1Q 2010 Results Presentation – 27th April 2010

Fergus MacLeod, Head of Investor Relations

Hello and welcome to BP's first-quarter 2010 conference call. My name is Fergus MacLeod, BP's Head of Investor Relations, and today's presentation will be by Byron Grote, our Chief Financial Officer.

Just before we start, I'd like to draw your attention to our cautionary statement.

During our presentation today, we will make reference to estimates, plans and expectations that are forward-looking statements. Actual results, including production, could differ materially due to factors we note on this slide and in our UK and SEC filings. Please refer to our Annual Report and Accounts and first-quarter Stock Exchange Announcement for more details. Both of 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.

You will all be aware of the tragic incident last week on the Transocean Deepwater Horizon drilling rig.

Our thoughts go out at this very difficult time to the families, friends and colleagues of those affected.

BP continues to do everything it can to respond to the incident and has put into place a comprehensive plan for both oil well intervention and spill response.

Working with the US authorities and Transocean we will ensure that the Group's full resources are behind the efforts to control the well and to ensure that there are no serious environmental consequences.

We will continue to provide regular updates on our progress.

I will now 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 the refining indicator margin.

Our liquids realization of $72 per barrel was up 6% on 4Q and was over 70% higher than a year ago.

Our gas realization increased to $4.26 per thousand cubic feet, up over 15% on both the previous quarter and a year ago.

Taking both oil and gas together, our total average hydrocarbon realization was up 7% compared with 4Q'09 and was 57% higher than a year ago.

The refining indicator margin of $3.08 per barrel remained weak, being 50% lower than a year ago.

Turning to the financials.

Adjusting for a charge of $50 million for non-operating items and fair value accounting effects, our first-quarter underlying replacement cost profit was $5.6 billion, an increase of 120% on the 1Q'09 result. This strong performance reflects higher hydrocarbons realizations, continued operational momentum and lower underlying costs, partially offset by a weaker supply and trading contribution, lower refining margins and higher DD&A.

First-quarter operating cash flow was $7.7 billion, up 38% compared with last year.

The 14 cents per share dividend announced today, which will be paid in June, is the same as a year ago. Shareholders approved the proposal to offer the choice of receiving a scrip dividend at our recent Annual General Meeting. The scrip dividend programme will be available for this, and future, dividend payments.

Turning now to the performance of the businesses.

In Exploration and Production, after adjusting for a gain of $100 million for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $8.2 billion for 1Q, up $4.3 billion compared with last year. This reflects an improved price environment and continued underlying operational momentum. The contribution from gas marketing and trading was lower than the strong result of last year but still within the typical quarterly range.

Production again exceeded 4 million barrels of oil equivalent per day, broadly flat with a year ago and 1% higher after adjusting for entitlement impacts in our production-sharing agreements.

We have maintained momentum in reducing costs. After adjusting for restructuring charges, unit production costs were 3% lower than a year ago. DD&A is higher than a year ago, in line with previous guidance. The first-quarter result also reflected a low exploration write-off, similar to last year.

BP's share of TNK-BP net income was $540 million for the quarter and we received a dividend of $260 million.

In Refining and Marketing, after adjusting for a net charge of $60 million relating to non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $790 million for the first quarter.

Pre-tax underlying replacement cost profit was down by $760 million compared to the first quarter of 2009, primarily due to a weak supply and trading contribution in contrast to the very strong first quarter in 2009. The result was also impacted by a weaker refining environment, with the indicator margin at around half the level of the same period last year, and marketing margins for some products compressed by rising crude prices.

These factors were partially offset by further cost efficiencies and by continued strong operational performance in the Fuels Value Chains, with both availability and throughput significantly higher than the same period last year. In addition, BP's actual refining margins fell by less than the indicator margin would suggest as a result of BP's highly upgraded refining portfolio.

The International Businesses, which include aviation, lubricants and petrochemicals, continued to perform well, with petrochemicals volumes up almost 40% compared to the same period last year.

From a regional perspective, underlying performance in the US improved by $500 million from the fourth quarter, primarily driven by delivery of further cost efficiencies.

Looking ahead to the second quarter, our turnaround activity is expected to be higher than in 1Q. The indicator margin has improved in the early part of the quarter, although we expect opportunities for further improvement to be limited. Continued low market volatility would limit the supply and trading contribution in the quarter. And finally, as new petrochemicals capacity comes onstream, we would expect those margins to also come under pressure.

In Other businesses and corporate, after adjusting for a charge of over $100 million for non-operating items, the first quarter's result was a charge of $210 million, an improvement of $230 million on a year ago.

This improved underlying result versus 1Q'09 is primarily due to favourable foreign exchange effects and lower costs, and margin improvement in Alternative Energy.

Guidance for 2010 remains unchanged from that given in February, with underlying quarterly charges volatile and averaging approximately $400 million each period.

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

Operating cash flow was $7.7 billion, up $2.1 billion versus a year ago.

We used this cash to fund $4.3 billion of capital expenditure, and distributed $2.6 billion in dividends.

Our net debt ratio was 19% at the end of 1Q. This is below the bottom of our targeted band, providing us with significant headroom to finance the recently announced Devon transaction.

Before closing, I would like to say a few words regarding the outlook for the rest of the year and our strategic progress.

Consistent with guidance, we expect production in 2010 to be slightly lower than in 2009. In the second quarter, we expect a normal seasonal turnaround effect of around 100mboed. These turnaround activities are planned for some of our highest-margin areas including the North Sea and the Gulf of Mexico, where activity is currently underway at Thunder Horse. This will impact costs and margins as well as volumes.

We are continuing to take action to reduce our cash costs. In spite of adverse effects from foreign exchange and fuel costs, first-quarter cash costs were slightly lower than a year earlier.

We continue to expect organic capital expenditure for the year of around $20 billion, despite less than rateable spending in the first quarter. Our disposal programme is on track with the bulk of proceeds expected in the second half of the year.

The effective tax rate for the first quarter was 34%, in line with our previous guidance.

Our strategy remains on track.
In Exploration and Production, we are continuing to see strong momentum. The transaction with Devon Energy gives us a material position in Brazil, deepens our incumbent positions in the Gulf of Mexico and Azerbaijan, and enables us to accelerate the development of the Kirby asset in Canada. In line with our strategy, this opportunity offers long-term growth potential with an emphasis on high-margin barrels leveraged to the oil price. In Iraq, the first major contracts to support the expansion of production from the Rumaila field were awarded.

Our new Centralized Developments Organization became operational on 1 April. This will drive greater capital efficiency by centrally managing all major projects across the upstream.

In Refining and Marketing we are continuing to make progress in delivering efficiency and improving portfolio quality. Our refinery availability in 1Q was over 95%, the highest since 2004. We announced two further transactions to simplify our portfolio, with the pending sale of our French retail business and our exit from five countries in Africa.

In Alternative Energy we took another step towards improving the cost competiveness of our Solar business with the announced closure of manufacturing at our Frederick, Maryland facility. In Wind, the business continues to grow with construction started on our 9th US wind farm.

Throughout the corporation, the focus is on efficiency with further progress in reducing overheads at all levels.

To have efficient operations, they must be safe and reliable. Across BP, safety remains our number one priority.

The 1Q results reflect the momentum that we have across the Group and we are determined to maintain it.

That concludes my remarks, Fergus and I will now take your questions.