

BP Exploration & Production, Inc.
Consolidated Financial Reports
2Q14

(Un-Audited)

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FINANCIAL HEADLINES

Second quarter 2013	First quarter 2014	Second quarter 2014	\$ million	First half 2014	First half 2013
456	2,029	2,237	Revenues for the period	4,266	2,259
(1,403)	(1,505)	(1,931)	Expenses for the period	(3,436)	(2,599)
(948)	524	307	Replacement cost profit (loss)	831	(340)
1,178	31	383	Net (favourable) unfavourable impact of non-operating items (a)	415	1,203
230	555	690	Underlying replacement cost profit (loss)	1,245	863

(a) Includes non-operating expenses, impairment charges and gains/losses on asset disposals

BP Exploration & Production, Inc. (BPXP) reflects a second quarter replacement cost operating profit (RCOP) of \$307 million compared with a loss of \$(948) million for the same period a year ago. For the half year 2014, RCOP profit was \$831 million compared with a loss of \$(340) million for 2013.

Second quarter 2014 includes a non-operating loss (NOI) of \$383 million primarily from increased GCRO legal cost provisions, the quarterly GCRO functional costs and a retroactive adjustment to correctly charge previous GCRO functional costs from BP America Production Company, Inc. (BPAPC) into BPXP. These NOIs were partially offset with an overall net gain on asset disposals. After adjusting for non-operating items, the second quarter and half year underlying replacement cost operating profit before interest and tax was \$690 million and \$1,245 million, respectively, compared with \$230 million and \$863 million for the same periods last year.

As of second quarter 2014, the cumulative charges to be paid from the Trust, and the associated reimbursement asset recognized, remained at \$19.3 billion. No amount is provided for business economic loss claims not yet received, processed and paid by the DHCSSP. If the headroom of approximately \$0.7 billion becomes fully utilized, subsequent additional costs will be expensed to the income statement in future quarters. However cash flow will not be affected until available Trust cash balances of \$5.2bn have been fully exhausted.

	30-Jun 2014	31-Dec 2013
\$ million		
Non-current assets	21,615	20,815
Current assets	3,786	4,436
Total assets	25,401	25,251
Current liabilities	6,350	10,340
Non-current liabilities	15,336	11,669
Total liabilities	21,686	22,009
Net assets	3,714	3,241

The BPXP net asset position improved from year end 2013 to \$3,714 million. This increase represents the first half BPXP net income of \$473 million.

INCOME STATEMENT

A profit of \$158 million was recognized in the second quarter of 2014 versus a loss of \$(643) million for the same period last year. Last year's results were negatively impacted by the redistribution of a gain on asset disposals to BPAPC. Production volumes are up by 63% in the second quarter 2014 versus second quarter 2013 and up 37% for the first half of 2014 versus the same period last year. Realizations are down over those same periods by about 5%. Second quarter 2014 was negatively impacted by \$291 million of incremental post-tax Incident related charges, primarily from additional legal cost provisions and a retroactive adjustment to correct past GCRO functional costs from BPAPC to BPXP.

For the half year 2013, BPXP reflects a profit of \$473 million versus a loss of \$(278) million for the same period last year. The increase is largely driven by the absence of the gain redistribution and higher production.

The effective tax rate for first half 2014 was 40% compared with 22% in the same period last year. In the first half of 2013, BPXP was impacted by Sec199 Manufacturing deductions resulting in the lower effective tax rate.

Second quarter 2013	First quarter 2014	Second quarter 2014	\$ million	First half 2014	First half 2013
1,451	1,960	2,274	Sales and other operating revenues	4,234	3,255
4	8	(3)	Interest and other income	5	5
(999)	(0)	28	Gains on sale of businesses and fixed assets	27	(1,002)
456	1,968	2,298	Total revenues and other income	4,266	2,259
341	473	536	Purchases	1,010	732
709	472	915	Production and other operating expenses	1,387	1,103
298	388	507	Depreciation, depletion and amortization	894	661
(1)	5	2	Impairment and losses on sale of assets	7	(1)
56	105	32	Exploration expense and write off	137	104
(948)	524	307	Profit (loss) before interest and taxation	831	(340)
7	25	24	Finance costs	50	16
(955)	499	282	Profit (loss) before taxation	781	(356)
(312)	184	125	Taxation	309	(78)
(643)	315	158	Profit (loss) for the period	473	(278)

See Appendix A for additional information on impacts of GCRO on BPXP results.

BALANCE SHEET

The BPXP net asset position is \$3,714 million, up by \$473 million from year end 2013. As of the end of second quarter 2014, BPXP held a Group funding (current) and Group finance debt (non-current) of \$5,002 million resulting in a gearing ratio of 57%. This gearing ratio is down slightly from 60% at fourth quarter 2013 due to an overall increase in net asset position relative to Group funding and Group finance debt.

BP Products North America Inc. (BPPNA) holds preferential shares in BPXP as part of a post-merger rationalization in 2001, the terms of which require that a dividend be paid on a quarterly basis. These dividends have been deferred since second quarter 2010 and therefore have accrued at a rate of just over \$120 million per quarter to a total of over \$2.0 billion through second quarter 2014. Dividends on preferred stock, whether cumulative or noncumulative, do not accrue to the shareholders until declared by the directors and should be recorded only when declared.

\$ million	30-Jun 2014	31-Dec 2013
Non-current assets		
Fixed Assets	19,049	18,376
Trust reimbursement asset	2,569	2,442
Trade, other receivables and prepayments	(3)	(3)
	<u>21,615</u>	<u>20,815</u>
Current assets		
Inventories	472	470
Trust reimbursement asset	1,944	2,457
Trade and other receivables	1,319	1,488
Prepayments	51	21
	<u>3,786</u>	<u>4,436</u>
Total assets	<u>25,401</u>	<u>25,251</u>
Current liabilities		
Trade, accruals and other payables	2,435	2,705
Net Group funding *	1,602	4,476
Current tax payable	(234)	(139)
Provisions	2,547	3,299
	<u>6,350</u>	<u>10,340</u>
Non-current liabilities		
Other accruals and payables	2,620	3,074
Group finance debt	3,400	300
Deferred tax liabilities	281	(176)
Provisions	9,035	8,471
	<u>15,336</u>	<u>11,669</u>
Total liabilities	<u>21,686</u>	<u>22,009</u>
Net assets	<u>3,714</u>	<u>3,241</u>

*Group funding includes NAFCO financing and BP Company NA working capital.

See Appendix A for additional information on impacts of GCRO on BPXP results.

CASH FLOW

BPXP incurred a second quarter 2014 cash outflow of \$(79) million compared to a cash inflow of \$18 million for the same period last year. For the first half 2014, cash outflow was \$(225) million compared to \$740 million inflow during the same period of 2013. Scheduled plea agreement payments of \$565 million were made in first quarter 2014, reflected in the large cash outflow in debtors and creditors movements per the schedule below.

Second quarter 2013	First quarter 2014	Second quarter 2014	\$ million	First half 2014	First half 2013
			Operating Activities		
(960)	497	278	Profit (loss) before taxation	775	(366)
332	478	515	DD&A and exploration write off	992	722
998	6	(26)	Impairment and loss (gain) on asset sale	(20)	1,001
13	16	16	Finance and Interest	32	26
1,391	(97)	115	Net charge for provisions, less payments	18	1,695
(16)	11	(13)	Movement in stocks and inventories	(2)	(61)
(1,138)	(612)	(84)	Movement in debtors and creditors	(696)	(704)
51	135	(81)	Income taxes paid	54	(311)
670	433	720	Net cash provided by operating activities	1,153	2,002
			Investing Activities		
(776)	(829)	(828)	Capital expenditure	(1,657)	(1,444)
123	250	29	Proceeds from disposals	278	182
(652)	(579)	(799)	Net cash used in investing activities	(1,378)	(1,263)
18	(146)	(79)	Net Cash Flow	(225)	740

See Appendix A for additional information on impacts of GCRO on BPXP results.

FORWARD VIEW

BPXP forecasts cannot be reliably estimated because of the obligations that cannot be reliably estimated at this time; however it is possible to estimate BPXP outcomes excluding those items that cannot be reliably estimated. Those forecasts, based on the GoM Region and GCRO 2Q GFO submissions, are reflected in the table below. Approximately 89% of GoM Region activity is operated within the BPXP entities thus, the forward projections related to the GoM Region have been adjusted to reflect just that estimated portion of the expected results. Additionally, estimates for tax impacts have been included, assuming a 35% effective tax rate.

Profit in 2014 is expected to be positive which will build equity and improve the net asset position of the company although cash flows are projected to be negative in 2014. In 2014, approximately 75% of GCRO payments will cover fines and litigation matters. GoM Region capital expenditures are expected to exceed cash from operations. The 2013 GoM Region SMOG information indicates that post-2014 discounted (10%) cash flows of proved reserves are \$20.2 billion, using the 89% estimate for BPXP impacts.

\$ million	2014
GCRO Profit for the Period	(348)
GoM RBU Profit for the Period	1,628
Total Profit for the Period	<u>1,279</u>
Net Asset Position	<u>4,380</u>
GCRO operations and settlements	(1,359)
GCRO net tax monetization	1,157
GoM RBU from operations	2,597
GoM RBU capital / proceeds	<u>(2,979)</u>
Total Net cash flow, post Tax	<u>(584)</u>

BP considers that it is not possible, at this time, to measure reliably other obligations arising from the incident, namely any obligation in relation to natural resource damages claims or associated legal costs (except for the estimated costs of the assessment phase and the costs relating to early restoration agreements referred to above), claims asserted in civil litigation including any further litigation through excluded parties from the PSC settlement including as set out in Legal proceedings on pages 257-265 of *BP Annual Report and Form 20-F 2013* report, the cost of business economic loss claims under the PSC settlement not yet received, processed and paid by the DHCSSP, any further obligation that may arise from state and local government submissions under OPA 90, any obligation that may arise from securities-related litigation, and any obligation in relation to other potential private or governmental litigation, fines or penalties (except for the Clean Water Act civil penalty claims and State and Local Claims as described in the *BP Annual Report*), nor is it practicable to estimate their magnitude or possible timing of payment. The total amounts that will ultimately be paid by BPXP in relation to all the obligations relating to the incident are subject to significant uncertainty and the ultimate exposure and cost to BPXP will be dependent on many factors, as discussed under *Provisions and contingent liabilities* in the *BP Annual Report*, including in relation to any new information or future developments. These could have a material impact on BPXP consolidated financial position, results and cash flows.

APPENDIX A

The financial impacts of the Gulf of Mexico Oil Spill are contained within the Gulf Coast Restoration Organization (GCRO) and reported separately through the Group financial results. The majority of GCRO financial results are reported through BP Exploration & Production, Inc. (BPXP) but some portions are reported through BP Plc. including

miscellaneous costs and the Securities and Exchange Commission fine. Therefore, differences will exist between the BPXP portions of GCRO, which are reflected below, versus the total GCRO results reported at the Group level.

BPXP Other, as reported below, is predominantly Gulf of Mexico Regional Business Unit (GoM Region) but only contains the BPXP portion of GoM Region. Additionally, other BP operating units report some portion of their financial results through BPXP thus, those results are captured within BPXP Other as noted below.

Income Statement

2Q14 BPXP Other	2Q14 GCRO		2Q14 YTD GCRO	2Q14 YTD BPXP Other
		\$ million		
2,274	0	Sales and other operating revenues	0	4,234
(3)	0	Interest and other income	(0)	6
28	0	Gains on sale of businesses and fixed assets	0	27
<u>2,299</u>	<u>0</u>	Total revenues and other income	<u>(0)</u>	<u>4,267</u>
536	0	Purchases	0	1,010
506	409	Production and other operating expenses	435	952
507	0	Depreciation, depletion and amortization	0	894
2	0	Impairment and losses on sale of assets	0	7
32	0	Exploration expense and write off	0	137
<u>716</u>	<u>(409)</u>	Profit (loss) before interest and taxation	<u>(436)</u>	<u>1,267</u>
14	10	Finance costs	21	29
<u>702</u>	<u>(419)</u>	Profit (loss) before taxation	<u>(456)</u>	<u>1,238</u>
253	(128)	Taxation	(137)	445
<u>449</u>	<u>(291)</u>	Profit (loss) for the period	<u>(319)</u>	<u>792</u>

Cash Flow

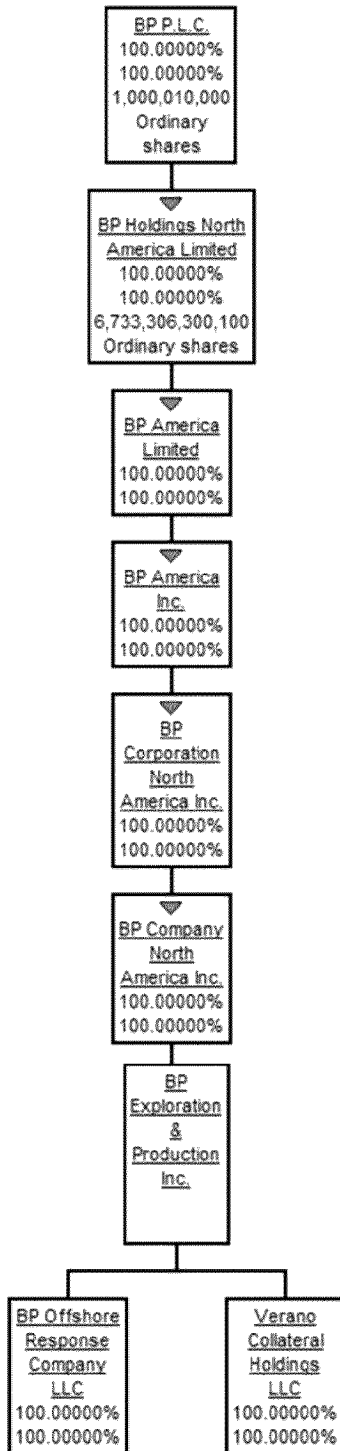
2Q14 BPXP Other	2Q14 GCRO		2Q14 YTD GCRO	2Q14 YTD BPXP Other
		\$ million		
		Operating Activities		
697	(419)	Profit (loss) before taxation	(455)	1,230
515	0	DD&A and exploration write off	0	992
(26)	0	Impairment and loss (gain) on asset sale	0	(20)
7	9	Finance and Interest	19	13
0	115	Net charge for provisions, less payments	18	0
(13)	0	Movement in stocks and inventories	0	(2)
(50)	(34)	Movement in debtors and creditors	(612)	(84)
(200)	119	Income taxes paid	438	(385)
<u>929</u>	<u>(209)</u>	Net cash provided by operating activities	<u>(592)</u>	<u>1,744</u>
		Investing Activities		
(828)	0	Capital expenditure	0	(1,657)
29	0	Proceeds from disposals	0	278
<u>(799)</u>	<u>0</u>	Net cash used in investing activities	<u>0</u>	<u>(1,378)</u>
<u>130</u>	<u>(209)</u>	Net Cash Flow	<u>(592)</u>	<u>366</u>

APPENDIX A, continued

Balance Sheet

	2Q14 GCRO	2Q14 BPXP Other
\$ million		
Non-current assets		
Fixed Assets	0	19,049
Trust reimbursement asset	2,569	0
Trade, other receivables and prepayments	0	(3)
	<u>2,569</u>	<u>19,046</u>
Current assets		
Inventories	0	472
Trust reimbursement asset	1,944	0
Trade and other receivables	0	1,319
Prepayments	0	51
	<u>1,944</u>	<u>1,841</u>
Total assets	<u>4,513</u>	<u>20,888</u>
Current liabilities		
Trade, accruals and other payables	661	1,774
Net Group funding	11,306	(9,704)
Current tax payable/(receivable)	(452)	218
Provisions	2,330	217
	<u>13,845</u>	<u>(7,495)</u>
Non-current liabilities		
Other accruals and payables	2,566	54
Group Finance debt	0	3,400
Deferred tax liabilities/(asset)	(2,285)	2,566
Provisions	6,644	2,390
	<u>6,926</u>	<u>8,411</u>
Total liabilities	<u>20,771</u>	<u>916</u>
Net assets	<u>(16,258)</u>	<u>19,972</u>
Retained Earnings	(29,855)	13,776
Share Capital	13,916	5,404

APPENDIX B – Legal Structure



BP reporting in the United States is a matrix of legal entities and operating units. As such, the consolidated BPXP financial statements do not represent any specific operating unit in total but are largely made up of GoM Region and GCRO. Additionally, GoM Region and GCRO also have activities in legal entities outside of BPXP. There is approximately 11% of GoM Region activity operated outside of BPXP. This approximate % has been excluded from any GoM Region forward GFO views to provide an approximate financial result for just the BPXP results.

BP Company North America Inc. became the direct parent of BP Exploration and Production Inc. effective January 1, 2014. Previously, BPAPC was the direct parent of BPXP.