

From: Bamfield, Nick MH  
Sent: Thu Aug 11 06:37:46 2011  
To: Sanyal, Dev  
Subject: Re: BP America Gearing Band Follow Up  
Importance: Normal

The recommendation has Martin's and my support - it was worked up with Hardev and Martin  
Thanks

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Sent from my BlackBerry Wireless Handheld

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**From:** Sanyal, Dev  
**To:** Bamfield, Nick MH  
**Cc:** Sommelet, Brigitte  
**Sent:** Thu Aug 11 00:07:33 2011  
**Subject:** FW: BP America Gearing Band Follow Up

Your views please

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**From:** Stricker, Jane  
**Sent:** 10 August 2011 22:25  
**To:** Sanyal, Dev  
**Cc:** Smith, Brian D (Treasury); Giles, Martin F; Bhangu, Hardev  
**Subject:** BP America Gearing Band Follow Up

Dev,

As a follow up to our conversation last week regarding the BP America target gearing level and whether that should be represented by a band or simply a maximum, I have gone back and reviewed our previous work and checked in with Martin to make sure we are aligned.

Prior to Macondo, the BPA financial framework referenced maintaining the US group's gearing within a band of 45%-55%. No change to that gearing band was proposed in the August 2010 Board Meeting, but in December 2010, we presented the board with a proposal to change the BPA financial framework to reflect a new gearing target of < 45%, with no minimum level defined at that time. However, we do recognize that there is the potential for incremental value loss as a result of decreased gearing. I believe at the time, our focus was on adjusting the top band downward to avoid the risk of destruction of value (by jeopardizing the deductibility), and we didn't explicitly express a new lower band.

As Martin pointed out to me, the width of the band is a function of both the value involved and our ability to take actions in response. With that in mind, we suggest stating that the lower band has moved down also by the same amount (to 35% from 45%), reflecting the extent to which we think active management is sensible and practical. If we consider (based on BPA's current balance sheet position) that \$1b change in debt will impact gearing by ~0.8% (holding all other numbers static), then a 10% gearing band represents ~\$12.5bn of debt.

For historical context, prior to our decision in 2009 to actively manage the gearing of BPA, the gearing moved from 41% at YE 2006 to 36% at YE 2008. By YE 2009, as a result of our decisions to increase the US borrowing from the UK and pay dividends, the gearing was increased to 47%. At its highest point post Macondo, the gearing of BPA moved up to 61% at 3Q 2010.

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Please advise if this adequately addresses your question and if you are in support of the proposed decision to clearly communicate the current BPA gearing band as being 35%-45%, rather than indicating only a maximum gearing of 45%.

Regards,

*Jane Stricker*

*Manager, Group Funding - Americas*

*BP Treasury - Group Funding & Capital Markets*

*BP America, Inc.*

*Office:Â (281) 366-6457*

*Mobile:Â (815) 975-1819*