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# Presentation to the BPPF Trustee Board

May 2011

Ex 12552
Worldwide
Court Reporters, Inc.

# Agenda

- Managing Operational Risk
- Financial Framework
- Macondo update
- Driving Value
- Group Financial Profile

# Managing Operational Risk

## Putting Safety and Operational Risk management at the heart of BP

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Resetting the focus on safe, reliable operating activity to achieve long term value creation

Leadership priorities

- Process safety and operating risk reduction
- Embedding BP's Operating Management System (OMS)
  - Consistent and systematic operating rigour
- Competency, capability and safety culture

Rebasing performance management and reward

- Focus on priorities, foundation for long term performance

New Safety and Operational Risk organization (S&OR)

- Head of S&OR is member of Executive Team
- Strengthen central standards setting and auditing
- Deployed into the operating line

•We have clear priorities and a programme of action. The main priority is to strengthen process safety and reduce operating risks. This requires the alignment of the organisation from top to bottom with a consistent set of standards and behaviours.

•The primary mechanism to drive this consistency is our operating management system – or OMS. We are continuing to embed this across the organization as a single system to be respected and followed by every operation.

•In human terms, we continue to focus on ensuring that we have a highly competent organization and a deep safety culture where everyone speaks up and takes action when necessary.

•We are rebasing our approach to performance and reward to ensure every person in BP follows these priorities.

•We have also created a more powerful Safety & Operational Risk organisation – which we call S&OR.

•S&OR will strengthen our standards and processes and has personnel embedded in BP's operating divisions. They'll be working alongside the line management to guide, advise, scrutinise and if necessary intervene.

•The S&OR team is confirming implementation of the 26 recommendations from the Bly report; approving critical personnel, reviewing risk mitigation plans and overseeing key decisions affecting operational safety.

## Safety and operational risk management

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Drive BP-wide safe, compliant, reliable operations through independent authority at local and Group levels by:

- Setting clear S&OR requirements
- Maintaining an independent view of implementation of requirements and of safety and operational risks
- Providing deep technical expertise to the line
- Intervening and escalating as appropriate to cause corrective action

| Central S&OR team | Embedded S&OR | Line |
|---|---|---|
| Discipline expertise, standard setting and centralized activities | Integration, deployment and assurance | Delivery of safe, reliable and compliant operations |

***SOURCE: TLM/Dubai***

- We are setting up the S&OR organisation and we're already seeing results.
  - S&OR is setting clear requirements.
  - It is helping businesses to implement requirements and risks with around 500 specialist staff deployed in the businesses.
  - It is providing deep technical expertise in the businesses.
- And most critically at this point, interventions have been made where it has been necessary to stop work.
  - A production platform was temporarily shut-down so fire pumps could be repaired.
  - A field was shut down for pipeline integrity work.
  - We have turned down some rigs for not meeting new BP standards.

- It is an integrated model where the central S&OR function together with embedded staff and the line can drive safe, compliant, reliable operations BP-wide.

- This isn't micromanaging. It's about understanding the big issues and dealing with them.

## Implementing lessons globally

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**Building on our learnings and sharing them around the world**

**Internal changes to strengthen BP**
- Centralized global wells organization
- Broadening areas of expertise
- Enhancing our standards and practices

**Advancing technology, standards and equipment in 5 key areas**
- Prevention/drilling safety – the highest priority
- Containment – stopping the flow
- Relief wells – plan for rapid well kill
- Spill response – control near the source
- Crisis management – preparation and co-ordination

**Engaging with industry to develop new global capability**

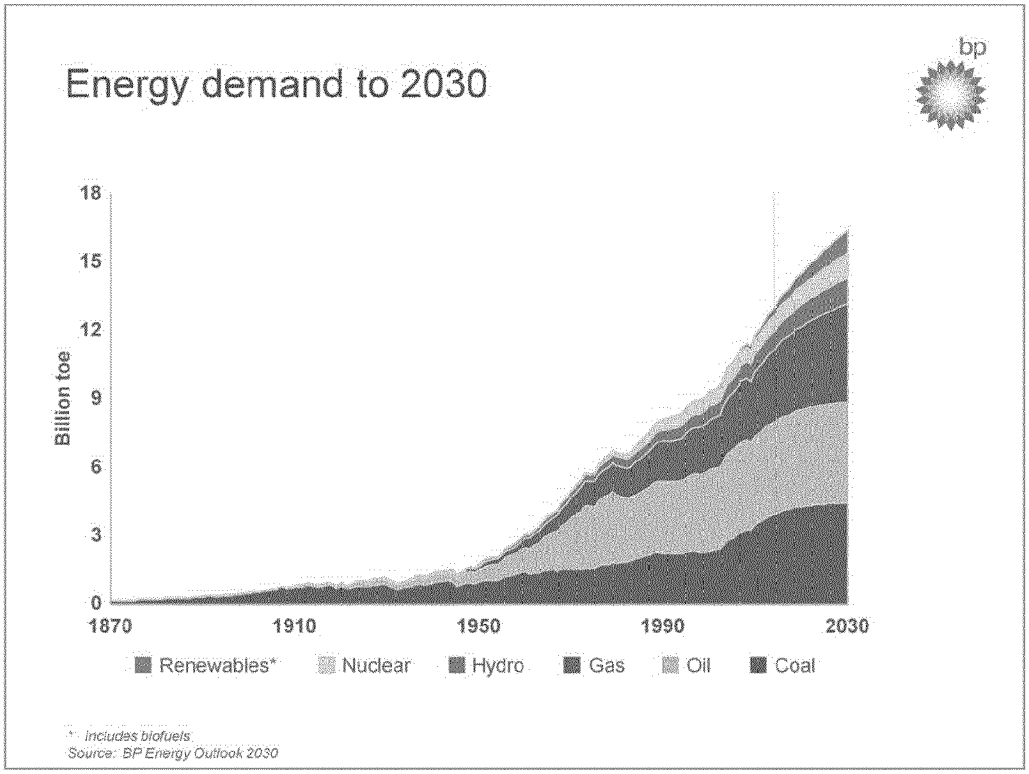
We have learnt a great deal from the Macondo incident and it is vitally important that BP builds on those lessons.

•We have established a centralized global wells team to make sure our wells are safe and compliant. They are working closely with S&OR to advance standards and ensure they are applied consistently.

•In addition, we are focusing efforts on the five key areas of learning from the incident. These are Prevention, Containment, Relief Wells, Spill Response and Crisis Management.

•We are committed to share what we have learned and we are bringing our capability, knowledge and, in some cases, our equipment to groups including the new Marine Well Containment Company in the US.

## Financial Framework




By 2030 – NON RESPONSIVE
NON RESPONSIVE
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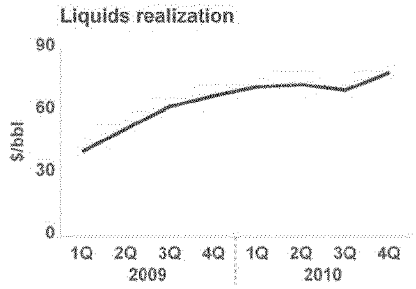
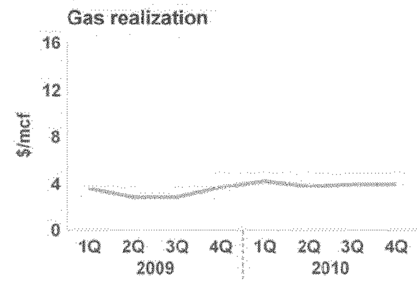
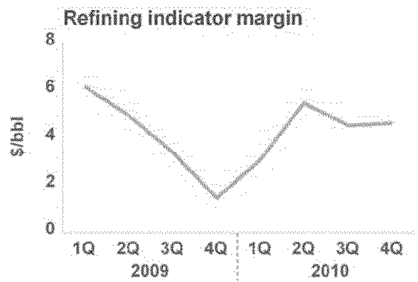
## Trading environment




| | Change vs 2009 | |
|---|---|---|
| Average realizations | 4Q | Year |
| **Liquids $/bbl** | **16%** | **30%** |
| **Natural gas $/mcf** | **8%** | **22%** |
| **Total hydrocarbons $/boe** | **10%** | **25%** |
| Refining indicator margin $/bbl | **211%** | **11%** |

Key highlights:

•The overall environment continues to be supportive.

•Liquids realisations continue to trend upwards, 30 higher than 2009.

•Gas realisations are also up on 2009, 22% higher.

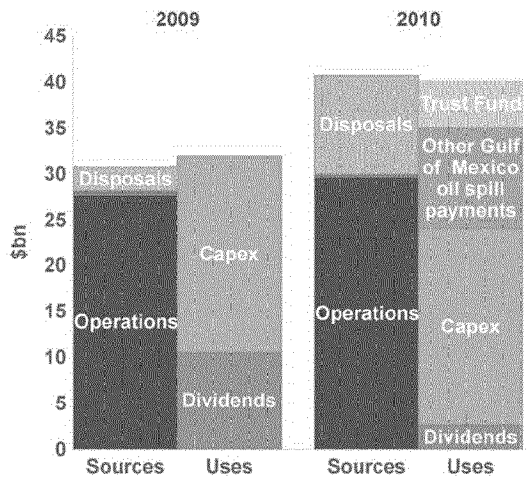
•And in Refining, margins fell away from their 2Q highs and are lower than the start of 2009, but across the year were 11% up on 2009.

# Financial results

| $bn | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| Replacement cost profit | (4.9) | 14.0 | 25.6 | 18.4 |
| Net cash provided by operating activities | 13.6 | 27.7 | 38.1 | 24.7 |
| Net debt | 25.9 | 26.2 | 25.0 | 26.8 |
| Gearing | 21% | 20% | 21% | 22% |

***SOURCE: GH***

# Sources & uses of cash




- Disposal proceeds of $6.2 billion for deals closed in 4Q
- Additional $6.2 billion of cash deposits held at year end for disposals expected to complete in subsequent periods, which is reported as short-term debt.
- Cash at 31 December is $18.6 billion

•This slide compares our sources and uses of cash in 2009 and 2010.

•Operating cash flow, excluding post-tax Gulf of Mexico oil spill expenditures, was $29.6 billion, 7% higher than a year ago, mainly reflecting the benefits of a stronger environment partially offset by lower production.

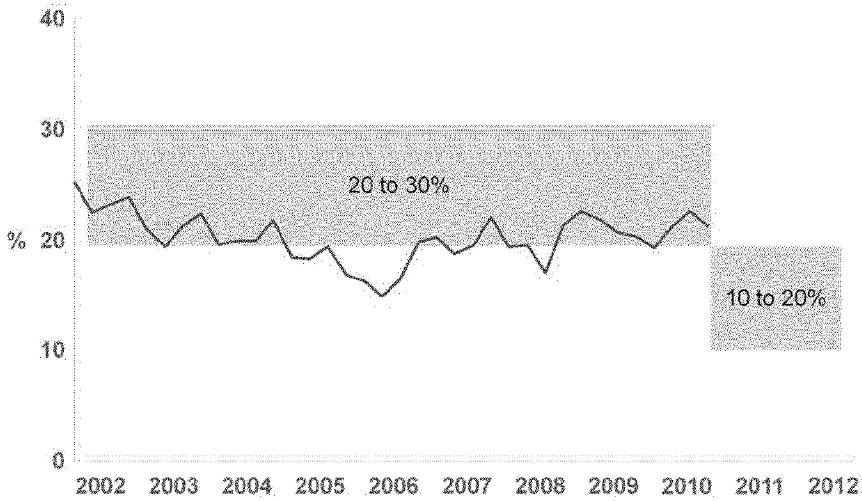
•We received $10.8 billion of disposal proceeds for deals completed in 2010. In addition to this, we held $6.2 billion in deposits for deals which are expected to complete in 2011.

•Total cash held at the end of the year was over $18 billion.



## Net debt ratio




Net debt ratio = net debt / (net debt + equity)
Net debt includes the fair value of associated derivative financial instruments used to hedge finance debt
Cash of $6.2bn received as deposits for disposals completing after year-end is reported as short-term debt at 31 December 2010

•Our net debt at the end of 2010 was $25.9 billion and our net debt ratio was 21%, 1% higher than a year ago. The $6.2 billion of deposits for deals to be completed post year-end was reported as short-term debt. As these deals close, net debt will reduce accordingly.

•Consistent with maintaining a prudent and flexible financial framework for the Group, we intend to target gearing within a lower range of 10 to 20% in the future. The reduction of net debt to $10 to 15 billion over time, as we indicated in June, is consistent with the lower end of this range.

## 2011 guidance

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| | 2010 | 2011 guidance |
|---|---|---|
| **Organic capital expenditure** | $18bn | ~ $20bn |
| **Cash from disposals*** | $17bn | $13bn |
| **Payments into Trust Fund** | $5bn | $5bn |
| **DD&A** | $11bn | ~ $500m higher |
| **Cash costs**** *(year-on-year change)* | Slightly lower | Slightly higher |
| **OB&C: average underlying quarterly charge** | ~ $350m | ~ $400m |
| **Full year effective tax rate***** | 31% | 32% - 34% |

* *Cash from disposals including deposits of $6.2bn received at year end 2010 relating to disposal transactions expected to complete in subsequent periods*

** *Excluding the effects of changes in exchange rates and fuel costs. A full definition of cash costs can be found on bp.com*

*** *Excluding the impact of the Gulf of Mexico oil spill*

•We expect our organic capital expenditure to increase to around $20 billion in 2011 as we invest to grow.

•In 2010 we received $17 billion of proceeds for completed disposals plus disposal deposits. In 2011 we currently expect around a further $13 billion from disposal proceeds, taking the two-year total to around $30 billion.

•Next, I remind you that under the terms of the Deepwater Horizon Oil Spill Trust, BP has committed to pay $5 billion of cash into the fund in 2011, 2012 and 2013, as well as meeting continued response costs.

•DD&A is expected to be around $500 million higher than in 2010 due to the recognition of production in Iraq and increased production from fields with higher depreciation rates, partly offset by the impact from divested assets.

•We have made significant progress in reducing our cash cost base over the past several years. In 2011 we expect to see a slight increase while we refocus our activities, as Bob has described.

•The average underlying quarterly charge from Other businesses and corporate in 2011 is expected to be around $400 million. As in previous years, this is likely to be volatile on an individual quarterly basis.

•And finally, the effective tax rate for 2011 is expected to be in the range of 32 to 34%, slightly higher than in 2010.

## Financial framework

- Increased investment to grow the firm
- Resumption of the quarterly dividend supported by:
  - Continued success in the disposal program
  - Improving business environment

  *balanced by:*
  - The need to retain significant level of financial flexibility
- Financial flexibility provided by:
  - Maintenance of a significant cash liquidity buffer
  - Reduction in gearing to range of 10% - 20%
- Quarterly dividend level (7 cents/share) reflects:
  - Continuing obligation to the Trust Fund
  - Uncertainties the company still faces
  - Intention to grow over time in line with improving circumstances of firm

•We have resumed distributions to shareholders while we increase investment to grow the firm. This resumption of the dividend is supported by our continued success in the disposal programme, and by the improving business environment, but balanced by the need to retain a significant level of financial flexibility at this time.

•To provide that financial flexibility we intend to maintain a significant cash liquidity buffer, as we have over the past six months, and reduce the gearing ratio to a range of 10 to 20% as I mentioned a moment ago.

•A quarterly dividend of 7 cents per ordinary share was announced for the fourth quarter, which will be paid in March.

•As you would expect, the Board has been prudent in setting the new quarterly dividend level, recognising the continuing obligation to pay $5 billion per annum into the Deep Water Horizon Oil Spill Trust and the uncertainties that we still face. The intention is to grow the dividend level over time in line with the improving circumstances of the company.

•The Scrip programme, approved by shareholders at last years Annual General Meeting, will be available for 4Q dividend recipients.



 

Macondo update

## Rebuilding trust – meeting our commitments

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Meeting our commitments in response to the Deepwater Horizon incident

**Response**

- Almost finished
- Beaches
- Barrier Islands
- Marshes
- Maintenance
- Monitoring

**Restoration**

- Claims - midway
- Individuals
- Businesses
- Local / State

- Ecological / Use
- NRDA
- Early / Specific

**Investigation and Litigation**

- In progress

***SOURCE: TLM/Dubai***

***Q1 average burn rate was $19m a day falling to $12m a day in Q2 (source: Paul Hanson)***

We continue to meet our commitments post the Deepwater Horizon incident:
•The ongoing response effort can be categorised into three 'buckets' – Response, Restoration and Litigation & Investigations

Strategy…
•Maintain our license to operate in USA
•Meet our commitments on the Gulf Coast
•Rebuild reputation on accomplishments
•Resolve investigative / legal issues

Structures built…
•$20Bn Escrow Fund
•GCCF (Feinberg)…claims facility for individuals / businesses
•Escrow collateralized via GOM assets

•~$5bn of claims & government payments to date
Gulf Coast Restoration Organization formed…appropriate resources…focused on restoration
•Part of BP America
•Concentration on Louisiana, Mississippi, Alabama, Florida; connected to DC
•Transitioning from Gulf Coast Incident Management to GCRO in 1Q
•Clean-up, economic damages, reputation re-build, long-term research

GoM Subcommittee of BP Board formed…
•Monitoring and oversight
Voluntary funding:
- $500m Gulf of Mexico Research Initiative (GRI)
- Rig Worker Assistance Fund
- Behavioural health
- Tourism and seafood testing & marketing projects

# Gulf of Mexico oil spill
## Expected milestones

| | Indicated dates* |
|---|---|
| **Investigations** | |
| • Presidential Commission final report | Shortly |
| • Marine Board investigation final report | Summer 2011 |
| • Chemical Safety Board report | to be determined |
| • National Academy of Engineers final report | end 2011 |
| **Department of Justice inquiry continues** | |
| **Multi District Litigation trials** | |
| • OPA 90** test trials | to be determined |
| • Limitation & Liability trial | February 2012 |

*Dates as expected only
** OPA 90 = Oil Pollution Act of 1990

•We expect that the Presidential Commission will have completed their investigations and published their findings shortly, while publication of the final report from the Marine Board has slipped and is now due sometime this Summer, some preliminary disclosures on the BOP and other matters are expected within the next month. The National Academy of Engineers' report is scheduled for the end of this year. Less clear is the timing of the ongoing Department of Justice investigations, which are still expected to take some time to complete.

•There are currently many active lawsuits against BP and other parties and these have been consolidated into two Multi District Litigation proceedings with most of the cases being consolidated under Judge Barbier in the Eastern District of Louisiana. Discovery in these cases is ongoing and Oil Pollution Act test trials may be scheduled for later this year. The Limitation and Liability trial is currently scheduled for early 2012.

•So while there are still uncertainties as to how this will all progress, we should start to be clearer on the implications as we move into 2012.

## Gulf of Mexico oil spill
## Financial impacts

- $20bn Trust Fund
  - Claims by individuals and businesses
  - Government claims
  - Natural Resource Damages claims
- $41bn charge taken against income
- $18bn paid out in 2010 (including $5bn in Trust Fund)
- Partner recovery not included
- Final $1.25bn cash payment to Trust Fund in Q4 2013

•There are a few key points I would like to make on this:

•Firstly, we believe that the $20bn Trust Fund, within the provision, provides a substantive facility to cover claims brought by individuals and businesses, government claims, as well as the cost of the Natural Resource Damages claims. Should the $20bn turn out to exceed requirements, the balance of the Fund will return to BP.

•Secondly, our estimate of the potential claims under the Clean Water Act - which we expect to be the major category of fine – is also included in the $41bn charge as well as response and clean up costs.

•Further, as I have already noted, we continue to believe that BP was not grossly negligent and have taken the charge on that basis. We would expect to be able to recover a portion of cost from partners – which is not reflected in our provisions.

•As far as the impact on the cash requirement of the Group is concerned, our commitment to the Trust Fund is spread over three and a half years, ending in the fourth quarter of 2013, after which a significant amount of cash will be available for other uses.



 

## Driving Value

# Moving BP forward

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Putting Safety & Operational Risk management at the heart of the company

Re-building trust

Value growth

- Dividend resumed
  - Quarterly dividend level of 7 cents/share
  - Intention to grow over time in line with improving circumstances of firm
- Active portfolio management: divesting/acquiring for value
  - Divestment proceeds of ~$13bn in 2011 to complete $30bn program
  - Divestment of two US refineries planned by end 2012
  - Acquisition of Devon assets expected to complete in 2011
- Investing for upstream value
  - Doubling exploration spend
  - 32 project start ups by 2016: 1mmboe of new production
  - New forms of partnerships with resource holders : Rosneft strategic alliance
- Reshaping downstream
  - $2bn+ pre tax performance improvement by end 2012: $0.9bn delivered in 2010
  - More focussed portfolio: improved returns and growth
    - Repositioning US fuels value chains and halving US refining capacity

•2010 was an inflection point, challenging us to think about what changes we need to make to our business. So moving forward we have set ourselves three clear priorities:

•The first is putting Safety & Operational Risk Management at the heart of the company. As investors you should expect this. We see this as a long term approach, bringing together how we manage risk, how we operate, how we partner with governments and contractors and how we reward performance. This will fundamentally reshape the way we work.

•Secondly, we recognise that rebuilding trust is central to our continued license to operate. In the first instance we need to meet our commitments in the US. We also need to ensure that lessons are implemented across all our operations globally. Beyond this we need to play an active role in sharing the lessons with partners and governments to ensure such an accident can never happen again in our industry.

•And importantly, our third priority is to deliver value growth for shareholders.

•We have made a number of announcements this morning and you can start to see some of the choices we are making to realise greater value.

•We are resuming payment of a quarterly dividend with the intention to grow the dividend level in line with the improving circumstances of the company.

•We are divesting non-core assets in the upstream, unlocking hidden value while creating a portfolio with potentially stronger growth from a smaller base.

•We are divesting half of our US refining capacity, retaining those positions with the greatest competitive advantage so as to improve returns.

•We're creating long-term value by investing in strategic projects. Our upstream portfolio is very rich in growth opportunities with 32 project start ups planned by the end of 2016.

•We're increasing our investment in exploration, one of our distinctive strengths and the means by which we turn prospects into value.

•We're evolving the nature of our strategic partnerships with national oil companies and major resource holders, going beyond the traditional IOC model – such as our alliance with Rosneft and our joint venture with TNK-BP.

•We're focusing on long-term value by investing in the key inputs – namely, safety, capability, technology and relationships.

•All in all, we intend to focus on continuous reduction in risk, value as much as volume, and quality over quantity. It's about choices for the future rather than the legacy of the past.

•As to the immediate future, 2011, it will be a year of consolidation as we focus on completing our $30bn divestment program, meeting our commitments in the US and bringing new rigour to the way we manage risk.

•These actions may increase some costs and reduce volumes in the very short term, but we believe they are essential to growing value for shareholders for the long term.

## Strategic Partnerships and the BRICS

- Strategic partnerships in Russia and India
- New upstream access in Brazil and China
- Bio-fuels expansion in Brazil
- Strong petrochemicals business in China

Benefits

- Access to significant resources
- Alignment with national champions
- Access to growing economies

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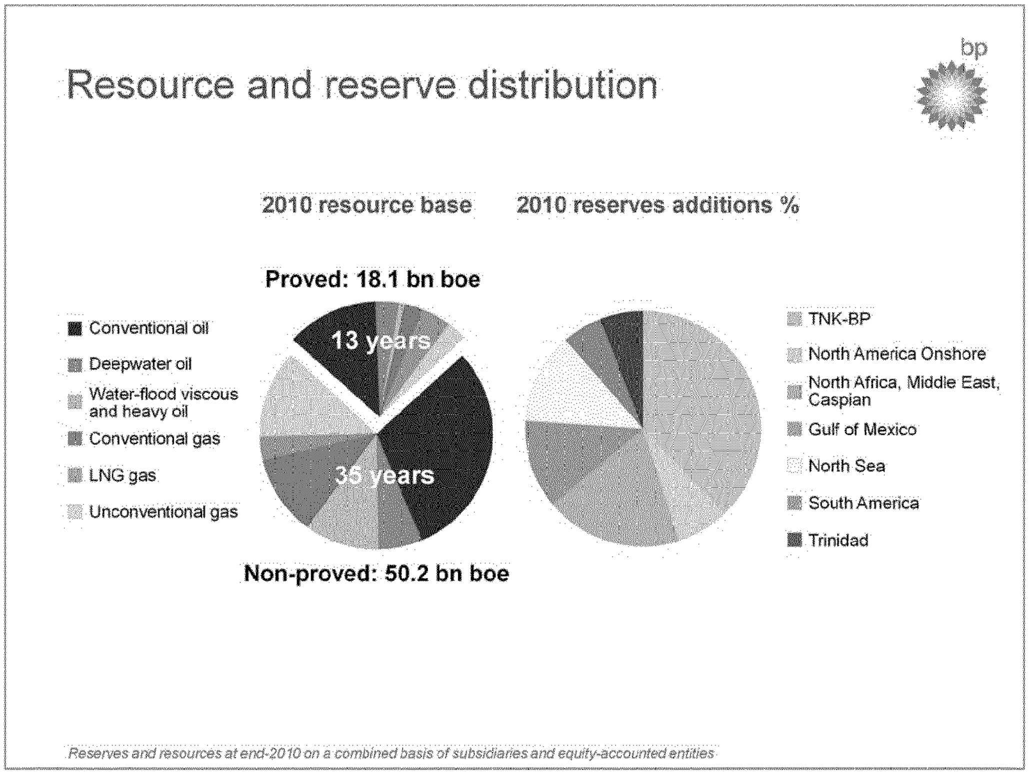
# Upstream:
# Exploration, Developments and Production






•This chart shows how our resource base and reserves are now distributed.

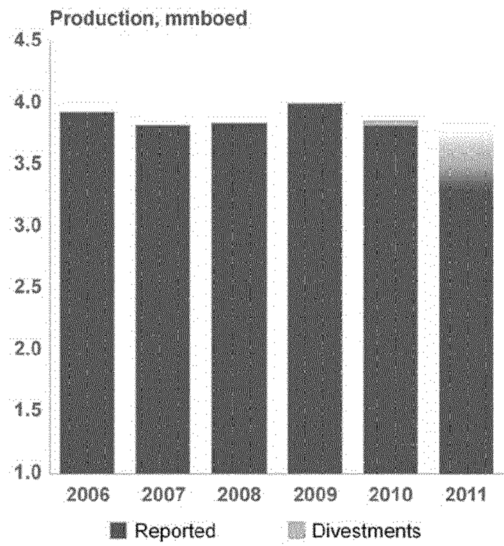
•One point to note is that the portfolio has a bias towards oil, with around 65% of oil and 35% gas.

•We need that bias to oil to capture margin and maintain our leverage to higher oil prices. And, we want to complement that with a sizable share of gas to capture with growth.

•The quality of our resource base in our subsidiaries is also continuing to improve. Over the last five years, we have increased the reserve additions from higher-margin areas such as Azerbaijan, Angola, the North Sea and the Gulf of Mexico.

## Production 2006–2011

- 2011 year of consolidation
- Increased turnaround activity and planned losses
- Key drivers of uncertainty:
  - Gulf of Mexico restart
  - Divestment timing
  - Oil price and PSA effects
  - OPEC quota restrictions




2011 BP projection at $75/bbl

***[GH insert] Moving from reserves to current production***

•Production values are expected to be lower in 2011 than 2010; that's as a result of divestments, lower production from the Gulf of Mexico and a 50% increase in turnaround activity to improve the long-term reliability of the assets (34 in 2009, 35 in 2010 and 51 planned for 2011).

•As a result of these factors, reported production in 2011 is expected to be around 3.4 million barrels of oil equivalent per day.

•Of course, the actual outcome will clearly depend on the exact timing of the divestments, the pace of getting back to work in the Gulf of Mexico, OPEC quotas, and the impact of the oil price on production sharing agreements.



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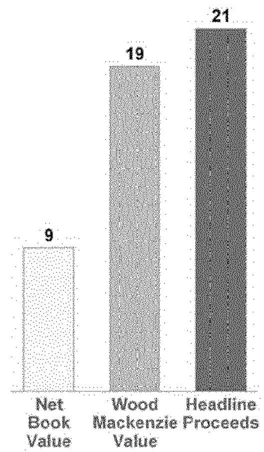
## Divestment update

**Divestment program success**

- Total headline proceeds of more than $21bn
- Reserves and non-proved resources of 1.7bn boe and 3.2bn boe, with 0.4bn boe and 1.8bn boe closed in 2010
- Financial impact of ~$1.5bn pre-tax underlying replacement cost profit

**Key transactions**

- US Permian, Egypt Western Desert, Canada Gas to Apache
- 60% stake in Pan American Energy JV
- Colombia to Ecopetrol and Talisman
- Vietnam to TNK-BP
- Venezuela to TNK-BP
- 46% interest in Lukarco JV to Lukoil
- Devon Gulf of Mexico producing assets to Marubeni
- Pakistan to United Energy Group Limited
- 50% of Kirby Heavy Oil JV to Devon




*Financial impact BP projections at $75/bbl*
*Proceeds include $1.4bn of deferred payments in 2010 and 2011 for deals closed in 2009*

I want to be clear on the criteria we used in selecting assets for divestment. It was first to refocus our own portfolio for growth, and second where assets would be worth more to others than to ourselves, thereby unlocking value for shareholders. This latter point has clearly been demonstrated as our divestments attracted disposal proceeds greater than external valuation, and more than twice their book value.

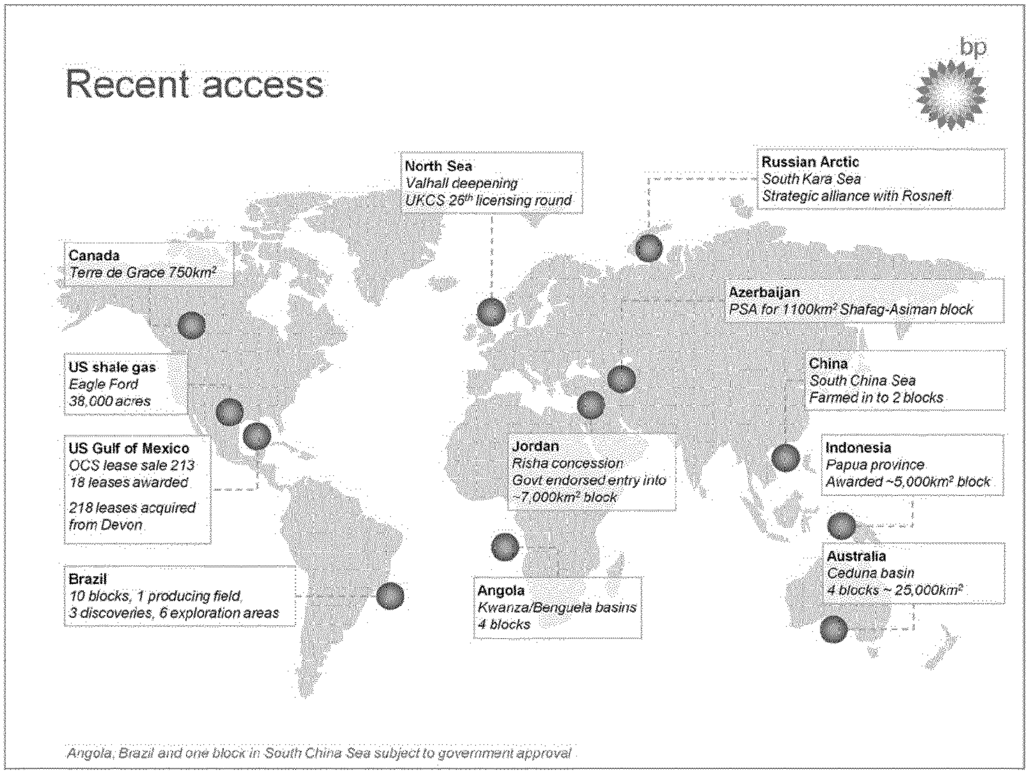
•The divestments represent around 15% of BP's current market value and yet a much smaller proportion of reserves - around 9% - and of pre-tax underlying replacement cost profit of around 7%.

•In five countries we divested all of our upstream interests, simplifying the portfolio considerably. This means that our management can concentrate on regions where we believe we can grow value in a distinctive way.

•But we divested none of our inventory of future major projects. So our long-term growth potential remains intact.






***[GH insertion] Note new access to CBM in Indonesia. We signed four new coalbed methane (CBM) production sharing contracts (PSCs) in the Barito basin of South Kalimantan, Indonesia. BP and co-owner Pertamina were jointly awarded the Tanjung IV CBM PSC, in which BP will hold a 44 per cent participating interest in the PSC. BP and co-owner PT Sugico Graha (Sugico) were jointly awarded the Kapuas I, II and III CBM PSCs. BP will hold a 45 per cent participating interest in the PSCs with Sugico holding the remaining 55 per cent.***

***Together, the four PSCs cover an area of approximately 4,800 square kilometres.***

•Now I want to look in more detail at our access success in 2010.

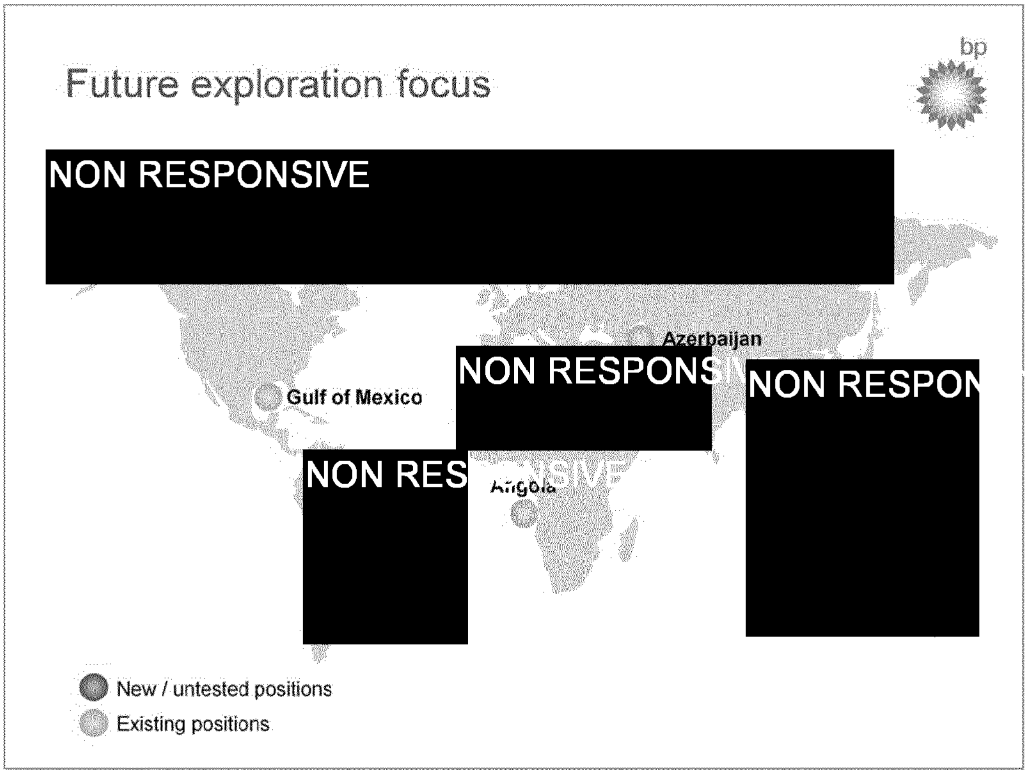
•We deepened in our existing positions in the North Sea in the Valhall field and in the recent UK Licensing round, shale gas in North America and Canadian heavy oil. We deepened in Azerbaijan through the Shafag-Asiman production sharing agreement, and intend to do the same in Angola through four new blocks in the Kwanza and Benguela basins. And we completed our access in Jordan with ratification of the Risha Concession and accessed the North Arafura block in Papua province, Indonesia.

•Importantly we moved into four major new basins;

- First, Brazil. It had represented a gap in our deepwater portfolio. Our agreement with Devon, subject to government approval, now provides us with that access and we'll continue to look for further growth opportunities there.
- In the South China Sea we accessed new acreage in the deepwater.
- In the Arctic we have just announced our future work in the South Kara Sea with Rosneft.
- In Australia, we are pleased to enter the frontier Ceduna basin.






•Let me review where we will focus our exploration capability.

[redacted]

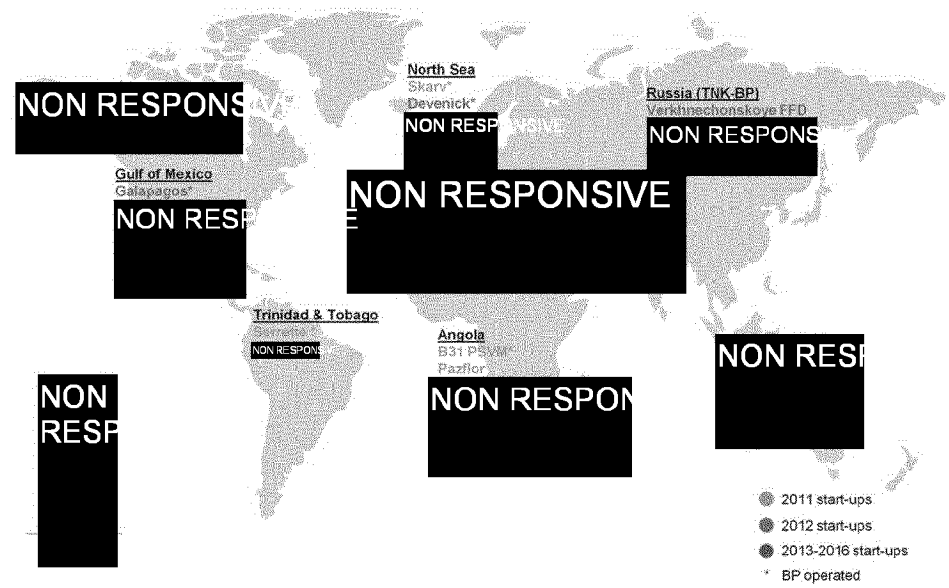
•When I look at the global opportunity set I am excited about the big wells ahead of us as we test and drill out this strong portfolio.

•Moving on from exploration to developments, we have a deep portfolio of high-quality major projects.

•We have made the final investment decision (FID) on 24 projects. A further 10 are expected to reach FID in the next two years.

•We also have 16 additional projects which are under appraisal.

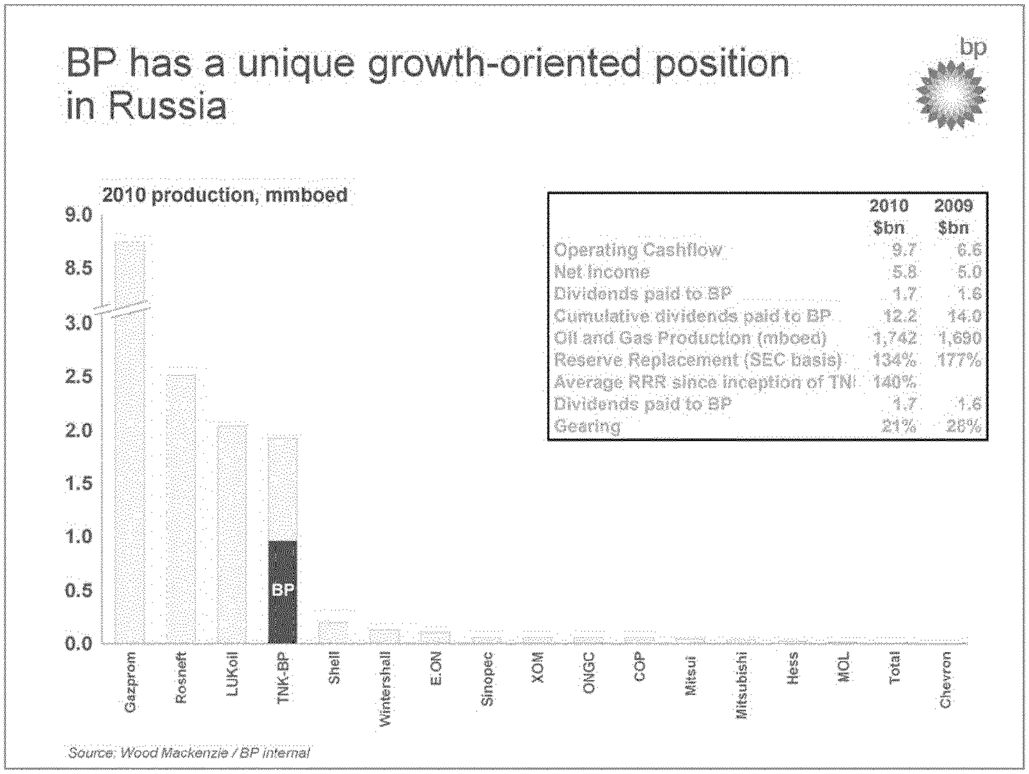
## Developments: new start-ups




NON RESPONSIVE

FFD - Full Field Development

So, pulling all of this together, here is an overview of the planned start-ups – by the end of 2016 we plan to start up 32 projects, which have the potential, as mentioned before, to contribute around 1 million barrels a day of production equivalent.




***[GH insert]: latest update on Russia to be sent to Dev on Wednesday 6th April. Not included here.***

•Let me firstly provide an update on TNK-BP.

•TNK-BP has a very strong onshore production base of which around 70% comes from West Siberia. This includes the giant Samotlor field where we have applied technology to sustain production for several years.

•The transition to new greenfield projects began with the start-up of the Verkhnechonskoye, Uvat and Kamennoye fields in 2010. These projects will underpin continued growth for TNK-BP through 2015.

•In 2010, production growth was up over 2%, greater than the national average.

•Looking ahead, TNK-BP expects to see investment growing at an average growth rate of 11% over the next 5 years and production at 2%.

•Longer-term growth will come with the development of new provinces near the Yamal peninsula.

•TNK-BP is a core and significant part of our portfolio and we expect it will remain so.



## Upstream value growth

- 2010
  - Gulf of Mexico incident
  - Strategic and operational progress
- 2011 – year of consolidation:
  - Increased turnaround activity
  - Uncertainty on Gulf of Mexico timing
  - Increasing investment for growth
- Long-term value growth
  - Portfolio focus – deepwater, gas, giant fields
  - Enduring positions in best basins – relationships, resource knowledge and technology
  - Functional excellence across lifecycle: exploration, developments, production
  - Strong projects contribution – growing from a smaller base

•Our Upstream business is going through significant change as it refocuses to drive safety improvements and operational risk reduction in everything we do.

•Our divestment programme has created a portfolio which is substantially refocused.

•We are shifting the emphasis from volume to long-term value growth for shareholders.

•I think we are good at finding oil and gas and we will take advantage of our growing world class exploration inventory to double exploration investment over the next few years.

•We have high-quality projects capable of delivering around 1 million barrels of new oil equivalent per day by the end of 2016.

•We will continue to make choices about where we invest, and will divest if others can add more value than we can.

•We will continue to evolve our relationships with large resource holders and National Oil Companies.

•And we will invest in technology and the capability of our people.

# Downstream

## Refining & Marketing turnaround
### The five priorities

- Safe operations and OMS(1)
- Behaviours and core processes
- Restoring missing revenues and earnings momentum
- Business simplification
- Repositioning cost efficiency

(1) Operating Management System

•So let me begin by covering the R&M turnaround and our progress in 2010.

•Our focus since 2007 has been on turning around R&M with an agenda built upon the five priorities outlined on this slide. These are unchanged.

•Safety remains our top priority, and the events of 2010 only serve to underscore this. Bob outlined the agenda for our Safety and Operational Risk Function, and we are in the process of implementing that agenda within R&M. During 2010 R&M's safety performance was stable vs a very good 2009. Personal safety was slightly worse than 2009 and process safety was better with a 25% reduction in our severity-weighted Process Safety Incident Index and all of R&M's major operations are now on our operating management system, OMS.

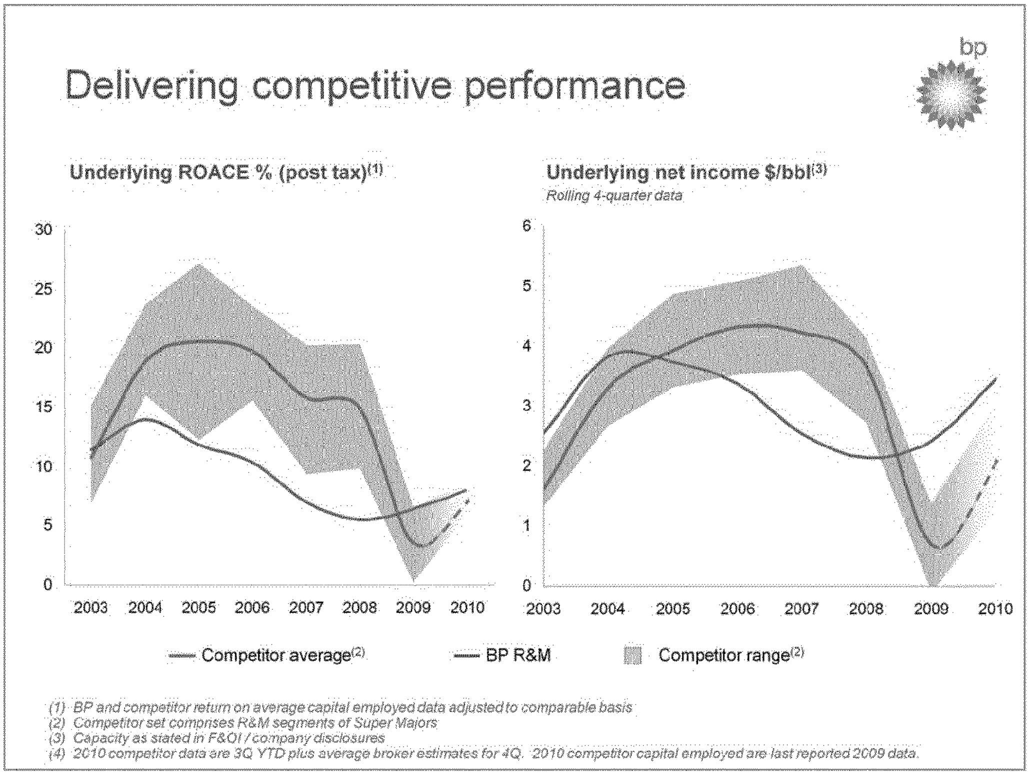
•Organisationally, we continue to invest for the future both in capability and core processes, as we consolidate the operating model.

•Most of my presentation relates to the last three priorities - the improvement in our earnings momentum and returns, the portfolio and its simplification and our efforts to improve our efficiency.

•I'd like to begin with 2010 starting with competitive performance.






•Used for four years now, the chart on the left shows our post-tax ROACE vs the supermajors estimated on a consistent basis.

•Having closed the gap in 2009, we estimate BP has remained near the top of the competitor set, and absolute levels are improving.

•BP's ROACE in 2010 on this measure was 8%, a significant improvement on '08 levels and an improvement of about 2 percentage points vs '09.

•On the right, for two years BP's downstream has outperformed in terms of Net Income per barrel of refining capacity. As I said last year, we are not focused on being the largest player in any of our businesses, but of holding the highest quality portfolio and operating it well. I believe this is beginning to show through in our competitive results.

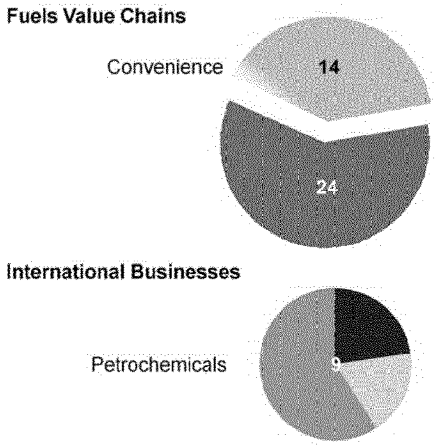
•This improvement is about half of the goal to improve pre-tax profit by "over 2bn p.a." by 2012 which we set out last year, indicating that we are making good progress.



# Our portfolio and performance 2007–2010

2010 average operating capital employed (pre tax) $bn




Pre-tax underlying RC profit $bn

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Fuels Marketing and Supply | 1.2 | 2.0 | 3.1 | 1.7 |
| Refining | 1.2 | (0.7) | (1.6) | 0.3 |
| Lubricants / Global Fuels | 1.5 | 2.0 | 2.1 | 2.9 |
| **Total Refining & Marketing** | 3.9 | 3.3 | 3.6 | 4.9 |

*Relative areas in pie charts based on average operating capital employed (pre tax)*

So, how have the different parts of the portfolio performed?

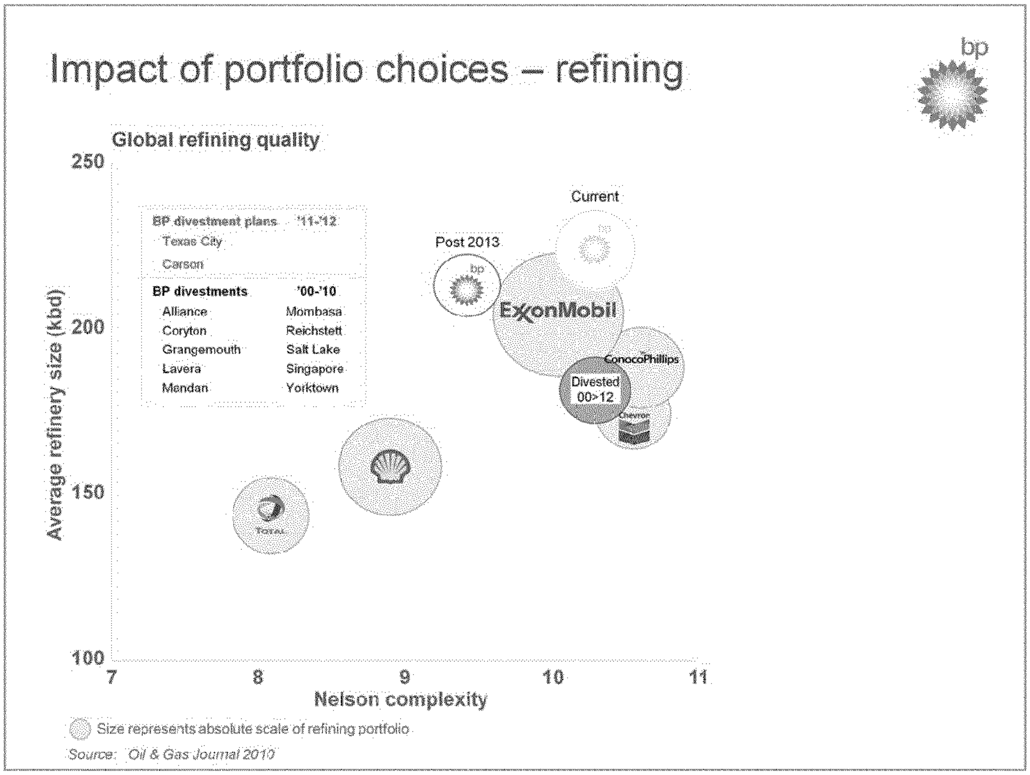
•This is the breakdown of profits and operating capital employed between the Fuels Value Chains and the International Businesses including history back to 2007.

•In the Fuels Value Chains overall, profit has improved by $0.5bn. In fuels marketing and supply, earnings were down $1.4bn, driven in large part by very poor oil trading performance and also the marketing impacts in the US in the aftermath of the Gulf of Mexico oil spill incident. Refining posted a profit for the first time since 2007, and improved by $1.9bn year-on-year. This was mainly driven by improvement in our US operations while maintaining good performance elsewhere. Refining Solomon Availability was 95% in 2010, the best level since 2004, throughputs were up 140,000 bpd and utilization rates globally were 91%, up over 6 percentage points vs 2009 and significantly above industry averages.

•Refining returning to profit in 2010 means we have achieved another important milestone of refining becoming breakeven in an environment similar to that of 2009.

•In the International Businesses, earnings improved by $0.8bn. The largest contribution to this was in Petrochemicals. Even though margins were only slightly up vs '09, demand recovery and new BP capacity coming on-stream drove a 23% improvement in production, and total costs were maintained at below 2008 levels.

•Lubricants and Global Fuels also had another good year with further expansion of gross margin and good cost discipline driving double-digit earnings growth.




•This shows the Nelson complexity and average scale of BP's global refining portfolio post 2013 relative to the current position.

•Post divestment of the two positions in the US, and the transformation of Whiting, our average scale and complexity are both slightly lower than today, but still in the pack with our leading competitors. This is before any further upgrading of Rotterdam.

•Perhaps the biggest implications of the announced moves will simply be that

- BP will be the smallest refiner of the traditional supermajors at just over 2mmbpd capacity
- The proportion of BP's capacity in the US market will fall from 50% of the portfolio today to just over one third.

## Strategy and portfolio

bp

**1 Reposition US Fuels Value Chains and halve US refining capacity**

- Divest Texas City refinery[1]
- Divest Southern West Coast Fuels Value Chain[1]
- Transform Whiting refinery capability
- Improve Cherry Point and Toledo refineries
- Focused marketing and logistics footprint

**2 Improve Eastern Hemisphere Fuels Value Chains and access market growth**

- Rotterdam hydrocracker option
- Gelsenkirchen yield improvement option
- Focused marketing and logistics footprint
- Marketing margin growth

**3 Growth in high quality International Businesses**

- Lubricants volume / earnings growth and margin mix
- Petrochemicals expansion in Asia
- Air BP growth

*(1) Subject to legal and regulatory approval*

The backdrop to our strategic choices is one of flat to declining demand for fuel in the US and Europe, with decline of fossil fuel demand accelerated by the penetration of biofuels. It is also in the context of significant growth for fuel, lubricants and petrochemicals in the emerging economies.

•For the last 18 months we have been considering the future performance potential of the portfolio. In addition to meeting strategic hurdles such as configuration and market location, integration and growth potential, we also expect our Fuels Value Chain businesses to reach returns above cost of capital at bottom-of-cycle conditions, and make a material contribution to BP over time.

•Although we have concrete plans to improve further all parts of the US Fuels Value Chain portfolio, parts of it fail the strategic hurdles and current performance does not meet these financial goals. Hence the divestments announced in February.

Therefore our portfolio strategy in R+M is now to:

•Reposition the US Fuels Value Chains, halving US refining capacity

•Improve the Fuels Value Chains in other geographies and access associated market growth, and

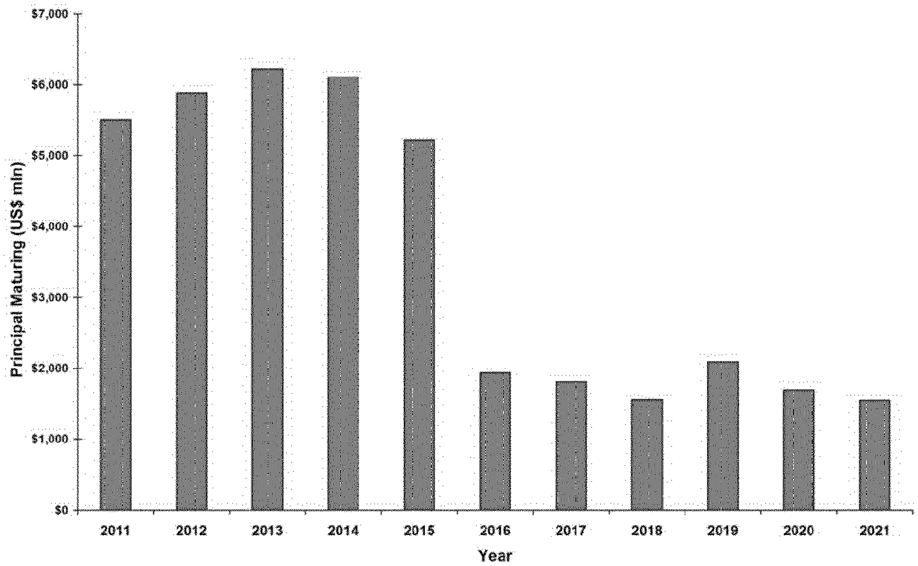
•Continue to grow the high quality International Businesses

# Debt Book Review

# Debt analysis at 4Q 2010

| | $ bln |
|---|---|
| **Long Term** | |
| Bonds | 22.1 |
| Oil receivable loans | 4.4 |
| Tangguh | 1.2 |
| BP Trinidad | 0.6 |
| Tax Exempt | 0.6 |
| Other | 1.8 |
| **Short Term** | |
| ST portion of LT Debt | 7.0 |
| M&A deposits | 5.1 |
| Tax Exempt | 0.4 |
| Commercial Paper | 1.0 |
| Other | 1.1 |
| ***Gross Debt*** | ***45.3*** |
| Cash | -18.6 |
| Debt related hedges | -0.9 |
| **Net Debt** | **25.9** |

# Bond maturity profile



## Standby Lines

- A new 3 year standby facility of $6,825m was put in place in March
- 23 International Banks
- $400m of original facilities remain, maturing in September 2011 – to be reviewed later in the year
- Terms and conditions unchanged

# BP International Limited

**BP International acts as the Group's in-house bank:**

- Pools the Group's global accessible cash on a daily basis
- Acts as the Group's primary financial counterparty with the markets
- Provides guarantees on behalf of Group (excl. North America)
- Major Group holding company – Exploration chain (excl. the US holdings)
- Carrying value in the 2010 audited accounts of BP plc - $60bn

# Pension history

bp

| year end<br>$bn | 2010<br>(pg 206ARA)* | 2009<br>(pg 164ARA) | 2008<br>(pg 162ARA) | 2007<br>(pg 155ARA) | 2006<br>(pg 155ARA) |
|---|---|---|---|---|---|
| UK Funds | 2.1 | 1.3 | 1.7 | 7.7 | 6.0 |
| US Fund | (0.8) | (1.3) | (1.7) | 1.0 | 0.6 |
| Other Funds | (0.3) | (0.2) | (0.4) | (0.2) | (0.3) |
| **Total Funded Position** | **1.0** | **(0.2)** | **(0.4)** | **8.5** | **6.3** |
| Unfunded Plans (Germany, France) | (5.6) | (5.4) | (5.3) | (5.7) | (5.5) |
| US Medical | (3.1) | (3.0) | (3.0) | (3.1) | (3.3) |
| **Funding Position** | **(7.7)** | **(8.6)** | **(8.7)** | **(0.3)** | **(2.5)** |
| Deferred Tax | 1.7 | 2.0 | 2.0 | (0.6) | 0.1 |
| **Total** ((IAS19 basis) | **(6.0)** | **(6.6)** | **(6.7)** | **(0.9)** | **(2.4)** |

