1Q 2009 Results Presentation – 28 April 2009

Fergus MacLeod, Head of Investor Relations

Hello and welcome to BP's first-quarter 2009 conference call. My name is Fergus MacLeod, from BP Investor Relations. Joining me today is Byron Grote, our Chief Financial Officer.

Before we start, I'd like to draw your attention to this next slide. During our presentation today, we will make forward-looking statements. Actual results may differ from these plans or forecasts for a number of reasons, such as those noted on this slide and in our SEC filings.

Thank you, and now over to Byron.

Byron Grote, Chief Financial Officer

Thank you Fergus and good day to those joining us on this call. Before we start, I would like to draw your attention to the changes that we have made in our Stock Exchange Announcement.

We have moved to both simplify our reporting and to align it more closely with our peers, as well as better reflecting how management looks at the business.

I hope you will find these changes helpful.

As usual, I will begin my review of the quarter with the trading environment.

The table shows the percentage year-on-year changes in BP's average upstream realizations and refining indicator margin.

Our liquids realization of $41 per barrel was 20% lower than last quarter and less than half the level experienced a year ago. Our gas realization was around 30% lower than the previous quarter and 40% lower than 1Q last year. The sharp decline in Henry Hub prices has materially impacted both these realizations and our 1Q result, since over 10% of BP's total hydrocarbon production is US gas.

Taking both oil and gas together, our total average hydrocarbon realizations were down 23% compared with 4Q'08, and were 50% lower than a year ago.

The refining indicator margin of $6.20 per barrel was up 20% compared with the previous quarter, and more than a third higher than 1Q'08, although BP's actual margins were lower. I will come back to this in a moment when I talk about Refining and Marketing.

Turning to the financials, our first-quarter replacement cost profit fell to $2.4 billion, down approximately 60% from last year reflecting the much weaker environment.

After adjusting for fair value accounting effects and non-operating items, our underlying result was $2.6 billion. This included a negative pre-tax consolidation adjustment of $400 million.

Finance costs have increased as a result of lower expected returns on pension plan assets.

First-quarter operating cash flow was $5.6 billion.

The 14 cents per share dividend announced today, which will be paid in June, is 4% higher than a year ago. The sterling dividend is up by 40% year-on-year reflecting the stronger dollar.

In E&P, we reported a pre-tax replacement cost profit of $4.3 billion for 1Q, down $5.8 billion compared with last year, again reflecting the significantly weaker price environment.

The 1Q result had a $470 million favourable impact from fair value accounting effects and non-operating items. Adjusting for these items, our underlying result was $3.9 billion, compared with $10.7 billion in 1Q'08.

Reported production exceeded 4 million barrels of oil equivalent per day – more than 2% higher than a year ago. Adjusting for the impacts of production-sharing agreements and the effects of OPEC quota restrictions, underlying production rose by more than 4% compared with a year ago.

The quarter also benefited from a strong gas marketing and trading contribution and increasing momentum in reducing costs, with unit production costs down 11% compared with 1Q'08.

As projected, after a loss in 4Q, TNK-BP delivered net income of over $100 million, due to the absence of the material export duty lag and impairments experienced last quarter. This demonstrates TNK-BP's ability to remain profitable even in the weak price environment that we have seen in the first quarter. TNK-BP's production was up 3% compared with 1Q'08.

Refining & Marketing pre-tax replacement cost profit was $1.1 billion. This included a charge of $350 million for non-operating items, related mostly to restructuring costs.

Excluding these items, and after adjusting for fair value accounting effects, the underlying result was $1.5 billion, $1 billion better than a year ago despite a weaker environment.

As I said earlier, despite the improved refining indicator margin, our actual margins were worse than in the same quarter last year. This is because upgrading margins were particularly poor for this quarter due to narrowing gasoline-distillate and light-heavy spreads, which adversely impacted our highly upgraded facilities. Petrochemicals margins were also significantly worse than a year ago.

These environmental effects were more than offset by substantially improved operational performance in refining, a very strong supply and trading contribution and significant cost improvements. Costs are materially lower than 12 months ago and lower than the fourth quarter, reflecting continued momentum from both our simplification and efficiency efforts, and the absence of major restoration and repair costs.

In Other businesses and corporate, the first quarter result was a net charge of $760 million, including $320 million of non-operating items.

In line with previous guidance, the underlying charge for the quarter was $440 million. The result reflected a reduction in corporate costs, which was more than offset by lower contributions from the other businesses, and the retention of additional overhead costs in OB&C for more effective cost management.

In Alternative Energy we are continuing our disciplined approach to the business. For example, in Solar we are refocusing manufacturing activities in order to reduce unit costs and improve competitiveness.

Turning now to cash flow, this slide compares our sources and uses of cash in 2008 and 2009.

Operating cash flow was $5.6 billion, reflecting the weaker environment. Disposals provided a further $300 million. The normal first-quarter reduction in working capital did not occur this year as we retained inventory in storage at quarter-end to benefit from the strong contango structure of the market.

We used this cash to fund $5 billion of cash capital expenditure, and distributed $2.6 billion in dividends.

Our net debt ratio of 23 % at the end of 1Q remains at the lower end of our targeted band. We issued $4.6 billion of bonds during the quarter, accessing very favourable rates, and continued to maintain a higher than normal level of cash as contingency against the uncertain economic environment.

In closing, I would like to say a few words regarding the outlook for the rest of the year.

Consistent with earlier guidance, we expect growth in production in 2009. We expect the quarterly phasing of production to reflect the normal seasonal effects associated with turnaround activity in the second and third quarters.

Refining availability in 1Q was 92%, up by more than 4% on a year ago, and is expected to remain higher than in 2008. Second-quarter scheduled maintenance is expected to have a greater impact than in 1Q.

Costs in the first quarter, which are normally lower than in subsequent quarters, were down by more than $1 billion compared to 1Q'08, reinforcing our confidence that 2009 costs will be materially below the 2008 level.

Capital expenditure is now expected to be less than $20 billion, and we continue to expect $2-3 billion in divestments, with the majority occurring towards the year end.

Overall, our strategy is on track. We are delivering upstream growth and we are turning around our downstream business. We are driving greater efficiencies and making every dollar count.

Fergus and I would now be delighted to address any questions.