<u>Future distribution policy</u>

During the 3Q results presentation we indicated that we would look to grow shareholder distributions over the next few years to 2014 in line with the improving circumstances of the firm. Specifically we said we would review the dividend in advance of the 4Q results announcement in February 2012 and "adjust them in line with the improving circumstances of the firm". This note provides context for this decision and recommendations.

Summary and recommendations

The Group has laid out a clear plan to grow free cashflow by 50% by 2014 as the expenditures on the Deepwater Horizon incident fall away and new higher margin production comes on stream. We have flagged to the market that up to half of the additional cashflow will be available to grow distributions.

Following the 3Q investor presentation, market expectations are growing for an increase in the dividend to be announced in February 2012. Absence of a dividend increase would be viewed as disappointing by the market. However, the scale of any increase needs to take into account the current financial constraints and future downside financial risks to the Group plan. We forecast to end 2011 with record levels of net debt ($6bn higher than end 3Q 2011) and above our target gearing band. Net debt is expected to fall in 2012 to a gearing level of 18%, but this is dependant on planned divestment proceeds of $9bn. Our current dividend of 7 cents per quarter represents a dividend yield of around 4.2%, similar though slightly lower than RDS and Total.

Balancing these differing factors, we recommend an increase of 0.75 cent per quarter to 7.75 cents. This increase takes into account expectations already in the market but is set at a level to minimise the additional financial constraints it puts on the Group (the additional cost being around $600m pa) given our current record debt levels.

Cash capacity to fund higher distributions

Over the longer term, through to 2014, the Group is forecasting a 50% increase in free cash flow of which we have indicated that half could be available for distributions or debt reductions. This should provide considerable future flexibility for growing the dividend from improving underlying cashflow.

However, currently the Group's financial flexibility is very constrained. End year debt is forecast to be $31-$32bn, a record level for BP, a deterioration of $6bn from end 3Q 2011 and 2% above the top of our gearing band. Net debt is forecast to fall in 2012 but this is dependent on disposal proceeds and is based on a $100/bbl oil case.

BP Group Debt Levels

$ bln	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012
Net Debt	30.8	28.3	22.2	24.4	27.2
Gearing	21.2%	20.0%	15.8%	16.9%	17.7%
Cashflow Statement					
Operating Cash		**6.4**	**5.4**	**4.8**	**4.5**
Net Investing Cash		**(2.8)**	**1.7**	**(5.9)**	**(6.3)**
Free Cashflow		**3.6**	**7.1**	**(1.2)**	**(1.8)**
Dividends		(1.0)	(1.0)	(1.0)	(1.0)
Change in Net Debt		**2.5**	**6.1**	**(2.2)**	**(2.8)**
Incl. Disposal Proceeds		2.2	6.9	0.0	0.0

The key risks to the forecast include:

- Execution risk around timing of disposals;
- Unexpected cashflows relating to the Deepwater Horizon incident;
- Risk of sustained lower oil prices as a result of a widespread and severe recession arising form the current economic uncertainties.

Taking into account the constrained financial flexibility of the Group and the downside risks to the 2012 forecast, the scope for increasing the dividend commitment in 2012 is limited.

Market Expectations

Following the 3Q Results presentation, expectations have grown of an increase in the dividend to be announced with the 4Q results in February 2012. There is wide dispersion of expectations. A selection of broker forecasts is shown below.

	Quarterly dividend
Reuters consensus mean	7.5 c
Alphavalue	9.5 c
Arbuthnot	7.0 c
Barclays Capital	7.4 c
BoAML	7.5 c
CA Chevreux	7.25 c
Credit Suisse	9.0 c
Daiwa	8.0 c
Evolution	7.5 c
ING	7.25 c
Investec	7.5 c
Kepler	8.5 c
Liberum	8.0 c
Macquarie	7.2 c

Nomura	7.25 c
Oddo Securities	9.0 c
Santander	7.25 c
Soc.Gen.	10 c

The Reuters consensus mean should be treated with caution as it includes broker forecasts which may increase nearer the February announcement. Ignoring the outliers, the current range is an increase of 0.5c – 2c per share.

Competitor Context

Generally the dividend yields paid by the European oil majors are higher than the US oil majors, reflecting general market trends. Despite restoring the dividend at half the level paid prior to Deepwater Horizon, BP's yield is not out of line with RDS or Total, reflecting the relative weakness of our share price. We not believe that the empirical evidence supports the view that a dividend increase in itself (not reflecting sustained underlying growth in free cashflow) drives sustainable share price appreciation. A one cent increase in BP's quarterly dividend would increase the yield to 4.8% based on current share price.

Oil major	**Current dividend yield***
BP	4.2%
RDS (B share)	4.5%
Total	4.6%
Exxon	2.3%
Chevron	3.0%
Conoco	3.7%

* 16 November 2011

However, several of the US majors make significant incremental distributions in the form of share buybacks. Exxon has been the most consistent in this approach, regularly buying around $5bn worth of stock each quarter. The European oil majors also made extensive use of share buybacks in the years up to mid 2008. Since then, buybacks have been limited to recent small repurchases by RDS to reverse scrip dividend dilution.

BP Treasury
November 2011