

## 4Q 2008 Results Presentation to the Press: 3 February 2009

### Tony Hayward: Chief Executive Officer

Ladies and gentlemen, good morning and welcome to our full year results for 2008.

With me today, are the team you know well; Byron Grote, our Chief Financial Officer; Andy Inglis, Head of Exploration and Production; Iain Conn, Head of Refining and Marketing; and Vivienne Cox, Head of Alternative Energy.

Before Byron takes you through the fourth quarter in more detail, I'd like to spend a few moments on an overview of the past year.

What a difference six months makes. When we last saw you in July, oil prices were nearly \$150 a barrel. Now across the world the economic outlook has changed significantly.

In the developed world, governments have had to take a major stake in the banking system. The OECD countries are already in recession, that for the moment continues to deepen, and in the non-OECD world, growth has slowed dramatically. This is having a large impact on global oil demand, which in 2008 fell by around 500 thousand barrels a day versus 2007, and with many economists now predicting no global economic growth in 2009, demand for oil will continue to fall. Right now, the short-term direction of the energy markets are probably less clear than ever - I'll talk later about how BP is dealing with that.

What I'd like to do today is two things.

First, to give an overview of BP's operations where, I am pleased to say performance is not only stronger than it has been for many years, but is steadily feeding into the bottom line.

And secondly I want to give you an update on the progress of our Forward Agenda, which is driving cost efficiency into the group. The Forward Agenda was initiated in easier economic times, but it is ongoing and is now more relevant than ever, because it is preparing BP for the challenging economic times we all face.

2008 was a record financial year for the group.

We delivered a replacement cost profit of \$25.6bn, up 39% over 2007. This is equivalent to 136 cents per share, up 42% over 2007, showing the benefits of share buybacks early in 2008.

Post-tax operating cash flow was \$38.1bn, up 54% over 2007. We invested a total of \$30.7 billion, including acquisitions and asset exchanges.

Total 2008 dividends were 55.05 cents per share, up 30% in dollars and 40% in sterling, against last year. This means we have distributed \$13.3bn to shareholders; including \$3bn in share buybacks.

Our financial condition is strong with gearing ending the year at 21%, at the bottom of our target range of 20 – 30%.

Now to an overview of BP's operational performance in 2008.

A year ago, we set out a plan to deliver safe and reliable operations, to restore revenues and to reduce the complexity and cost structure of BP. We've done exactly that.

Our safety and operational integrity performance has continued to improve areas across the company.

In E&P, reported production was up, and growth was 5% on an underlying basis, which excludes the effects of production sharing contracts. We started up nine major projects including Thunder Horse, which is today fully commissioned and running stably at around 200,000 barrels per day of oil equivalent.

In R&M, we have rebuilt full economic capability at both Texas City and Whiting. In 4Q, refining availability was at 91%, the first time it has been at this level in over three years.

On costs, we have made solid progress. BP's cash costs fell in the fourth quarter, despite higher energy costs and inflation in the industry that stood at 15% in the middle of 2008. Across the group, we have begun to see the impact of our efforts to reduce them. Costs have been falling year on year in E&P, R&M and above all in our overheads, which were down by \$500m in the fourth quarter versus a year ago.

Taking together growing revenues and falling costs, BP has very strong operational momentum as we enter 2009 in what will clearly be a much more challenging environment.

Let me turn now to strategic delivery, starting with Exploration & Production.

It was a very good year for our E&P business, which delivered against the key goal of production growth.

Of course it's not only about production today, it's also about pursuing and developing options for growth in the future.

In 2008, we achieved significant new access, in particular in North America. In addition, we have had one of the best years in the past decade for exploration success with significant discoveries in the Gulf of Mexico, Angola, Algeria, Egypt and the North Sea, which serves to highlight the strength and breadth of our exploration portfolio.

This has enabled us to achieve resource replacement of more than 200% and reserves replacement of more than 100% in 2008. This continues our track record of 100%+ reserve replacement ratio over the last 15 years. In addition, we have had nine major project start-ups including Thunder Horse, which is proving to be a major success.

In Refining & Marketing, we have made solid progress with the turnaround of the business. Our focus remains on safe and reliable operations, restoring earnings momentum and delivering sustainable competitive returns.

The key achievement was the recommissioning and restoration of full economic capability at both the Texas City and Whiting refineries. As I've already mentioned, in the fourth quarter refining availability was 91%. This sets us up well for 2009 and further improvements.

The Fuels Value Chains are fully established and we will see the full benefits of this beginning to emerge in 2009. We have made significant progress in simplifying the footprint of our downstream business.

In Air BP, we have exited 32 countries and in lubricants we have reduced our direct presence in 13 countries and plan a reduced presence in a further 17.

In the US east of the Rockies, to date, we have sold 293 of the planned 800 sites.

Our International Business of Lubricants and Air BP continue to perform strongly despite the significant economic slowdown through the fourth quarter.

Taken together, on an underlying basis the downstream has closed around \$2bn of the gap in performance that Iain identified this time last year.

Turning now to the second part of our story: reducing the complexity and cost base of BP.

At the end of 2008, we have reduced our corporate overhead by around 3000 people, and are on track to exceed our original target of 5000 by the middle of 2009. We have reduced management layers and eliminated nearly 20% of the senior positions.

We've made good progress but we're not being complacent. In the current environment, we need to maintain the momentum that we have established to continue the drive to make BP more efficient. The mantra in BP today is "every dollar counts, every seat counts".

In Alternative Energy, we have significantly focussed the portfolio and footprint.

In summary, at the end of 2008 BP has significant operational and strategic momentum, the full benefits of which we will see as we move into 2009.

Let me now hand over to Byron, to take you through the financial results in more detail.

**Byron Grote: Chief Financial Officer**

Thank you Tony.

Our fourth-quarter replacement cost profit was \$2.6 billion, around 25% lower than last year reflecting the much weaker market environment.

The result was adversely impacted by three specific items; a significant loss in TNK-BP due to the export duty lag and impairment charges, a large negative forex effect on certain in-transit barrels in the Refining & Marketing segment, and finally an increase in the 4Q tax rate due to certain once-off accounting effects.

These were partially offset by a large positive consolidation adjustment reflecting the significant fall in the price of equity crude in the Refining & Marketing segment.

Added together, these impacts reduced our underlying post-tax result by \$900 million.

Fourth-quarter operating cash flow of \$5.6 billion was around a third higher than a year ago reflecting the working capital benefits of lower prices partially offset by the normal seasonal build of inventories.

The 14 cents per share dividend announced today, which will be paid in March, is in-line with the third-quarter and 3.5% higher than a year ago. The Sterling dividend is up by more than 40% year-on-year reflecting the much stronger dollar.

In E&P, we reported a pre-tax underlying profit of \$4.3 billion for the fourth quarter, down \$4.1 billion compared with last year reflecting the significantly weaker oil price environment.

In the fourth-quarter, reported production of 3.945 million barrels of oil equivalent per day was 1% higher than a year ago. Adjusting for the impacts of production-sharing agreements, underlying production increased by 4%.

Full year production of 3.838 million barrels of oil equivalent per day was in line with the guidance we provided in February 2008. Our underlying production grew, as Tony indicated earlier, by 5%.

The quarter also benefited from increasing momentum in reducing costs, with 4Q operating cash costs down year on year in spite of the high inflation environment that the business faced during most of the year. The gas marketing and trading performance in the volatile 4Q environment was stronger than a year earlier.

TNK-BP generated a loss of \$700 million in the quarter as a consequence of calculation lag on Russian export duties in the falling 4Q price environment several asset impairments.

Recent changes in Russian tax legislation will benefit the TNK-BP contribution and significantly reduce the tax lag effect.

Underlying Refining & Marketing pre-tax profit was nearly \$650 million, over \$700 million better than a year ago despite a much weaker environment.

The fourth quarter result benefited from improved operational performance, a greater supply and trading contribution, lower costs and improved marketing margins. However, the petrochemicals business experienced a severe downturn in 4Q, materially impacting both margins and volumes.

The improvement in underlying performance was partly offset by several negative one-off factors including foreign exchange effects.

And finally, a critical milestone was achieved on 31 December, as Texas City returned to its full economic capability with the successful start-up of Ultraformer number 3.

Compared to 2007, and adjusting for the significantly lower refining margin and adverse forex effect in 2008, our underlying profitability has improved by more than \$2.0 billion.

Turning now to cash flow, this slide compares our sources and uses of cash in 2007 and 2008.

Operating cash flow increased to \$38 billion, up 54% and disposals provided a further \$1 billion.

We used this cash to fund \$22 billion of organic capital expenditure, up 13% and an additional \$3 billion in acquisitions. We distributed \$13 billion to our shareholders, with dividends paid exceeding \$10 billion, up 28%.

On the basis of our current plans, we expect 2009 cashflows to balance at an oil price of between \$50 – 60/bbl, with that break-even point continuing to reduce as Upstream volumes grow, the full turn around of the Downstream is realised, and our ongoing cost initiatives deliver further benefits across all parts of the organisation.

Our net debt ratio was 21% at the end of 4Q, which is at the lower end of our targeted band of 20% to 30%.

We issued nearly \$5 billion of new bonds during the quarter and continued to utilise the commercial paper markets for inexpensive short-term funding.

We have a strong balance sheet and a gearing framework with considerable headroom. This affords us the cash flexibility to address further environmental weakness, if it occurs, or to access attractive asset opportunities that the current environment might present.

We rebalanced our distributions in favour of dividends at the beginning of 2008, and suspended our share buyback programme in September in light of the uncertain environment.

As previously indicated, our dividend is covered on an underlying earnings basis at a Brent price in the 40's, and we expect ongoing cost reductions and business growth to continue to push that lower.

Turning now to some 2009 financial guidance.

Our 2009 organic capex is planned to be between \$20 and \$22 billion, broadly similar to 2008.

We expect disposal proceeds to be between \$2 and 3 billion and are confident of this level of delivery even in today's difficult transactional environment.

The effective tax rate for the year is expected to be in the range of 36 to 39%, in line with 2008.

That concludes my remarks. Now back to Tony.

## Tony Hayward: Chief Executive Officer

Thank you Byron. Let me finish by summarising how we are approaching 2009 and provide a recap of our strategy.

As I've already said, as we leave 2008 BP has considerable operational momentum, which will continue into 2009.

Production is expected to continue to grow – by exactly how much will depend on OPEC constraints and the oil price and its impact on production sharing contracts. Refining availability is expected to be materially higher in 2009 than in 2008.

As a result of our actions in 2008, costs should continue to fall throughout 2009 helped by our determination to drive deflation into the supply chain.

What is evidently different about 2009 is the economic environment, which means I don't see the record financial performance being repeated for some time.

That, in turn, makes pressing ahead with the Forward Agenda more important than ever. It is very much work in progress and we will update you as we go through 2009.

We intend to hold the course, to continue our focus on safe and reliable operations, continue our focus on simplification, cost reduction and increasing the overall efficiency of BP whilst investing for the future. As Byron has already stated, organic capex in 2009 will be between \$20 and \$22bn, in line with 2008.

As regards the use of our cashflow in 2009, our priorities are clear:

1. Continue to invest in safe and reliable operations
2. Pay the dividend
3. Invest to grow our upstream business

Our aim is to strike the right balance for shareholders, between current returns via dividend, sustained investment for long term growth, and action on costs to respond to the current challenging environment.

I'd like to finish by summarizing our strategy again – it remains a consistent and enduring one.

It is to grow our E&P business, to turn around our downstream business, to make focused, selective and disciplined investment into Alternative Energy and to simplify and drive greater efficiency into the entire company.

And to pay a progressive dividend in line with the underlying earnings potential of the company.

At BP, we have been managing volatility for 100 years, in good times and bad. The next year or two will be challenging, but we are well positioned to meet that challenge.

Ladies and gentlemen, thank you for listening

And we will now be delighted to take questions.