

Supplementary Information – Fourth quarter 2018

The information below has been provided to enhance understanding of the terminology and performance measures that have been used in the accompanying presentations.

Group measures

The following non-GAAP measures or associated adjustments are defined in Glossary on pages 32-35 of our fourth-quarter 2018 results announcement:

- Inorganic capital expenditure.
- Gearing (net debt ratio).
- Non-operating items.
- Organic capital expenditure.
- Underlying RC profit or loss.

Adjusted effective tax rate (ETR)

The adjusted ETR is calculated by dividing taxation on an underlying RC basis by underlying RC profit or loss before tax. Taxation on an underlying RC basis is taxation on a RC basis for the period adjusted for taxation on non-operating items and fair value accounting effects.

	Q4 2017	Q3 2018	Q4 2018	%
Effective tax rate (ETR) on profit or loss	95	37	68	
Adjusted for inventory holding gains or losses	154	1	(23)	
ETR on replacement cost (RC) profit or loss	249	38	45	
Adjusted for non-operating items and fair value accounting effects	(222)	(2)	(7)	
Adjusted ETR	27	36	38	

Free cash flow

Free cash flow is operating cash flow less net cash used in investing activities, as presented in the condensed group cash flow statement.

Organic free cash flow

Organic free cash flow is operating cash flow less organic capital expenditure. Organic free cash flow excludes any post-tax impacts from the Gulf of Mexico oil spill.

Organic free cash flow per share

Organic free cash flow per share is organic free cash flow divided by the estimated number of shares in issue at the end of the year.

Organic free cash flow surplus before working capital

Organic free cash flow surplus before working capital is defined as organic free cash flow, add JV loan repayments (not classified as total proceeds) less share buybacks and cash dividends, add back working capital (adjusted for inventory holding gains/losses).

	\$ billion
	2018
Underlying operating cash flow (see below)	26.1
Less: organic capital expenditure	(15.1)
Organic free cash flow	11.0
Plus: JV loan repayments	0.1
Less: share buybacks	(0.4)
cash dividend	(6.7)
Add back: working capital build	2.6
Organic free cash flow surplus before working capital	6.5

Underlying operating cash flow

Underlying operating cash flow is net cash provided by operating activities excluding post-tax amounts related to the Gulf of Mexico oil spill.

	\$ million		
	Q4 2017	Q3 2018	Q4 2018
Net cash provided by operating activities	5,903	6,092	6,829
Add back: Post-tax amounts related to the Gulf of Mexico oil spill	(284)	(525)	(272)
Underlying operating cash flow	<u>6,187</u>	<u>6,617</u>	<u>7,101</u>

Return on average capital employed (ROACE)

ROACE is underlying replacement cost profit, after adding back non-controlling interest and interest expense net of tax (for 2017 interest expense was net of notional tax at an assumed 35%), divided by average capital employed, excluding cash and cash equivalents and goodwill. Interest expense is finance costs excluding the unwinding of the discount on provisions and other payables, and for full year 2018 interest expense was \$1,779 million (2017 \$1,421 million) before tax.

	\$million	
	2017	2018
Profit for the year attributable to BP shareholders	3,389	9,383
Inventory holding (gains) losses, net of tax	(628)	603
Non-operating items and fair value accounting effects, after tax	<u>3,405</u>	<u>2,737</u>
Underlying replacement cost (RC) profit	6,166	12,723
Interest expense, net of tax	924	1,583
Non-controlling interests	79	195
Adjusted underlying RC profit	<u>7,169</u>	<u>14,501</u>
Total equity	100,404	101,548
Gross debt	63,230	65,799
Capital employed	<u>163,634</u>	<u>167,347</u>
Less: Goodwill	11,551	12,204
Cash and cash equivalents	25,586	22,468
	<u>126,497</u>	<u>132,675</u>
Average capital employed excluding goodwill and cash and cash equivalent	<u>123,481</u>	<u>129,586</u>
ROACE	<u>5.8%</u>	<u>11.2%</u>

Downstream measures

Pre-tax returns

Downstream pre-tax returns is the ratio of underlying RC profit before interest and tax to Downstream's average operating capital employed, including goodwill, for the period.

Pre-tax returns	2014	2016	2018
Numerator for pre-tax returns			
RC profit before interest and tax (\$bn)	3.7	5.2	6.9
Non-operating items and fair value accounting effects (\$bn)	0.7	0.4	0.6
Underlying RC profit before interest and tax (\$bn)	4.4	5.6	7.6
Denominator for pre-tax returns			
Average operating capital employed for Downstream (\$bn)	51.5	38.2	35.5
Downstream pre-tax returns - reported	8.6%	14.7%	21.3%
Adjustment to \$14/bbl RMM and \$15/bbl WTI-WCS differential	(0.7)	1.2	(0.3)
Underlying RC profit before interest and tax at \$14/bbl RMM and \$15/bbl WTI-WCS environment (\$bn)	3.7	6.8	7.2
Denominator for pre-tax returns			
Adjustment to Brent crude price of \$55/bbl real at 2017	(4.8)	1.3	(1.6)
Average operating capital employed for Downstream at Brent crude price of \$55/bbl real at 2017 (\$bn)	46.7	39.5	33.8
Downstream pre-tax returns - adjusted	7.9%	17.4%	21.4%

Downstream underlying earnings growth

Downstream underlying earnings growth is defined as the change in underlying RC profit before interest and tax, after adjusting for the impact of refining and petrochemicals environment, foreign exchange, turnaround and portfolio impacts.

Downstream underlying earnings growth 2014 - 16	2014 \$bn	2016 \$bn
Downstream RC profit before interest and tax	3.7	5.2
Non-operating items and fair value accounting effects	0.7	0.4
Downstream underlying RC profit before interest and tax	4.4	5.6
Earnings growth 2014-16		1.2
Adjustment for FX, refining and petrochemicals environment and normalized turnaround and portfolio impacts		1.8
Underlying earnings growth 2014-16		3.0

Downstream underlying earnings growth 2016 - 18	2016 \$bn	2018 \$bn
Downstream RC profit before interest and tax	5.2	6.9
Non-operating items and fair value accounting effects	0.4	0.6
Downstream underlying RC profit before interest and tax	5.6	7.6
Earnings growth 2016-18		1.9
Adjustment for FX, refining and petrochemicals environment and normalized turnaround and portfolio impacts		(1.0)
Underlying earnings growth 2016-18		1.0
By business:		
Marketing		0.5
Manufacturing		0.9
Supply, trading and other		(0.5)

Earnings: Sub-segment underlying RC before interest and tax

Earnings	Fuels marketing				Lubricants			
	2014 \$bn	2016 \$bn	2017 \$bn	2018 \$bn	2014 \$bn	2016 \$bn	2017 \$bn	2018 \$bn
RC profit before interest and tax	1.6	2.1	2.4	2.6	1.4	1.4	1.5	1.1
Non-operating items and fair value accounting effects	0.2	0.0	0.0	0.2	(0.1)	0.1	0.0	0.2
Earnings	1.8	2.1	2.4	2.8	1.3	1.5	1.5	1.3
Forex adjustment to 2018 environment	(0.2)	0.0	0.0	0.0	(0.1)	0.0	(0.0)	0.0
Earnings adjusted to 2018 FX environment	1.6	2.2	2.4	2.8	1.1	1.5	1.4	1.3

Downstream free cash flow

Downstream free cash flow is defined as underlying RC profit before interest and tax adjusted to add back depreciation, depletion and amortization (DD&A), less organic cash capital expenditure.

Downstream free cash flow proxy	2016 \$bn	2018 \$bn
Underlying RC profit before interest and tax	5.6	7.6
DD&A	2.0	2.1
EBITDA	7.6	9.6
Organic cash capex	(2.1)	(2.8)
Pre-tax free cash flow	5.5	6.9

Non-fuel gross margin

Retail non-fuels gross margin is total retail gross margin less retail fuels gross margin.

Non-fuel gross margin		2018
		\$bn
Fuel Marketing Replacement cost profit before interest and tax		2.6
Non-operating items and fair value accounting effects		0.2
Fuel Marketing Underlying replacement cost profit before interest & tax		2.8
Fuels Marketing fuel gross margin, cash costs, equity accounted earnings and DD&A		(1.6)
Retail non-fuel gross margin		1.2

Net income per barrel

Net income per barrel is calculated by taking underlying RC profit before interest and tax, deducting assumed tax on underlying RC profit and then dividing this notional post-tax underlying RC profit before interest by the Downstream segment's total refining capacity.

Net Income per bbl	2014	2018
	Q2	Q4
Underlying RCP before interest and tax	733	2,169
Taxation	(205)	(542)
Underlying RCP before interest and after tax	528	1,627
Capacity (kbd)	1,955	1,892
Net Income/bbl - spot	3.0	9.3
Net Income/bbl - Rolling 4Q	2.6	8.2