BP Treasury

Andrew Shilston Visit

24th July 2012

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Agenda

Time	Topic	BP Attendees	Location
12:00 – 12:10	Introductions	David Bucknall – Group Treasurer Nick Bamfield – Deputy Group Treasurer Haydee Vielma – EA to Group Treasurer	Modigliani
12:10 – 13:10	Overview of Treasury	David Bucknall, Nick Bamfield, Haydee Vielma	Modigliani
13:10– 13:40	Economic context and impact on BP	David Bucknall, Nick Bamfield, Haydee Vielma Phillip Turner – Head of Analytics, Treasury Trading	Modigliani
13:40 – 13:55	AOB	David Bucknall, Nick Bamfield, Haydee Vielma	Modigliani
13:55 – 14:00	Meeting Close		

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Overview of Treasury

Treasury Operating Model

Treasury operates to

- Optimise value through Group-wide management of key financial risks
- Finance the Group centrally and provide liquidity to businesses

Delivered through a global operating model which

- Exploits scale and balance sheet strength
- Manages risk and volatility on a net basis globally
- Optimises funding centrally
- Removes complexity and cost from the Group's line businesses
- Is underpinned by professional capability

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Overview of BP Treasury

NB to update

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BP Group

Group Financial Framework

BP Treasury

Treasury Governance Processes

Corporate Finance
- Funding & liquidity management
- Financial risk management
- Bank & rating agency relationships

Global Treasury Services
- Global cash pooling
- Cash forecasting
- Banking & cash standards

Pensions
- Corporate pension strategy and funding
- Fund management

Structured Finance & Insurance
- Project & off balance sheet financing
- Assurance on investment cases
- Insurance strategy

Treasury Trading
- FX and Money Market Execution
- Entrepreneurial trading (IST Governance)

Consistent risk management strategies

GFRC and MBAC oversight

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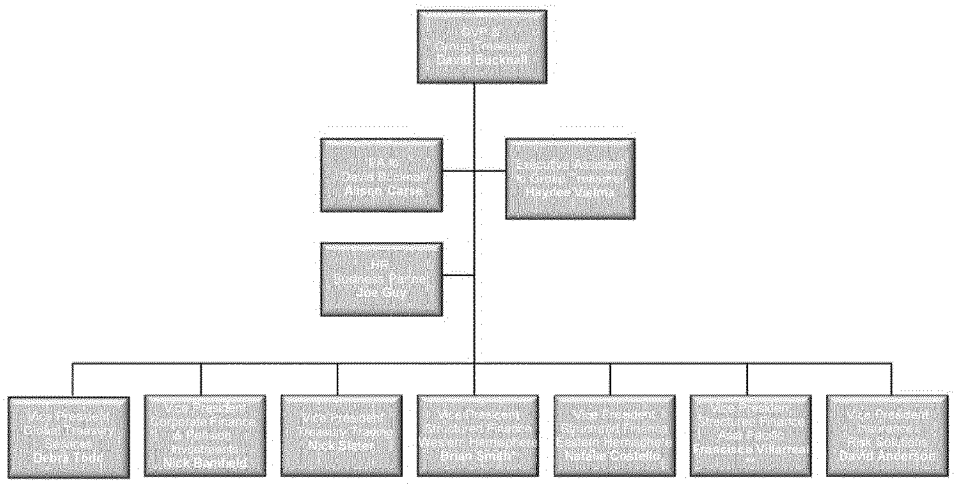
TEC (Treasury Executive Committee)



** Chief Financial Officer, BP America, US-based*
*** Singapore-based*

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Financial Framework

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BP Financial Framework

EXTERNAL

1. Invest to grow the firm and shareholder value sustainably through the cycle,
2. Maintain a capital structure that allows the firm to execute its strategy and is resilient to inherent volatility,
3. Maintain shareholder distributions in line with 'through cycle' operating performance,
4. Manage to a net gearing band of 10-20%

INTERNAL

5. Maintain a financial framework consistent with 'AA' metrics
6. Maintain adequate liquidity buffer to mitigate market volatility
7. Pursue disciplined reinvestment choices commensurate with funds generation

Core Financial Parameters

Leverage	Target
FFO/Adjusted Debt (%)	>60%
Reported Net Debt : ND + Equity (%)	10-20%
Net debt ($bn)	<$25bn

Investment & Liquidity	Target
Net Cash Capex ($bn)	<$9bn
Available Free Treasury Cash ($bn)	$8-12bn
Max LT debt maturing in any 1 year ($bn)	<$6bn

Corporate Finance - Liquidity Buffer

Core to the Framework is the maintenance of a liquidity buffer

Liquidity buffer ($bn)	
Standby facilities	7
Total Cash	8 - 12
Total	**15 - 19**

Cost of cash buffer
• Post-tax cost of carry versus long term debt – 1%
• Equates to $10 million p.a. for every $1 billion cash buffer

Reasons for cash buffer
- Operational event risk
- Volatility of business cash flows
- Potential collateral and other liquidity calls
- Current year refinancing risk
- Lead time for executing liquidity levers in response to other risk events

Standby facilities
- Provide cover primarily for CP issuance
- Provide external assurance on liquidity
- Only used as a last resort
- Residual execution risk if drawing 'in extremis'
- Committed LCs facilities $7bn

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Liquidity stress tests

The stress tests look at 3 components

1. Available Liquidity
   - Minimum levels of committed bank lines; minimum levels of accessible cash held; any additional cash held on deposit or posted with exchanges that could be liquidated.
2. Demands on Cash
   - Net Collateral Calls: In a world where the BP Credit rating would move to BBB what would be the net collateral call that could be demanded in order to continue trading?
     - The main component is on IST payables (typically driven by physical oil contracts) for which collateral or adequate assurances could be demanded. From this we would deduct those areas where open credit based on BBB had already been given, as well as any letters of credit that have already been issued.
   - Margin Calls: Worst case additional exchange margin calls given current positions.
   - Debt Maturing: Bonds, commercial paper that will expire in this period.
   - Unplanned event: a placeholder for an event that could result in an additional draw on cash.
3. Interventions that could be made if required
   - Working capital interventions such as discounting receivables.

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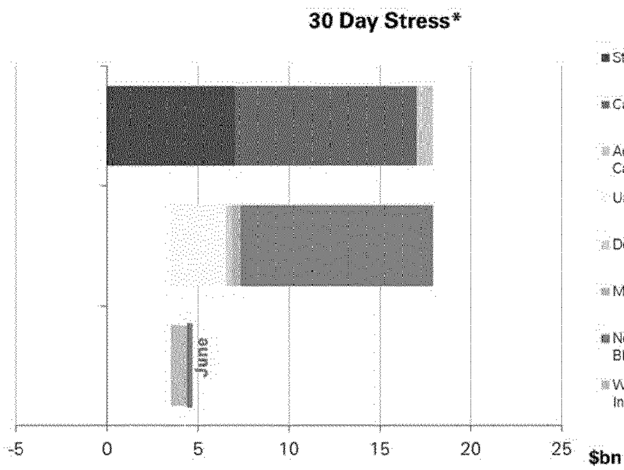
30 day stress test *



Changes vs June

- Cash buffer reduced by $1.0bn
- Change vs June of $0.7bn decrease in Net collateral in GOT (slightly lower gross collateral and higher LC's posted).
- Working Capital – no change (IST believe further discounting is possible)

* Excludes additional secured/unsecured debt funding

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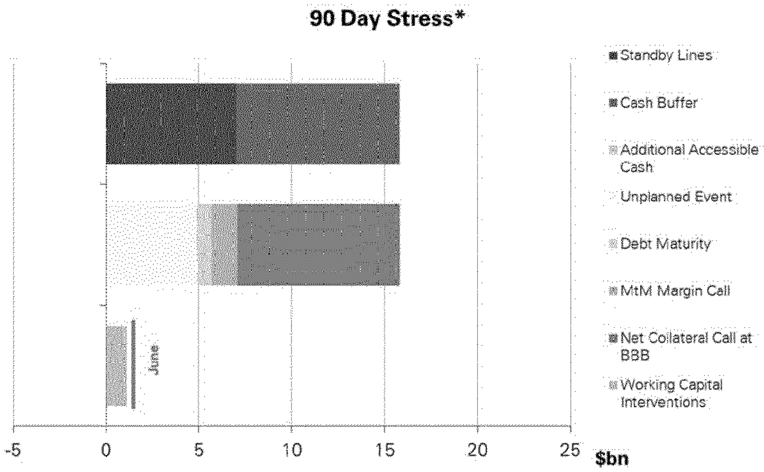
90 day stress test *



Changes vs June

- Additional accessible cash is zero with a cash buffer of $8.8bn.
- Change vs June due to decrease in Net collateral of $0.3bn
- Working Capital – no change (IST believe further discounting available).

* Excludes additional secured/unsecured debt funding

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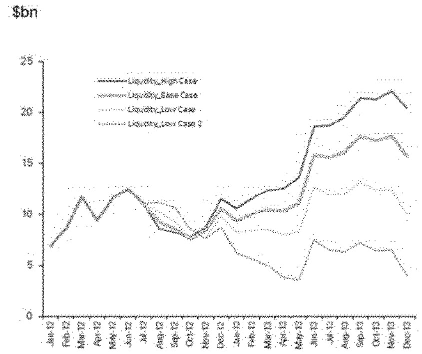
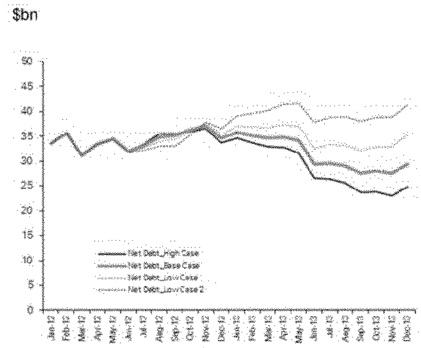
Net debt and liquidity in 2012 and 2013

Case assumptions

- Base Case* : $100B from July, $2.3HH, $11RMM
  - $3.5bn debt issued in 2012 ($2bn new debt and $1.5bn replacement)
  - Debt maturity in 2013 will be rolled over
  - Disposal proceeds reach $38bn in 2013
- High Case: $120B, no change to HH or RMM
- Low Case: $75B, $2.5HH, $10RMM
  (July $90; August onwards $75)
- Low Case 2: $120B down to $30 by Aug 2012 and recovering to $90 by Dec 2013, no change to HH or RMM
  - Slow to recover due to structural 'short' in IST
  - Assumes same funding and capex profile as other cases to provide like-for-like comparison; in reality, both will flex to preserve the liquidity buffer





* Updated since July GFRC

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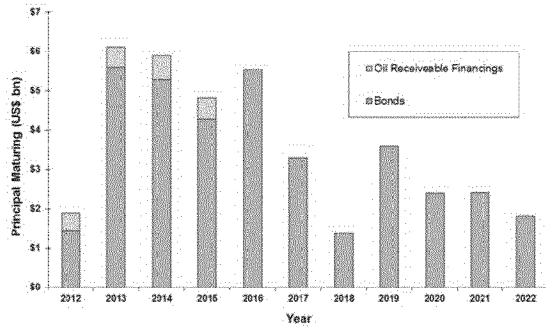
Corporate Finance

Our approach to managing the Group's debt book is to:

- Maintain maximum flexibility to respond to **sudden short term** funding needs
- **Minimise average interest cost** to the Group over time
- Issue debt in most advantageous market



Key funding sources

- International bonds
- Commercial paper
- Bank loans

Year	Issued
2010	$6.5bn
2011	$10.8bn
2012 to date	$6.8bn
2012 planned	$3.5bn
2013	Rollover of $6bn

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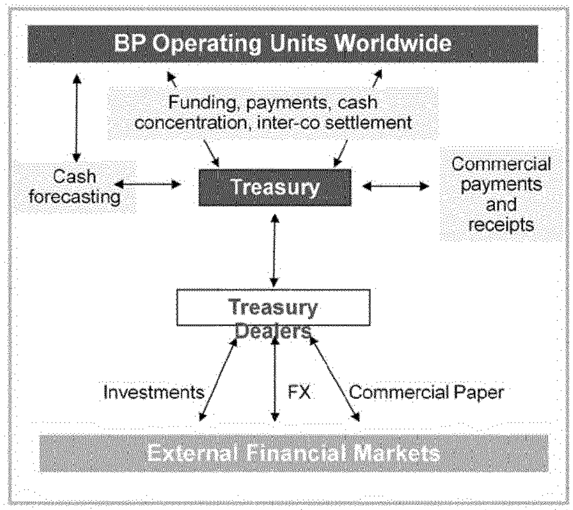
Global Treasury Services

Treasury operates an integrated global cash management process:

- Daily Group-wide pooling and netting
- Net positions placed into financial markets by Treasury dealers
- Settlement of intra-Group transactions
- Next day and rolling 4 week and 12 week cash forecast
- Optimisation of tax efficiency of the Group funding structure
- Reduction in the need for local treasury expertise outside the centre



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Pensions

NB to review wording

The Group's DB pension assets and liabilities are significant but in line with scale of business activities

- Highly concentrated in **UK and US**
- Company moving to DC
- Funding **$1.25bn pa**
- **Key risks:** investment risk, interest rates, inflation and mortality - in 2013 pressure on UK funding budget possibly offset in US
- Active asset management in UK and US – **track record of outperformance** with strategy biased to equities
- Smaller funds - passive investments, outsourced management
- Market based de-risking strategy in UK and US

Forecast end 2012

	Assets	Liabilities	%
Funded:			
UK	26.0	27.3	96 %
US	7.5	8.7	86 %
Other	3.8	4.3	87 %
Total Funded	**37.3**	**40.3**	92 %
Unfunded:			
US Medical		3.2	
Other Plans		6.1	
Total Unfunded		**9.3**	
Total Liabilities		**49.7**	

UK and US Alpha Delivery (to end 1Q2012)

	UK	US
5 year (bps)	50	60
5 year Value added $m	$600	$200

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Structured Finance

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Arrangement (Structuring and Financing) Execute liquidity and credit support for businesses and joint ventures	Advisory Deliver expert advisory to businesses	Assurance/Capability Provide an expert view on investment policy and develop capability
Project finance Cedar creek, US Wind JVs	**M&A due diligence and execution support** US refineries, North Sea disposals	**Economic Evaluation Methodology policy** Risk Evaluation
JV financings SECCO	**JV formation** and ongoing support	**RCM** – case assurance
Asset leasing Capital and operating	**Commercial negotiation** support	**Weighted Average Cost of Capital** review
Group liquidity options Trade Finance, Secured LCs	**Large project development support** Alaska LNG export, Shah Deniz, Tangguh	**Economic Evaluation capability** development and training
US tax exempt financing	**Project financeability**	
Guarantees and LoC		

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Insurance Strategy

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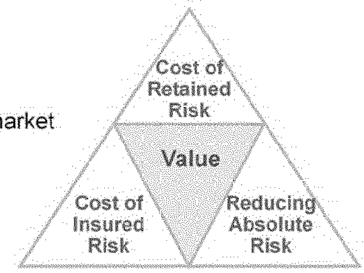
The strategy of retaining insurable risk is based on:

- BP's **balance sheet capacity**
  - Ability to **absorb volatility** of insurable events
- **Limited capacity**, creditworthiness of insurance market
  - Maximum available coverage with "acceptable" underwriters is **$2bn**
- Diverse geographic and operational risks
- Established risk mitigation processes
- Inefficiency of purchased insurance
  - 50-60% value leakage **($200-250m cost savings per year)**
- **Value – Total benefit to date - $4bn**



Value Delivery

Year	2007	2008	2009	2010	2011
NPVs in $m	23	212	266	197	583

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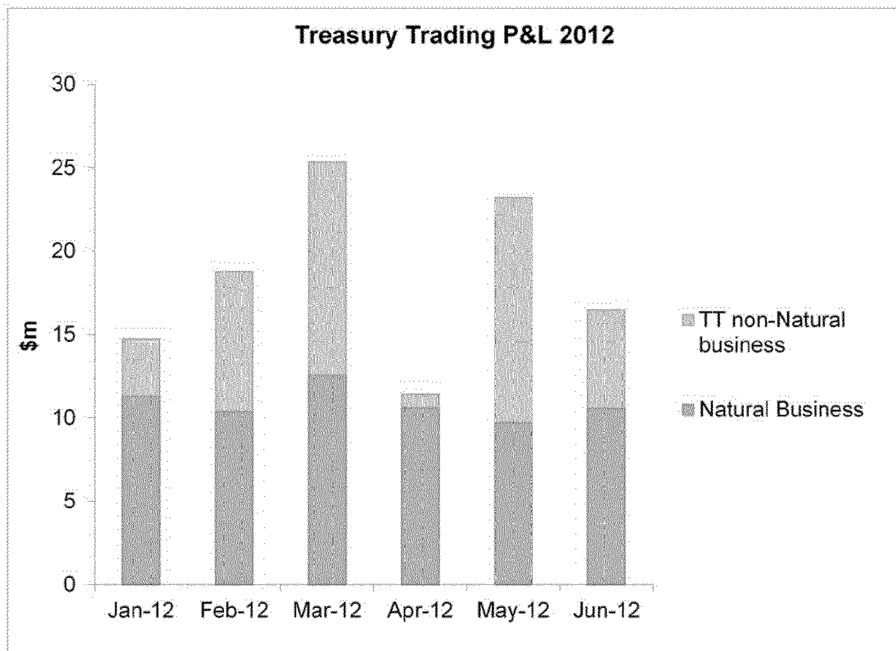
Treasury Trading



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Economic Context and Impact on BP

Eurozone crisis – Potential impacts

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Direct Impact

- Bank Credit Exposure
  - At 6th July: **€3.1bn** in a variety of non-periphery banks per the credit strategy
- Euro denominated Bonds and Swaps with international investors under English law **($9.4bn)**
  - Circa $5bn held as offsetting Euro cash and short dated USD swaps
  - Remainder swapped to USD for life
- Disruption to local funding during a redenomination
- Immaterial local cash in peripheral countries: Portugal, Spain, Greece, and Italy

Indirect Impact

- **Lower Oil Prices** due to macroeconomic weakness exacerbated by potential bank contagion
- **Records lows** on gilts and bunds causing exceptional pension funding
- Euro area restructuring causes "German" Euros to appreciate making business less competitive and **pension deficit higher** in Dollar terms
- Disruption to funding markets
- Loss of business in peripheral countries

High concern
OK with some concern
No concern

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