

4Q07 & Full Year Results Press Conference: 5 February 2008

Tony Hayward: Chief Executive Officer

Ladies and gentleman, good morning and welcome to our fourth quarter results for 2007. Our chief financial officer, Byron Grote, and I will take you through our results and with us on the platform we have Andy Inglis, head of exploration and production; Iain Conn, head of refining and marketing; and Vivienne Cox, who runs our Alternative Energy business.

2007 was a year of change for BP. In terms of financial performance, it was one which most of us will be glad to leave behind. In a large Company like BP, the numbers always appear very big in absolute terms. But we are judged by investors in relation to our peers. In that regard, our financial result wasn't good enough. Despite the high oil price, our replacement cost profit fell by 22% to \$17.3 billion and the main reason for this was a disappointing performance from our US refining operations, which we are steadily beginning to put right.

The good news is that in the second half of the year there were the first signs of improvement across BP: we began to stabilise our operational performance and to resolve many of the issues we faced in the US. In 2008 we expect to build on that operational momentum and to begin to convert it into financial momentum, particularly in the second half of the year and into 2009.

As a statement of our confidence in the future - and in the strength of our assets - we are today announcing an update to our financial framework and a significant step up in the fourth quarter dividend. In dollar terms, it is rising 31% year-on-year to 13.525 cents per share. As you know, in common with other oil majors, we account in dollars, but I am glad to report that, despite the fluctuations on the currency markets, sterling shareholders will also receive a significant rise in the dividend, up by nearly 30%. That increased dividend will provide a new base going forward, and our dividend policy will continue to be a progressive one: to increase the dividend in line with the underlying growth of the firm.

Turning to our operations, let me begin with safety, our greatest responsibility. 2007 saw further improvement in our overall safety performance.

We have made good progress in responding to the Baker Panel recommendations and we have begun to implement a new Operating Management System across BP's operations.

In the second half of the year and in the fourth quarter, we passed some significant milestones

- In Exploration and Production we started up 6 projects, including the delayed Atlantis platform in the deepwater Gulf of Mexico. Atlantis is currently producing approx 125 mboed gross. These start ups helped us grow fourth quarter production by over 250 mboed versus the third quarter.
- At our US refineries, we restored Whiting to available distillation capacity of 300 thousand barrels per day, and expect to restore the refinery to its full crude capacity and flexibility of three hundred and sixty thousand barrels per day in the first half of 2008.
- At Texas City, we have successfully recommissioned the three units necessary to allow restart of the remaining crude distillation capacity. The final sour crude unit is mechanically complete and is expected to be fully operational during the first quarter. By mid-2008, we expect most of the economic capability at the Texas City refinery to have been restored.
- In Exploration and Production we expect the Thunder Horse project to start production before the end of the year.
- In Alternative Energy, our investment programme has continued, and we now have the largest real estate portfolio for wind in the US. In 2007, we also endowed the Energy Biosciences Institute in partnership with the University of Berkeley to research next generation biofuels.
- In the US, we reached settlements with a number of regulatory authorities and civil claimants, taking a significant step towards resolving many of the legal and regulatory issues we faced there.

Just as importantly we have made significant progress on the Forward Agenda for BP, designed to restore BP's competitive financial performance. There are two pillars to this agenda:

1. A significant reduction in the complexity and cost of our overhead;
and
2. A transformation and refocusing of our downstream business

On the reduction of complexity agenda we have announced a number of changes to create a fundamental shift in how BP works. These are designed to simplify the organisation, improve productivity, enable consistent execution, and focus on business performance.

BP now comprises just two business segments: Exploration & Production and Refining & Marketing. This will simplify both our corporate governance and decision-making.

Our objective is to reduce the corporate overhead by between 15 and 20 percent. We are starting from the top with fewer layers of management and a smaller corporate infrastructure.

In aggregate we expect these actions to lead to a reduction of around 5000 positions across the Group by mid-2009. This is in addition to the 9,500 relating to the sale of our US convenience-retail business.

The overall resultant restructuring costs are around \$350m in 4Q 2007, and we expect around a further \$1billion in 2008. We expect to see benefits from these measures in 2009 and beyond.

While all these changes were underway we made good progress in exploration and production where our successes continue to underpin the long term future of the Company.

- We had major discoveries in Azerbaijan, Egypt and Angola
- We successfully started up 9 new projects
- We secured major new access in Oman, Libya and Canadian heavy oil. The entry into Canadian oil sands, which is subject to final agreements and obtaining the necessary approvals and permits, was made on attractive terms to BP, we established two independent joint ventures with Husky Energy to form an integrated North American oil sands business. BP is acquiring a half-share in the Sunrise field in Alberta, while Husky will acquire a half share in BP's Toledo oil refinery.
- Our 2007 reserve replacement ratio was more than 100% and more than 120% after correcting for year end prices. This is the 14th consecutive year BP has reported a reserve replacement of more than 100%. I believe this track record is among the very best in our industry.

In refining and marketing, we have a strong set of assets but our overall financial performance versus our peers continues to be unacceptable.

The principal reason for this performance gap is poor reliability in some of our US refineries. But there is more to do than restoring US refining reliability. We aim to transform and refocus our refining and marketing business. It will not happen overnight, but we believe that the performance gap with our competitors can be progressively narrowed in the next few years and closed over the medium term. We are focused on four interventions:

- One - delivering safe and reliable operations, especially in our US refineries – where our focus is to get the US refineries to the same level of availability, 95%, as our refineries in the rest of the world;
- Two - a focus on more closely integrated, geographically based fuel value chains.
- Three – selling our company-owned and company operated convenience sites in the US. Significantly focusing the footprint of our lubricants and aviation businesses and;
- Four - reducing the overheads that the business carries; by having fewer performance units, decreasing the organizational layers and reducing head office business service costs and overhead.

Let me now hand you over to Byron, who will go through the numbers in more detail.

Byron Grote: Chief Financial Officer

Thank you Tony, turning first to the financials, fourth quarter replacement cost profit, excluding \$1 billion of charges for non-operating items, was \$4 billion, down 1% versus 4Q 2006.

Fourth-quarter operating cash flow of \$4.3 billion was 14% lower than a year earlier reflecting working capital effects driven by higher oil prices.

The per share metrics shown reflect the benefit of the reduction in our shares outstanding by 3% over the last year.

The 13.525 cent per share dividend, announced today, which will be paid in March, is 31% higher than a year ago. The sterling dividend is up nearly 30% year on year. I will describe the evolution in our financial framework which underpins this dividend shortly.

In Exploration & Production, our underlying result of \$8.3 billion was a record for the segment and 58% higher than last year. This reflects benefits from stronger realizations and higher production volumes, which more than offset

continued sector-specific inflation, greater start-up costs and higher depreciation, depletion and amortization.

Reported production was over 3.9 million barrels of oil equivalent per day, up 2% versus last year. After adjusting for the effect of acquisitions and disposals, and lower entitlements in our production sharing agreements due to higher prices, underlying production for the quarter was 3% higher.

Full-year production of over 3.8 million barrels of oil equivalent per day was within the guidance range we provided in February 2007, in spite of the impact of divestments and higher prices than we assumed at the time of the guidance.

In Refining and Marketing, our underlying result was a loss of \$200 million, down significantly from last year. This reflects weaker US refining margins, lower contribution from supply optimization and higher repair, recommissioning and operating costs at our Texas City and Whiting refineries. In addition, the quarter's result reflected the impact of a major scheduled turnaround at our Toledo refinery.

These ongoing outages and repair costs in our refineries plus lower margins contributed to an underlying loss of more than \$800 million in the US.

This slide compares our sources and uses of cash for 2006 and 2007.

Operating cash flow decreased to around \$25 billion, primarily as a result of weaker R&M results and working capital movements due to higher oil prices. Disposals provided a further \$4 billion. In total, sources of cash were \$29 billion.

We used this cash in funding around \$18 billion of organic capital spending, more than \$1 billion of acquisitions and nearly \$16 billion of shareholder distributions.

Our net debt ratio ended the year at 23%, towards the bottom end of our targeted band of 20 to 30%.

Turning now to our forward guidance, we expect production growth in 2008 compared to 2007, with actual net volumes dependant on how crude prices affect entitlements from production sharing agreements.

Our guidance for 2009 and 2012 remains unchanged. On the assumption of a \$60 oil price, we would expect 2009 production to be above 4 million barrels

of oil equivalent per day and around 4.3 million barrels per day in 2012. As in 2008, actual reported production will depend on price.

We are increasing our capital spending to reflect both industry inflation and greater growth investment. We expect 2008 organic capex of \$21 to \$22 billion.

We are at the end of the multi-year programme of disposals aimed at focusing and high grading our asset base. Consequently, we expect lower disposal proceeds than in the recent past.

We expect to see an increase in DD&A of around \$1.5 billion, with higher charges driven by a number of factors, including production growth, the start up of new projects and PSA effects.

Costs are likely to continue to grow. The underlying growth rate in costs should slow however, reflecting the early impact of our cost reduction agenda. The benefits of that agenda should increase in 2009 and beyond.

Our shareholder distributions for 2007 were \$15.6 billion, lower than in 2006, mainly due mainly to reduced disposal proceeds. Dividend payments exceeded \$8 billion and we bought back \$7.5 billion worth of shares.

Our consistent and long established financial framework has been to distribute to shareholders 100% of all free cash flow, in excess of that required for investment. And we have had a progressive dividend policy, which means that we increase dividends in line with the underlying growth of the firm.

The broad principles of that framework remain, but changes to the business context have given us greater confidence in the future cash flows of the firm and have led us to rebalance the uses of this cash.

So what are those changes?

Firstly we hold a more positive view of the pricing environment, especially for oil. Oil and gas prices have continued to strengthen over the last five years. Demand growth driven by non-OECD demand is likely to continue to impact price, as will geopolitical factors such as security of supply concerns, constrained access to new resources, and a mismatch between sources of supply and centres of demand.

It's impossible to predict precisely the oil price. Indeed, we have been reminded in the last two months just how volatile it can be. But considering all of these factors, it is our view that there is support for oil prices above \$60 per barrel for the next few years; and most likely in a range from \$60-\$90 per barrel, though we will continue to test projects at lower prices.

The second factor is the growing momentum in our operations, which Tony has already highlighted. We are confident that our financial performance will be boosted by growing revenues from increased production and improved refining availability. We also see significant potential for cost efficiencies and improved performance across all of our businesses.

The third reason is that our reduced equity base has made per share dividend increases more affordable. Over the past 8 years, we have generated significant surplus cash above the underlying requirements of the firm. Much of this cash came from divestments, and we have returned this to shareholders in the form of share buybacks. Share buybacks since 2000 have reduced shares outstanding by 16%. A higher per share dividend is therefore more affordable.

So how have we adapted the framework to this new context?

First, given our confidence in a sustained higher pricing environment and improved operations, we believe it is right to increase organic capex to support the future growth of the company.

Second, we have decided that our approach to the level of gearing should remain unchanged. We continue to believe that a gearing band of 20 to 30% provides an efficient capital structure and the appropriate level of financial flexibility through the cycle.

Third, we will rebalance our distributions between dividends and share buybacks.

Taken together, all these factors lead us to judge that it is right to step up the dividend to a level 31% higher than a year ago.

Given higher organic capex, lower divestments and a higher dividend, the level of free cash flow available to be allocated to share buy backs is likely to be lower.

Nonetheless, we will continue to use share buybacks as a mechanism to return excess cash to shareholders when appropriate. We believe this

updated financial framework gets the balance right, with our confidence in greater cash flows from our strong asset base allowing us to both increase investment in the future growth of the company, and increase the dividend component of our distribution to shareholders.

Tony Hayward: Chief Executive Officer

Thank you Byron.

BP starts 2008 in a much better place than it was this time last year. By focusing on safety, people and performance, we are steadily recovering our operational momentum. And although our financial performance has not been good enough, we are taking action to cut back on corporate bureaucracy and complexity. Operational momentum is building in the business, which should begin to feed through into the bottom line later in the year and beyond. We have again replaced more than 100% of our reserves. Through our Alternative Energy business we are creating options for the lower carbon economy of the future. BP has an excellent set of assets, and we are showing our confidence in the future by increasing the dividend. Our task now is to do one thing: deliver.

We will now be happy to take questions.