Analyst Briefing

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Opening Remarks

Fergus MacLeod

Head of Investor Relations, BP Group

Disclaimer

Hello and welcome. My name's Fergus MacLeod, BP's Head of Investor Relations, and I'd like to thank so many of you for joining us at such short notice. Before we start, I'd just like to make the usual point that we may make references to estimates, plans and expectations in forward-looking statements and our actual results could differ materially due to factors we note in our UK and SEC filings. Please do have a look at our annual report and accounts, stock-exchange announcements and www.bp.com for more details.

Thank you and now over to Byron Grote.

Byron Grote

Chief Financial Officer, BP Group

The $20 billion fund

I'd like to thank everybody for joining us at short notice, especially since we had to defer the meeting by an hour because of the timetable in Washington DC, but we thought it would be useful to make ourselves available this evening to help you as you digested the announcement we made about 30 minutes ago. Recognising that that was so recent, I thought I'd just take two minutes and go through the high points of the announcement. This came as an outgrowth of the meeting we had with the President of the United States which was attended by the Chairman, Carl-Henric Svanberg, and Chief Executive, Tony Hayward. The Board has now announced a package of measures to meet its obligations as a responsible party, as we've always indicated, arising from this Deepwater Horizon incident in the Gulf of Mexico.

We have agreed to create a $20 billion claims fund which we'd be paying into over the next three and a half years. The payments into the fund would be made on a basis of $3 billion in the third quarter, $2 billion in the fourth quarter and then $1.25 billion per quarter across the subsequent three years. While that fund is building, we're going to underpin our commitments by setting aside some US assets with a value of $20 billion, and the intention is that these assets will be secured against the obligation but that level of assets will then decline as cash contributions are made into the fund. The fund will be available to satisfy legitimate claims, including natural-resources damages and state and local response costs. And I want to be clear that the fines and penalties will be excluded from the fund and those will be paid separately. Payments from the fund, as they are made, will be adjudicated by either the independent claims facility, and I will come to that in a moment, or by the court, or by BP, so there are three ways in which funds can be accessed in this plan. The independent claims facility will be administered by Ken Feinberg, who has experience in administering funds of this sort, and that independent claims facility will adjudicate all Oil Pollution Act and tort claims associated with it.

The fund doesn't represent a cap on BP liabilities, the President was clear in the comments that he made after the meeting today, but it is available to satisfy legitimate claims, so we've created a fund here and a process within that to expedite claims, and it provides assurance to those that had concerns that there will be funds available to meet those claims and a clear process for accessing them. Obviously, there'll be other mechanisms if individuals or companies wish to pursue them.

Dividend payments

As a consequence of this, the second main element of our announcement today was that the BP Board had reviewed its dividend policy and under the circumstances, or, let's say, in spite of the strong financial position and the deep asset base that the firm has, the Board has decided that it would be prudent, under these circumstances, to cancel the previously declared first-quarter dividend which was scheduled for payment on Monday of next week, and that no interim dividends would be declared for either the second or third quarters of 2010.

As a Board, we remain strongly committed to the payment of future dividends and are very much focused on delivering long-term value to our shareholders. The Board will consider resumption of dividend payments in 2011 at the time that we announce our fourth quarter 2010 results. At that stage, we would expect to have a much clearer picture and much better definition on the longer-term impact of the Deepwater Horizon incident.

The Board takes these steps having had deep consideration of all the factors and we've thought long and hard about it, but we believe it's right and prudent to take a conservative financial position, given the current uncertainty over both the extent and timing of costs and liabilities associated with the spill. Even though our business continues to operate extremely well with strong underlying cash flows, we feel it is very important to take a deeply conservative fiscal approach to running our business at the current time. It is in that framework that we made the decision with respect to the dividend today.

Procedure

That is a brief summary of where we are. I am sure you have a number of questions, which we'll attempt to address. You need to recognise that there are a number of details regarding the claims fund that are yet to be finalised, so we may have to pass on some of your questions. To use the time most efficiently, I'd ask that you limit your questions just to the issues associated with the recently issued stock-exchange announcement. On that note, I will turn over to Fergus to run the show here, Fergus.

Q&A

Jason Kenney (ING): Firstly, may I just wish you all the best of luck for the obviously challenging ongoing operations in the US Gulf of Mexico, and the remediation process. I've got one question really and that's to ask how the $20 billion number was arrived at. What is it made up of and how does it compare to BP's earlier estimates? What I'm trying to get here is the probability of the full $20 billion actually being used and what the chances are that, say, only half of this amount is actually necessary. Then, maybe on the back of that, is this fund just gross or net BP, or will it include contributions for other potentially culpable parties in the future?

Byron Grote: Jason, the number came, as you would anticipate, from negotiation with the US government officials. Their objective was to develop a number that would provide assurance to the businesses and individuals in the Gulf Coast, who are impacted by the Deepwater Horizon incident, that there would be funds available in order to meet any obligations that the company had towards them. The Oil Pollution Act of 1990 has a cap on the liability of $75 million, so there has been much concern about that in some quarters within the United States.

We've been clear since the very beginning that we would meet all legitimate claims associated with this incident, so from our perspective setting up a fund of this sort is merely a vehicle to meet those liabilities. If the fund is not fully utilised, then BP would be able to pull out any residual funds that are in there, so as far as we're concerned it creates clarity for individuals who are concerned about the funding mechanism. It provides an expeditious process through the independent fund that's been established, administered by Ken Feinberg, and it allows us to stage our injections into that in a way that I hope now provides greater comfort to both debt and equity markets that there is not a very large and significant impact on BP coming in an immediate timeframe. I think we've created clarity for individuals, we've created clarity for the government and we've created clarity for BP as part of that.

With respect to participation of our partners, I just would say that we expect all of our partners in the Mississippi Canyon 252 block to meet all of their legal obligations. I think I'll leave it at that, Jason.

Fergus MacLeod: It was notable, I think, Jason, the President himself said that he would continue to hold BP and all other responsible parties accountable.

Alejandro Demichelis (Bank of America): Thank you very much for taking my question. A couple of things here: as far as I have read on the release, it mentions just the Oil Pollution Act. Should we expect any other funds for a separate type of claims? I mean, for instance, the Clean Water Act or anything like that.

Byron Grote: This fund will be a vehicle for payment of all claims associated with this, with the exception of fines and penalties, which will be paid outside of that. Agreements, as I said earlier, that come through the independent claims facility, agreements that are reached directly by BP, or claims that reach conclusion through the judicial process – all three mechanisms – may be funded through the larger $20 billion fund. The only thing sitting on the outside of that at the current time would be any fines or penalties.

Alejandro Demichelis (Bank of America): Okay, thank you.

Byron Grote: I just want to add, with respect to the question, that's the wide framework on this. There are many details yet to be put in place, but you should take that away as the general principle on which details will be formulated.

Bruce Lanni (Nolenberger Capital): A couple of quick questions. First of all, can you provide some colour or commentary on the assets sales? Will it be the upstream, downstream? Secondly, how does this affect your agreement with Devon for the property acquisitions?

Byron Grote: The $10 billion in assets will be a range of non-core assets that we have that are not strategic to the longer-term success of BP. They will be primarily upstream assets within that and not important to the longer-term growth of BP.

As far as the Devon transaction goes, we would still expect to complete that in line with the agreement we reached with Devon earlier this year.

Bruce Lanni (Nolenberger Capital): Okay, so one other question I could ask you in regards to that. Can you tell us, at present, what your cash and debt balance is?

Byron Grote: I think we'd save that until the second-quarter results.

Bruce Lanni (Nolenberger Capital): Okay.

Byron Grote: But not materially changed from the levels that you saw at the end of the first quarter.

Bruce Lanni (Nolenberger Capital): Okay, great, thanks a lot.

Jon Rigby (UBS): Thanks for taking this call. It seems to me you've agreed to pay a $20 billion payment into an escrow account. You've essentially agreed to suspend the dividend for at least three quarters, yet your Chairman describes the meeting as being constructive. I would like to explore what it was that you saw or got out of the meeting, as a quid pro quo for what appears to be not a legal requirement, and something I think probably people at the run up to this thought was a pretty aggressive stance being taken by the US government.

Byron Grote: What we've got out of it, we believe, is the opportunity to, for the first time, have a constructive dialogue with the President of the United States and the administration. We've worked alongside them as we have addressed the spill over the course of the last couple of months, but as the frustration has grown with the inability to cap the flow, there has been increasing concerns about how BP was going to fulfil its obligations to all of those who were impacted by the incident, and the rhetoric in many quarters has grown as a consequence of that. That has had, I think, some fairly dramatic effects on BP.

The impact on both the debt and equity markets are clearly observable for one and all. Much of that was caused by the deep uncertainty of just exactly how were issues going to be resolved. So, for us to have the opportunity to sit down with the President of the United States, to have our Chairman and Chief Executive spend time with him, to carve out an agreement, creates a framework that is one that provides greater comfort and clarity to those who are impacted by it, provides a framework that is consistent with the intention that BP has had all along. I think when the President spoke to the fact that he believes that BP is a strong and viable company, and it is all of our interests that it remains so, I think that is a statement of the partnership that we now have with the administration that will help all of the people who have interests in BP and will certainly allow us to progress our business more effectively than would have otherwise been the case.

Fergus MacLeod: I think the only thing we might add to that, Jon, is that obviously the President and the company have got a shared characterisation of everything other than fines or penalties. It is not a ceiling, and it is not a floor, but it is a shared characterisation, and it is a place to start to think about the future.

Lewis Ropp (Barrow Hanley): Thank you very much, Fergus and Byron. A couple of questions. The first is: the President also referred to an agreement that BP would compensate unemployed workers due to the moratorium and he used a $100 million figure. Understanding that there is no cap on the $20 billion escrow fund, is there likewise no cap on the reimbursement for unemployed workers offshore?

Byron Grote: It would be my understanding that there is a $100 million fund.

Lewis Ropp (Barrow Hanley): So that would be it.

Byron Grote: It is $100 million, yes.

Lewis Ropp (Barrow Hanley): The next question is: you've talked about paying just legitimate claims, but with the establishment of an escrow fund and the adjudication by a third party, do they then get to deem what is a legitimate claim, or do you have some input into that?

Byron Grote: We have established an independent party to work these claims, so fundamentally they have the ability to determine what is legitimate and what isn't. The rules under which this will operate are outlined in the Oil Pollution Act of 1990, and as we've looked at that framework, we feel comfortable that is a solid basis in which to decide what is a legitimate claim and what is a long way from being one.

Lewis Ropp (Barrow Hanley): Okay. Finally, as the discussions around the dividends have proceeded in the last week or so, there was some thought that there might be a scrip or some makeup on the dividend at some future point, but there is no reference now to any type of keep-whole provision on the dividend, so is it just strictly a suspension, and we don't even know if it will be resumed at the same payment level at some point in the future?

Byron Grote: That's correct. We wanted to create clarity for shareholders over this period of time when there's still a very uncertain environment with respect to the spill in the Gulf of Mexico. We have reached out and we felt that the first time that it would be prudent for the Board to consider again its dividend distribution to shareholders would be at the beginning of next year, as we look at our final dividend for 2010 and can measure it up relative to the circumstances of the firm at that time. Again, we are taking a very financially prudent position during this period because of the uncertainty and in spite of the agreements that we've reached with respect to the setting of this fund in the United States, we believe that prudency argues to wait and see what we've got. After we finally have the well under control, we can deem much more clearly what is an appropriate pathway for the firm to go forward in 2011. We recognise the dislocation this provides many of our shareholders, especially our long-term shareholders who have held BP for its dividend yield, but the Board is looking towards the long term and what is right for this company over the long term, and is taking a decision in that context.

Fergus MacLeod: I will just remind you what we say in the statement, which is 'the Board remains strongly committed to the payment of future dividends and delivering long-term value to shareholders.' Of course, there are many paths to doing that.

Theepan Jothilingam (Morgan Stanley): Thank you, Byron, and thank you, Fergus, for hosting this call. A few questions, really. Could you talk a little bit about the comments about a significant cut to organic capex, and where you see those cuts? Does it impact near-term production? The second question was just around how the structure for holding the US assets, and how you go about valuing those assets. Could you talk a little about that? I know it's early days, but that would be great.

Byron Grote: The cuts will be primarily in the upstream. A lot of that is going to be just natural gravity, because we have so many resources involved in dealing with the spill. There is the moratorium that is occurring in the Gulf of Mexico, so there is obviously an impact in that area with a considerable slowdown in capital spending as a consequence. We would expect it to primarily be in the upstream. We would anticipate at this stage that our spending in 2010 is likely to be down by about 10% from the previous guidance that we provided, so around 18 as opposed to the 20 that we had originally indicated. We would expect that the consequences of this will carry on into 2011, so spending in 2011 is likely to be down by that amount or perhaps a bit more. Tony outlined in his remarks a couple of weeks ago that he expected the impact in the Gulf of Mexico to be about 50,000 barrels a day, and there is really nothing that has changed as a consequence of that.

As far as the structure, the details on that are still to be worked out. As I said, it will be US assets. We need, in some cases, to just look at the legal structure around joint-venture agreements to make certain that we can pull them in. There will be an independent valuation; it is still to be sorted out exactly how that will be progressed, but, given our asset base in the United States – in particular our asset base in the Gulf of Mexico – there should be no problem with getting a valuation of assets that meets those criteria.

Theepan Jothilingam (Morgan Stanley): Great. Just one follow-up question: in terms of the actual monetary value of the payments, is there any sort of logic behind $1.25 billion per quarter after the initial payments in 2010?

Byron Grote: This is, I think, consistent with a likely pattern of calls on the fund. You would expect there to be quite a significant call on the fund in the early stages, because there is a lot of impact at the current time. That is likely to slow down over time to some extent. The front-end loading is consistent with the fact that people want to see some money in it right away, so we're loading it up in the course of the second half of the year, to ensure that people can look at a fair number of billions of dollars and feel comforted that there is money there to meet their claims. But, like other elements here, it has been negotiated to a point that seemed sensible for both parties.

Theepan Jothilingam (Morgan Stanley): Thanks very much.

Clay Smith (Unicredit, Italy): Good afternoon. Could you tell me, were there any caveats put on your $20 billion escrow fund subject to flow rates from the well, against where they are currently, and the timely eventual success of the relief wells?

Byron Grote: The answer to that is no.

Clay Smith (Unicredit, Italy): So no caveats on that.

Byron Grote: No, this was an agreement in light of the circumstances as the parties see them today, recognising that there is still much uncertainty around the exact timing and the exact flow rate.

Clay Smith (Unicredit, Italy): Okay, thank you. And a follow-up question on the capex: when you said 2011 is down by that amount or a bit more, is that down on the $18 billion from 2010 by the same amount and a bit more, or keeping it level at that rate?

Byron Grote: No, I think that we indicated that we'd expected capex in 2011 to be flat to a bit higher than in 2010, and that's relative to the indication in March. So, at a similar level or maybe a bit less than the $18 billion number. But we will come back to this later in the year, when we're able to size up the opportunities much better, and give you a clearer indication, as we always do, going into the new calendar year. But for those of you who are searching for, 'What is the impact of this?', you can know with certainty that it will lead to a slowdown in our capital spending. And we think that, given the calls on the company to respond to this incident, once again, that's the prudent thing to do.

Clay Smith (Unicredit, Italy): Okay, thanks very much.

Kashif Malik (Pacific Life): Thanks for the call, gentlemen. A couple of very quick questions. In the past you've indicated that the target for your gearing ratio is between 20% and 30%, and the credit rating that you guys are targeting is AA. So with everything that's going on, have either of those targets changed?

Byron Grote: The 20-30% remains intact. We've always said that although we outline a range of that sort, it's our intention to stay at the lower end of that band, because that gives us the flexibility to deal with an uncertain environment, and that certainly has been punctuated by the events over the last couple of years. We've never said that we draw a line under a AA rating. AA ratings tend to be the place where a company like BP would, we feel, be most logically positioned, but in recent weeks there's been a run-up in Credit Default Swaps spreads that has created some uncertainties in the minds of debt holders. It spilled out of the uncertainties, I believe, with respect to what exactly the timing and nature of obligations in the United States would be. So, hopefully, this will create a calming effect in those quarters. We remain very closely tied and in dialogue with both Moody's and Standard & Poor's, making certain that they are well aware of the cash flows and the balance-sheet elements of the firm, and it's obviously up to them to decide whether or not the strength of the BP Group remains AA in its rating or, for near-term reasons and uncertainties, it should be something different than that. But as we sit here today, we remain AA-rated by both Moody's and Standard & Poor's, and we would hope that the actions that we took today would be reinforcing to that rating.

Kashif Malik (Pacific Life): Thank you.

Mark Gilman (The Benchmark Company): Good evening. Just a couple of quick things. Byron, is there anything about this agreement that was reached with the US administration that would in any way constrain your litigation strategy regarding these issues going forward?

Byron Grote: No.

Mark Gilman (The Benchmark Company): Okay. Secondly, do you have any financing plans in mind pursuant to the terms of the agreement going forward?

Byron Grote: The only financing plans are that we have now agreed an injection into the fund according to the schedule outlined, Mark. That's the only thing.

Mark Gilman (The Benchmark Company): No, I mean in terms of external financing, Byron.

Byron Grote: Well, we do external financing when it's appropriate. We manage these things from an overall Group perspective. But there's nothing tied with that explicitly in any form, Mark.

Mark Gilman (The Benchmark Company): Okay. Just one final one from me: in light of the testimony yesterday in front of the US Congress, does the company still maintain that the well was drilled on the basis of normal industry standards and practices?

Fergus MacLeod: Maybe I would jump in there, Mark, if I may. Byron did say at the start of this call, this call is about today's announcement. I'm sure we'll come back to these issues probably more than once, Mark, in the weeks and months to come.

Mark Gilman (The Benchmark Company): Okay, thank you.

Peter Hutton (NCB): I'm just running through the big numbers on this one in terms of the incremental cash that these various moves create over the next 12 months. I understand it will be roughly $2 billion on capex saving, about $7-8 billion on dividends not paid over Q1, Q2 and Q3, and about $7-8 billion from incremental divestments. That gets you to about $16-18 billion, against funds transferred into the compensation fund of around $7.5 billion. So, over the next 12 months, incremental $10 billion, and you're also keeping to your $13 billion upper limit. Is that an indication of the run rate of underlying costs of the expected clean up?

Byron Grote: Your math with respect to the incremental cash flows was good mathematics, but your conclusion was wrong. I'll come back again to my initial remarks. We believe that there's enough uncertainty around the wider context here that it's important that the firm is run in a prudent fashion, and therefore to operate with a focus on generating more cash than we can see as near-term obligations as, in the Board's view, the proper pathway to proceed over the course of the next few quarters. It is in no way, and I will underscore that again, it is in no way indicative of the level of outflows that we would expect over this period of time.

There are many things that are uncertain but the bulk of the payments should come out of the fund that we are establishing and you can see the flow of cash into that by the agreement reached today. Again, that doesn't include fines and penalties; those will have to be sorted out in due course once there is greater clarity with respect to the flows of oil out of the well and the period of time that it takes us to hold the leak and get it under control.

While there is that uncertainty out there, the company believes that it is prudent to continue to bolster its balance sheet to be able to address any uncertainties that might exist in the future. I hope you all agree this is a cautious approach but a prudent approach and an appropriate approach for the firm to be taking at this time.

Peter Hutton (NCB): Okay, understood. Thank you.

Alastair Syme (Nomura): Hi, Byron and Fergus. Can I clarify what legal entity will remit the cash into the escrow? Will it be BP PLC or BP Americas or some other entity within the organisation?

Byron Grote: Alastair, it is a wonderful question but, as I said at the beginning, we are very early at this stage. We have got a framework but we actually need to sort out the fine print as to what exactly are the entities involved in the structure. So when we have got that sorted I will be happy to share it with you but I don't know at the current time.

Alastair Syme (Nomura): Thank you.

Lucy Haskins (Barclays Capital): Can I ask, with the $20 billion of assets that is being put to one side, do you still have full claim over the cash being generated by those assets?

Byron Grote: Yes, the answer is yes. It is wrong to say it is like having a lien on it but maybe that is the simplest model. It is not a lien on it, but if you try to think of how it would work in practice, you are able to access the cash flows from it, it is just that it is held in security against future obligations if for some reason you fail to meet them. But on a day-to-day basis we would manage these assets and be able to access full cash flows from it.

Lucy Haskins (Barclays Capital): Thank you.

Doug Leggate (Bank of America): Thank you, Fergus. Thanks, Byron. I'm going to try a couple if I may: you guys obviously are operators at the well and you have got recourse to your partners on clean-up costs and so on, but your decision not to use the $75 million cap, your unilateral decision, I believe, to pay compensation up until the point where you made this decision on the fund, and your unilateral decision to put this fund, to what extent do you have legal authority to make those decisions on behalf of your partners? I would bear in mind that they have not, as I understand it, been named as a responsible party under OPA. So if you could give some colour on that, then I have a follow up.

Byron Grote: We believe that the expenditures that we are making are appropriate expenditures to be undertaken in response to the liabilities that we have as participants in this well, and we would expect our partners to meet their obligations as well. So I think that is all I will say on that.

Doug Leggate (Bank of America): Sure, I understand, Byron. I don't want to press the point but as we understand it you have not had discussions with your partners on some of these decisions and, again, there is no apparent authority that you have to make those decisions on their behalf, so that is really what I am trying to get clarification on.

Byron Grote: I think we will save that for another day. I have given you the framework, Doug, where we sit with respect to that, and we can come back and speak more to that at the time of the second-quarter results.

Doug Leggate (Bank of America): My follow up is much quicker, hopefully. As regards to costs you have spent to date on the actual clean up and trying to cap the well, can you give us some idea of the split as to how much is actually the engineering and so on and how much is actually the clean up? I will leave it there, thanks.

Byron Grote: I don't have the sheet in front of me right now. It is something that, Doug, I will just ask you to contact the IR department and they would be happy to show the spread of that – unless Fergus knows it off the top of his head.

Fergus MacLeod: I didn't bring the piece of paper down with me, Doug, but absolutely that detail is available and we can get back to you.

Byron Grote: The total is $1.75 billion to date. I look at the sheet every day; I just can't give you the split off the top of my head right now. Listen, I want to thank everybody for taking the time and, for those of you in London, the late hour to join us. It is a very important agreement that we have reached today with the US government; it is consistent with the intent we have had since the beginning which is to do the right thing and to respond and meet all of the legitimate claims associated with this incident.

This has now given a framework that will give more comfort to those in the Gulf Coast of the United States, it will give more comfort to the US government and we hope it gives more comfort to our shareholders with respect to the nature and timing of those obligations. The decision on the dividends, as I said, was taken after long consideration with respect to our obligations to our shareholders, but as we debated the issue at the end of the day we felt as though it remained the prudent thing to do to not pay dividends until we have a clearer picture in the beginning of 2011. It is something that is an extraordinary thing for the company to do but this is an extraordinary situation we find ourselves in and we hope that all of our shareholders understand the basis for coming to that conclusion.

Once again, thanks for joining us. We look forward to talking to you further about this and other issues in the months ahead. And for those of you who haven't had a chance to get a question asked and if, as you reflect on it more, you have got additional thoughts or concerns or issues you want to discuss, Fergus and his team will be available from the early hours tomorrow morning to address them. Back to you, Fergus.

Fergus MacLeod: Thank you very much, and thank you to everybody for participating.