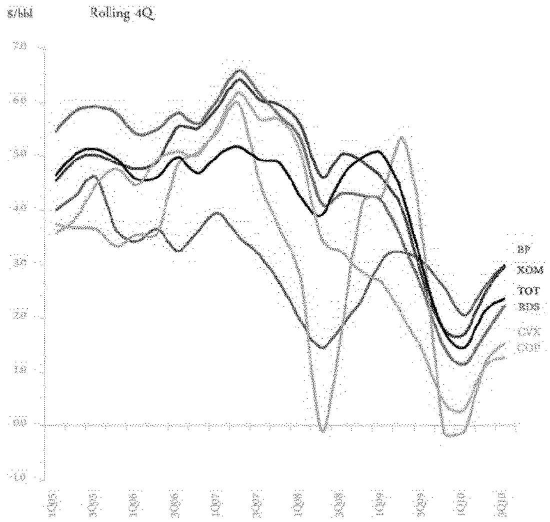
Sign off the individual SPU plans

	2007	2010 GFO
GIM/SAM	9.9/12.5	3.9/8.0
NI/bbl of refining capacity[1]	$2.7/bbl	$3.4/bbl
RCOP Performance Gap $bn[2]	$(5.0)bn	$1.1bn
Refining Onstream Availability	76%	94%
Indexed Cost efficiency - $/bbl of refining capacity[3]	1.00	0.88
Marketing gross profit per barrel of sales[4]	$5.9/bbl	$7.3/bbl
Headcount – excluding retail site staff	40,600	35,400
Headcount – retail site staff	24,600	13,200

Notes:

1. Underlying RCP before tax less 30% tax, divided by refinery CDU nameplate capacity
2. Underlying pre tax RCP delta vs. historical GIM regression
3. R&M total cash costs excluding NOIs divided by refining capacity referenced to 2007 estimated at 2010 GFO 0 forex & energy
4. Marketing gross margin less manufacturing & logistics costs divided by marketing volume. 2007 is estimated at 2010 GFO 0 forex.

R&M net income per barrel (including chemicals)



2010 YTD Net Income

$m	R&M	Chemicals
BP	2217	680
XOM	2417	3846
RDS	2319	1072
CVX	1886	
TOT	1170	896
COP	1002	380

Note: BP Net Income = RCOP less 30% tax

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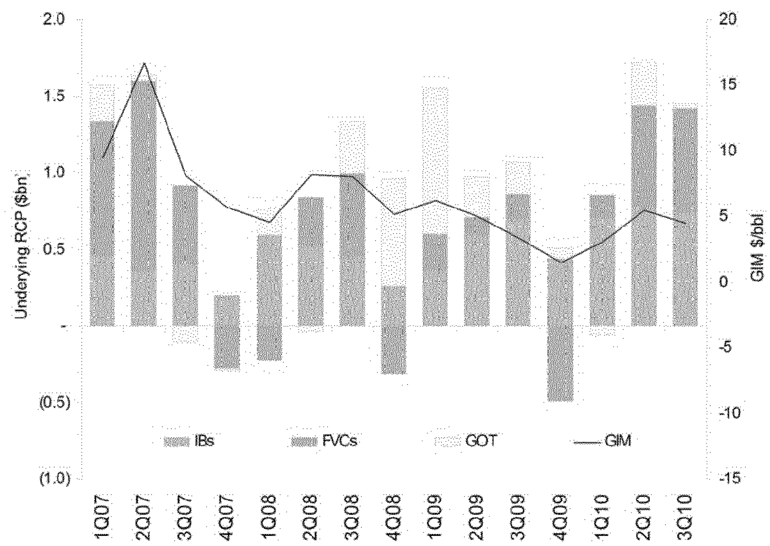
NI/ bbl Rolling	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
BP	3.10	3.22	3.04	2.59	2.04	2.59	2.99
XOM	4.59	3.98	2.70	1.79	1.70	2.45	2.97
RDS	4.15	3.40	2.50	1.46	1.14	1.71	2.23
CVX	4.30	5.33	3.35	-0.09	-0.09	1.15	1.54
TOT	5.02	4.26	2.89	1.76	1.44	2.13	2.37
COP	2.64	2.03	1.35	0.43	0.31	1.10	1.27

R&M portfolio performance



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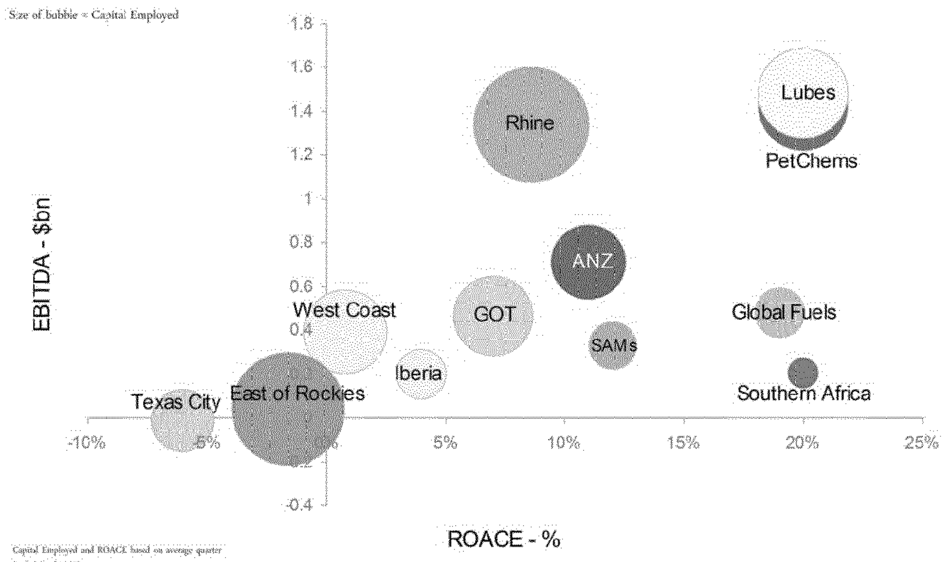
Financial history

R&M $bn	2003	2004	2005	2006	2007	2008	2009	2010	Average
R&M Capital Employed	44.0	48.4	41.2	43.0	49.0	42.8	45.3	43.9	**44.7**
Organic Capex	3.1	2.9	2.7	3.1	4.4	4.7	4.1	3.9	**3.6**
Divestment Proceeds	1.1	1.0	9.5	1.8	3.0	0.8	1.3	1.9	**2.5**
Net Investment	2.0	1.9	(6.7)	1.3	1.4	3.9	2.8	2.0	**1.1***
Depreciation	2.2	2.5	2.4	2.2	2.4	2.2	2.2	2.2	**2.3**
Operating Cashflow	4.7	4.7	3.9	5.3	3.6	5.5	5.8	6.5	**5.0**
Net Cashflow	2.6	2.6	10.7	4.0	1.3	1.7	2.9	4.6	**3.8**

average net investment is $2 bn excluding Innovene

SPU performance – 2010 snapshot



Capital Employed and ROACE based on average quarter
Excludes other US
Excludes above SPU

Key challenges today

- Further improving Safety & Operational Risk performance
- Delivery of further $2bn/a earnings promised
- Resolving US FVC performance
- Accessing available growth
- Long-term offer to BP= robust returns + growth

R&M Segment safety & operations risk matrix

	1	2	3	4	5	6	7	8
Severity Level	A similar event has not yet occurred in our industry and would only be a remote possibility	A similar event has not yet occurred in our industry	Similar event has occurred somewhere in our industry	Similar event has occurred somewhere within the BP Group	Similar event has occurred, or is likely to occur, within the lifetime of 10 similar facilities	Likely to occur once or twice in the facility lifetime	Event likely to occur several times in the facility lifetime	Common occurrence (at least annually) at the facility
A	9	3 7 15 16 23 37 45	28 31 33 36 10	34 11	12	13	14	15
B	7	8	5 10 11 12 13 14 17 18 25 32 35 38 44	19 21 10	20 27 11	12	13	14
C	6	7	8	1 2 4 8 9 22 24 29 30 39 40 41 43	26 42 10	11	12	13
D	5	6	7	8	9	6 10	11	12
E	4	5	6	7	8	9	10	11
F	3	4	5	6	7	8	9	10
G	2	3	4	5	6	7	8	9
H	1	2	3	4	5	6	7	8
Frequency	10^{-6}/yr or lower	$>10^{-6}$ to 10^{-5}/yr	$>10^{-5}$ to 10^{-4}/yr	$>10^{-4}$ to 10^{-3}/yr	$>10^{-3}$ to 10^{-2}/yr	$>10^{-2}$ to 10^{-1}/yr	$>10^{-1}$ to 1/yr	>1/yr

VCE
BLEVE/LPG
FLASH/JET FIRE
HF RELEASE
TOXIC RELEASE
HOSL/OVERTOPPING
OTHER

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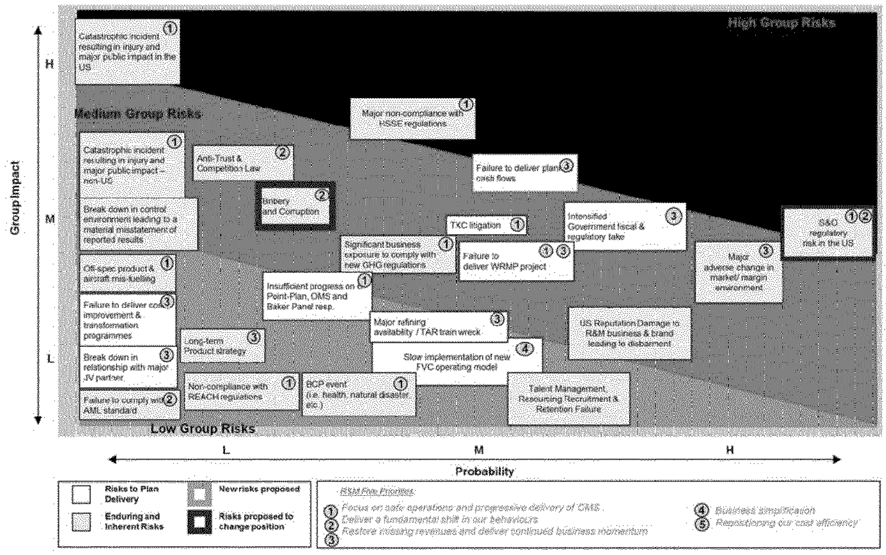
- This is the manageability (risk) matrix that was used as part of the 2006-2010 planning process last year;
- As part of the SHEp MoC the risks associated with Security and Crisis Management will transfer to DCT – Terrorism and actions from external agents, inadequate Group crisis management capability, and inadequate regional crisis management capability;
- The risks associated with GoM start up and Innovene will be deleted if there are no objections.

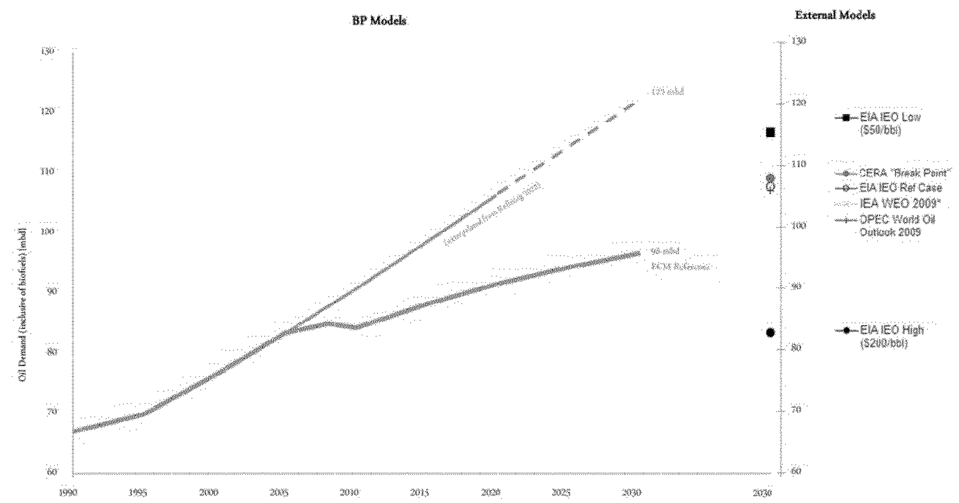
2010 R&M Segment risk map



Portfolio Strategy:

Summary of previous discussions

Liquid hydrocarbon* demand growth is slowing



120 mbd — Refining 2020 model built in 2005 following a 10 year period of sustained economic and demand growth

96 mbd — ECM 2010 model - integrates a 9 month period of rapid economic downturn; OECD GDP-Energy Demand elasticity reduced to 10%

* Defined as demand for all oil refinery products plus "alternative" liquid hydrocarbons such as biofuels, natural gas liquids, coal/gas-to-liquids

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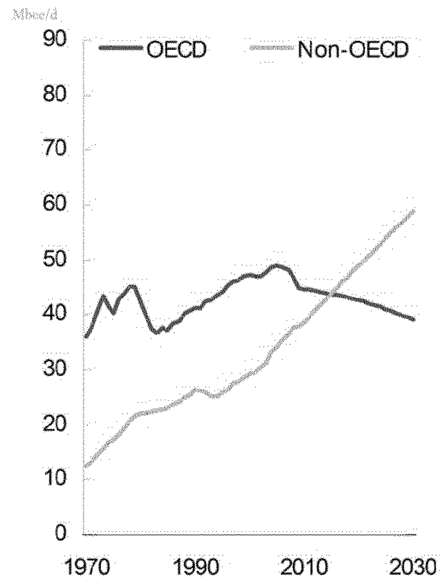
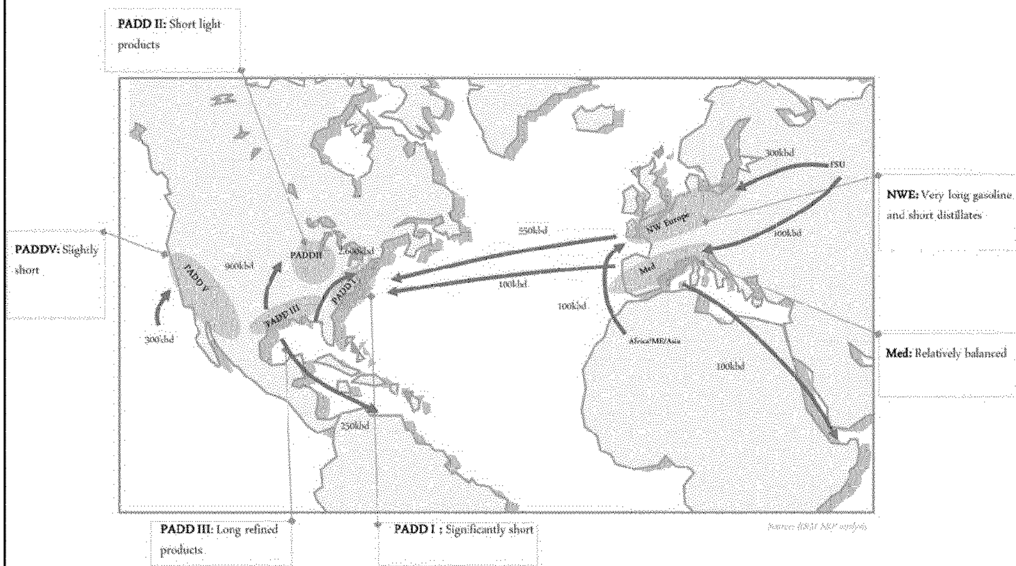
SOURCE: Group Economics, RSM analysis

Future oil demand growth will be heavily skewed to non-OECD



SOURCE: Group Economics

US and Atlantic gasoline & distillate balance in 2008



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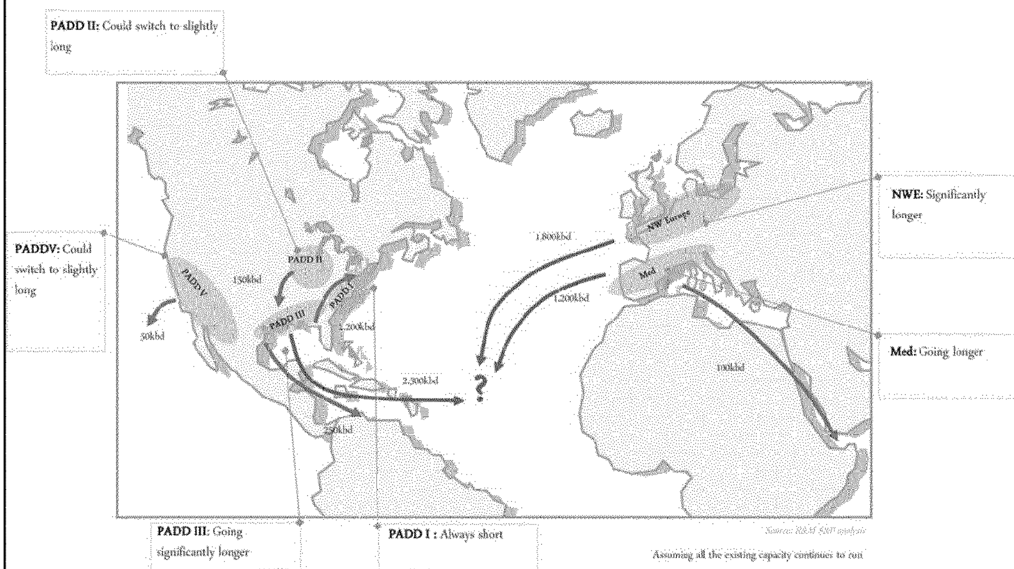
US and Atlantic gasoline & distillate surplus expected in 2030



Source: RKM SSP analysis

Assuming all the existing capacity continues to run

Faced with these fundamentals, BP must:

- Hold / invest in (i) feedstock advantaged, (ii) highly upgraded,
  (iii) dual-fuel capable (iv) integrated Fuels Value Chain positions and, where possible, in (v) deficit sub-regions of our established markets
- Invest to strengthen our established positions, but without growing overall capital employed in these markets
- Retain and grow our advantaged international businesses of Lubes, Acetyls, Aromatics and Global Fuels
- Shift participation and capital employed from established to growth regions (China and India) on a net basis over time
- Grow biofuels participation and invest in biomass technology pathways to fuel and petrochemicals
- Make portfolio interventions in line with strategy to deliver financial framework and to improve returns, while driving better operations and cost efficiency

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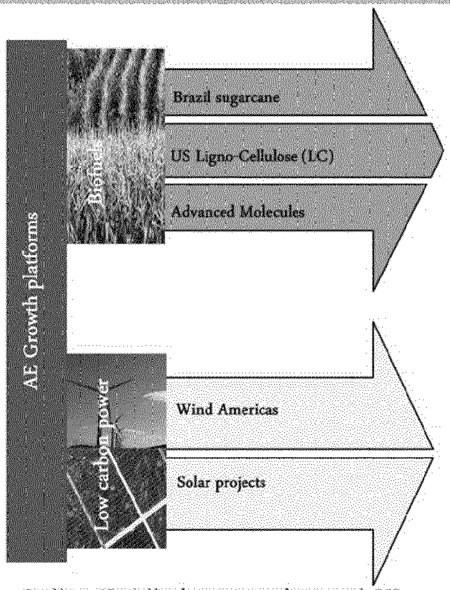
Alternative Energy

- Context for the alternative energy business;
- Biofuels;
- Low carbon power.

Alternative Energy

Five years of learning – two strong growth platforms emerging



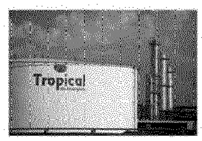
AE offers BP Group

- A **significant growth opportunity**, through participation in fast growing markets with CAGR >10% over the next decade
- **Investment diversification** over the longer term:
  - **Biofuels is an alternative resource** to liquid hydrocarbon fuels – "green barrels" of non-depletable reserves – where BP has distinct technology, growing capability and potential to leverage downstream assets
  - **Low carbon power (wind and solar) is a complementary investment** to gas into power with low operational and commercial risk with predictable and sustainable cash flows
- **Brand enhancement** and reputational upside in key markets
- A robust sector for investment with **national and state incentives**, despite lack of success at Copenhagen in 2009

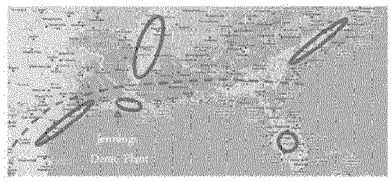
In addition, AE is holding **longer term growth options** with CCS and Ventures

The Biofuels growth platform offers materiality in Brazil and Lignocellulose and Biobutanol leadership

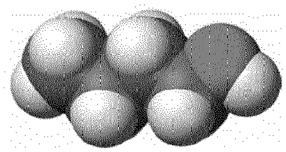
Brazil Cane: Top 5 player with Cheetah deal



US Lignocellulosic ethanol: #1 US player



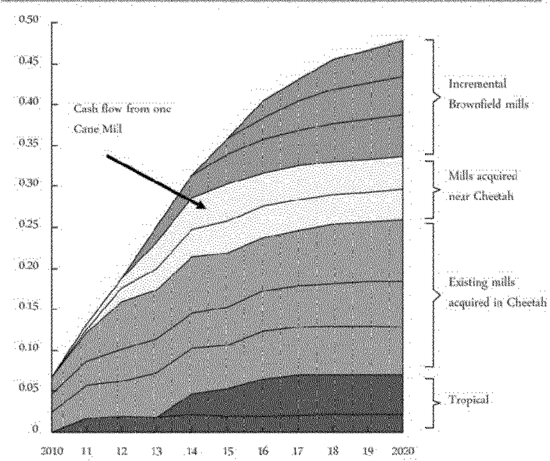
Advanced Molecules Biobutanol: #1 globally



- The strategic intent is to become the **global leader in low carbon, advantaged biofuels** by 2020
- This is a **highly material market**, with regulatory support in the US through RFS2 and $126/bbl for LC ethanol, and strong EU and Japanese mandates
- BP is building **operational, business development and agricultural capabilities** in Brazil
- BP has **technology advantage and leadership** in ligno-cellulose and advanced molecules (biobutanol)
- Critical to success is access to **advantaged, contiguous land**
  – In Brazil for cane, and SE US for ligno-cellulose
- Supported by Group capability in **fuels markets and logistics**

The proposed Brazilian biofuels Cheetah JV offers a strong platform for cash flow growth

Operating cash flow[1] – Cheetah JV
$B



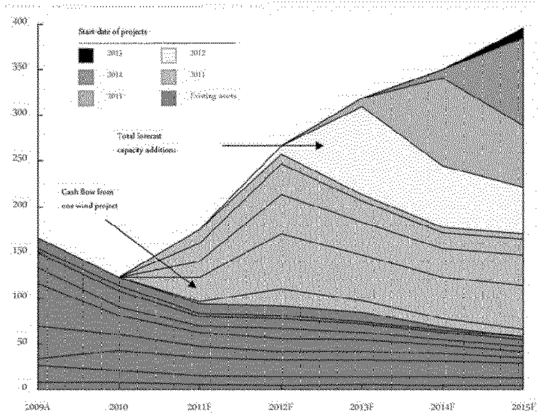
- The **Cheetah deal** propels the BP JV to be a top 5 biofuel player in Brazil
- The JV is **quickly self-funding**, returning dividend to BP within 2-3 years
- **Cashflow growth comes from several sources** including roll up of other mills and enhancing operational performance
- Brazil offers opportunity to **deploy advantaged ligno-cellulose and biobutanol technologies**
- **Additional JVs or acquisitions** could be pursued post Cheetah with similar growth profiles delivering >150kbd production by 2020

[1] Shown at 50% of asset cash flows, representing BP's share; Cheetah is a 50/50 JV, BP cashflow will come from dividends paid by the JV. Source: BP Biofuels

Low Carbon Power

The wind business has demonstrated attractive returns and steady cash flows

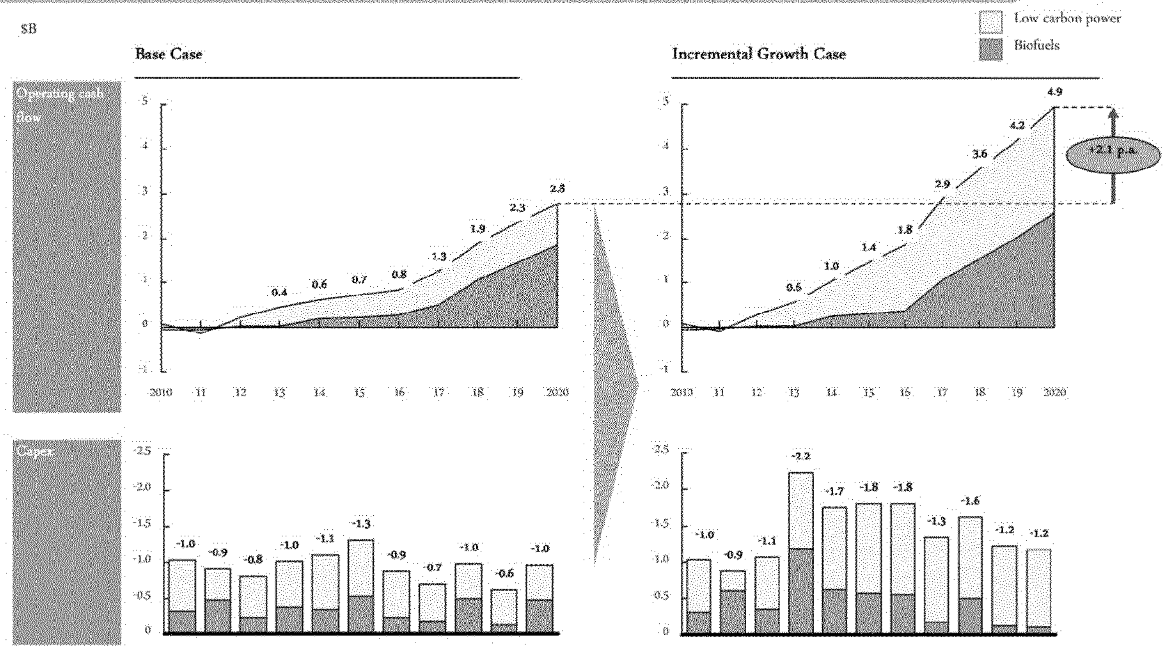
BP Wind's actual and projected net cash flow
$M



- Over the last 2-3 years the US Wind team has built a team with **strong capabilities** and a **growing track record**
- This capability will be leveraged into the growing **US solar project** market
- Wind and solar low carbon power projects offer **predictable and sustainable cash flows,** synergistic with gas into power
- Projects have a high debt appetite boosting cash returns to BP: **levered returns can be >20%** compared to 10-14% unlevered
- Building out the current wind pipeline would generate approximately **$0.4bn cash flow by 2015,** with incremental opportunities in solar projects

Alternative Energy

Financial returns from growth platforms



Total discounted capex = $5.0bn

Total nominal capex = $10.3 bn

Total discounted capex = $7.3bn

Total nominal capex = $15.9bn

Material returns with relatively low risks to growth

bp

Base Case Returns

- AE Base Case will deliver $2.8bn operating cash flow by 2020 and cashflow breakeven in 2016
- Key boundary condition is $1 billion/year investment

Incremental Growth Case Returns

- Incremental Growth Case aim is to maximise value creation of two growth platforms
- Short term recognises the Group's financial constraints but capital requirement for 2013 onwards is higher
- Delivers $4.9bn operating cashflow in 2020 with cashflow breakeven still coming in 2016

Risks to Growth

- **Regulatory support diminishes** which still underpin success for many of the businesses, although this has remained robust since Copenhagen
- **Technology risk** is high in the ligno-cellulose biofuels, bio-butanol and hydrogen power activities
- **Execution risk** of new business models (e.g. ligno-cellulose agriculture and feedstock value chain in US)
- **Competitor intensity in Low carbon power** drives returns too low to compete
- **Agricultural and labour practice risks** in Brazilian biofuels

Intentionally blank

Financial framework

- Financial framework revisited
- Repositioning to more conservative capital structure that is resilient to future "shocks"
- Incorporating risk into strategy and capital investment decisions;
- Dividend and distribution policy

Today's realities require a more heightened awareness of risk and a conservative approach to capital structure...

Capital Structure

"conservative structure that is resilient to future shocks"

- **Liquidity:** maintain $15bn buffer to mitigate market volatility and withstand shocks
- **Credit Rating:** Net Debt and off-balance sheet capacity to AA rating metrics.

Investment Strategy

"competitive focused re-investment to create competitive advantage"

- Invest at appropriate levels to support growth
- Allocation to focused businesses lines (e.g. major basins, deepwater, gas) vs. segment approach
- Greater focus and understanding of risk in investment decisions

Distribution Policy

"in line with 'through cycle' operating performance"

- Re-orient Total Shareholder Return (TSR) towards capital appreciation and earnings growth
- Re-instate a conservative dividend (around 50% pre-MC252 levels) to provide flexibility and reflect the smaller portfolio and liability overhang

...but provide an opportunity to reposition the investor proposition towards value growth versus yield

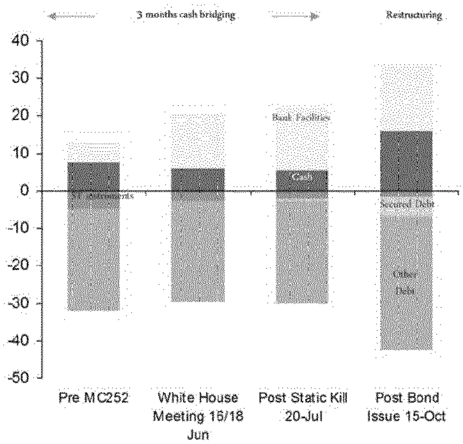
Group Financial Framework

- Maintain a **capital structure** that allows the firm to execute its strategy and is resilient to inherent volatility. The overhang on BP's credit rating is likely to be years, but the long-term capital structure, internal financial parameters and governance should be consistent with 'AA' metrics.
- Pursue an **investment strategy** that can deliver capital growth commensurate with opportunity and the Group risk appetite through advantaged business models;
- The suspension of the dividend has created the opportunity for a **more conservative and flexible distribution policy.** Resumption of a more conservative base dividend must take into account the liability overhang and the smaller portfolio's 'through cycle' operating performance with flexibility based on performance and market conditions. This will help orient TSR to earnings growth and underpin a new equity story.

The financial framework must be consistent with the overall corporate strategy. Changes to funding, liquidity and dividend policies will not lead to a re-rating by shareholders by themselves. More importantly is how BP defines its core area of activities, its growth strategy and capex budget, and what returns BP is able to earn from its asset base.

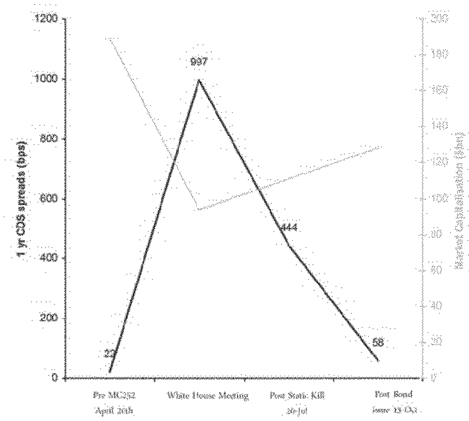
BP has successfully addressed liquidity concerns through suspension of dividends, disposals and accessing external funding...

Financial Response to Macondo



Moody's	Aa1	A2 (under review)	A2 (under review)	A2 (stable)
S&P	AA	A (-ve credit watch)	A (-ve credit watch)	A (outlook -ve)
Fitch	AA	BBB	BBB	A

Market Reaction
BP 1-yr CDS spreads & Market Capitalization



BP Confidential

... future resilience to external shocks and inherent volatility requires an appropriate liquidity buffer to create bridging and enable restructuring of the balance sheet

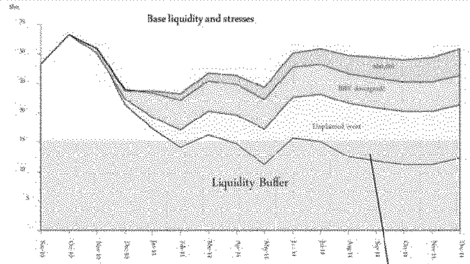
- The immediate financial response to Macondo was creating bridging finance through accessing credit facilities and day to day cash management to enable balance sheet restructuring through divestment of assets or secured and unsecured financing ;
- Effective management of credit facilities and the acceleration of disposal proceeds were essential in preserving liquidity and underpinning solvency through the crisis;
- The successful response has been reflected in a narrowing of CDS spreads;
- Maintaining a financial buffer is prudent given the lead time for executing liquidity levers and will mitigate against event & refinancing risk, business volatility (including pricing) as well as potential collateral and other liquidity calls;

Overhang on credit rating is likely to persist, but the internal financial parameters and governance should be consistent with 'AA' metrics...

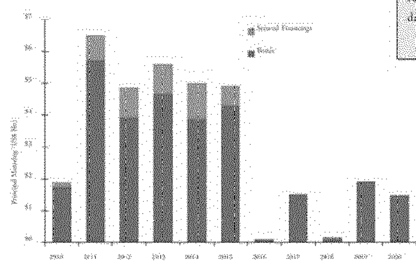
"AA" Credit Rating metrics	
Maximum Net Debt	$15bn
Funds From Operations/ Adjusted Debt (%)	>70%

Liquidity	
Liquidity Buffer	>$15bn
Standby facilities	>5
Cash	>10
Debt maturity in any 1 year	<$5bn
Contingent actions for >90 day liquidity needs (e.g. secured financing and divestments)	

Governance
Institutionalised stress testing
Improved cash forecasting
Centralised management of liquidity risk
OBS capacity limits
Monitor adherence through GFRC



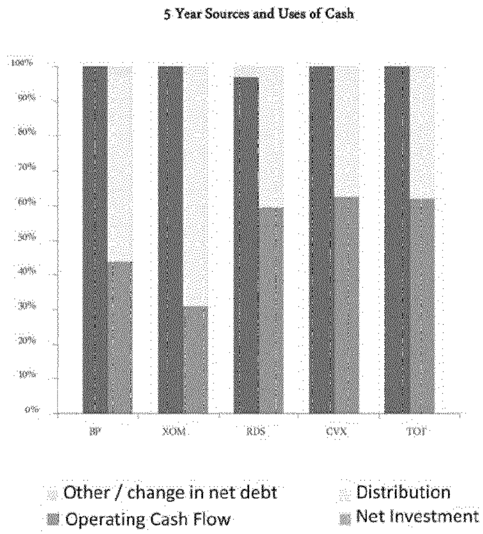
Contingent actions identified to meet liquidity requirements beyond 90 days

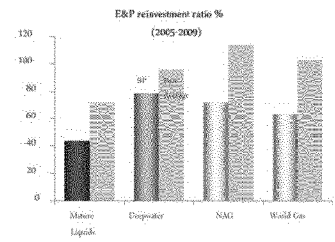


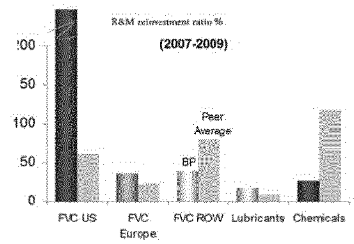
...which requires adequate liquidity buffer and changes to governance including greater oversight of OBS items.

- Financial strength and credit rating are not driven by any single metric and the internal governance and policies should capture a range of financial parameters.
- The 90 day liquidity buffer is sized to cover refinancing risk and potential cash calls on the Group. Beyond 90 days, the liquidity buffer is supplemented by the ability to raise cash through asset secured financing and asset divestments including the requirement for deposits;
- Stress tests are run to assess the probability of breaching the buffer and the need to invoke contingent actions;
- Adjusted debt is net debt plus off balance sheet (OBS) items. BP has limited ability to reduce existing OBS commitments ($32bn YE2009) in the near term;
- The updated Group Financial Framework drives new requirements including a multi-year financial planning horizon, regular stress testing, improved cash forecasting, centralised maintenance of a liquidity buffer and control of OBS commitments.

BP's cash re-investment rate has generally lagged the oil price and the super major peer group...







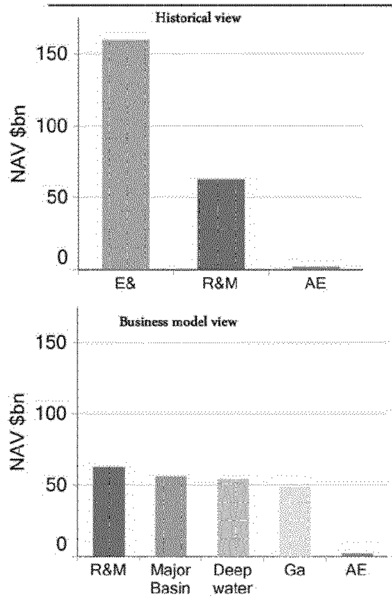
Mature Liquids: Alaska, North Sea, Azerbaijan, Angola, Middle East (Peers Occidental, Talisman, Apache). Deepwater Angola, Gulf of Mexico (Peers Anadarko, Hess and Devon). World gas: Asia Pacific, Egypt, Trinidad, North Africa; (Peers BG, Woodside, Santos) NAG Peers Chesapeake, XTO.

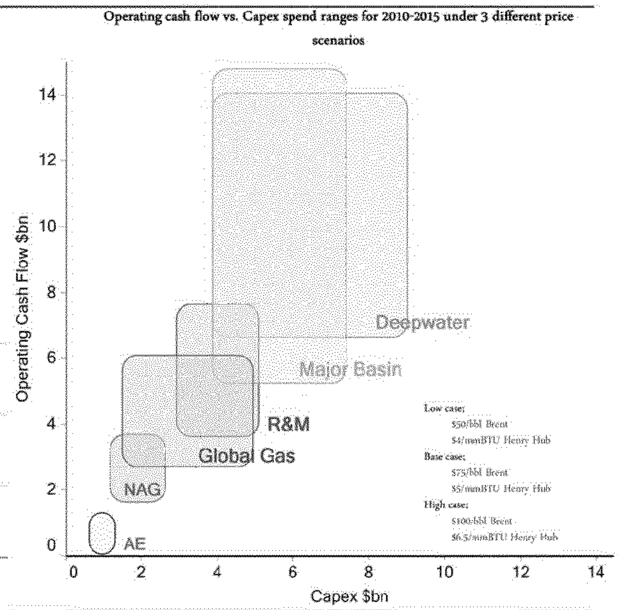
BP Confidential

... and have been materially below the independent E&P sector.

- BP's cash reinvestment rate has been below that of Shell, Chevron and TOTAL. XOM has the lowest reinvestment ratio but this mainly reflects their strong cash generation over the period and their stable investment plan.
- Distributions as a percentage of cash from operations have been in excess of XOM.
- Comparing BP's capital commitment with independent operators within various business lines (Mature liquids, Deepwater, North America Gas and world gas) highlights an apparent relative underinvestment in parts of the E&P portfolio.
- BP's E&P re-investment has materially lagged peers who have delivered greater production growth. The exception is in deepwater where it has been broadly in line with competitors and BP has outperformed on production growth over the period. **The disproportionate value created in deepwater implies that competitive re-investment into focused advantaged business models can create real leverage to value.**
- BP's R&M re-investment is heavily skewed to the US FVC and significantly higher than peers. The re-investment ratio in Europe is also higher; but not the case in the rest of the world.

Historically, the BP portfolio has been characterised along segment lines...





... but investment strategy focused will support competitive business proposition to grow earnings and optionality, particularly in E&P.

- **Deepwater** is highly capital intensive, highly leveraged to price; high risk but high growth with material value accretion potential;
  - *Returns leverage to oil price during (fairly short) field life*
- **Major Basins** form a legacy position and key leverage for access to NOC resources; often highly leveraged to price;
  - *Diverse returns with improved recovery offering high returns but requiring higher maintenance/S&OR spend on ageing infrastructure*
- **Refining & Marketing** remains a recovery story within the portfolio; although margin leverage, volatility and scale minimise the impact;
  - *Diverse range of businesses, but few offer significant capital growth potential*
- **Global Gas** is distinguished from oil by capital intensity and lower price leverage;
  - *Returns leverage to price during (fairly long) field life*
- **North American Gas** operates in a unique provenance in which shale is proving to be a game changer;
  - *Asset specific; liquid prone plays currently offer most attractive returns*
- **Alternative Energy** participates in growth markets and offers a long term strategic hedge for the group;
  - *Offers the potential to leverage more debt into projects with returns dependent on subsidies/policies*

As we interact with Investigative bodies; challenging questions from eminent people who understand high hazard operations which probe

•BP's Management Systems

•Standards & decision making

•Check & balances

•Priorities & "culture"

Transparence on safety performance – feedback not easy to take, but some of it is very insightful. Should internalize & take-on

Compliance – Need to be very literal; if we say it's in place, it's expected to be 100%

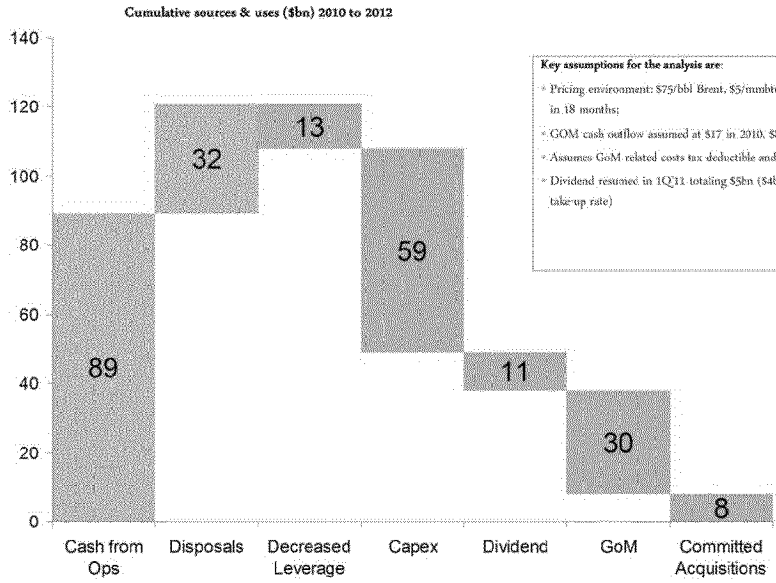
Checks & Balances -

•Must address: Risk decisions, right technical input/challenge, priorities

•Need to remain very clear that line management is accountable for identifying and managing risk; and embedded SOR staff provide acute focus on getting basics right and independent challenge

•Embedded SOR also foster and drive risk awareness, risk transparency and escalation of risks and gaps to standards

Planned asset disposals will strengthen the balance sheet in the near term...



Key assumptions for the analysis are:

- Pricing environment: $75/bbl Brent, $5/mmbtu Henry Hub and disposals completed in 18 months;
- GOM cash outflow assumed at $17 in 2010, $8bn in 2011 and $9bn in 2012;
- Assumes GoM related costs tax deductible and no partner recovery;
- Dividend resumed in 1Q'11 totaling $5bn ($4bn cash, $1bn scrip based on 20% take-up rate)

...and timing of proceeds verses liability payments may be a source of optionality to further augment the value proposition, but are not an alternative use for the cash.

- Planned assets disposals of ca $30bn in the next 18 months will strengthen the balance sheet reducing gearing significantly and resuming dividend at a lower level (e.g. 27cps verses 56 cps) provides headroom for potential shocks.
- This results in a dividend payout ratio from operating cash flow of ca 20%.
- The timing of disposal proceeds compared with payments to the $20bn escrow fund staggered at ca $5bn p.a., will create a large cash overhang in the near term which can be used to create further optionality in the near-term;
- Excess proceeds can be used as a short term lever to promote capital appreciation or acquisitions, but their medium term function must be to meet liabilities.
- Excess cash from operations will be used to pay down debt as a first priority;
- This analysis does not presume that the Group will meet its overall financial targets before the end of 2011.