BP p.l.c. Results & Strategy Update – Calls with Rating Agencies

Standard & Poor's	Moody's
3pm Thu 20th Mar 2014	9.30am Wed 19th Mar 2014
Invitees:	**Invitees:**
Simon Redmond	Francois Lauras
Romana Matouskova	Tom Coleman
	James Thomson

1. 4Q 13 and FY 2013 results – quick recap

- Delivering 10 point plan:
  - On track to deliver including 2014 op cash target
  - Improved safety performance – continued positive trend, reflecting consistent, disciplined approach to BP operations globally
  - Focused portfolio - $38bn divestments completed; further $10bn to 2015
  - Exploration success – Angola, Brazil, Egypt, GoM, India
  - Major project momentum:
    - 3 start-ups in 2013;
    - 3 start-ups to date in 2014; 4 more – all on track
    - Major project FIDs – Khazzan and Shah Deniz
    - Whiting commissioning completed
  - Reserves replacement ratio of 129% (organic), 199% (inc. Russia)
  - Strong balance sheet – 16.2% gearing, $23bn cash

2. US litigation

- Clean Water Act
  - Phase 1 & Phase 2 completed; Penalty phase, where court will consider the penalty factors and mitigations, not yet scheduled.
  - Court may rule at any time on phases 1 or 2.
  - BP maintains it was not grossly negligent and the trial and investigations support multiple parties and multiple causes
  - BP would appeal a gross negligence finding; DoJ may likewise appeal a negligence finding, so finality in 2014 far from certain.
  - BP has compartmentalised US legal proceedings and has a resilient balance sheet, so is prepared for the long haul.
- CSSP / BEL claims
  - Success in challenging the revenue/expense matching issue – agreed by Fifth Circuit and District Court; Juneau developing policy.

- Fifth Circuit denied permanent injunction on payment of claims with no traceable cause. 2-to-1 ruling, no consensus on reason.
- BP will continue to contest causation link and is considering its options, including an "en banc" review by the full panel of judges
- BP feels this undermines the settlement and has already sought an en banc re-hearing on the validity of the settlement.
- BP's persistence for a fair settlement has yielded positive results and we will continue.

- Debarment
  - BP has entered an administrative agreement with the EPA, resolving all matters relating to debarment and suspension.
  - BP is once again eligible to enter into new contracts with the US government, including new GoM deepwater leases
  - The administrative agreement will apply for five years, under which BP has agreed to a set of safety and operations, ethics and compliance, and corporate governance requirements.

[Other US litigation - *if asked*
  - MDL2185 – jury trial on ADS action begins 14 Oct 2014 in Texas]

3. Strategy Update

- Multi-year journey – BP stabilised, reset and re-energised
- 2013 completed the groundwork – improved safety performance, exploration access, discoveries, major projects start-ups, Whiting running
- Confidence in delivery of 2014 operating cash flow target through ramp-up of major projects and Whiting.

The BP Proposition

- Value over volume
  - Manage portfolio to fit with strengths and divest non-core
- Growing sustainable free cash flow
  - Material growth in operating cash flow from underlying operations through to 2018
  - Re-investing in the best opportunities in a very disciplined way
- Financial framework and growing distributions to shareholders
  - Progressive dividend, reflective of sustainable cash flow growth
  - Surplus cash biased to buybacks
- Within a prudent framework - Gearing band of 10% – 20% while uncertainties remain

Upstream

- Safer, more reliable and efficient portfolio of assets
- Quality resource pipeline – balanced by type, geography
- Operating cash flow growth out to 2018 through:
  - Efficient growth of existing operations
  - Delivery of next wave of major projects

    - Continued access and drill-out of prospect inventory (17 wells in 2013, 7 discoveries)

Downstream

- Re-positioned, simplified and narrowed - focus on refineries and FVCs advantaged by scale, location and configuration = high margin capability
- Great brands, technology e.g. Castrol, petchems proprietary technology
- Material and growing cash flows for BP

Guidance

- Material growth in operating cash flow 2014 to 2018
    - 2015 similar to 2014, sustaining the significant growth this year
    - Steady growth thereafter – extending high value activities in existing operations, ramp-up of new and existing major projects
- Strong capital discipline - capex $24 - $25bn in 2014; $24 - $26bn to 2018
- Portfolio constantly reviewed - $10bn of divestments to end 2015

4. Lower 48

- BP will separate US Lower 48 onshore oil and gas business
- Establishing a new operating model in response to unique competitive circumstances (low barriers to entry, prominence of independents, pace of technology change)
- Lower 48 is key to Upstream – drives global unconventional learning, which will assist in unlocking value in BP's extensive unconventional resource based (7.6bn boe).
- Lower 48 will be run with separate management, cost structure, governance and processes to allow it to be competitive.
- Lower 48 assets sit across various entities within BP Corp North America group; plan is to simplify ownership but remain within BPCNA group.

[5. Ukraine – *if asked*

- Rosneft dividend ($460m paid Aug-13) is modest in terms of BP cash flow
- Rosneft's Ukrainian assets (150 service stations and a mothballed refinery) account for a very small percentage of Rosneft's operations
- BP has small Castrol business in country
- BP follow's appropriate regulations and sanctions and will continue to monitor the situation.]

Appendix: Adjusted cash flow to expanded debt metrics

$ million

S&P: FFO / adjusted debt - new basis	2013	2012
EBITDA	42,090	27,795
Less: Interest expense	(844)	(842)
Less: Capitalised interest	(238)	(378)
Less: Current tax expense	(5,785)	(6,884)
Add back: Operating lease capital	3,762	3,376
Less: Pension tax and interest	(604)	(601)
Add back: Share-based compensation expense	719	674
Add: Dividends from equity investments	1,391	2,210
Add back: Decommissioning expense, net of interest	571	(254)
Macondo cash flow adjustment (add back P&L, deduct cash flow)	(970)	(1,254)
Deduct: (Gain) / loss on disposals	(11,154)	(421)
Deduct: (Gain) / loss on inventory & embedded derivatives	(169)	(100)
FFO	**28,769**	**23,321**
Gross debt	48,192	48,797
Less: Surplus cash	(19,849)	(17,777)
Add: Operating leases	16,330	15,040
Add: Pensions	6,376	10,148
Add: Decommissioning	8,603	8,658
Add: JV & third party guarantees	847	950
Add: Macondo liabilities	8,463	9,400
Adjusted debt	**68,961**	**75,216**
FFO/ adjusted debt	**41.7%**	**31.0%**

$ million

S&P: FFO / adjusted debt - old basis	2013	2012
Net cash flow from operating activities	21,100	20,397
Less: Operating lease capital	3,805	3,490
Add back: Pensions - excess post-tax contribution	316	928
Less: Decommissioning charge	(791)	40
Add back: Working capital movement (RC) - reported	7,133	7,445
Exclude: GoM working capital movement	(2,099)	(6,088)
FFO	**29,464**	**26,212**
Gross debt	48,192	48,797
Less: Surplus cash	(21,020)	(18,048)
Add: Operating leases	16,829	15,511
Add: Pensions	6,376	10,148
Add: Decommissioning	8,603	8,658
Add: JV & third party guarantees	847	950
Add: Macondo liabilities	8,463	9,400
Adjusted debt	**68,289**	**75,416**
FFO/ adjusted debt	**43.1%**	**34.8%**

$ million

Moody's: RCF / adjusted debt	2013	2012
Net cash flow from operating activities	21,100	20,397
Add back: HC working capital movement	6,843	6,851
Add back: Post-tax inventory holding (gain) / loss	230	411
Add back: Operating lease capital	3,941	3,451
Less: Dividends paid	(5,910)	(5,376)
Macondo	(1,987)	(3,687)
Other (align tax & interest paid / payable)	633	(436)
RCF - Retained Cash Flow	**24,850**	**21,611**
Gross debt	48,192	48,797
Less: Surplus cash	(20,894)	(18,004)
Add: Operating leases	35,466	31,056
Add: Pensions	7,861	10,596
Add: JV & third party guarantees	602	709
Adjusted debt	**71,227**	**73,154**
Cash cover ratio - RCF/ net debt	**34.9%**	**29.5%**