

BP: First half 2008 update – Press Briefing

Tony Hayward, Group Chief Executive

Ladies and gentlemen, welcome to our first-half results for 2008. As you can see we have the entire team here today – Vivienne Cox, Alternative Energy; Iain Conn, R&M; Andy Inglis E&P and finally Byron Grote, our CFO who in a moment will take you through the second quarter in more detail. But I would like to start by highlighting some of the major themes.

I said in February that 2008 should see operational momentum building across our businesses, feeding through into financial momentum in the second half of this year and into 2009. That's what we are seeing.

Recovery is particularly evident in Exploration & Production, where we have been able to capture the benefit of a strong environment, with rising underlying production, good cost control and a number of key start-ups.

In Refining & Marketing, there's been important progress in restoring operational reliability in our US refineries and we are also beginning to see progress on simplifying the business. However, the margin environment, especially in North America, is challenging and this has limited the benefit to the bottom line.

We are all operating, it seems to me, in "interesting" times. The world's economy is weakening and the global political situation is delicate. The oil price continues to be high and volatile. Against this background, BP is making steady progress.

Let me give you a summary of the numbers.

- Replacement cost profit for the first half of 2008 was \$13.4bn, up 23% on the same period last year. Earnings per share are up 26%.
- Unlike 2007, when several key assets were offline or delayed in starting up, our operations in 2008 can be better described as what I call "silent running" – and that's the way we intend them to stay.
- In our E&P business, this is delivering underlying production momentum, which is sufficient to more than offset the effects from production-sharing contracts.
- We are also delivering planned operational improvements in US refining, but into a weak margin environment. Outside of the US our refining and marketing businesses are operating well.
- This performance is underpinning the step up in the dividend we announced in February. The oil and gas industry continues to be one of the best sources of income for investors, including pension funds, and I hope that is of some comfort in this current difficult economic environment. Today we are announcing a further increase in the quarterly dividend to 14c per share, 29% higher than a year ago. The sterling dividend is up 33% year-on-year.

In summary, the first half of 2008 has seen BP make satisfactory progress along the course I laid out in February. We have the wind in our sails in the Upstream, although in Downstream it feels more like sailing into a gale!

Let me now hand you over to Byron, who will go through the results in more detail.

Byron Grote, Chief Financial Officer

Thank you Tony

Turning to the numbers, second quarter replacement cost profit of \$6.9 billion was 6% higher in absolute terms than 2Q'07. Adjusting for various non operating items and IFRS fair value accounting effects, our underlying profit, which is the number most closely tracked by analysts and investors, was \$8.6 billion, up 56% versus a year earlier. This 2Q underlying result represents the highest quarterly profit ever achieved by the Group.

Operating cash flow was \$6.7 billion, 10% higher than a year ago. Cash flows were impacted by the substantial increase in working capital associated with the sharp rise in oil and gas prices.

The 14 cents per share dividend announced today, which will be paid in September, is 29% higher than a year ago. The Sterling dividend is up 33% year-on-year to 7.04 pence per share.

In Exploration and Production, we reported a pre-tax underlying profit of \$13.1 billion for 2Q, up \$6.3 billion compared with last year. This reflects benefits from higher realizations and strong underlying production, which was partially offset by higher costs.

Reported production of 3.8 million barrels of oil equivalent per day was broadly flat compared with a year ago. Adjusting for the impacts of production-sharing agreements, underlying production grew by 6%.

In Refining & Marketing, pre-tax underlying profit was \$800 million. This reflects significantly weaker US refining margins, which more than offset higher throughput from our Whiting and Texas City and lower turnaround activities and good operating performance in other parts of the portfolio.

Despite the difficult environment, the segment is demonstrating considerable progress in its underlying performance.

Adjusting for changes in the environment, the underlying performance of the segment for the first half of '08 was around \$600 million better than a year earlier.

This slide compares our sources and uses of cash in the first half of 2007 and 2008.

Operating cash flow increased to \$17.6 billion, up 25% and disposals, provided another \$300 million.

We used this cash to fund \$9.4 billion of organic capital expenditure, up 23% and \$6.8 billion of shareholder distributions.

29 July 2008

As you can see in this slide, we have rebalanced our distributions in favour of dividends, in response to feedback received from shareholders. Dividends paid in the first half of the year were \$5.1 billion, up 28%.

Our net debt ratio was 19.4% at the end of 2Q, which remains at the lower end of our targeted range.

Overall, the second quarter results reflect further progress on our journey to restore our competitive performance. It is our determination to continue to build on this improving base, step by step, in the quarters ahead.

Now back to Tony

Tony Hayward, Group Chief Executive

Thank you Byron. I'd now like to stand back from the detail and look at our strategic progress as well as a number of other topical issues, including of course an update on our joint venture in Russia, TNK-BP.

Back in February, I told you that our goal was to close the competitive gap in our financial performance against our competitors.

There are three key strands in doing this:

- First, restoring revenues
- Second, reducing complexity and costs
- And third, securing new assets and opportunities for the long term.

In the first half of 2008 we have made good progress in all three areas.

First, restoring revenues.

- Reported production was 3.83 million barrels of oil equivalent a day - in line with the guidance we gave in February.
- Underlying production growth is up 6% in the first half of 2008.
- This has been sufficient to more than offset the impact of high oil prices on our production-sharing contract volumes.
- We have started up four major projects in the first half of 2008.

The Thunder Horse project in the Gulf of Mexico should be on stream by the end of the year as we promised. In fact commissioning is already underway, with early production from the first well in Thunder Horse South. We anticipate bringing on further wells from Thunder Horse South through the remainder of this year, with Thunder Horse North starting up in the second half of 2009.

I know Thunder Horse has had its share of delays, but it is on the very frontier of what our industry has achieved in the deep water. When it is up and running, it will be a powerful symbol of what BP can deliver.

In US refining, both the Whiting and Texas City refineries have been restored to full crude processing capability, and we expect to begin to see the financial benefits of

29 July 2008

higher refinery throughputs in the second half of the year. Of course, the actual contribution will depend on refining margins, which are currently depressed.

In summary our focus on safe and reliable operations is building significant operational momentum, which we expect to continue through 2008.

The second strand of our plan to restore our competitive financial performance is what we call the Forward Agenda, to reduce complexity and costs.

Again, progress is good.

Our programme is ahead of schedule, and we should soon begin to see the first financial benefits from lower overheads.

As we have previously indicated, our aim is to reduce corporate overheads by between 15 and 20%.

The programme of simplifying our business model, especially in Refining & Marketing, is well underway.

I would expect to see the financial benefits of these changes to begin to feed through into our results towards the end of this year and into 2009.

A key challenge for all International Oil Companies is to secure their future by renewing their portfolios. I am glad to report that while we have been improving our operational performance, we have not lost focus on the longer term.

We have had continued exploration success in the first half, including:

- The fifteenth discovery in Block 31 offshore Angola;
- The Satis natural gas discovery in Egypt's Nile Delta;
- The North Shadwan oil discovery in Egypt's Gulf of Suez;
- The Kodiak discovery in the Gulf of Mexico;
- And two discoveries in the UK North Sea.

We continue to gain new access to resources. We have:

- Completed the deal for the integrated oil sands and refining joint ventures with Husky;
- We have been awarded new exploration acreage in the Beaufort Sea in the Canadian Arctic;
- We have agreed to acquire new shale gas acreage in the Arkoma basin of Oklahoma;
- And, we took the Final Investment Decision and gained government approval of the Block 31 programme development in Angola

We have also joined forces with ConocoPhillips to launch the Denali pipeline, which will carry natural gas from Alaska to the markets of Canada and the Lower 48 States.

In refining we have recently taken the Final Investment Decision on the significant upgrade of the Whiting refinery so that it will be able to run 80% Canadian heavy crude

29 July 2008

Finally, we have also formed a major joint venture to enter Brazilian bio-ethanol production, giving us a significant position in arguably the world's most efficient biofuels industry.

Taken together, these milestones are testament to how our people are rising to the challenge of closing the competitive gap.

Now I'd like to say something about our joint venture in Russia, TNK-BP, which you may have noticed has been making the odd headline over the last few months – in fact there's one or two authors in the room today.

The important thing to remember – and I want to emphasise this - is that TNK-BP has been a highly successful joint venture over the past five years. It has been good for Russia and good for our all shareholders.

As part of the current negotiation, doubt has been cast in some quarters over that track record. Rather than getting carried away with spin and counterspin, let's look at the facts.

Since 2003 - the year in which BP got involved - TNK-BP has had the best performance in the Russian oil industry on virtually every key metric used by serious investors. The track record under the leadership of Bob Dudley is truly impressive.

Take production.

As this graph shows, since 2003 TNK-BP has delivered the highest rate of organic growth in oil production of any major Russian oil company.

This industry leading production growth has not been delivered at the expense of renewing reserves for the long term.

TNK-BP leads here too, with an organic average reserve replacement ratio of almost 140% - again the highest of any major Russian oil company. This reflects the benefits of the world class technology and capability that BP has brought to the JV, notably in reservoir characterisation and water flood management, seismic acquisition and processing, and drilling and completion technologies.

And this commitment has not come at the cost of failing to distribute cash to shareholders. On the contrary, distributions from 2003 to 2007 have totalled \$18 billion, more than any other Russian company we know of.

TNK-BP continues to create value on other metrics too. Whether you look at production growth, reserve replacement, finding and development costs, or return on average capital employed, the company has the best track record in the Russian industry.

When the JV was established, we promised the Russian Federation we'd be a good corporate citizen and TNK-BP has fulfilled that objective too, making huge strides in health and safety, the environment, governance and transparency. The company has paid more than \$70 billion of taxes and duties to the Russian Federation.

29 July 2008

Just a couple of weeks ago, the Russian Premier, Vladimir Putin, called for more investment in the future of Russian oil and gas production, in order to sustain its growth. BP, as a shareholder in TNK-BP, is committed to that policy, which is very important for world oil supplies. Capital expenditure by TNK-BP has risen three-fold since 2003. The proposal for 2008 is to increase capital spending by a further 20%. However, not all of the other shareholders support this investment, which brings us to the current debate over the future of the company.

So why is BP engaged in such a public spat with fellow shareholders?

As I have indicated, it isn't about performance. Performance continues to be excellent, as today's results show – in fact in many respects TNK-BP is having its best year ever.

Nor is it about greater state involvement in TNK-BP.

It's about control; about the future governance and direction of TNK-BP. It's about whether to continue to increase investment in the long-term development of the Russian oil industry.

The other shareholders want to tear up the agreement that they willingly signed in 2003. We are not prepared to do that and will vigorously defend our rights using all legal means at our disposal. We will not be intimidated by strong arm tactics.

We cannot be sure how things will pan out in Russia, but I can tell you that we're committed to trying to find a solution that's acceptable to all parties – whether that's possible only time will tell.

The next subject I would like to address is how the global business environment is evolving for BP.

I indicated earlier this year that we believe the era of cheap energy is over, at least for the medium term. Events are playing out even faster than any of us expected.

The key factors in this are population growth and industrialization in the world's developing nations, which are driving strong demand, and the very weak response we have seen on the supply side. There is not a shortage of hydrocarbon resources below the ground, but there is a problem above ground in turning resources into production capacity.

We see an increasing likelihood that oil and gas prices will be stronger for longer.

Gas prices, especially in North America, have continued to lag behind oil prices. Clearly it would be a great benefit to BP if this gap were to narrow or close, adding around \$2 to \$3 billion a year to operating profit.

In refining, high input prices and the weakening economic environment across the OECD have combined to create the opposite effect to that found in the Upstream.

As this chart shows, margins have fallen markedly in the last year, especially in BP's Refining and Marketing heartland, in the US.

29 July 2008

Although non-OECD demand is robust as I have mentioned, high oil prices and the slowing global economy have led to falling gasoline consumption especially in the key US market. The majority of oil demand growth in 2008 is expected to be for diesel, and as a result gasoline cracks are barely positive in the US and are negative in Europe. Moreover, the planned autumn start-up of the Indian Jamnagar refinery will add significantly to global gasoline supplies.

As a result of all of that as I said earlier we are sailing into a gale in our refining business.

We cannot shape the business environment, but we can respond positively to it.

People sometimes ask me: "Where will the growth come from for BP." The answer is threefold.

Firstly, increased activity in Exploration & Production. At a time when access to new resources is constrained, incumbent positions are increasingly valuable.

Secondly, we are closing the competitive gap through greater efficiency. Implementation of the Forward Agenda is on track, bringing with it reduced complexity and continued focus on costs and efficiency.

And thirdly, we are creating value in Alternative Energy. These businesses are increasingly economic without subsidy and we will continue to provide visibility on our investments and the value that's being created.

I'd like to finish by summarising our strategy again. It is a simple one.

We have a very strong upstream portfolio, with a growing reserve and resource base. Our challenge is to convert that strong base into growth in production and cashflow over the next few years. I am confident that we will do that.

Our downstream business has been doing badly in the past few years while many of our peers have been doing well. We're working to turn it around.

Our costs have become uncompetitive in some areas. This is a major opportunity for improvement, and we are grasping it with both hands.

We have a significant and unique growth option in our Alternative Energy business. Our challenge is to expose that value for the benefit of BP's shareholders.

This is the plan that I want you to judge us by. It is early days, but so far we are on track to deliver it. Speaking for myself, I am excited about the next few years and I know my team is too.

Thank you for listening and we will now take questions.