4Q 2009 Results presentation to the Financial Community
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Fergus MacLeod, Head of Investor Relations

Welcome to BP's fourth-quarter 2009 results conference call. I'm Fergus MacLeod, BP's Head of Investor Relations, and joining me today are Tony Hayward, our Group Chief Executive; Byron Grote, our Chief Financial Officer; Andy Inglis, Head of Exploration and Production; and Iain Conn, Head of Refining and Marketing.

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

As usual during today's presentation we will be making forward-looking statements. As ever, 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.

I'd also like to remind you that we are holding our annual strategy presentation on March 2nd. More detail on some subjects, such as reserves replacement and capital spending plans, will be covered then.

Thank you and now over to Tony.

Tony Hayward, Group Chief Executive

Thank you Fergus.

Ladies and gentlemen, welcome to BP's fourth-quarter results for 2009. Before I hand over to Byron to take you through our 4Q results in more detail, I'd like to spend a few moments reviewing what was a very good year for BP.

Let me begin with our 2009 full-year financial results.

Headline replacement cost profit was $14 billion, equivalent to 74.5 cents per ordinary share, down 45% on 2008, due to the much weaker environment.

Post-tax operating cash flow was $27.7 billion. Our organic capital expenditure was $20 billion, and we divested around $2.7 billion of non-core assets.

Total 2009 dividends paid were 56 cents per share, up 2% in dollars and 24% in sterling, versus 2008. This means we distributed to shareholders $10.5 billion.

Despite the overall weak trading environment our financial condition remains robust, with gearing ending the year at 20%, at the bottom of our target range of 20 to 30%.

Before I talk about the operational and strategic progress that we made during 2009, I'd like to summarise our performance against the expectations that we set out a year ago. This highlights the momentum we are seeing in growing our business and making it more efficient.

In Exploration & Production, we increased production by more than 4% in 2009, well ahead of our expected sustainable long-term growth rate of 1 – 2%.

In Refining & Marketing, we increased refining availability by around 5%. The restoration of our refineries is now largely complete and they are approaching full operating capability.

On efficiency and costs, we did better than we had expected. We exceeded our initial cash cost reduction objective by more than twofold, with 2009 cash costs down by more than $4 billion year-on-year. Of that total, approximately 60% was a consequence of direct interventions by the company, with the remainder related to foreign exchange benefits and lower fuel costs.

We maintained capital spending in line with guidance, whilst benefiting from the improving efficiency of this spend, And finally, we achieved our targeted level of divestments to improve the quality of our portfolio.

I'm pleased with the track record we're establishing of delivering on our promises to shareholders, and at the same time I am conscious that there is a lot more for us to do.

Let me now look at the strategic delivery from each of our businesses in 2009.

In Exploration and Production, we've continued to see very strong strategic as well as operational and financial momentum.

In 2009, we were successful in accessing substantial new resource opportunities including a major new entry into Iraq with the Rumaila field, one of the great oilfields of the world.

In Indonesia, we obtained the rights to develop Coalbed Methane in the Sanga-Sanga PSC through our VICO joint venture and, subject to government approval, we added acreage in West Papua, close to the Tangguh LNG facility.

In Jordan, we are joining with the state-owned National Petroleum Company to exploit the onshore Risha gas concession.

We also strengthened our exploration portfolio in several of our core areas by adding acreage in the deepwater Gulf of Mexico and in the Nile Delta of Egypt. And in Azerbaijan, we signed a memorandum of understanding with SOCAR to jointly explore and develop the Shafag and Asiman structures in the Caspian Sea.

Our industry-leading track record of exploration success continued, including the Tiber discovery, a giant field in the Gulf of Mexico, which along with further appraisal success on Mad Dog South helps to underpin the potential for continued growth in the deepwater Gulf of Mexico. We had further good news in deepwater Angola with the 17th, 18th and 19th discoveries on Block 31.

Conversion of past exploration success into production continued with the start-up of seven major projects: Tangguh LNG in Indonesia; Dorado, King South and Atlantis Phase 2 in the Gulf of Mexico; and Savonotte in Trinidad. And in TNK-BP we saw the start-up of Uvat and Kamennoye.

The pipeline of future projects was increased with the final investment decision on a number of new developments, including Block 15 Clochas Mavacola in Angola and the Serette new field development in Trinidad. In addition, strong performance from the first well in the second phase of Atlantis has given us confidence to make a final investment decision on further development this year.

And last but by no means least, I am pleased to report that we achieved a resource replacement ratio of more than 250% and a reported reserve replacement ratio of 129% in 2009, continuing our industry-leading track record of a better than 100%+ reserves replacement ratio over the last 17 years.

Turning now to the downstream business, we have made significant progress in the planned turnaround of the business on all levels – with improvements in safety, operational and underlying financial performance – albeit in the face of a dramatically weaker industry environment, with refining margins in the fourth quarter at their lowest level for almost 15 years.

Starting with safe and reliable operations, which remains our top priority, all of our operated refineries and major petrochemicals plants are now on our group-wide Operating Management System.

We have restored missing revenues through a significant improvement in our operational performance. Our Solomon availability for the year was 93.6%, the highest level since 2004.

We've established new regional business service centres, in Budapest, Kuala Lumpur and Chicago, which will carry out finance, customer service and procurement activities more efficiently.

And we've made good progress on business simplification, including completing the sale of our Greek ground fuels marketing business, reducing our geographic footprint in the international businesses, and franchising our US convenience retail.

Over the last two years we have reduced our Refining and Marketing headcount by more than 4,500, excluding retail staff. Coupled with other cost efficiency initiatives, this has reduced 2009 cash costs in Refining and Marketing by more than 15%.

In Alternative Energy, we are now focused on four key areas; Biofuels, Wind in the US, lower-cost Solar manufacturing, and two major Carbon Capture and Sequestration projects in Abu Dhabi and California.

Our Forward Agenda has been focused around corporate efficiency, where we have exceeded our original objective, having reduced the total BP non-retail headcount, since December 2007, by around 7500, and permanent contractors by more than 1500. In addition, we have reduced senior executive roles from 650 to fewer than 500.

In parallel, across the business we have continued our focus on deepening expertise.

Over the last two years, almost 22,000 people have left BP and over 14,000 have joined, accelerating the process of change within the company.

We will continue to drive greater efficiencies into the business to ensure that we really do make every dollar count.

Now over to Byron who will go through the 4Q results in more detail.

Byron Grote, Chief Financial Officer

Thank you Tony and good day to those joining us on this call.

I will begin my review 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 indicator margin, for both the fourth quarter and the full year.

In the fourth quarter, the group delivered strong operational performance against a mixed market environment.

Our liquid realizations increased by 8% compared with the third quarter, rising to $68 per barrel, over 30% higher than 4Q'08.

Our 4Q gas realizations increased to $3.68 per thousand cubic feet, over 30% higher than the previous quarter but almost 30% lower than a year ago.

Taking both oil and gas together, our total average hydrocarbon realization was up 12% compared with 4Q'08.

Refining margins remained very weak, with global industry refining utilization in 4Q running around 80%. Our refining indicator margin of $1.49 per barrel in 4Q was over 70% lower than a year ago.

Turning to the financials.

Adjusting for charges of $(940) million for non-operating items and fair value accounting effects, our fourth-quarter underlying replacement cost profit was $4.4 billion, an increase of 70% on 4Q'08. The higher result benefited from production growth, strong operational performance and reductions in cash costs.

The underlying replacement cost profit included a negative consolidation adjustment of $(500) million, reflecting higher volumes of equity barrels in our downstream inventories at year-end, coupled with higher prices. As in the past, this volume impact is likely to reverse out in future quarters.

Non-operating items included a $1.6 billion write down of goodwill in Refining and Marketing, related to our US West Coast fuels value chain.

Adjusting for the impact of this goodwill impairment, which is not tax-deductible, the effective tax rate in the fourth quarter was 27% and for the full year was 31%.

Fourth-quarter operating cash flow was $7.3 billion, up nearly 30% compared with the same period in 2008.

The 14 cents per share dividend announced today, which will be paid in March, is the same as a year ago.

We also announced today that, subject to shareholder approval at the Annual General Meeting on 15th April, we will be replacing our current dividend reinvestment programmes with an optional scrip dividend.

We believe that for those shareholders who choose to take their dividend in shares rather than cash, the issuing of scrip is a more attractive alternative.

Any cash freed up by this change would provide the company with additional financial flexibility.

In Exploration and Production, after adjusting for a gain of $1.4 billion for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $7.1 billion for 4Q, up $2.8 billion compared with last year, reflecting both higher oil prices and stronger operational performance.

Production exceeded 4 million barrels of oil equivalent per day – 3% higher than a year ago. In addition, the fourth-quarter production benefited from the make-up of a prior-period underlift of around 40mboed.

We maintained momentum in reducing costs. Full-year unit production costs were 12% lower than 2008. DD&A was higher than a year ago, in line with previous guidance.

BP's share of TNK-BP net income was $540 million for the quarter and we received a dividend of $940 million.

In Refining and Marketing, after adjusting for charges of $(2.0) billion for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $15 million for the fourth quarter.

This is a decrease of $630 million compared with the same quarter of 2008, primarily due to the extremely weak refining environment. Rising crude prices and reduced volatility also compressed marketing margins and led to a weaker supply and trading contribution.

Our operational performance, however, continued to strengthen, with Solomon availability increasing still further. Costs continued to track well below 2008 levels.

Looking ahead to the first quarter, we expect refining margins to remain weak.

In other businesses and corporate, after adjusting for a loss of $(65) million for non-operating items, the fourth quarter's result was a charge of $(330) million, a $50 million improvement on a year ago.

This year-on-year improvement was primarily due to favourable foreign exchange effects and lower costs, partially offset by a much weaker margin environment for Shipping and Solar.

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

At the start of 2009, we indicated our intention to balance our sources and uses of cash in an oil price environment of around $60 per barrel.

We have essentially achieved this aim during 2009, despite much weaker than expected refining margins and North American gas prices.

Our net debt ratio was 20% at the end of 4Q, 1% lower than a year ago. This reflects the numerous steps we took to improve business performance and enhance cash delivery in the face of the weaker environment we experienced in 2009.

I will now turn to specific guidance for 2010.

Production growth was very strong in 2009. It benefited by about 40mboed, on an annual basis, from the combination of the absence of a significant hurricane season and the underlift make-up I mentioned earlier. As a result, we expect production in 2010 to be slightly lower. Our longer-term guidance is unchanged, and indeed our confidence in the longer term has been reinforced by our successes in exploration and access in 2009. We will talk more about this in our Strategy Update next month.

Building on the significant reductions we achieved in 2009, cash costs are expected to fall further as the benefits of our actions continue to feed into the bottom line. In the current environment, we expect to face adverse year-on-year foreign exchange and energy cost effects, which would be an offset to our underlying progress in 2010.

We expect our organic capital expenditure to be around $20 billion, including an increasing growth component as the efficiency of our spend continues to improve. DD&A is expected to increase by around $500 million in 2010, a smaller increase than in 2009.

Divestment proceeds are expected to be between $2 and $3 billion, similar to 2009.

We expect an underlying average quarterly charge of $400 million from other business and corporate costs in 2010. This is likely, as in previous years, to remain volatile on an individual quarterly basis.

The effective tax rate for the year is likely to be slightly higher, in the range of 33 to 34%, due to a slightly lower expected proportion of income from associates and jointly controlled entities which, as you remember, are included net of tax.

That concludes my remarks. Now back to Tony.

Tony Hayward, Group Chief Executive

Thank you Byron.

Before I conclude with a summary of our strategy, let me say a few words on the environment as we move into 2010.

In the major economies of the US and Europe, we expect recovery from the recession to be slow and gradual. The oil markets look well supported by OPEC, but we expect gas markets to remain volatile. Demand for petrochemicals products is recovering only slowly, and there is significant refining over-capacity, particularly in the Atlantic basin. As a consequence, refining margins are likely to remain depressed for the foreseeable future.

Let me close by summarizing our strategy. It hasn't changed.

In the Upstream we remain focused on delivering profitable growth. As Byron has already said, after a very strong year in 2009, we expect reported production in 2010 to be slightly lower. This expected level of 2010 production is in line with the guidance we gave in our Strategy Update in March of last year. Growth is expected to resume in 2011, and the longer term guidance is unchanged. Costs are expected to come down and capital efficiency to go up.

In the Downstream, operational momentum has been restored and we're continuing to drive cost efficiency.

In Alternative Energy we have focused on four key areas and have a disciplined investment framework.

And we're continuing to drive efficiency at the corporate centre.

In closing….2009 has been one of the best years for BP and its shareholders since the merger with Amoco. But we are not resting on our laurels. In an environment that remains challenging and volatile, particularly in the downstream, there's a lot more to do.

Thank you for listening.

The team and I would now be delighted to take your questions.