1Q 2011 Results Presentation: 27 April 2011

Fergus MacLeod, Head of Investor Relations

Hello and welcome to BP's first-quarter 2011 results webcast and conference call. I'm Fergus MacLeod, BP's Head of Investor Relations and joining me today is Byron Grote, our Chief Financial Officer.

Before we start, I'd like you to take a moment to read this next cautionary slide.

During today's presentation, we will make forward-looking statements that refer to our estimates, plans and expectations. Actual results and outcomes could differ materially due to factors that we note on this slide and in our UK and SEC filings. Please refer to our Annual Report, Stock Exchange Announcement and SEC filings for more details. These documents are available on our website.

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 say a brief word on the status of the deal with Rosneft which we announced back in January. Gaining access to major new opportunities always carries some risks and uncertainties, and so it has proved in Russia this year. Our plans to enter into agreements with Rosneft, including a share swap and involvement in Arctic exploration, have been subject to an interim injunction initiated by our partners in TNK-BP. The original deadline for completing the agreements with Rosneft was the 14th of April but we agreed with Rosneft to extend this date to the 16th of May. We know that these developments have created uncertainty, but you can be confident in our determination that any outcome we do agree will be in the best interests of BP's shareholders. I am sure that you will understand that it is not appropriate at this time for me to discuss details of any current discussions, nor to speculate on what might or might not be the ultimate resolution of these issues.

Let me now turn to our first quarter results.

I will begin my review of the quarter with a summary of the trading environment.

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

Our liquid realization of $94 per barrel was up 19% on 4Q and more than 30% higher than a year ago.

Our gas realization was $4.21 per thousand cubic feet, up 6% on the previous quarter and essentially flat relative to a year ago.

Taking both oil and gas together, our total average hydrocarbon realization was up 17% compared with the fourth quarter and was 20% higher than a year ago.

Our refining marker margin of $11.02 per barrel is up 10% on the previous quarter and 22% higher than a year ago.

Turning to the financials.

Adjusting for gains of $110 million for non-operating items and fair value accounting effects, our first-quarter underlying replacement cost profit was $5.4 billion, a fall of $300 million on the first quarter of 2010. This reflects lower production, higher costs and a higher tax rate, largely offset by higher hydrocarbon realizations, an improved supply and trading contribution and higher petrochemical margins.

The increase in the first-quarter tax rate to 37% was due to the impact of the recently announced change in the UK taxation of North Sea production, which resulted in a one-off deferred tax adjustment of $700 million. Despite this additional charge, we still expect the annual effective tax rate to be around 32% to 34%, in line with February guidance.

First-quarter operating cash flow was $2.4 billion. Excluding Gulf of Mexico oil spill-related post-tax expenditures of $2.8 billion, underlying operating cash flow was $5.2 billion, down 32% compared with the first quarter of 2010. Higher working capital requirements reflecting the significant increase in oil prices during the quarter were a major factor.

Organic capital expenditure was $4 billion in 1Q and, in line with previous guidance, we expect it to total around $20 billion in 2011.

In Exploration and Production, after adjusting for a gain of $740 million for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $7.7 billion.

This was $500 million lower than the first quarter of 2010 despite the stronger environment. Underlying factors were lower production volumes, higher costs including higher maintenance spending to improve long-term reliability, and rig standby expenses in the Gulf of Mexico due to the moratorium. Exploration write-offs were higher than the same quarter last year and we saw a reduced contribution from gas marketing and trading.

Production for the quarter was 3.58 million barrels of oil equivalent per day, 11% lower than the first quarter of 2010. After adjusting for the effect of acquisitions and divestments, and entitlement impacts in our production-sharing agreements, the decrease was 7%.

The reduction in production was weighted towards our highest-margin areas. This reflected the continued impact of the drilling moratorium in the Gulf of Mexico, maintenance activity in Angola and the North Sea, and the impact of the Trans Alaska Pipeline System interruption in January. First production from Iraq provided a partial offset.

Production in the second quarter is expected to be lower than 1Q depending on the pace at which new drilling permits are granted in the Gulf of Mexico, the further impact of divestments, and the seasonal ramp-up in turnaround activity across the portfolio. As we explained in February, our turnaround activity in 2011 is planned to be much higher than in 2010 with around 50 turnarounds in the current year compared with 35 last year. In 2Q these turnaround activities are planned for some of our highest-margin areas, and will impact costs and margins as well as volume. The turnarounds should result in long-term benefits in terms of reliability and are part of getting the foundation right for the long term. Cash costs in the second quarter will continue to be impacted by rig standby costs in the Gulf of Mexico.

We expect production for the year to be in line with our February guidance of around 3.4 million barrels of oil equivalent per day.

BP's share of TNK-BP net income was $1.2 billion for the quarter, more than twice the level of the first quarter of 2010.

In Refining and Marketing, after adjusting for a charge of $(120) million for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $2.2 billion for the first quarter.

This is an increase of $1.4 billion compared with the first quarter of 2010. In the fuels value chains, this reflects improved refining margins and a very strong supply and trading contribution. The improved result also reflects the benefit of refining feedstock optimization due to BP's location advantage in accessing WTI-priced crudes for its US mid-west refineries. In the international businesses, aromatics margins and volumes were strong and the lubricants business continued to deliver earnings growth. These factors were partially offset by the impact of higher turnaround activities.

Solomon availability was almost 94% but refining throughput was slightly lower than the first quarter of 2010, primarily due to higher planned turnaround activities at the Texas City refinery.

Looking to the second quarter, we expect the supply and trading contribution to be lower than the very strong first-quarter performance, and we anticipate that the wide WTI differentials may narrow somewhat compared with recent

levels, reducing the benefit to our mid-west refineries. We expect the usual seasonal improvement in refining margins in the second quarter but anticipate some softening in petrochemicals margins. Turnaround activities in the second quarter are expected to be in line with 1Q.

In Other businesses and corporate, after adjusting for non-operating items, we reported a pre-tax underlying replacement cost charge of $(300) million for the first quarter, an increase of $(90) million versus the charge a year ago, primarily reflecting the impact of business restructuring within Alternative Energy and other one-off effects.

Guidance for 2011 remains unchanged from that given in February, with underlying quarterly charges volatile and averaging approximately $(400) million each period.

Next I would like to provide you with an update on the costs and provisions associated with the Gulf of Mexico oil spill.

In the first quarter we have taken an additional pre-tax charge of $400 million. This reflects a small increment related to spill response costs as we continue to wind down activity, plus the ongoing quarterly expenses of the Gulf Coast Restoration Organization. This is in addition to the pre-tax charge of $40.9 billion recognized in 2010 which included the $20 billion Trust commitment. As announced last week, BP has entered into a framework agreement with the Natural Resource Trustees and various State and Federal agencies in the US to provide $1 billion toward early restoration projects to address damages to natural resources caused by the Deepwater Horizon spill. This agreement has no impact on the pre-tax charge as it will be covered by the $20 billion Trust Fund. The provision carried forward on the balance sheet at the end of 1Q represents our current best estimate of those future costs for which a provision can be made at this time, subject to all the exclusions and uncertainties that we described in the Stock Exchange Announcement.

As indicated in previous quarters, we believe that BP was not grossly negligent and we have taken the provision on that basis. We will continue to review our provision quarterly and adjust it as new information becomes available.

Total cash payments of $3 billion were made in the first quarter, which included a payment of $1.25 billion into the Trust Fund as well as direct oil spill response costs.

Turning now to cash flow, this slide compares our sources and uses of cash in the first quarter of 2010 and 2011.

Operating cash flow, excluding post-tax Gulf of Mexico oil spill expenditures, was $5.2 billion, 32% lower than a year ago, with oil price related movements in working capital a major factor, as I mentioned earlier.

We received $2.6 billion of disposal proceeds, including $1.6 billion held in deposit, for deals completed in 1Q and additionally held $4.6 billion in deposits for deals to be completed subsequent to the quarter end. These deposits were reported as short-term debt at the end of 1Q.

First-quarter organic capital spending was $4 billion, which is $1 billion less than the expected quarterly run rate for 2011. In addition, we made an initial stage payment of $2 billion to Reliance Industries with respect to the acquisition of offshore exploration and production interests in India.

Total cash held at the end of the first quarter was $18.7 billion.

Our net debt ratio was 21% at the end of 1Q. As I mentioned earlier, the $4.6 billion of deposits for deals to be completed subsequent to the quarter end was reported as short-term debt. As these deals close, net debt will reduce accordingly.

As I explained in our strategy presentation in February, we intend to reduce gearing to a range of 10% to 20% over time.

I will now provide a quick update on our A&D activity.

Looking first at acquisitions, during the quarter we announced an alliance in India with Reliance Industries and the acquisition of majority control of Brazilian ethanol and sugar producer CNAA. We now expect the purchase of Devon's assets in Brazil to complete during 2Q.

Turning to disposals, we have made further progress in our objective of achieving $30 billion of divestments by the end of 2011.

During the quarter we completed the sale of both our Colombian assets and the package of producing properties acquired from Devon in the Gulf of Mexico. We announced the sale of a number of additional non-strategic assets during 1Q – a package of fuel storage and pipeline assets in the US, the Wattenberg natural gas processing plant in Colorado and our aluminium business. The divestments of our interests in Pan American Energy, in Pakistan, in Vietnam and in Venezuela, which we announced in 2010, are all moving towards completion.

During the quarter we announced our intention to dispose of a package of UK upstream assets and we are continuing to progress the sale of our Canadian NGLs business.

Finally I will give you an update on our strategic progress. In February we highlighted that 2011 would be a year of consolidation as we focus our efforts on strengthening safety and risk management, meeting our commitments in the US and reshaping our portfolio with a view to growing long-term value for shareholders.

Fundamental change is taking place in the company. Our new centralized Safety & Operational Risk organization is up and running. There is more work to do to fully define the scope, resourcing and priorities of the organization but already we are seeing the effects of the new organization in operation.

The reorganization of our upstream business into functional divisions has also made rapid progress with the first phases of organizational design complete and key roles appointed. During the first quarter we launched our new performance management and reward system. Every employee's reward is now more directly linked to safety and risk management and more focused on long-term objectives.

In the US we continue to meet our obligations. Beyond the direct spill response, $5.6 billion has been paid out in claims and government payments to the end of 1Q. All of the Federal waters of the Gulf are now open for fishing and the deep cleaning of all amenity beaches is complete. We continue to share the lessons learned and have engaged with some 20 countries to date.

The dividend for the first quarter is 7 cents / share. Our intention, as I stated in February, is to grow the dividend in line with the improving circumstances of the company.

As you have seen, we continue to actively manage our portfolio. To date we have entered into agreements for divestments with a total value of over $24 billion against our objective of $30 billion by the end of 2011. Proceeds from these divestments have significantly exceeded the book value.

In addition to the new access opportunities in Indonesia, China and Australia that we outlined to you in February, we have made progress in a number of other strategic areas during the quarter. Our acquisition of a 30% stake in 23 offshore oil and gas blocks in India in alliance with Reliance Industries, will once completed, give access to extensive exploration acreage linked to one of the fastest growing energy demand centres in the world, and represents a new alliance with a strong national partner. In Indonesia we have signed four new coalbed methane production sharing contracts, allowing us to deepen our portfolio in Indonesia and leverage more than 30 years experience in the development of coalbed methane resources.

Refining and Marketing continues to make significant progress in delivering the earnings growth in line with the goals outlined in 2010. From a portfolio perspective, as we indicated in February, we intend to sell both the Texas City refinery and the southern part of the West Coast Fuels Value Chain, including the Carson refinery, with a view to exiting these positions by the end of 2012. This is in keeping with our intention to halve BP's US refining capacity and significantly improve the financial performance of the US Fuels Value Chain portfolio.

As I hope is clear, BP is in the midst of major change as we work to re-set the focus of the company and begin the task of rebuilding long term sustainable value for our shareholders. We are keenly aware of the loss of value that has occurred over the last year, and how deeply discounted we are today relative to both the value of our assets and our financial performance versus our peers. We are committed to recovering that lost value, both by delivering sustainable long term performance and by addressing the uncertainties that we face in the US, Russia and elsewhere.

Thank you for listening. Fergus and I will now be happy to take your questions.