SFN 09/02/08

Dr B E Grote

Supported - BG 17/03/09

Corporate Structure and Finance Note

BP America Inc Group Debt Funding and Declaration of Dividend

Your support is sought for:

- BP America Production Company ("BPAPC") to draw on its surplus funds on deposit with North America Funding Company ("NAFCO") and on-lend funds to BP America Inc. ("BPA"). The facility limit on the long term loan between BPAPC and BPA will be US$ 10.0bn.

- BPA to draw US$ 5.0bn on its funding facility with BPAPC to finance dividends of US$ 5.0bn to its UK parent, BP Holdings North America Ltd ("BPHNA"), which will in turn use these funds to declare an onward dividend to its parent BP p.l.c.

- The issuance of US$ 5.0bn of long term fixed rate debt by NAFCO to BP International Limited (BPI) to reflect the long term nature of the US group's incremental indebtedness resulting from the dividend payment to the UK.

- The issuance of a US$ 5.0bn group financial guarantee from BPA in favour of BPI to support NAFCO's term debt facility.

Rationale:

The proposals outlined above serve to meet several objectives.

- For BPA to pay a shareholder dividend, sourced from 2008 earnings to increase the distributable reserves of BP p.l.c. available to support shareholder distributions, in line with delivery against the BP Group's financial framework.
- To increase the BPA group's debt funding within a sustainable band.
- In order to demonstrate that the dividend income received by BP p.l.c. has come from cash dividend income, traced from BP America Inc through BP Holdings North America Limited to BP p.l.c. and is therefore available for BP p.l.c. to dividend to its shareholders or to use for other forms of shareholder distribution.

This proposal has been networked within UK and US Tax, Treasury, Legal and Finance and the Chairman and President, BP America Inc.

The proposals will be put before the boards of directors of BPA and BPHNA respectively for formal approval following SFN support.

Prepared by:

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Supporters:

Lamar McKay	Chairman and President, BP America Inc.
Dev Sanyal	GVP and Group Treasurer
John Bartlett	Group Head of Tax
Tom Taylor	VP, Business Treasury Services and CFO Americas

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Nick Bamfield	VP, Corporate Finance and Pension Investments
Martin Giles	Manager, Group Funding and Capital Markets
Jim Dietz	Head of Tax-Americas
Rob Fearnley	Head of Tax-UK
Bernard Logue	Manager, UK Corporate Structure and Funding Tax Team

Request for support

Your support is sought for:

- BP Amoco Production Company ("BPAPC") to draw on its surplus funds on deposit with North America Funding Company ("NAFCO") and on-lend funds to BP America Inc. ("BPA"). The facility limit on the long term loan between BPAPC and BPA will be US$ 10.0bn.

- BPA to draw US$ 5.0bn on its funding facility with BPAPC to finance dividends of US$ 5.0bn to its UK parent, BP Holdings North America Ltd ("BPHNA"), which will in turn use these funds to declare an onward dividend to its parent BP p.l.c.

- The issuance of US$ 5.0bn of long term fixed rate debt by NAFCO to BP International Ltd (BPI) to reflect the long term nature of the US group's incremental indebtedness resulting from the dividend payment to the UK.

- The issuance of a US$ 5.0bn group financial guarantee from BPA in favour of BPI to support NAFCO's term debt facility.

Background

BPA is a Delaware incorporated company that is the parent of the US ownership chain and a wholly owned subsidiary of the UK entity BPHNA, which itself is parented by BP p.l.c.

BPA has the legal, financial and tax capacity to distribute additional earnings to its UK parent. A dividend was last declared by BPA in September 2007 (US$ 4bn) and the US group has accumulated distributable reserves of *circa* US$ 18bn to December 2008 (per US GAAP accounts). A significant proportion of the reserves is estimated to have suffered a tax charge in excess of the UK corporation tax rate and support is therefore requested for the BPA Board to declare three dividends sourced respectively from profits of 2006, 2007 and 2008 such that the dividends will not result in any incremental UK tax liability

The proposed dividend will be funded by BPA borrowing from a US subsidiary, BPAPC, which has surplus funds on deposit with NAFCO. BPA will deposit these funds in a ring fenced IFA with NAFCO which is in surplus. The movement of funds from BPA to BP p.l.c. will be recorded as book entries through BPHNA with a book transfer of funds from BPA to BP p.l.c. This funding route provides further rigour towards demonstrating that the dividend income received ultimately by BP p.l.c. could not compromise UK Financial Assistance provisions. As such, the dividend income in BP p.l.c. will be available for shareholder dividends or other forms of shareholder distribution.

The US group is in a net deficit funding position with the UK and NAFCO, the internal bank for the US group, has a deficit with BPI of *circa* US$ 10.0bn. As a consequence of the US group's intention to leverage the BPA group up to an optimal level and the dividend proposal detailed as part of this SFN, NAFCO's deficit with the UK will increase through the year. As a result, this SFN proposes that the funding for this dividend, US$ 5.0bn, take the form of a long term loan.

BPA has gone through a financing and structuring strategy review at the end of last year and the proposals outlined in this SFN align with the recommendations of this review. One of the recommendations is to increase the level of indebtedness the US group has with the UK. within a sustainable band.

Following a study of the level of gearing sustainable for the BPA group a proposal will be made to the BPA board and Treasury management that a gearing range of 45% to 55% (on an expanded debt basis) could be achievable without compromising tax and corporate governance concerns, in particular allowing BPA to retain a credit standing at least equivalent to investment grade. The forecast gearing at 4Q 2008 is *circa* 40% which means up to a further US$ 12.0bn of debt can be introduced into the US group. There are two principal approaches for gearing up the US group: the first relates to BPA buying back its own shares (Project Apollo) and the second is through dividend distributions. As due diligence progresses on the share buyback option we have restricted the dividend to US$ 5.0bn at this point to retain flexibility to consider alternative options.

In parallel with this SFN we are looking to move an element (up to US$ 10.0bn) of the existing NAFCO IFA overdraft (US$ 10.2bn) on to a long term fixed rate facility. As a result of the US group's strategy to gear up further, it establishes that funding currently on a short term basis is more likely to be structural and should be re-classified to long term.

Appendix 1 details the transaction steps.

The proposed dividend of US$ 5.0bn will be sourced from the US group's income (per US GAAP accounts) generation in the years detailed:

Year	US$
2006	805,090,863
2007	1,946,871,510
2008	2,248,037,627
	5,000,000,000

Dividend declarations

On 16 March, 2009 the BPA Board of Directors will be asked to approve a dividend of US$ 5.0bn, to be paid on 18 March, 2009 to shareholders on record at 13 March 2009:

- In respect of profits of 2006, a dividend of US$ 805,090,863 which is approximately US$ 102.26 per Class A and Class B common shares
- In respect of profits of 2007, a dividend of US$1,946,871,510 which is approximately US$ 247.29 per Class A and Class B common shares
- In respect of profits of 2008, a dividend of US$ 2,248,037,627 which is approximately US$ 285.54 per Class A and Class B common shares

On 17 March, 2009 the BPHNA Board of Directors will be asked to declare and pay a dividend of US$ 5.0bn, to shareholders on record at 13 March, 2009:

- US$5.00 per Class A common shares, which is approximately US$ 5.0bn,

Treasury

Settlement

The payment of the dividends is to be implemented by way of book entries and does not involve the physical transfer of cash. In particular, payment of the three separate dividends declared by BPA is to be effected through a single payment of the total amount (US$ 5.0bn). Interest on the long term funding accounts created will settle onto the respective IFA accounts for BPA, BPAPC, NAFCO and BPI.

To secure tax deductibility in the US, interest on NAFCO-to-BPI cross-border financing will be physically settled annually, before the financial year end, in line with a process imbedded in recent years.

Grossing up of interest income and expense

Although grossing up of balances is not expected to arise, to avoid concerns arising from the asymmetry of tax treatment of interest income and expense, were we simultaneously to have a long term loan and a surplus on the NAFCO IFA, Group Funding will be required to monitor the respective balances each quarter. If the NAFCO to BPI IFA funding relationship moves to a *structural* surplus balance, action will be taken to redress the situation through a separate SFN support request to amend the fixed rate loan proposed here.

Loan tenure and pricing

Terms of the loan facility between BPA and BPAPC:

I. A US dollar facility with a limit of US$ 10.0bn.

II. Interest will be settled across IFAs held with NAFCO

III. Period the facility will be made available is 3 years and one day from inception.

IV. Pricing of the loan will be at 6 month LIBOR minus 6.25 basis points. This recognises that BPA is regarded as, and able to borrow at, Group tier rates

Terms of the loan facility between NAFCO and BPI:

I. A US dollar facility with a limit of US$ 5.0bn.

II. Interest will be settled across IFAs between these entities

III. Period the facility will be made available is 3 years and one day from inception. This reflects the expectation that the US group will increase its gearing to its optimal level and is likely to retain a structural deficit position for a period of time. Maintaining only a 3 year fixed rate provides some element of interest rate risk management flexibility to enable the funding to be refinanced if the market changes materially.

IV. Pricing of the loan will be at a fixed rate of *circa* 3.45% for the duration of loan. The interest rate to be charged will reflect the market yield curve for a Group tier entity (AA rated), currently *circa* 3.1% plus a margin to reflect the size of issuance (lot size) which we estimate to be 0.35% based on premia being charged for debt issuances in the market at present. The actual rate will be determined on the transaction date, taken from the Bloomberg indices on yield curves.

BPA to provide a guarantee to BPI against NAFCO term loan facility:

In order to ensure that the US group will be entitled to a US tax deduction in respect of the interest expense arising from the funding, a group guarantee will be provided to BPI from BPA, the ultimate parent entity within the US group.

The quantum and duration of the financial guarantee will be in line with the long term loan agreement between BPI and NAFCO.

A guarantee fee agreement between BPA and NAFCO is not required as both entities consolidate within the US group.

The rationale for the terms of the loan between NAFCO and BPI follows the reasoning detailed in a separate SFN [09/02/07]. That SFN seeks approval to refinance an element of

NAFCO's deficit with BPI on to a fixed rate long term loan facility in order to manage the interest rate risk of the US group and correctly reflect the long term nature of the funding.

The methodology adopted in arriving at the financing for BPI to NAFCO term loan is detailed in ***Appendix 2***.

Taxation

UK

The interest income created in BPI as a result of the long term financing to NAFCO will be offset by tax losses brought forward from prior periods, the US will obtain current cash tax relief.

There is not expected to be any additional UK tax on the dividend from BPA to BPHNA. BPHNA will not be able to access prior year Eligible Unrelieved Foreign Taxes ("EUFT") currently held in BP p.l.c. However the US dividend is forecast to carry sufficient underlying tax credits to fully offset fully the liability to UK tax on the dividend receipt at the rate of 28%.

The dividend from BPHNA to BP p.l.c will be exempt from UK tax, being between UK tax resident companies.

There is no need to obtain UK Treasury Consent in advance of the transaction as the formation of the new term loan agreements between NAFCO and BPI and between BPAPC and BPA is covered by the Treasury General Consents 1988.

US

As the US is tax paying, the interest expense will obtain current tax relief in the US equivalent to 27% of the interest expense.

The consolidated US group has a forecast net gearing ratio on a book basis [net debt / net debt + equity] of 40% at year end 2008 (2007: 42%). We do not consider the additional gearing as a result of the dividend payment compromises the US group's ability to demonstrate an implied investment grade standing.

The US group has sufficient headroom with regards to thin capitalization limits and therefore we do not have any earnings stripping concerns.

Finance

Dividend Funding

The dividend declared by BPA in favour of BPHNA will immediately be declared as a dividend by BPHNA in favour of BP p.l.c.. To the extent the dividend receipt in BP p.l.c. is funded with 'clean' funds, sourced from BPAPC surplus funds on-lent to BPA, the income will be deposited on to BP p.l.c.'s surplus IFA account with BPI, COMDR. These funds are will be available to BP p.l.c. to support all forms of shareholder distributions.

Foreign Exchange

BPA (GRA 19833), BPAPC (GRA 10600), NAFCO (16381), BPI Bank Branch (18814), BPHNA (10445) and BP Plc (10430) are USD reporting entities for group accounts and tax returns, though BPI Limited has a presentation currency of GBP. As the existing IFAs and the proposed term facilities and dividend flows will be USD denominated, this transaction will generate no foreign exchange gains or losses within the individual group entities or the consolidated accounts.

Recording Transactions
The dividends will be implemented through book entries with no physical cash movements across entities. ***Attachment 3*** outlines the accountabilities and accounting entries required in the respective companies.

Legal

Financial Assistance
The funding of the cash requirements initially from BPAPC's surplus IFA, through BPA's ring-fenced IFA which is also in surplus, for the dividend payments from BPA to BPHNA and then on to BP p.l.c. overcomes the possibility of any infringement of the Financial Assistance provisions under the UK Companies Act 2006.

BPA will fund the dividend with borrowings from BPAPC who have surplus operational cash deposited with NAFCO on an identifiable IFA. These funds will be placed in BPA's ring-fenced IFA with NAFCO which is in surplus. There will be a direct payment from BPA's IFA to BP p.l.c. (following the declaration of the dividends) and the cash used to fund the dividend income ultimately received by BP p.l.c. can be traced back to BPAPC's surplus funds.

In future it is intended that BPA repays the BPAPC facility following receipt of dividends from BPAPC. It is important to note that the BPAPC facility cannot be repaid (directly or indirectly) using borrowings from a UK company such as BPI.

We do not believe that we are restricted, but that under our broadest interpretation of potential ways of extrapolating Companies Act wording, we could imagine a challenge that asserts that the situations we describe are covered within wording that we do not believe was intended to apply to these circumstances. To remove any financial assistance concerns and to allow the distributable profit to be available for BP p.l.c. shareholder distributions through dividends and or share buybacks the funds are sourced and routed as described above.

Company Secretarial

US and UK
The directors of companies are required to act in good faith and ensure that any transaction they enter into is likely to promote the success of the company for the benefit of its members as a whole.

The transaction details as part of this SFN do not compromise the above duties. The loan from BPAPC to BPA creates income and expense profiles on financing the same as would be the case if both entities had been financed directly from NAFCO in line with the US funding model.

The fixed rate debt between NAFCO and BPI provides security of funding for NAFCO and certainly of cash flows. For BPI there are two advantages to funding at a high fixed rate compared to low IFA rates. Firstly, BPI is funded from BP Capital Markets p.l.c. which is itself funded from the external capital markets at rates similar to the rates BPI will be funding BPA (to the extent that the fixed rate Group debt is not swapped to floating rate). Secondly, the long term interest income created in BPI provides an opportunity to optimize the use of brought forward losses in this company.

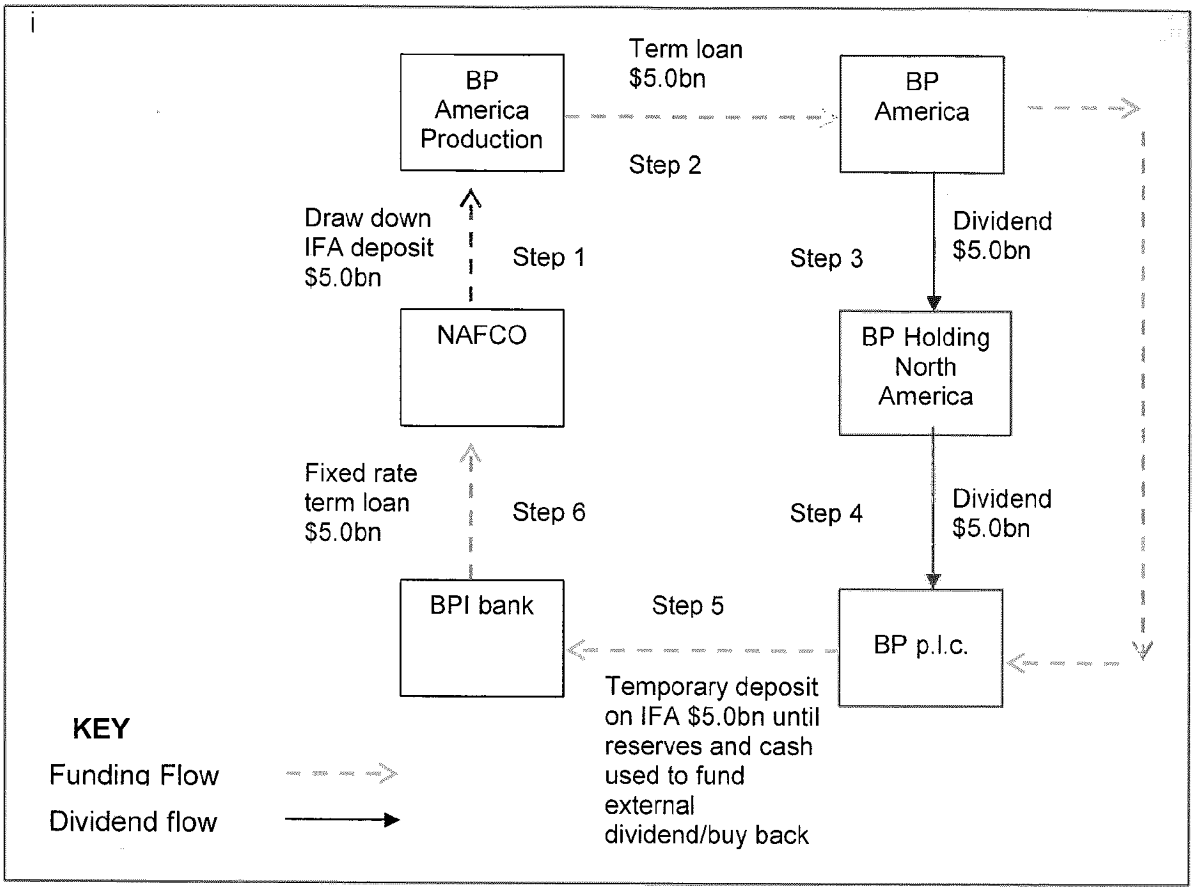
The following people have been consulted on this proposal:

Ben Weller	UK Corporate Structure and Funding Tax Team
Sheetal Patel	UK Tax
Amanda Craddock	UK Treasury Finance
Jo Norman	UK Legal
Gary Admans	Treasury, Debt Capital Markets

Copied:

Dale Shrallow	US Tax
Suzanne Sawada	US Legal
Robert Novaria	US Treasury (Global Treasury Services)
Jim Mosall	US IBM (BPA Accountant)
Nicola McBain	US IBM (BPAPC Accountant)
Alex Reynolds	Finance (BP p.l.c. Accountant)
Michelle O'Donnell	Finance (Treasury Manager)
Stephen Vassar	Finance (NAFCO Accountant)
Amanda Woolnough	UK Legal
Joe Wasicka	US Finance (BPAI GAIT owner)
Tony Johnson	US Finance (US Reporting)
Andrea Thomas	Company Secretariat
Debra Plumb	US Legal
Ron Bauer	US Tax

Attachment # 1



Attachment # 2

Extract from SFN [09/02/07]

Loan tenor and pricing

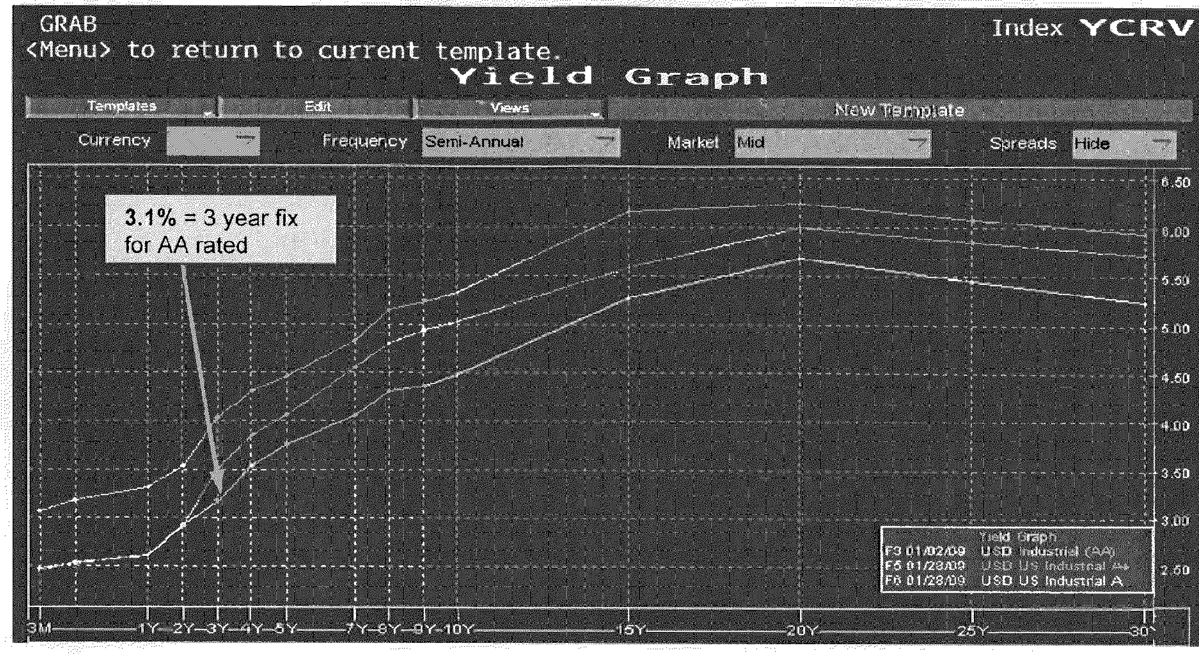
A loan tenor of 3 years is proposed. This reflects our expectation that NAFCO will be in a deficit position for several years, beyond which the visibility of US operations' activity is less transparent. Another reason for proposing a 3 year term reflects the extent to which we would like to manage the interest rate exposure. There are advantages of locking into a fixed rate loan; although a managed approach (fixing rates for a short period of time) seems optimal for a group the size of BPA. Longer periods of rate fixing present their own risks if yield curves deviate significantly.

Pricing of the loan for an AA rated entity proposed at a fixed rate for a 3 year tenor.

Fixed rate basis. Market interest rates are at historically low levels due to actions to address the uncertainty in credit markets and the resulting lack of liquidity in funding markets. NAFCO is potentially in a stronger position today to achieve favourable debt pricing compared to later periods given the business risks faced by the US group and the re-pricing of credit risk by the market. As a result, it is recommended that a fixed rate loan is entered into, to provide certainty of cash flows against a volatile income profile and to secure liquidity while the balance sheet of US group is stronger.

Determination of the interest rate. The fixed interest rate proposed for a 3 year tenor is reflective of price shown on the market yield curve for an AA rated entity (Bloomberg indices). This is in line with the methodology accepted by HMRC and adopted by BP through the interest rate 'Matrix' when pricing loans between Group tier entities. The market interest rate for an AA rated entity for a transaction size of less than US$ 100m would be 3.1% (graph 1); the balance of 0.35% reflects the additional premium for a loan sized at US$ 5.0bn. To demonstrate further the arms-length nature of the pricing, the rate proposed is in line with third party quotes gained by BP p.l.c. for fixed rate loans of a similar tenor (BP p.l.c. has current quotes to issue US$ 2.0bn of debt for a term of 5 years at 3.85%).

Graph 1. Yield curve for different industrial credit risk profiles



Pricing in a 'New Issue Premium' to reflect size of funding. Pricing given in the yield curve reflects trading levels in the secondary market of lot size typically US$ 10m to US$ 20m. As the loan facility in this transaction is for US$ 5.0bn, to reflect the market dynamics (i.e. increased risk for lenders and ability to match counterparties to the debt issuance), a *new issue premium* is required to be added to the rate referred to above. Recent analysis of bonds issued by investment grade corporate entities and research by the BP Capital Markets team enables us to estimate the new issue premium to reflect the size of issuance. The results help to demonstrate that the premium for debt issuances greater than US$ 0.5bn (though rarely greater than US$ 3.0bn) range from 0.15% to 0.75% above the market rates for smaller size issuances. A funding size of US$ 5.0bn is greater than may normally be expected to be priced as a single issuance. We have taken 0.35% as a prudent proxy for what might be payable in order to issue debt of this size. Hence the fixed rate for the 3 year loan would be *circa* 3.45% (3.1% yield curve + 0.35% premium for lot size). On the transaction date the actual rate for this funding will be taken from the yield curve and a premium of 0.35% will be added to reflect lot size.

Attachment # 3

The journal entries to record the dividend from BPA to BPHNA and the subsequent dividend from BPHNA to BP p.l.c. are shown below:

Accounting Journal Entries for March 2009 Dividend Payment:
(1) BP America Inc to BP Holdings North America limited, and
(2) BP Holdings North America limited to BP plc

US dollars			Group Accounts Codes	Dr	Cr	Narrative
		Books of BP America Production Company - 10600				
		contact in SAP (Nicola McBain):				
		10600 (SAP Ledger: Company xxx)				
1	DR	Long term loan to BP America	50515ID.19833	5,000,000,000.00		BPAPC draws on its surplus IFA and lends long term to BPA
	CR	IFA with NAFCO (GL-350100, trading partner 1088)	56540FI.16381		5,000,000,000.00	
		Books of BP America Inc. - 19833				
		contact in SAP (Jim Mosali):				
		19833 (SAP Ledger: Company 871)				
2	DR	IFA with NAFCO (GL-350100, trading partner 1088)	56540FI.16381	5,000,000,000.00		BPA borrows long term from BPAPC and placed funds
	CR	Long term loan from BPAPC	65010FI.10600		5,000,000,000.00	on a ring fenced surplus IFA with NAFCO
3	DR	Dividend payment to BP plc (GL-xxxxxx, trading partner xxx)	76020DB.10445	5,000,000,000.00		BPA funds dividend to BPHNA from surplus Nafco IFA
	CR	IFA with NAFCO (GL-350100, trading partner 1088)	56540FI.16381		5,000,000,000.00	
		Books of NAFCO - 16381, Wall Street GL = NAFGL				
		contact in Wall Street (Stephen Vassar):				
4	DR	BP America Prod Co IFA (GCURSL BGOM)	56540FI.10600	5,000,000,000.00		Transfer BP America Prod Co surplus funds to BP America
	CR	BP America IFA (GCURSL BPA)	56540FI.19833		5,000,000,000.00	
5	DR	BP America IFA (GCURSL BPA)	56540FI.19833	5,000,000,000.00		NAFCO charges BPA against its surplus funds and transfers funds to
	CR	IFA with BPI (GCURSL BPIL)	62040FI.18814		5,000,000,000.00	BPI in respect of BPA dividend to BPHNA
		Books of BPI - 18814, Wall Street GL = BPIGL				
		contact in Wall Street (Amanda Craddock):				
6	DR	IFA with NAFCO (GCURSL NAF)	56540FI.16381	5,000,000,000.00		BPA dividend payment ultimately sourced from BPAPC surplus IFA
	CR	IFA with BP plc (GCURSL COMDR)	62040FI.10430		5,000,000,000.00	with NAFCO tranferred on to BP plc 'clean' IFA with BPI
		Books of BPHNA- 10445 = HNAGL				
		contact in Wall Street (Amanda Craddock):				
7	DR	Dividend payment to BP plc (DVEX COMD)	76020DB.10430	5,000,000,000.00		BPHNA books dividend receipt from BPA and payment to BP plc
	CR	Dividend Income from BP America Inc. (DVIN BPAL)	76020DI.19833		5,000,000,000.00	
		Books of BP plc - 10430				
		contact in SUN system (Alex Reynolds)				
8	DR	IFA with BPI	56540FI.18814	5,000,000,000.00		BP plc books dividend income from BPHNA onto 'clean' IFA with BPI
	CR	Dividend Income from BP Holdings North America	76020DI.10445		5,000,000,000.00	