3Q 2010 Results Presentation: 2 November 2010

Fergus MacLeod, Head of Investor Relations

Hello and welcome to BP's third-quarter 2010 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.

Ladies and gentlemen, good afternoon and welcome to BP's third-quarter results for 2010.

This has been a quarter of significant change for BP, and, I am pleased to say, also one of great progress. Bob Dudley took over as Group Chief Executive at the start of October. He has already announced significant leadership and organizational changes as we implement lessons learned from the Gulf of Mexico incident and pursue our efforts to rebuild trust in BP and value for our shareholders.

We're confident of meeting the challenges ahead. As today's results show, BP's employees have remained focused on running the business during this period of change.

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

The table shows the year-on-year percentage changes in BP's average upstream realizations and the refining indicator margin, for the third quarter as well as year-to-date.

Compared with last quarter, our liquids realization reduced by 3% to $70 per barrel but was 12% higher than a year ago.

Our gas realization increased to $3.92 per thousand cubic feet, up 4% on last quarter and 40% higher than a year ago.

Taking both oil and gas together, our third quarter average hydrocarbon realization was up 10% versus a year ago and 32% higher on a year-to-date basis.

Relative to 2Q, the refining indicator margin fell by around $1 per barrel, to $4.53, but remained over $1 per barrel higher than in the third quarter of 2009. On a year-to-date basis, the refining indicator margin was slightly down on last year.

Turning to the financials, the Group continues to deliver strong underlying performance.

Our third quarter headline replacement cost result was a profit of $1.8 billion. Adjusting for non-operating items, including disposal gains and an additional charge for the Gulf of Mexico spill, as well as fair value accounting effects, our third-quarter underlying replacement cost profit was $5.5 billion, an increase of 18% on the 3Q'09 result.

The underlying effective tax rate for the third quarter fell to 25% primarily due to the impact of recently announced disposals. As a result we have also reduced our current estimate of the full-year underlying effective tax rate to around 31%, although, as always, the fourth-quarter rate can be particularly volatile.

Third quarter saw an operating cash outflow of $(650) million. Excluding the impact of the Gulf of Mexico spill, underlying operating cash flow was $8.4 billion, up 4% compared with last year but down 5% on the previous quarter.

Now I would like to spend a few minutes providing an update on the operational response to the Gulf of Mexico spill, as well as the associated costs and provisions.

From an operational perspective, we have made good progress, although the relief well took longer than we expected at the time of the 2Q results.

You will be aware that the Mississippi Canyon 252 well was killed and permanently sealed on the 19th September. This followed the successful shut-in of the well on the 15th July, after which no further hydrocarbons flowed into the Gulf of Mexico.

No significant oily liquid has been recovered from the surface of the Gulf of Mexico since the 21st July, although small amounts continue to be collected from marshland remediation efforts. BP continues its efforts to repair the environmental damage and is ready to respond if any additional cleanup is required.

BP released the MC 252 well accident investigation report on the 8th September. Based on the key findings of the report, the investigation team made 26 recommendations designed to prevent a recurrence of such an accident in the future. We believe that many of the findings and recommendations of the investigation are relevant to the wider oil industry as well as to BP.

BP also announced its intent to join the Marine Well Containment Company (MWCC) and make its underwater well containment equipment available to all oil and gas companies operating in the Gulf of Mexico.

And, on the 1st October, we announced that we will pledge certain Gulf of Mexico assets as collateral to the $20-billion Deepwater Horizon Oil Trust. These consist of an overriding royalty interest in BP's equity production from seven fields in the Gulf of Mexico.

Turning now to the provisions, you will recall we recorded a charge of $32.2 billion in the second quarter. We have now taken an additional pre-tax charge of $7.7 billion in 3Q. This is principally due to higher ongoing response costs due to the delay in the completion of the relief well, additional costs related to decontamination and demobilization of vessels involved in the response, claims center administration costs, and additional legal costs. The remaining provision at the end of 3Q represents our current best estimate of future costs, subject to the exclusions and uncertainties described in the Stock Exchange Announcement and which I shared with you in detail during the second-quarter results presentation. We continue to believe that BP was not grossly negligent and we have taken the provision on that basis. While BP believes that it has a contractual right to recover the partners' shares of the costs incurred, no amounts have been recognized in the financial statements at this time.

Finally, cash payments of $10.1 billion were made in the quarter. In addition to direct oil spill response costs, cash payments included the first instalment of $3 billion into the escrow fund as well as claims payments made directly by BP prior to the transition to the Gulf Coast Claims Facility headed by Ken Feinberg.

Turning now to business performance.

In Exploration and Production, after adjusting for a gain of $1.8 billion for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $6.5 billion.

Relative to a year ago, the result was impacted by lower production volumes and a small loss from our gas marketing and trading activities, but benefited from higher prices and lower depreciation.

As expected, third-quarter production was impacted by normal seasonal turnaround activities and the Gulf of Mexico spill. At 3.76 million barrels of oil equivalent per day, production was 4% lower than a year ago and was 3% lower after adjusting for entitlement effects on our production-sharing agreements and the effects of acquisitions and divestments.

BP's share of TNK-BP net income was $730 million for the quarter and we received a dividend of $230 million.

In Refining and Marketing, after adjusting for non-operating items and fair value accounting effects of $160 million, we reported a pre-tax underlying replacement cost profit of $1.6 billion for the third quarter.

This is an increase of $550 million compared with the third quarter of 2009. The result reflects strong operational performance in the segment with Solomon availability at 95% and our petrochemicals business maintaining high production and utilization levels. These benefits were partially offset by a weak contribution from our supply and trading activities, which endured generally unfavourable trading conditions, characterized by very low market volatility.

In the US, the refining and marketing business remained profitable for the second successive quarter, despite lower refining margins than in 2Q.

Overall in the Downstream, the third-quarter results demonstrate improving performance momentum in line with the expectations laid out in the Strategy presentation in March.

In Other businesses and corporate, after adjusting for non-operating items, we reported a pre-tax underlying replacement cost charge of $480 million for the third quarter, an improvement of $40 million versus a year ago.

Relative to the second quarter, the charge increased by $340 million primarily reflecting adverse foreign exchange effects and cost phasing.

Looking ahead, the underlying replacement cost charge is expected to remain volatile, as seen over the past year, averaging around $400 million per quarter.

Turning now to cash flow, this slide compares our sources and uses of cash in the first nine months of 2009 and 2010.

Year-to-date operating cash flow, excluding post-tax Gulf of Mexico oil spill expenditures of $10.6 billion, was $24.4 billion and was 19% higher than a year ago, mainly reflecting the benefits of higher oil prices.

We received $3.7 billion of disposal proceeds for deals completed in 3Q, and additionally held $5.0 billion in deposits for deals to be completed subsequent to the end of the quarter. These deposits were reported as short-term debt at the end of 3Q. We have now concluded agreements on divestments totalling around $14 billion, and are half way towards our goal of $25 to $30 billion of disposals by the end of 2011.

Total cash at the end of the third quarter was nearly $13 billion and we continue to hold committed bank facilities of $17 billion. We are planning on holding substantial levels of cash for the foreseeable future, reflecting our cautious approach to managing the liquidity requirements of the group.

Since the end of the quarter, we have completed two successful bond offerings in the US and Europe, for $3.5 billion dollars and €2 billion euros respectively. Investor demand was very strong, which demonstrates the return to more normal debt capital market conditions for BP, and is underlined by recent credit rating agency actions.

Net debt at the end of the third quarter increased to $26.4 billion with gearing at 23%. This increase was driven by the costs associated with the Gulf of Mexico spill partly offset by disposal proceeds. As I mentioned earlier, the $5 billion of deposits for deals to be completed post quarter-end was reported as short term debt. As these deals close, net debt reduces accordingly.

As reported in 2Q, we are expecting to bring net debt down to a range of $10 to 15 billion by the end of 2011.

Across the Group we are continuing to make good strategic progress.

With respect to Upstream access, in Azerbaijan we have agreed terms for Shah Deniz phase 2, signed a new production-sharing agreement (PSA) for the joint exploration and development of the Shafag-Asiman structure, and completed the purchase of an additional interest in the BP-operated ACG oilfield. In China, we acquired a 40% interest in block 42/05 in the South China Sea. And in the UK, BP has received awards for seven blocks in the latest round of offshore licensing. This constitutes the largest award of licences to BP in the North Sea for over a decade.

In addition, we have taken final investment decisions on fourteen upstream projects so far in 2010 and currently expect to approve a further two in 4Q.

With respect to divestments, our programme is going well. In the Upstream, we have now closed the sale of our Permian basin assets in Texas and New Mexico and the sale of our Western Canadian gas assets. We expect to complete the Egyptian leg of the Apache deal shortly, and the sale of our Colombia business sometime around the end of the year, subject to regulatory approvals. We have also recently announced the sale of our E&P interests in Venezuela and Vietnam to TNK-BP and the sale of certain non-core assets in the Gulf of Mexico to Marubeni. In the Downstream, we sold our interest in ethylene and polyethylene production in Malaysia and completed the sale of a number of non-strategic pipelines and terminals in the US. In October we also completed the sale of our French retail business.

Now looking ahead to the fourth quarter, in the Upstream we expect production and margins to reflect normal seasonal trends, the impact of turnarounds in the North Sea and Angola, continued impacts as a consequence of the Gulf of Mexico spill, and an impact of around 100 thousand barrels per day from the divestments we have already announced. In the Downstream, we expect a seasonal decline in refining margins and marketing volumes, which is likely to be exacerbated by high stock levels. Refinery turnaround activities are expected to be higher in the fourth quarter than in the third. We expect oil and gas markets to continue to be characterized by overcapacity, with limited volatility and little structural change. This is expected to continue to impact the contribution from our supply and trading businesses.

Organic capital expenditure for 2010 is expected to be around $18 billion. Given the strength of our underlying cash flows and the investment opportunities available to us, our 2011 capital expenditure is currently under review and is expected to exceed the $18 billion previously indicated. As usual, we will provide a further update early next year.

In closing, I would like to summarize the initial steps we have recently taken to rebuild trust in BP - the trust of our customers, of governments, of our employees and of the world at large. Securing that trust is vital to the restoration of shareholder value.

We are setting up a new Safety and Operational Risk function to oversee and audit the company’s operations around the world. The new organization is designed to strengthen safety and risk management across the BP group and will report directly to Bob Dudley.

The Upstream segment is to be restructured from a single business into three functional divisions, Exploration, Development and Production, to further deepen our focus on functional excellence. We will also be carrying out a detailed and wide-ranging review of how the segment manages third-party contractors.

We have announced a fundamental review of how we incentivize business performance, including reward strategy, with the aim of further encouraging excellence in safety and risk management.

As previously indicated, the Board will review its position on future dividend payments at the time of the issuance of the fourth-quarter 2010 results in February 2011. No decision will be taken until then, but the improving financial condition of the company and strength of disposal proceeds are encouraging, and balance our commitment to fund the escrow account at $5 billion per year through 2013 and the need to retain a high degree of financial flexibility.

In conclusion, I am encouraged by how well our businesses have continued to perform, despite events in the Gulf of Mexico. These results demonstrate both the strength of our underlying businesses and assets, and the determination of our employees to move the company forward. Across the Group the focus is on safe and reliable operations and the management of risk. This is the foundation necessary to rebuild trust in BP and restore value for our shareholders.

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