



# **First half 2008 update**

**29 July 2008**



# Cautionary Statement

## Forward Looking Statements - Cautionary Statement

This presentation and the associated slides and discussion contain forward looking statements, particularly those regarding oil and gas prices and impact of price changes; continuing operational momentum; underlying production growth and effects of production-sharing agreements; expected start up and timing of projects; impact of seasonal turnarounds on volumes and costs; expected financial benefits of higher refinery throughputs; expected benefit from continued increase in refining availability; impact of higher energy costs and planned turnarounds on refinery earnings; impact of slowing economies and rising wholesale prices on marketing businesses; expected growth in oil demand; impact of planned refinery startup on global gasoline supplies; reduction in corporate overheads; expected timing of financial benefits of lower overheads and simplified business model; annual charge; effective tax rate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including the timing of bringing new fields on stream; future levels of industry product supply; demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; exchange rate fluctuations; development and use of new technology; changes in public expectations and other changes in business conditions; the actions of competitors; natural disasters and adverse weather conditions; wars and acts of terrorism or sabotage; and other factors discussed elsewhere in this presentation.

**Reconciliations to GAAP** - This presentation also contains financial information which is not presented in accordance with generally accepted accounting principles (GAAP). A quantitative reconciliation of this information to the most directly comparable financial measure calculated and presented in accordance with GAAP can be found on our website at [www.bp.com](http://www.bp.com)

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A decorative graphic on the left side of the slide, composed of several overlapping, curved leaf-like shapes in shades of green and yellow, arranged in a fan-like pattern.

**Tony Hayward**  
Group Chief Executive

# Financial results for 1H 2008

## **Replacement cost profit**

- \$13.4bn, up 23% vs. 1H07
- Per share 71.3¢, up 26% vs. 1H07

## **Post tax operating cashflow**

- \$17.6bn, up 25% vs. 1H07

## **Quarterly dividend per share**

- 14.0¢, up 29% vs. 2Q07

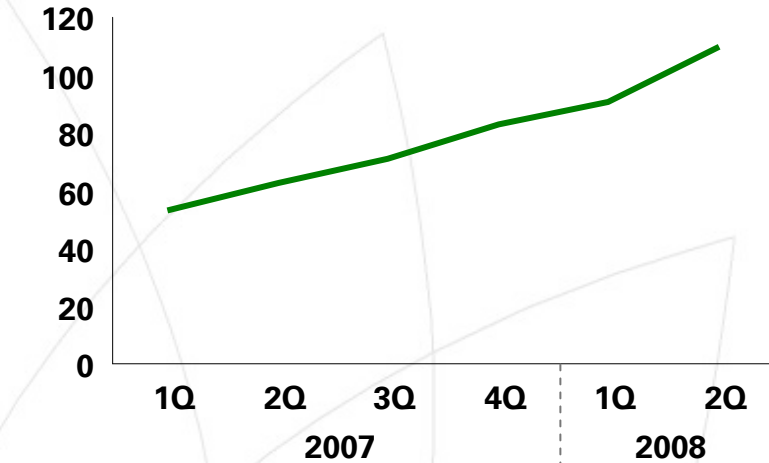
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**Byron Grote**  
Chief Financial Officer

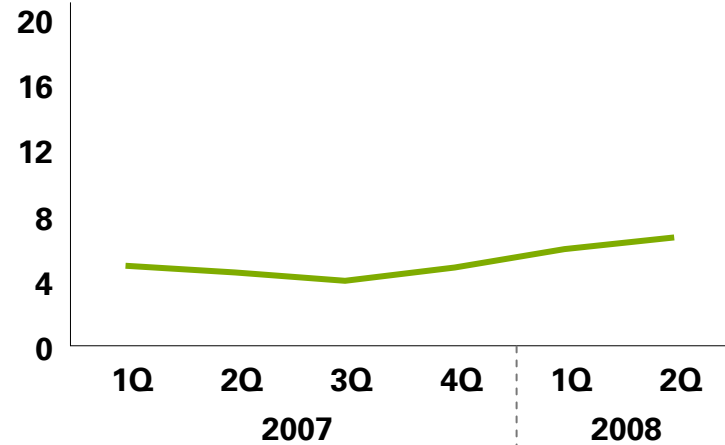


# Trading environment

**\$/bbl Liquids realization**



**\$/mcf Gas realization**



**\$/bbl Refining indicator margin**



Average realizations	Change vs 2007	
	2Q	1H
Liquids \$/bbl	76%	74%
Natural gas \$/mcf	49%	34%
Total hydrocarbons \$/boe	68%	60%
Refining indicator margin \$/bbl	(51)%	(51)%

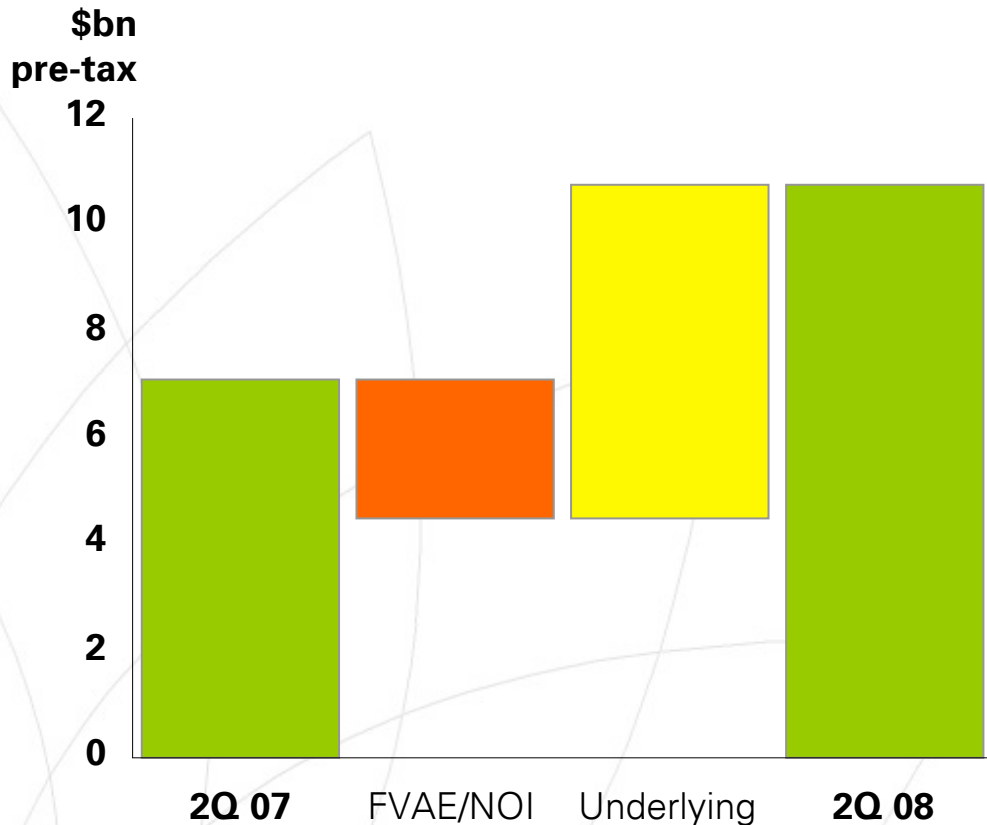
# Financial results



		<b>Change vs. 2Q 2007</b>	
<b>Results for the second quarter</b>	<b>\$bn</b>	<b>%</b>	<b>% per share</b>
• Replacement cost profit	<b>6.9</b>	6	8
• Profit including inventory gains/losses	<b>9.5</b>	28	31
• Net cash provided by operating activities	<b>6.7</b>	10	12
	<b>¢/ share</b>		
• Dividend to be paid next quarter	<b>14.0</b>		29%
		<b>Change vs. 1H 2007</b>	
<b>Results for 1H</b>	<b>\$bn</b>	<b>%</b>	<b>% per share</b>
• Replacement cost profit	<b>13.4</b>	23	26
• Profit including inventory gains/losses	<b>16.9</b>	40	44
• Net cash provided by operating activities	<b>17.6</b>	25	28



# Exploration & Production



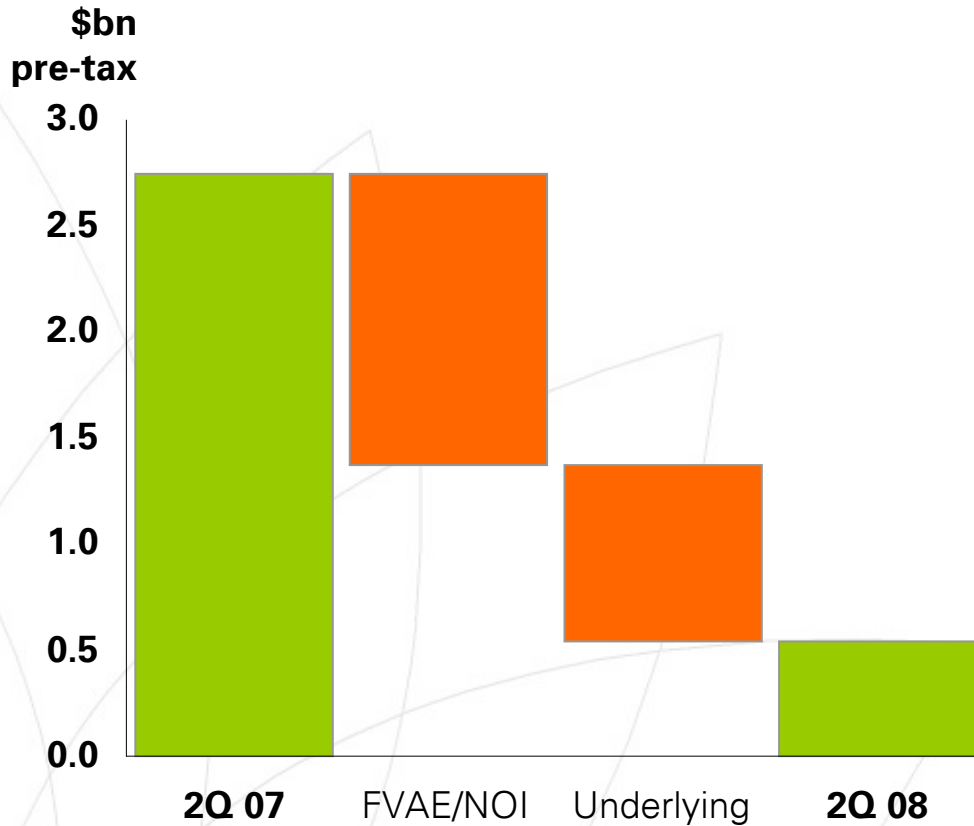
- Higher realizations
- Strong underlying production growth
- Greater TNK–BP contribution: prices and tax lag benefit
- Higher costs: sector-specific inflation, DD&A, production taxes
- Non-operating items: embedded derivatives

<b>6,815</b>	<b>Underlying result \$m</b>	<b>13,120</b>
<b>(74)</b>	<b>Fair value accounting effects (FVAE) \$m</b>	<b>(373)</b>
<b>378</b>	<b>Non-operating items (NOIs) \$m</b>	<b>(1,976)</b>
<b>7,119</b>	<b>Total result \$m</b>	<b>10,771</b>





# Refining & Marketing

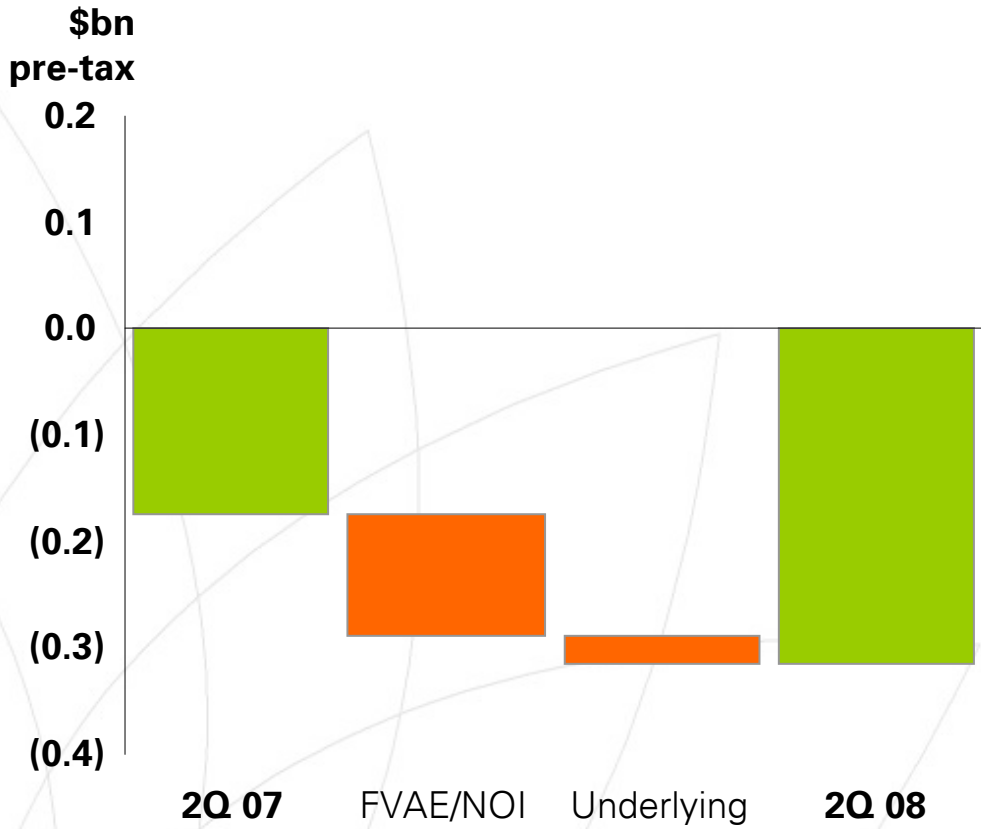


- Lower US refining margins
- Increased refinery throughputs
- Strong International Businesses contribution

1,638	Underlying result \$m	799
337	Fair value accounting effects (FVAE) \$m	(161)
767	Non-operating items (NOIs) \$m	(99)
<b>2,742</b>	<b>Total result \$m</b>	<b>539</b>



# Other businesses & corporate



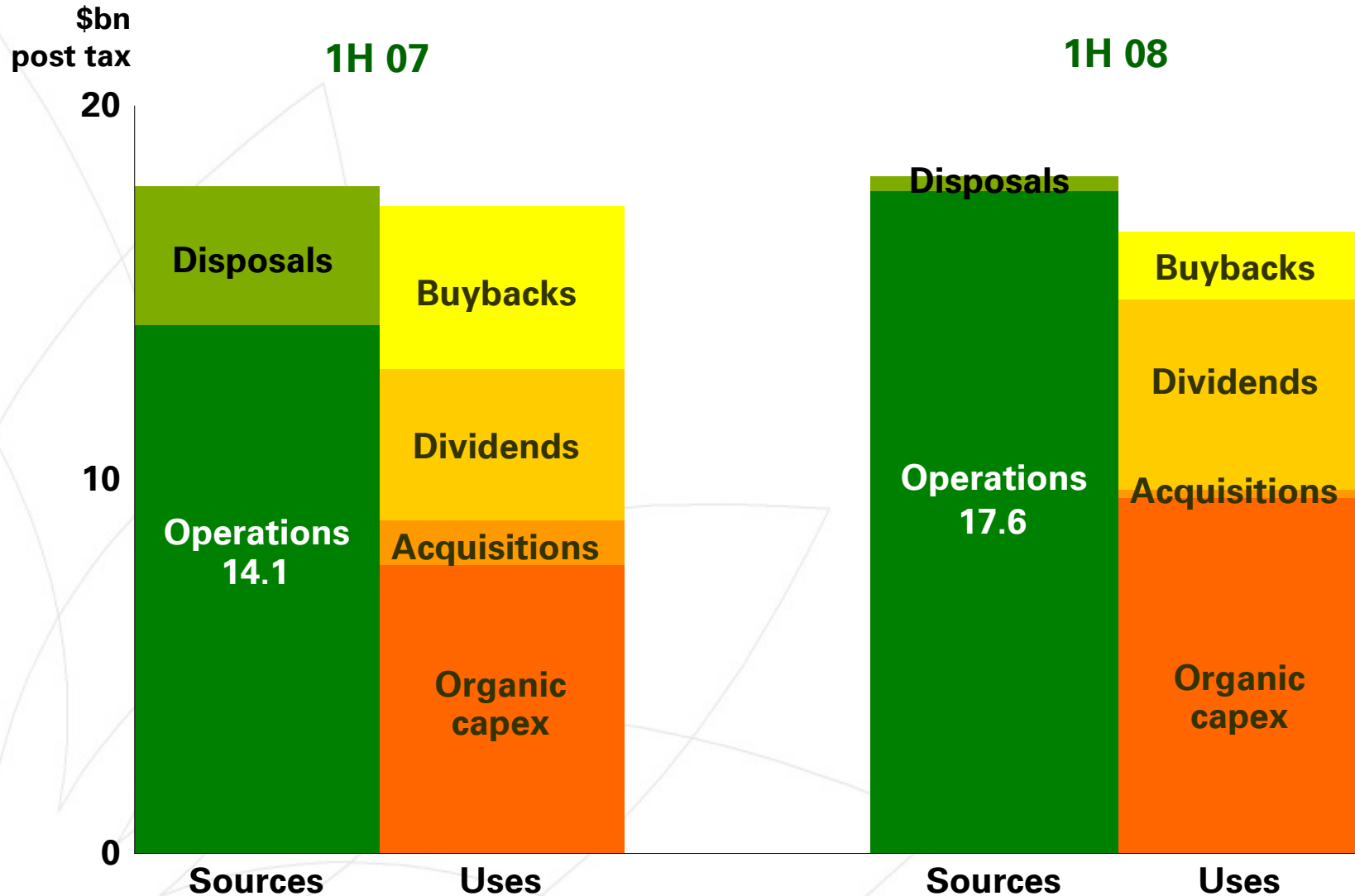
## Non-operating items:

- Restructuring costs

(165)	<b>Underlying result \$m</b>	(191)
(8)	<b>Non-operating items (NOIs) \$m</b>	(123)
<hr/>	<b>Total result \$m</b>	<hr/>
<b>(173)</b>		<b>(314)</b>

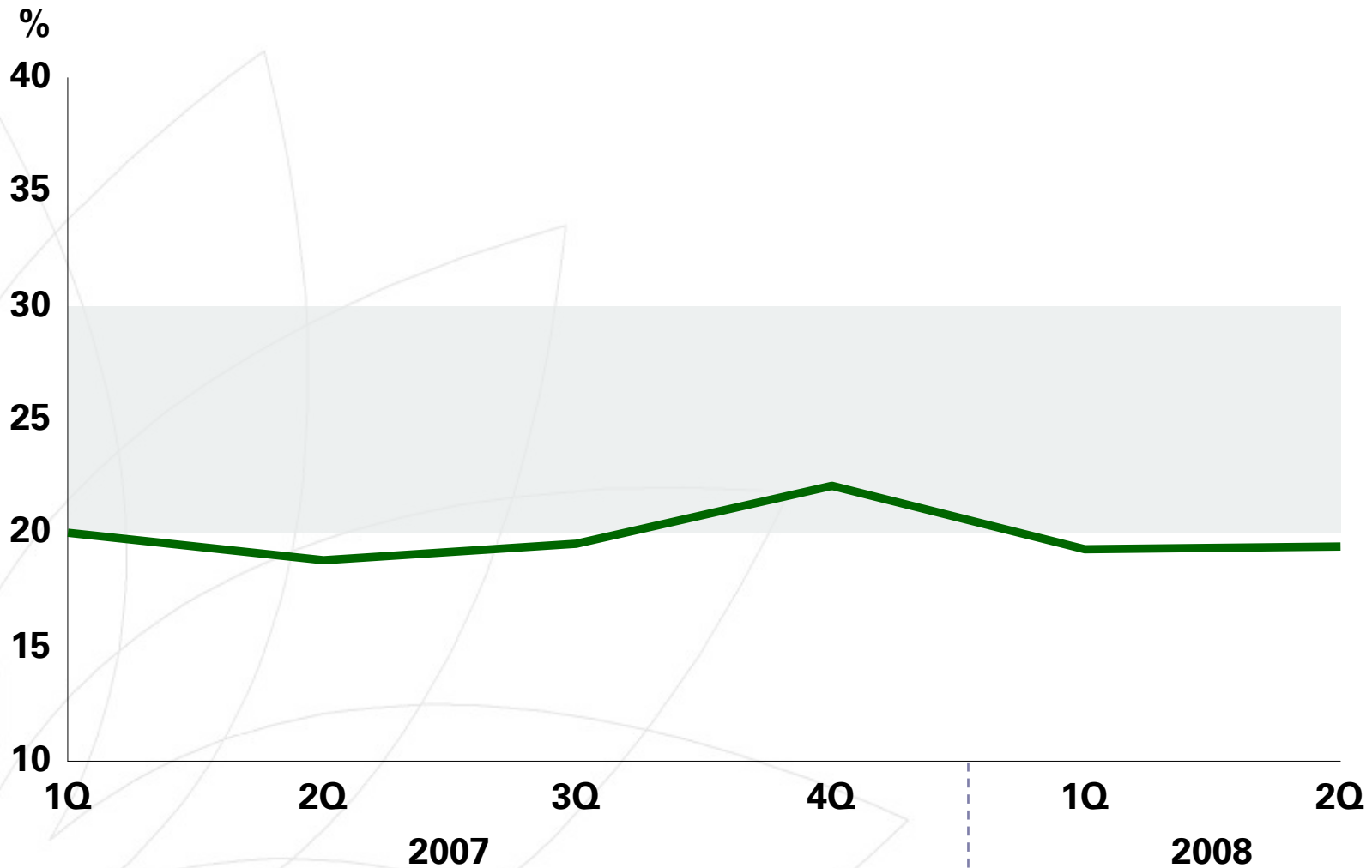


# Sources & uses of cash





# Net debt ratio



*Net debt ratio = net debt / (net debt + equity)*

*Net debt includes the fair value of associated derivative financial instruments used to hedge finance debt*

# Outlook



## **Exploration & Production**

- Strong underlying growth in full-year production
- Continued significant PSA effects
- Seasonal turnarounds ongoing in 3Q: North Sea and US

## **Refining & Marketing**

- Higher refining availability
- Current quarter-to-date refining margins significantly below 2Q 2008
- Higher energy costs and planned turnarounds
- Economic slowdown and rising wholesale prices impacting marketing businesses

## **Effective tax rate**

- Around 36% for the second half of 2008

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**Tony Hayward**  
Group Chief Executive

# 1H 2008 strategic progress

## Restoring revenues



### **Upstream production**

- Underlying production growth excluding PSA effects of 6% vs. 1H 2007
- Four major project start-ups: Deep Water Gunashli (ACG), Mondo (Kizomba C), Saqqara, Egypt Gas Phase 1-Taurt
- Commissioning of Thunder Horse underway

### **US refining**

- Whiting: full crude capacity and flexibility restored
- Texas City: full crude capacity and majority of economic capability restored

# 1H 2008 strategic progress

## Reducing complexity



### **Restructuring**

- Headcount reduction on track
- \$468 million 1H08 restructuring costs

### **Delayering**

- Reduction in management layers
- 20% senior positions removed

### **Business simplification**

- Integrated fuel value chain organisation established
- Focussing marketing footprint
  - Aviation: exiting 27 countries
  - Lubricants: reduced direct presence in 20 countries
- US convenience retail: 260 out of 800 sites moved to franchise offer so far



# 1H 2008 strategic progress

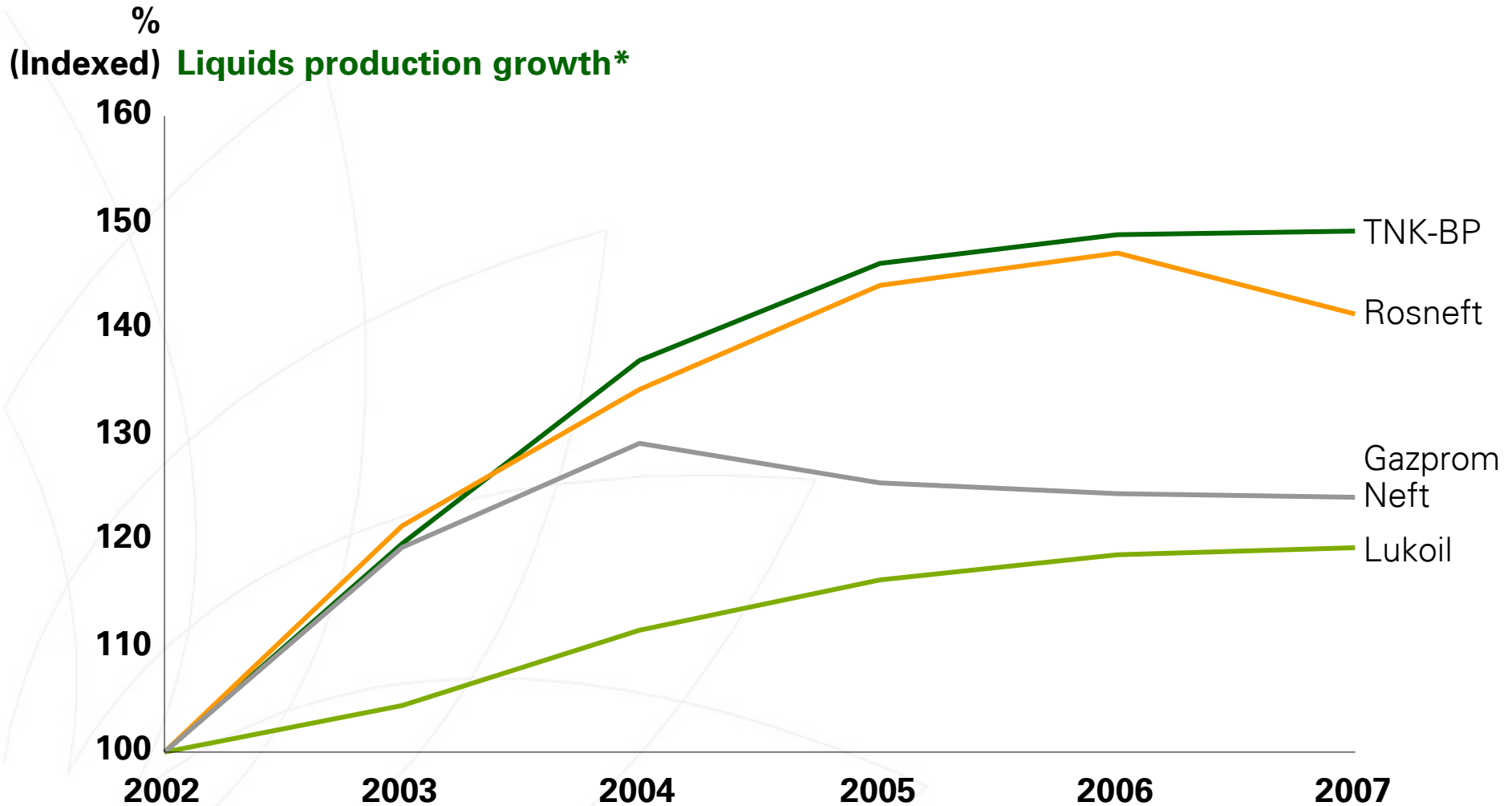
## Securing the future



- Continued exploration success: Angola, Egypt, North Sea, Gulf of Mexico
- New access to resources:
  - Integrated oil sands / refining JVs with Husky
  - Canadian Arctic – Beaufort Sea
  - Arkoma Basin Woodford shale gas deal
- Block 31 Angola: Approval of programme development
- Denali/Alaska Gas Pipeline
- Whiting Canadian Crude project: Final investment decision taken
- Brazilian biofuels

# TNK-BP performance 2003-7

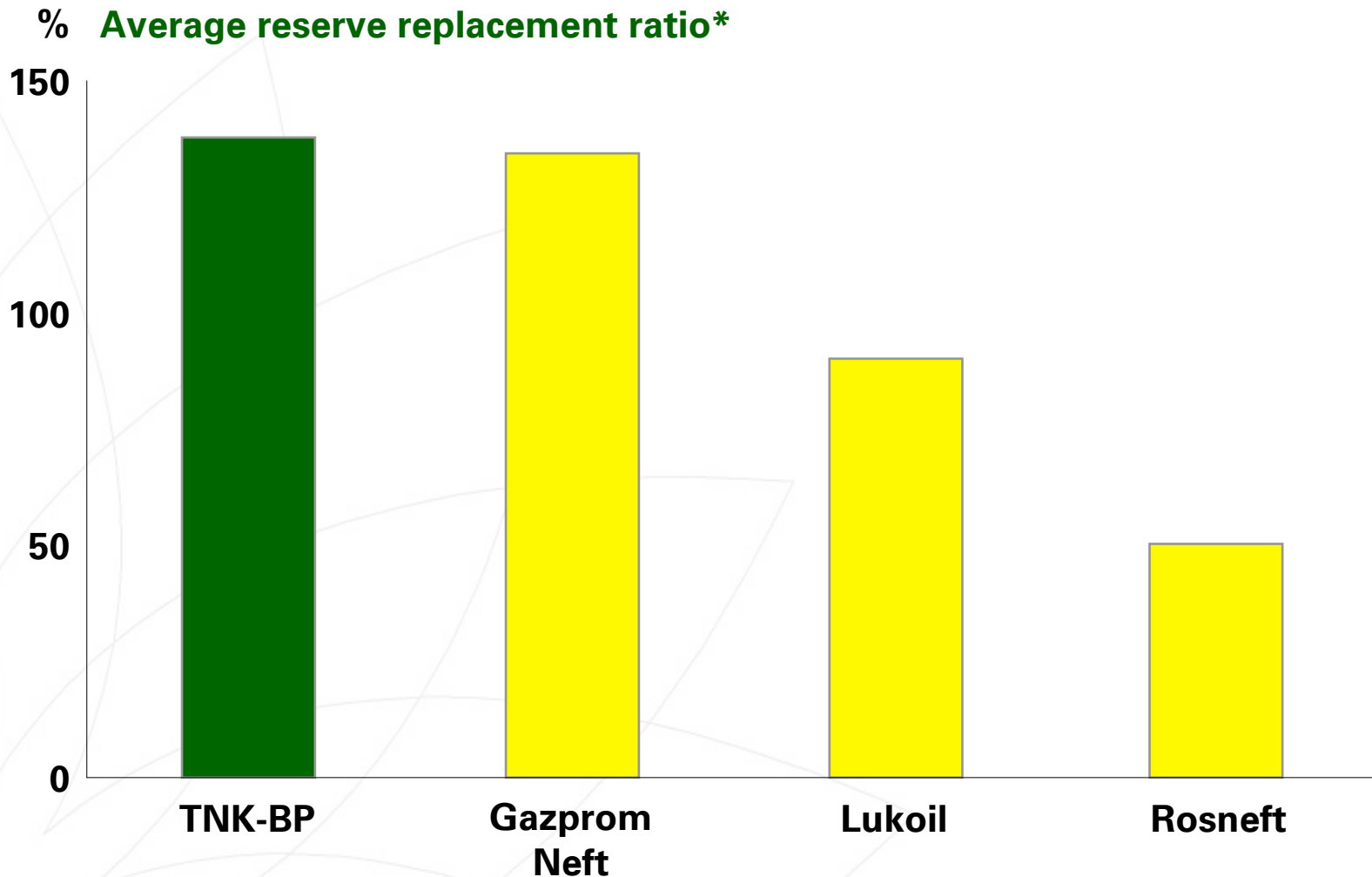
## Production growth



\* In Russia; Organic - excluding acquisitions & divestments  
Source: Central Dispatch Union – Russian Ministry of Energy

# TNK-BP performance 2003-7

## Reserves replacement



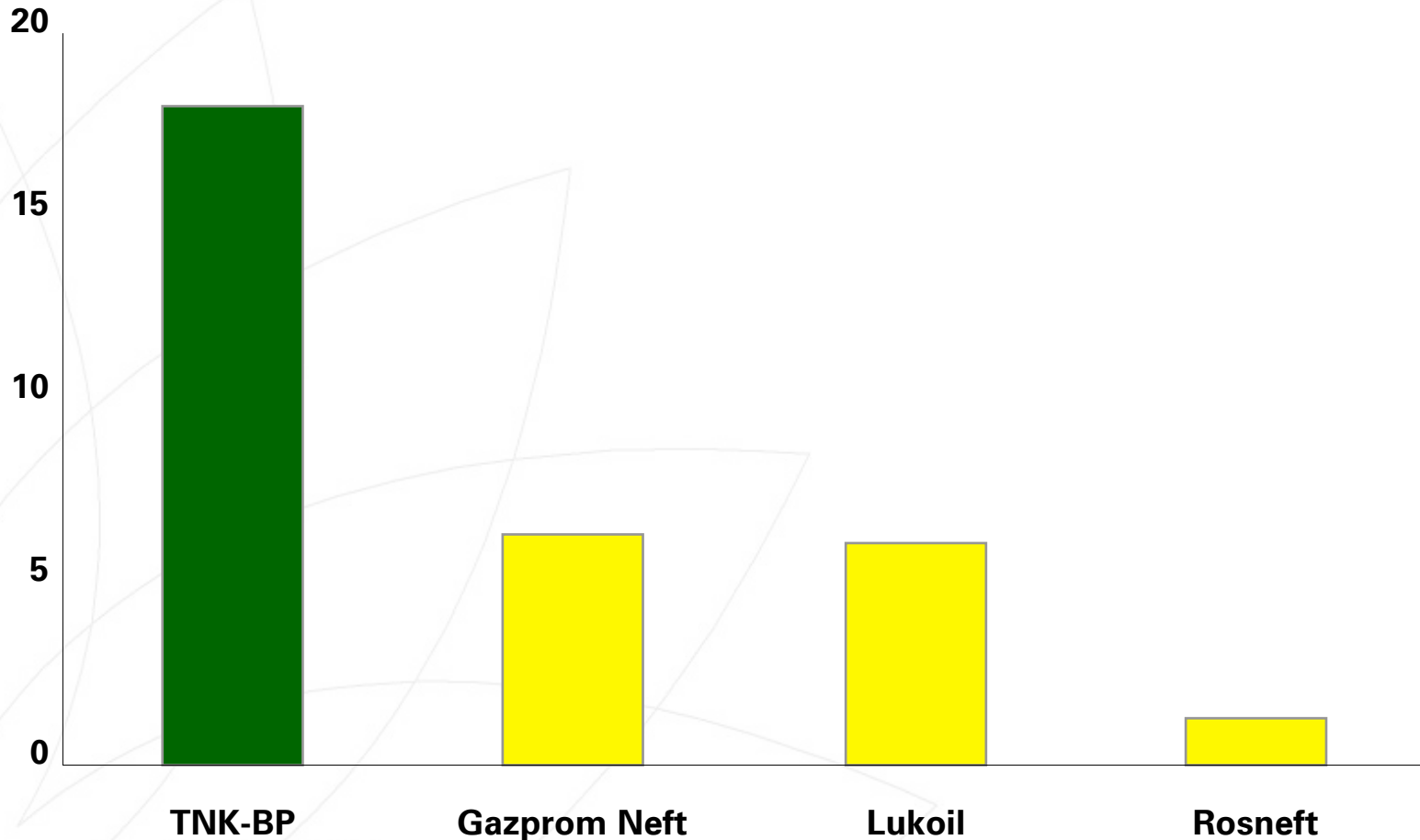
\* In Russia; Organic - excluding acquisitions & divestments  
Source: Company reports

# TNK-BP performance 2003-7

## Cash returns to shareholders



**\$bn Total cash distributions to shareholders\***



*\* Excluding acquisitions & divestments  
Source: Company reports*

# TNK-BP performance 2003-7

## #1 in Russia



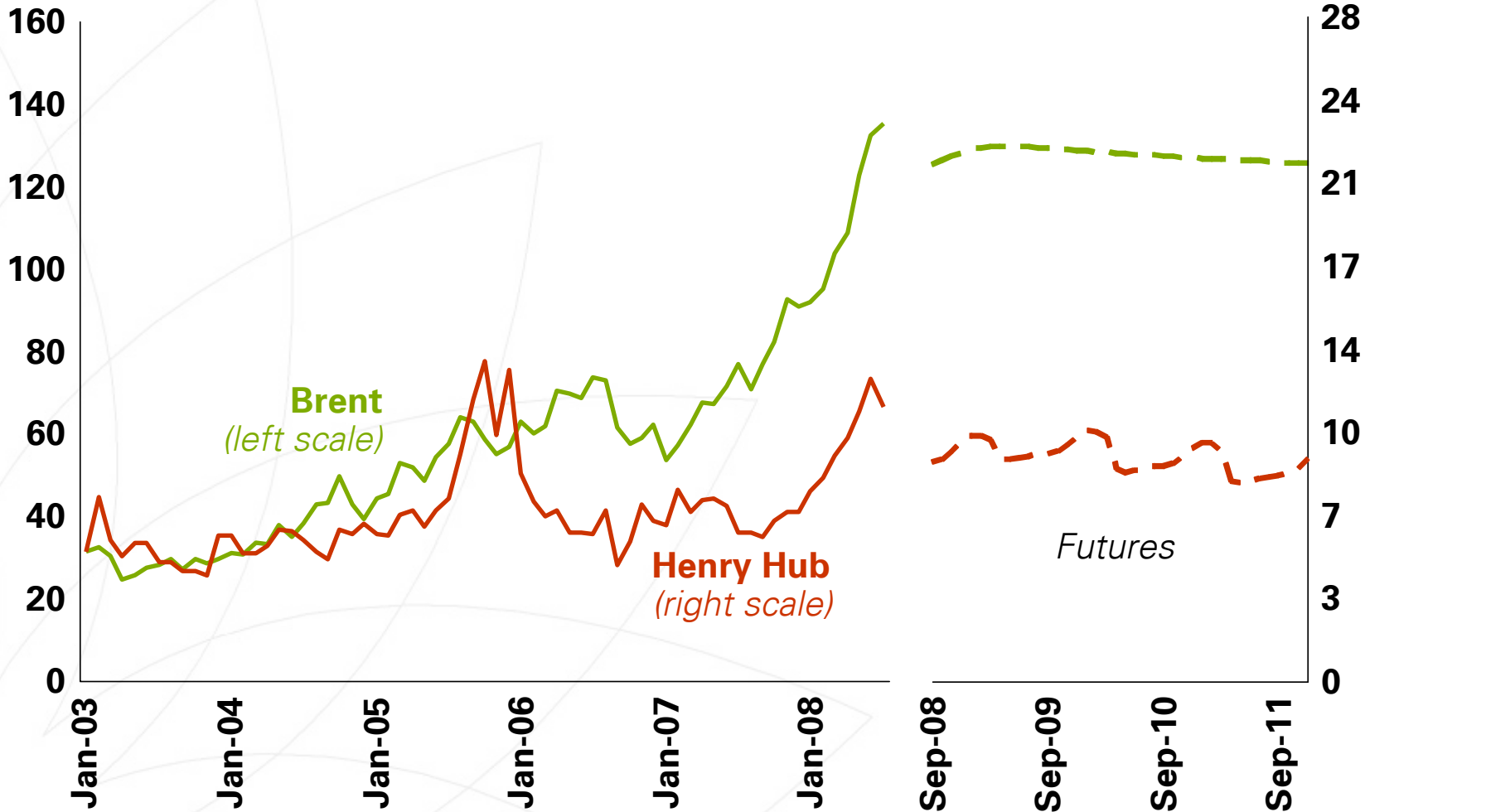
- **Production #1**
  - Highest organic growth rate\* of any major Russian oil company: 8%/year
- **Reserve replacement #1**
  - Highest reserve replacement\* of any major Russian oil company: 138%
- **Dividends to shareholders #1**
  - Highest cash payments to shareholders of any Russian company
- **Finding & development costs #1**
  - Lowest F&D cost of any major Russian oil company: \$2.20/bbl
- **Return on average capital employed #1**
  - Highest average ROACE of any major Russian oil company: 35%

# Changing business environment

## Oil and gas prices



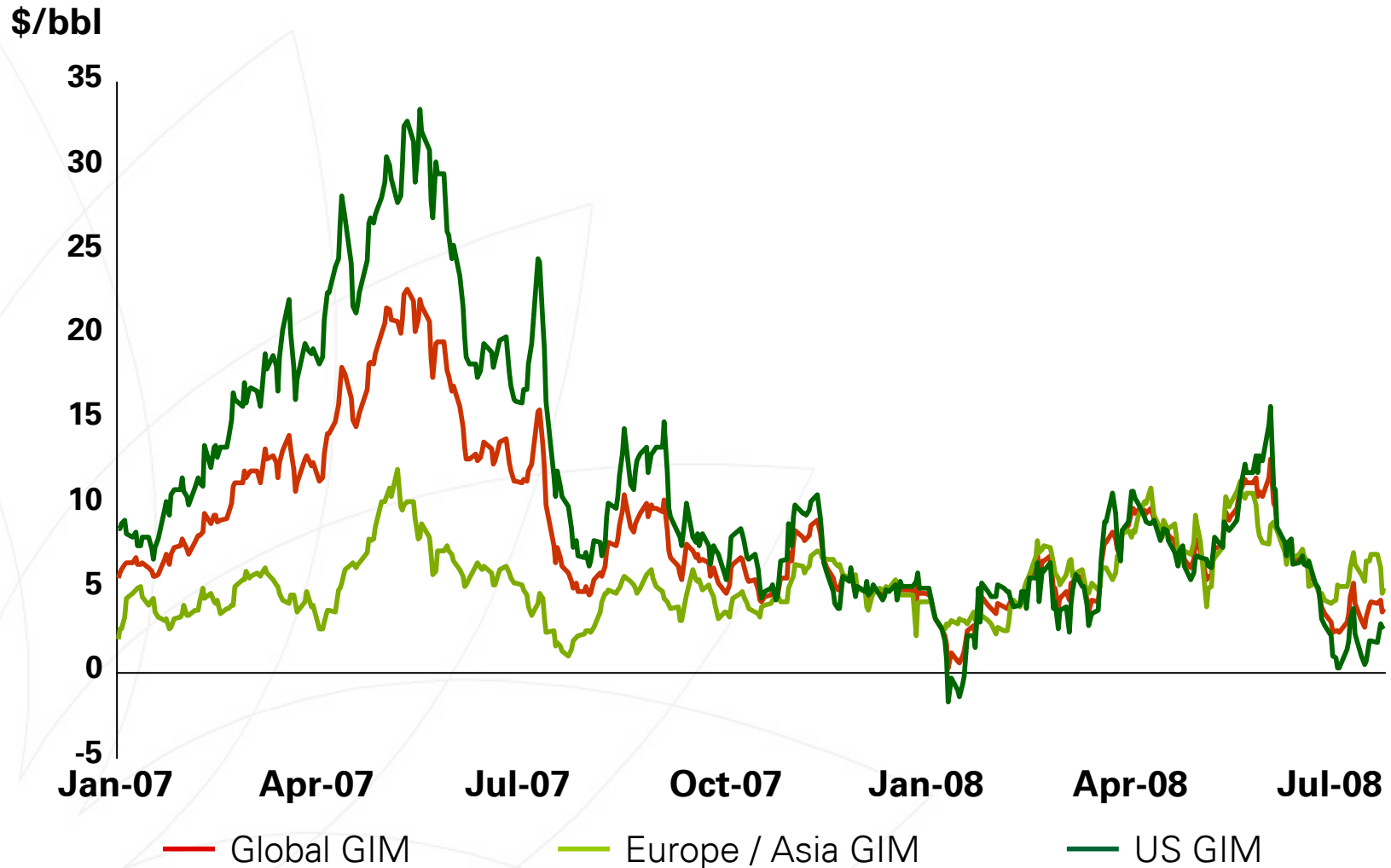
**\$/bbl Brent and Henry Hub Prices**



Source: Platts; Futures data NYMEX & ICE

# Changing business environment

## Refining margins



GIM = Global Indicator Margin

Source: BP

# Responding to the changing business environment



## **Increased activity in Exploration & Production**

- Capturing new growth opportunities
- Pull through of resources in established basins

## **Forward Agenda: continued focus on costs and efficiency**

- Capturing stronger business environment in the upstream
- Mitigating weaker business environment in the downstream
- Closing the competitive gap

## **Alternative Energy**

- Brazil biofuels
- Solar/Wind



# BP strategy: closing the competitive gap

- Upstream growth
- Downstream turnaround
- Corporate simplification
- Alternative Energy growth and equity value

# Q&A



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Chief Financial Officer



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Exploration & Production



**Iain Conn**  
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**Vivienne Cox**  
Chief Executive  
Alternative Energy



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