

## BP 2006 Results

Press Conference: 24<sup>th</sup> October 2006



Good morning ladies and gentlemen and welcome to our third-quarter press briefing.

You will all have seen a great deal of coverage and negative commentary on BP in the last few months. That is very regrettable and so are the events which caused people to make those comments. I will explain exactly what we are doing on each of the issues involved in a moment. But what you haven't read about is the story of the whole of BP – the overwhelming balance of which is a story of continuing success on the base of a strong strategy and a great deal of hard work by tens of thousands of people. That strategy has enabled us to capture the upside in a very strong market and to deliver continued growth in shareholder value and dividends.

The specific events in the US are being dealt with in a deeply considered and methodical manner and I am absolutely determined that those issues won't distract us from our strategy and our continuing path of success.

First, let me introduce my colleagues. Up here with me is Byron Grote, our CFO, and in the front row are: our chief of staff, David Allen, Andy Inglis from the E&P segment, Bob Malone, chairman and president of BP America and John Manzoni, who runs the Downstream.



## Cautionary statement

**Forward Looking Statements Cautionary Statement**  
This presentation and the associated slides and discussion contain forward looking statements, particularly those regarding capital expenditure, cash generation and cash returns, cost inflation, decline in production, dividends, share buybacks and other distributions to shareholders, divestment proceeds and their use, effective tax rate, future performance, gearing, non-OPEC production growth and other trend projections, light crude availability and heavier crude discount, medium term global indicator margins, oil and gas prices, performance, oil and gas production, production growth and the effect of oil price on volumes from production sharing contracts, refining margins, retail store sale growth and the timing of major projects and their contribution to BP net resources. 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)

**Cautionary Note to US Investors** - The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this presentation, such as "resources" and "non-proved reserves", that the SEC's guidelines strictly prohibit us from including in our filings with the SEC. U.S. investors are urged to consider closely the disclosures in our Form 20-F/A, SEC File No. 1-6262, available from us at 1 St. James's Square, London SW1Y 4PD. You can also obtain this form from the SEC by calling 1-800-SEC-0330.

October 2006

I want to draw your attention to this statement – a copy of which you will find in your slide pack – we may make forward looking statements which are identified by the use of the words 'will', 'expect' or similar phrases. Actual results may differ from these plans or forecasts for a number of reasons such as those noted on the slide.

## 3Q'06: Financial highlights



- Replacement cost profit of \$7.0bn up 58%
- Replacement cost profit per share 35¢ up 67%
- Effective tax rate 40%, compared to 34% a year ago
- Quarterly dividend per share 9.825¢ up 10% y-o-y
- Divestment proceeds of \$5.4bn year to date
- Share buybacks of \$12.2bn by the end of 3Q
- Gearing at 16%

Let me now turn to 3Q.

- Replacement cost profit was \$7 billion, up 58 per cent from the same quarter last year. This reflects significant profits from asset disposals into a strong market;
- This is equivalent to around 35 cents a share, up 67 per cent from '05, showing the additional benefit of share buy-backs. The reported replacement cost profit overstates actual operating performance as it benefited from a number of favourable and unusual items and accounting impacts. These include our reported non-operating items such as disposals and embedded derivative gains, which total around \$1.2 billion post-tax. In addition, it includes a gain on the sale of Udmurtneft in TNK-BP, mark-to-market accounting adjustments primarily in Refining and Marketing, a consolidation adjustment related to sales between segments, retroactive tax changes and several other minor items that collectively add around \$1 billion;
- The effective tax rate was 40 per cent, compared with 34 per cent a year ago. This is primarily because of the increase in the UK North Sea tax rate which is retroactive to the start of the year and also includes a non-cash charge related to deferred tax balances for prior years;
- The quarterly dividend, to be paid in December, will be 9.825 cents per share, unchanged from the level in the last quarter but up 10 per cent year-on-year;

- We have realised \$5.4 billion from divestments year to date, in line with our strategy of continuing high-grading of our portfolio;
- We bought back \$12.2 billion of shares by the end of 3Q, reducing the average shares outstanding by 5 per cent year on year; and
- Our financial condition was strong with gearing at 16 per cent, below our target range of 20 per cent to 30 per cent.



The slide features a dark green background with a faint grid pattern. The BP logo is in the top right corner. The title '3Q'06: Milestones' is in yellow. The list of milestones is in white text.

### 3Q'06: Milestones

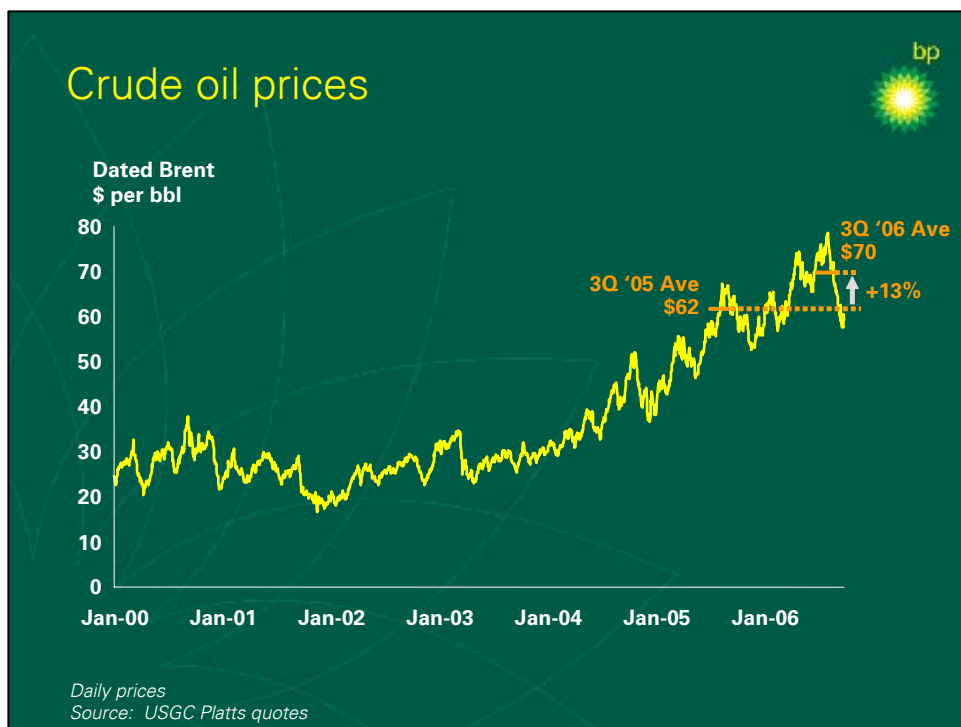
- Continuing improvement in the frequency rate of days away from work cases and number of oil spills
- Decision to invest \$3bn at Whiting Refinery to process Canadian heavy oil
- Acquisition of wind power company, Greenlight Energy Inc.
- Funding of Cashima in Trinidad and LNG train 1 supply project in Egypt
- Acquisition of:
  - Exploration acreage in Pakistan's Indus Delta
  - Coal-bed-methane acreage in West Bengal, India
  - Acreage in North Sea
- Two discoveries: Titania in Block 31 in Angola and Kaskida in the deepwater Gulf of Mexico

The key milestones achieved in the third quarter were:

- Continuing improving trends in the frequency rate of days away from work cases and the number of oil spills greater than one barrel;
- The decision to invest \$3 billion at the Whiting refinery in the US so as to process Canadian heavy crude oil. This project is expected to be fully on stream in 2011 and is likely to add some 1.7 million gallons per day to US supplies of motor fuels;
- The acquisition of Greenlight Energy Inc for around \$100 million. This is a US-based developer of wind power generation projects. This purchase is in line with our intention to have a leading wind business in the US;
- The funding of two major E&P projects: Cashima in Trinidad and the LNG train 1 supply project in Egypt;

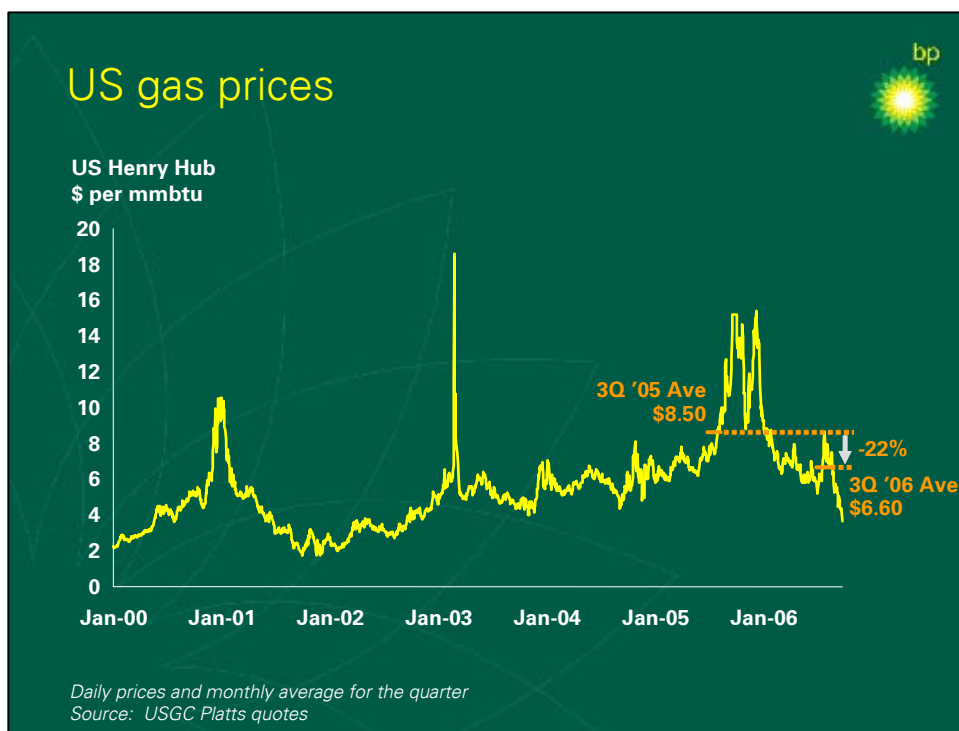
- The acquisition of exploration acreage in Pakistan's Indus Delta, coal-bed methane acreage in West Bengal, India, and acreage in the North Sea, and
- two significant discoveries: Titania, the 11<sup>th</sup> discovery in Block 31 in Angola and Kaskida in the deepwater Gulf of Mexico in the same area as Chevron's Jack discovery.

We remain fully committed to the disciplined pursuit of our strategy: in the way we manage capital, divest non-core assets, in the way we plan and in particular operate the business and in the way we handle the additional free cash flow resulting from higher than sustainable external trading conditions, returning it to the shareholders after investing for the future.

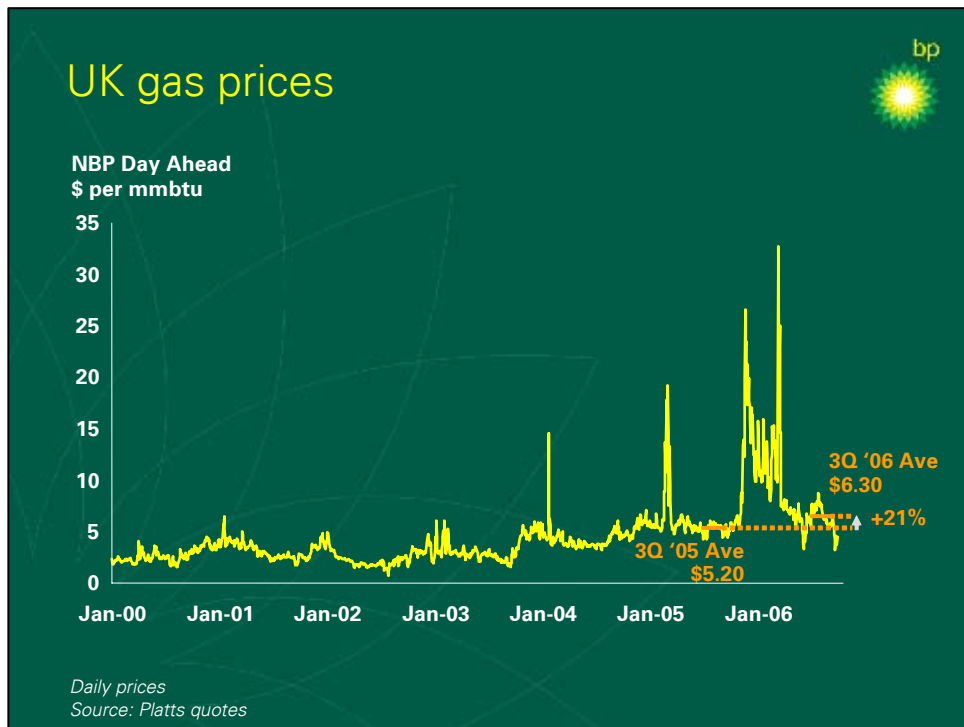


The average Brent oil price in the quarter strengthened to around \$70 per barrel up from around \$62 per barrel in the third quarter last year. Oil prices softened consequent upon the less severe hurricane season and a general lowering of concerns over supply disruptions but have recently stabilised close to \$60 per barrel in light of OPEC's agreement to restrain production. Global capital expenditure in the upstream sector continues to grow with a consensus firming that surplus production capacity will come up to recent historic levels of 3 million barrels per day within the

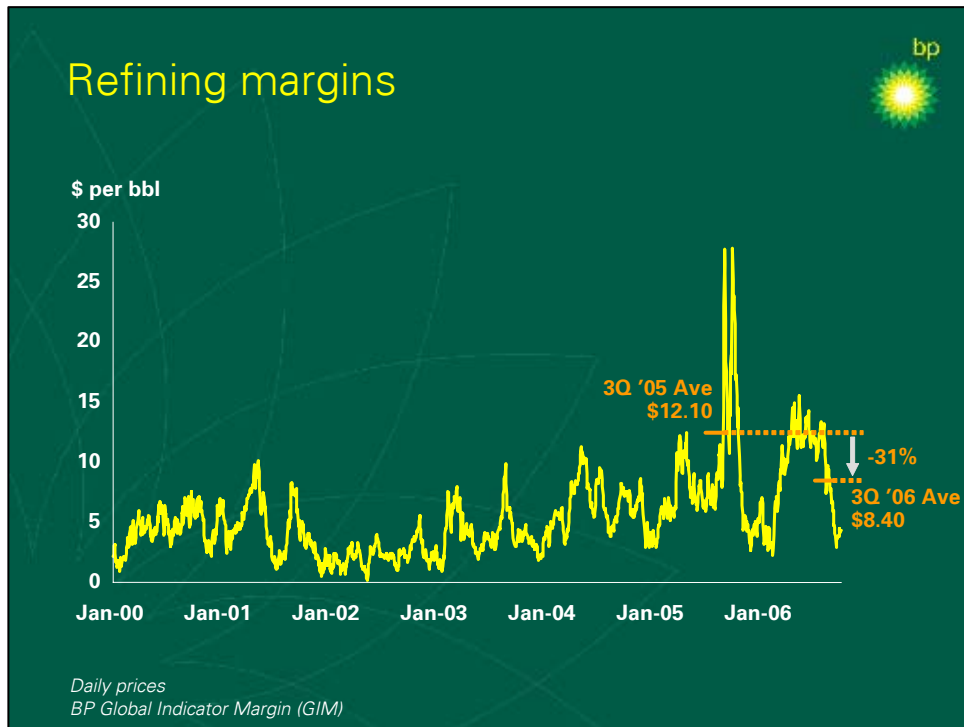
next few years. We continue to take the view that oil prices will exceed an average of \$40 per barrel over the medium term.



As to natural gas prices, the average Henry Hub gas price was \$6.60 per million btu, down from \$8.50 in the third quarter of last year. Demand is down and gas in storage is high. Prices remain below residual fuel oil parity. Their future direction will be heavily dependent upon the severity of the winter.




In the UK, gas supplies now appear adequate for the winter season. In the third quarter, prices averaged \$6.30 per million btu compared with \$5.20 in the third quarter of last year. Prices have recently fallen due to high inventories and flows from the new Langede pipeline. Prices are expected to firm during the winter.



The refining margin for the third quarter averaged around \$8.40 per barrel, down very significantly from around \$12.10 per barrel for the same quarter last year. Most of the reduction is in US margins because of high product inventory levels, the less severe hurricane season and seasonally reduced driving.

Overall the trading environment is now weaker than it has been for the last five quarters. Of particular note is the significant reduction of global gas prices in the face of significant supplies, along with weak demand.

It is clear that the last period has been exceptional in terms of the market and we have been fortunate to have a strategy in place which has enabled us to capture the benefits. But the outlook is for a rather different set of market circumstances – a more difficult trading environment. We have a strategy which is robust to such volatility but no one should expect that the absolute levels of performance, which we have recently seen, will be sustained.



## Exploration & Production

- 3Q production 3.816 million boe/d
- All flow stations in Prudhoe Bay Eastern Operating Area are on line
- All transit lines in Prudhoe Bay to be replaced in '07
- Thunder Horse start up estimated in 2H '08
- Atlantis expected start up unchanged (in mid '07)
- '06 production expected to be 3.950 million boe/d
- TNK-BP 3Q
  - Production 950 thousand boe/d
  - Dividend \$2.0bn

Turning now to operations and, beginning with E&P, production was 3.816 million barrels oil equivalent per day, down slightly from 3Q'05. Production in 3Q'06 would have been around 115,000 barrels per day higher if it had not been for divestments. No new fields came on stream but Azerbaijan continues to ramp up production ahead of forecast.

As you are aware, the Eastern Operating Area of Prudhoe Bay was shut down on August 6 as a precautionary move, following the discovery of corrosion-related thinning of the walls of the oil transit line connecting the extreme easterly flow station. This resulted in a loss of BP net production of 27,000 barrels per day averaged over the quarter. After extensive inspection and certification by the US Department of Transportation, two out of the three flow stations in the Eastern Operating Area re-started on September 23. The third flow station re-started on October 15 after installation of a bypass line. A panel of three experts in corrosion is examining our approach to corrosion management, and will report in early '07. Cleaning and inspection pigging of the oil transit lines continues and is expected to be completed in November. All the lines will be replaced regardless of their quality, starting in the first half of '07. We continue to learn from this event and update our approach.

During the quarter we also announced a further delay to the start of production of the frontier Thunder Horse field in the deepwater Gulf of Mexico. We presently estimate production to start up in the second half of '08, compared with our earlier estimate of the first half of '07. The cause of this extended delay is our lack of confidence in the subsea equipment. This equipment had remained in a cold state, with cathodic protection, on the sea bed for some time following the listing of the platform after its evacuation during the '05 hurricane season. Following a thorough investigation, we have concluded that these unusual circumstances led to hydrogen embrittlement of the equipment so that it could not perform its intended high pressure, high temperature service. As a result it must be replaced. The cost of this remedial operation is currently under review.

Based upon our findings from the Thunder Horse investigation we have also taken the opportunity to retrieve, and make precautionary modifications to, the Atlantis manifolds. This should not affect the estimated start up of Atlantis in mid '07.

Eight projects are still scheduled to start up in '07. Eighteen projects are now under development for start up over the next three years and beyond '09 we have a further 26 major projects under consideration and these would be expected to develop around 8 billion barrels of oil equivalent.

Shorter term, annual production for '06 is expected to average around 3.95 million barrels of oil equivalent per day, down from the level of 4.014 in '05. Production in '05 was reduced due to the effects of hurricanes and high oil prices. The '06 production has been reduced because of the lingering effects of '05 hurricanes, divestments and higher oil prices. After adjusting for these effects, the underlying production growth in '06 is expected to be about 1 per cent.

There has been much speculation covering our Russian activities but in reality there has been no change. Our relationships with the government and our partners remain strong. Two of TNK-BP's licences in the Samatlor area, containing 40 per cent of their existing total proven reserves, have recently been extended by 25 years. We continue our discussions with the authorities over Kovykta. TNK-BP continues to deliver strong performance with production of about 950 thousand barrels oil equivalent per day in 3Q. This is down by about 60 thousand barrels oil equivalent

per day from 3Q'05 as a result of the divestment of Udmurtneft. Following average annual production growth of 12.5 per cent from the start of our involvement until the end of '05, underlying production growth of around 2 per cent is expected in '06. Dividends received in 3Q amounted to \$2 billion.

A presentation slide with a dark green background and a faint world map. The BP logo is in the top right corner. The title "Refining & Marketing" is in yellow. A bulleted list in white text provides details about the Texas City refinery.

**Refining & Marketing**

- Texas City
  - Phased re-commissioning continues
  - 3Q throughput 247 thousand bbl/d
  - Full production by end '07
  - 3Q '06 loss \$200 million pre-tax

In the downstream, Texas City continues to build its throughput. During 3Q it reached an average of 247,000 barrels per day, following the re-commissioning of the reformer unit. We continue to refurbish the site safely and expect it to reach full beneficial production at around the end of '07. During 3Q the refinery lost approximately \$200 million pre-tax. As a benchmark, during the last full year of operation in 2004, with the US Gulf Coast refining margins at \$7.20 per barrel, the full year underlying replacement cost profit was around \$800 million pre-tax.



## Alternative Energy

- Plans on track
- In Solar, commissioned the first 25MW cell line expansion at our in Madrid facility
- In Wind, Greenlight acquisition completed
- In Hydrogen power, strategic relationship with GE progressing well
- In Gas-fired power
  - K Power gas turbine in South Korea
  - Texas City steam turbine project

Finally, in Alternative Energy, we continue to execute our strategy. In Solar we commissioned the first 25-MW cell line expansion at our Madrid facility. In Wind, we concluded the Greenlight transaction that provided a 4500-MW development portfolio. In Hydrogen power, our joint venture with GE is starting to take shape. In gas-fired power, we began commercial operations at the second unit of our 1.1-GW K-Power combined cycle gas turbine project in South Korea, and broke ground on our 250-MW Texas City steam turbine project.



## '06 investments and divestments

- Organic capex expected to be around \$16bn
- Proceeds from divestments expected to be around \$6bn

Overall, we expect organic capital expenditure for the year to be around \$16 billion. Estimated proceeds from divestments are expected to be around \$6 billion. We will give you estimates for '07 with our fourth quarter results.



## Response to '05 –'06 events

- Heightened awareness of all aspect of safety and environmental management
- Top priority is to implement process safety management across the company
- Baker Panel recommendations will help us improve operations across the world
- Going beyond what is mandated by regulations
- Adding capacity and capability in operations

Before I finish, I would like to step back and put the unusual events of '05 and '06 into context and tell you what we are doing. We have had time to reflect and learn from the tragic accident at Texas City, the corrosion of the oil transit lines at Prudhoe Bay and the allegations of inappropriate trading.

The fire and explosion at Texas City have forever heightened our awareness of safety. We have a very good track record in the safety of people and environmental management. We are committed not only to continuing our efforts in these areas but also to redoubling our efforts in regard to the third leg of the safety stool – process safety management and the embedded objective of keeping our plants safe from the release of hydrocarbons and toxic substances. We are assisted in this by the continuing independent investigations of the Baker Panel, which I established in October '05 under the recommendation of the US Chemical Safety Board. This outstanding panel is examining the safety management of our US refineries but I expect that, as a result of their recommendations, we will not only be able to improve these operations but also operations across the world in all our business activities. We have been able to learn from them while they continue their work. We have analysed audits of our operations. We are taking a precautionary approach to all our operations worldwide and are acting upon lessons learned from Texas City and

elsewhere. This has meant not only reconfirming compliance with regulations but in certain instances going beyond what is mandated, for example by banning the use of temporarily occupied portable buildings. We expect more regulation of the industry and we would welcome that which creates a more consistent and reliable basis for activities.

We are incorporating lessons learned into our management system which prescribes how the safety of people, the environment and processes is governed. We have taken steps to add further to the number and capability of our staff in operations. The costs associated with the three legs of safety are the first call on funds. How overall costs develop will depend on our prioritisation of other activity and the efficiency with which it is conducted.

We have also taken steps in regard to the control of our supply and trading operation and are in the process of making improvements. We will continue to learn both internally and from best practices externally.



## Summary

- We have:
  - Great people
  - Strong values
  - High aspirations
  - An enduring strategy
- We are determined to improve and improve continuously

We go forward with a Group with great people, strong values, high aspirations and an enduring strategy. There is no basis, however, for complacency. We are taking very clear actions based on the learning from these setbacks and are determined to improve and to improve continuously. I am confident, having spoken with over 10,000 staff recently, that they also have this determination.

John Browne

24 October 2006