

Executive Summary Talking Points - CERA 2016

SECTION 1: BP Group Issues / Positions

Oil Price & Energy Outlook

- A volatile oil price is normal. Oil prices have ranged from under \$10 to nearly \$150 in the last few decades. In fact the recent long period of \$100 plus prices was the exception not the rule.
- BP is well-placed to weather the storms. We are well prepared through the resetting and simplification work we have been conducting. This will position us strongly to meet the coming challenges and to deliver strong underlying business performance
- World energy demand will be 34% higher in 2035 with virtually all the increase in demand driven by fast-growing emerging economies, including China and India.
- Total carbon emissions increase by 20%, with 72% of emissions coming from the non-OECD by 2035. The growth rate of emissions more than halves, but that is still not enough to meet the global aspirations set by the COP process.
- US, Russia and Saudi Arabia will supply well over a third of global liquids out to 2035.
- All fuels experience growth, with the fastest in renewables; among fossil fuels, natural gas is the fastest.

4Q Results

See appendix

Upstream

Headcount reductions

- We have recently informed staff that we plan to further reduce numbers in our upstream segment by the end of 2016 as we continue to simplify our business, improve efficiency and reduce costs without of course compromising safety which remains our number one priority.
- BP is planning an Upstream organisation with a workforce of below 20,000 people by the end of 2016. To reach this level we need to reduce our current workforce of BP employees and agency contractors by at least 4000 people.
- We need to do more in order to be more competitive and recognise the increasingly challenging business environment. We have said on many occasions that we expect oil prices to remain lower for longer. This is part of an ongoing process which BP first began in 2013 to simplify its organisation and increase efficiency throughout the Group following the \$50 billion plus divestments of the past few years; this is delivering material results.

Downstream

BP's Downstream strategy has three objectives:

- Significantly improved returns
- Material and growing cash flows
- Industry leading net income per barrel

This is being delivered through:

- Safe & reliable operations where we have made significant progress over many years

- Advantaged manufacturing in both Refining and Petrochemicals, improving net cash margins and resilience to bottom of cycle environment, building top quartile refining and improved petrochemicals profit potential
- Profitable marketing growth where we are investing in high returning businesses, growth market access, differentiated products and customer focus, and leading technology
- Portfolio quality focused on competitively advantaged assets
- Simplification & efficiency where we are making material cost savings.

Renewables & Alternatives

- We have the largest operated renewable business of our peer group.
- We have 16 US wind farms and 3 cane ethanol mills in Brazil.
- Around 3M tonnes of CO2 were avoided through our wind and biofuels operations in 2014.

Policy Positions:

- **Climate Change:**
 - BP believes that climate change is an important long-term issue that justifies global action – but it is complex and challenging.
 - We believe that the scale of the climate and carbon challenge is such that governments must act by setting a clear, stable and effective carbon policy framework.
 - We support an economy wide carbon price as the most flexible and lowest cost policy.
 - We will continue to work in our own right as BP, and collaboratively with other companies in the Oil and Gas Climate Initiative (OGCI).
- **Water:** BP recognises the importance of access to freshwater in our operations and the need to manage water discharges. The oil and gas industry withdraws less than 1% of global freshwater resources, significantly lower than the agriculture industry (70%) and water supply sector.
- **Fracking:** BP is committed to the responsible development of unconventional gas, including shale gas and hydraulic fracturing, and has a long history of doing so.
- **Unburnable Carbon:** We believe that there is no basis of the unburnable carbon argument. It does not impact portfolio value as our reserves:production ratio is c. 13 years. We dynamically assess our portfolio for future resilience
- **Arctic:**
 - The Arctic offers significant opportunities to help us meet our growing energy needs, but it also carries specific challenges due to its unique nature and environment.
 - BP has operated in the U.S. Arctic for several decades and has interests elsewhere including the Canadian Beaufort Sea.
 - BP shares its knowledge and experience in the Arctic with our partners to help deliver safe and responsible operations in this sensitive environment. We invest in research and work with industry partners to improve overall industry capability in this area.
 - We will continue to assess other opportunities in the Arctic, proceeding only where we believe we understand and can manage associated risks.

SECTION 2: U.S. Issues / Talking Points**U.S.****U.S. Overview**

- For 150 years, BP has been contributing to America's economy and its energy security. Today, the U.S. is central to BP's global business, and we are committed to the economic vitality of the communities where we live and work. BP has a larger economic footprint in the U.S. than in any other nation where we operate, and over the past 10 years no energy company has invested more in America. Since 2006, BP has invested more than \$90 billion in U.S. oil, gas, renewables as well as the technology to produce them safely.

Redacted - Privilege

Investment

- Over the past ten years, BP has invested more than \$90 billion in the U.S. – more than any other energy company.
- We invest more in the U.S. than in any other country.

Jobs

- We employ about 16,000 people across the country, and our business activities support more than 170,000 additional U.S. jobs.
- In 2014, we spent \$4.7 billion on U.S. employees' salaries and benefits, including pension and other post-employment expenditures.
- BP employs Americans in oil and gas fields from Alaska to the Gulf of Mexico, as well as in oil refineries, petrochemical plants, wind farms, state-of-the-art laboratories, trading floors and the regional headquarters in Houston.

Production

- BP's U.S. production is significant. In 2015, BP produced 643,000 barrels of oil equivalent (boe/d) every day in the U.S., compared with 673,000 in 2014.

Refining

- BP ranks as one of the top refiners in the U.S., with the capacity to process 744,000 barrels of crude oil every day at its three U.S. refineries: Cherry Point, WA; Whiting, IN and Toledo, OH.

Retail

- There are more than 7,000 retail sites operating in the U.S. under a BP brand (BP, *ampm*, and ARCO), together representing nearly half of BP's global retail presence.
- BP markets more than 15 billion gallons of gas to consumers at our branded retail sites every year, enough fuel for 27 million vehicles year round.
- BP owns and operates Castrol, one of the world's most recognized lubricant brands.

Simplification

- In recent years, we have taken a number of steps to simplify the organization in conjunction with a global divestment program and in response to the recent challenging macro-economic environment.
- While we are a more focused company, BP remains committed to the U.S.
- Indeed, the changes BP is making today are further evidence that the company is committed to operating in a way that ensures it can contribute to America's economy and energy security well into the future.

GoM

- BP and its heritage companies have been at work in the Gulf of Mexico since the 1950s, and we have been exploring in the deepwater Gulf for more than a quarter century.
- We are the largest investor in the deepwater Gulf of Mexico over the past 10 years.
- BP is one of the largest leaseholders in the Gulf with acreage in about 470 lease blocks.
- BP continues to be a leading oil and gas producer in the region. We produced 249,000 barrels of oil equivalent per day in 2015, up from 189,000 boe/d in 2013. (Production was 252,000 boe/d in 2014.)
- The deepwater Gulf of Mexico is one of BP's core areas globally and BP believes it has significant opportunities for future growth based around four major producing hubs, four non-operated hubs and a highly prospective acreage position.
- Our business activities help support about 45,000 jobs, including 6,800 BP employees, across all five Gulf Coast states.

Lower 48

- In 2015, our U.S. Lower 48 onshore business began operating as a separate business, with its own governance, processes and systems.
- The goal of this change was to promote nimble decision making and innovation so that BP can be more competitive in the U.S. onshore market, while maintaining BP's commitment to safe, reliable and compliant operations.
- In its first year on its own, the business delivered material improvements in competitiveness and performance.
- Activity is also being designed and executed with more innovation, and the benefits of deflation are being captured.
- Significant opportunity remains within the existing portfolio. The business has a material resource base, with 7.5 billion barrels across 5.7 million net acres.
- In 2015, production was roughly flat, with about 285,000 bpd in 2015 compared with 290,000 in 2014.
- The team is focused on optimizing this portfolio both through re-energizing the development of previously underworked acreage and also by selectively screening opportunities for inorganic activity that may complement existing assets.
- In December, L48 announced its first major acquisition in seven years, with an agreement to purchase Devon Energy's assets in the San Juan Basin.

Alaska

- BP is committed to maintaining a safe and compliant business in Alaska that is sustainable. With this in mind, we are evaluating activity and adjusting expenditures in response to the lower oil price environment.
- Improving our cost base is critical to maintaining our activity level at Prudhoe Bay and the long-term viability of an Alaska LNG project.

BP-Operated Prudhoe Bay

- Greater Prudhoe Bay (GPB) 2015 daily production averaged 281,800 BOPD (barrels of oil per day).
- Our resized organization will accommodate our commitments with a reduction in force of about 13% of our 2,100 Alaska-based employees and agency contractors. Upstream workforce reductions are expected to be completed by mid-2016.
- In today's low oil price environment, Prudhoe Bay's working interest owners must look closely at every investment decision.

BP Non Operated

- BP's total net production in Alaska including Prudhoe Bay and the six non-operated fields totalled 108,000 BOPD in 2015.
- The Point Thomson field is on track to commence production in 2016. BP holds a 32% working interest in the field, and ExxonMobil is the operator.

Alaska LNG project

- BP remains committed to an Alaska LNG project that includes the State of Alaska as an equal participant and co-investor in the project. Negotiations are ongoing and the agreements are complex.
- Alignment among the parties, competitive cost of supply and Alaska's reputation as a future energy source are key to the success of this project.
- Together with the State of Alaska, ExxonMobil, ConocoPhillips, and the Alaska Gasline Development Corporation we are moving forward on the single largest investment in Alaska's history.
- The project is currently in the \$500 million pre-FEED phase, with first commercial gas estimated in 2025.

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SECTION 3: Regional Issues / Talking Points

Russia

- Russia is a very significant resource holder and will continue to play an important part in long term energy supply to the global economy.
- BP holds a unique position in Russia through its 19.75% share in Rosneft, the largest publicly traded oil company in the world in terms of oil production. Through our investment in Rosneft we aim to bring significant long-term value to BP's shareholders
- We remain committed to our investment in Rosneft and have no plans to reconsider our shareholding.
- We will continue to look for competitive opportunities to deepen our investments in Russia together with our partner Rosneft.
- We comply with all applicable sanctions and will review each investment opportunity on a case by case basis.

Mexico

- BP has had a presence in Mexico for more than 50 years. We are committed to Mexico and our vision is to be a long-term partner to Mexico for at least another 50 years.
- Mexico is to be congratulated for the historic, wide-ranging energy reform it passed in such a short time.
- Congratulations on progress with Round 1; BP is ready for the deepwater exploration round and the deepwater farm-outs
- It is critical to maintain reform momentum and kick-start Mexico's deep water industry. Round 1.4 on deepwater exploration contracts should go ahead later this year with bids in 4Q. The current oil price is not really relevant. These are long term projects.
- We are delighted that PAE (BP 60%) won the Hokchi contract in Round 1.2 and drilling should hopefully begin by year end.
- It's an exciting time for Mexico's energy industry. We support the energy reform. It is the right policy for Mexico and for the Mexican oil and gas industry.
- Despite the challenging environment, we encourage Mexico to move ahead with the deep water round this year. Since we are years away from first oil from the deepwater projects, the sooner projects kick-off, the better for Mexico

China

- We are committed to contributing to China's energy solution and to creating material value growth for BP by becoming a trusted energy partner with and within China.
- We are creating stronger ties with our partners and unlocking more potential on China-UK energy cooperation through a number of deals signed during the historical UK State visit of President Xi:
 - In an expansion of its ongoing global partnership with China National Petroleum Corporation (CNPC), BP and CNPC have entered into a strategic domestic partnership covering potential shale gas exploration and production in Sichuan Province, retailing JV in Hunan and Jiangsu.
 - BP and China Huadian Corporation's LNG deals not only strengthen China's connections to BP the UK as global trading partners, it also supports China's commitment to improving its air quality through the use of lower carbon fuels.

- With strong expertise and advanced technologies, BP is well-positioned to support and contribute to China's strategic development, particularly on low-carbon economy, "One Belt, One Road" initiatives, green agendas and development of advanced manufacturing.
- BP supports the reform agenda and path China is on and believes that market forces are the most efficient manner for resource allocation over the long-term for sustainable growth of the economy.

Iran

- BP has a long history in Iran, stretching back 100+ years. When appropriate, we would be interested in considering possible opportunities. We have had some initial meetings – but it is too early to discuss either meetings or possibilities.
- However, with \$30 oil it is clearly very difficult time for industry, so we are having to make many hard choices and be very disciplined about where we invest. Any opportunities would have to be considered against this and other possibilities elsewhere.
- And of course we would also need to ensure that any activities would be fully in line with sanctions. Progress has been made with many sanctions being lifted, but we would need to ensure any activities we considered pursuing were fully compliant with all relevant sanctions.
- So it is still early days, but we're watching the potential with interest.

Middle East

- BP has a long history in the Middle East and has some important developments underway in the region. We are very active in the region at Rumaila project in Iraq, Khazzan project in Oman, continued partnerships in Abu Dhabi including ADMA-OPCO and a technical service contract in Kuwait.
- In Iraq we recently extended our redevelopment contract for the supergiant Rumaila field by five years to 2034. With our partners we plan to increase production to more than 2 million barrels a day by 2020.
- In Oman, we are making good progress on the \$16 billion Khazzan project. A recent extension to the Extended Production Sharing Agreement will enable a second phase of development, accessing additional resources that have been identified by drilling activity within the original concession block. We are at over 60% completion for Phase One, with ten rigs now in operation and key field infrastructure in place. Everything is on track for delivery of First Gas by the end of 2017 with gas from the second phase of development expected to flow from 2020. This project will eventually deliver 1.5 billion cubic feet of gas a day, increasing Oman's domestic gas supply by around 40%. This is one of the Middle East's largest unconventional tight gas accumulations and will secure domestic gas supplies for Oman over many decades.
- In Kuwait we are supporting Kuwait Oil Company to increase production and maximize the value of the giant Burgan field through a technical service contract to manage a waterflood program in Burgan. It underpins BP's strategy of developing giant fields.
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Key Investor Messages

2015 highlights

- Maintained safe, reliable and efficient delivery
- Moved quickly to reset our capital and cash cost expenditure
- Divestments of \$10bn reached for 2014/15
- Announced agreements in principle with US Govt. and States arising from DWH spill
- Sustained the Dividend

Oil price environment – lower for longer, but not lower forever

- Deteriorating environment is bringing about a period of intense change for the industry – expect 2016 to be tough
- Considerable momentum behind our continued efforts to transform BP for the current environment, and have the ability to adapt and compete
- Responding to today's challenges in a very thoughtful way so as not to compromise safety or the growth plans that are essential for our future
- Rapid pace at which we are resetting the business is putting us well down a path of rebalancing our financial framework

Our proposition for value growth

- **A clear set of enduring principles**
 - Relentless focus on safety and reliability
 - A balanced portfolio with distinctive capabilities
 - Portfolio actively managed for value over volume
 - Continued capital and cost discipline
 - Growing sustainable free cash flow and distributions over the long-term

Medium-term financial frame

- Re-establish a balance in our financial framework by 2017 where operating cash flow covers capital expenditure and the current dividend, at an average Brent oil price of around \$60/barrel
 - Capex of \$17-19bn in 2016/17, towards the lower end of the range in 2016
 - Cash cost reduction of close to \$7bn by 2017 vs. 2014
 - Balance organic sources and uses of cash⁽¹⁾ at around \$60/bbl by 2017; organic free cash flow⁽²⁾ growth thereafter – would expect to drive the balance point below \$60 per barrel should current conditions persist for longer than expected
 - Divestments of \$3-5bn 2016, \$2-3bn 2017+
 - Gearing managed with flexibility around 20%, although we expect gearing to run above 20% while oil prices remain weak
 - Plan supports our commitment to sustaining the dividend

Our future

- Confident we are doing the right things and that we have the ability to adapt and compete in these challenging times
- Our aim is always to grow free cash flow and distributions over the long term and this will continue to guide our decisions
- We believe we have the right portfolio, the right projects and the right investment framework to do this

(1) Excludes DWH payments, includes 100% of dividend.

(2) Organic free cash flow = Operating cash flow excluding Gulf of Mexico payments less organic capex.