4Q06 & Full Year Results Script & Slides: 6 Feb 2007

John Browne: Chief Executive Officer

Good Afternoon to all of you here in London and good morning to those in the US.

1. Introduction & Results

We are delighted that we are meeting with you face to face here in London and that we also have a live video link to New York.

In London, I have with me Byron Grote, Tony Hayward, John Manzoni, Vivienne Cox and Bob Dudley, along with members of the leadership team. And in New York we have Bob Malone as our host along with Iain Conn, David Allen, Andy Inglis and other members of the leadership team. I am delighted that Andy Inglis has recently been appointed to the Board to lead the E&P Segment, taking over from Tony Hayward.

Before we start, I'd like to draw your attention to two items.

Firstly, I would like to draw your attention to the words on this slide. We may make forward looking statements which are identified by the use of the words 'will', 'expect' and similar

phrases. Actual results may differ from these plans or forecasts for a number of reasons, such as those noted on this slide.

Secondly, as this slide points out, the presentation today contains some non-GAAP measures. A reconciliation of these non-GAAP measures to the nearest GAAP measures can be found on our website.

As you know, Tony Hayward was recently named by the Board as my successor. Tony and I have worked closely together for at least twelve years and I am excited about him leading the company. We have already begun our transition. Tony has the skills and experience to lead the company to further success over the coming years. He will also have the support of a very able team we have built over the last few years.

I was thinking the other day that this is my forty-seventh results presentation as CEO. These have been events I've always looked forward to – a sort of report card as we've built a truly great company.

Some report cards were better than others but by and large when you step back you can see what has been accomplished. There has been a lot of noise and talk about BP this last year. A lot of this has obscured many of the great accomplishments of our staff around the world.

Finally, let me say that it has been a real privilege to have had the opportunity to lead BP in a period when it has become an international company at the forefront of the energy industry and to work with so many talented people both inside the company and outside it. I am sure that I will have many more occasions to thank people in the next 6 months for the opportunities I have had and for the support I have received.

Now back to today – today and over the coming months there is work to do and we need to get to it.

I will start as usual by reviewing '06 in general after which Byron will take us in detail through the 4Q and full year results which were disclosed in our SEA this morning.

Then, I would like to talk about the strategic positioning of the company and the operating priorities we are pursuing. Our focus today is on Exploration and Production which will be covered by Tony and Bob Dudley and on Refining and Marketing which John Manzoni will discuss. After that I will pull it all together in terms of guidance for the forthcoming year.

After the Q&A session, the leadership teams in London and New York will be available for further discussions.

2. Review of 2006

So, first to the results. In '06:

- we delivered a replacement cost profit of $22.3 billion, up 15% over '05;
- this is equivalent to 111.1 cents per share, up 22% over '05, showing the additional benefits of share buybacks;
- the post tax operating cash flow was $28.2 billion, up 5% over '05;
- the quarterly dividend, to be paid in March, will be 10.325 cents per share, up 5% on the prior quarter and 10% higher than last year;
- we distributed $23.2 billion to shareholders; including $15.5 billion in share buybacks, thereby reducing shares in issue by around 6%;
- we realised $6.3 billion from disposals; and
- our financial condition is strong with gearing ending the year at 20% at the bottom of our target range of 20 – 30%.

Although we had record results, several incidents have occurred in the US that have negatively impacted on performance and hurt our reputation.

We had two oil spills in Alaska, the start-up of Thunder Horse field was further delayed with knock on impact on Atlantis and there were allegations of improper trading activities in the United States associated with the propane market.

We have taken actions to investigate these issues, to learn from them and to respond to them.

The report of the Baker Panel on US refining, which I commissioned following the Texas City Refinery incident in 2005, is unique in its subject matter, breadth and clarity. As we have made clear, BP commits to implement the Panel's ten recommendations. BP is now consulting with the Panel on how best to do this across our US refineries and how to apply the lessons learned elsewhere in our operations. As the report acknowledges, BP has made significant changes to its process safety systems since the accident at Texas City. But we can do more. And we will do more. It will make a difference to BP and to the industry as a whole.

I believe we are making good progress and are in the early stages of transforming BP into a leader in process safety, as the Panel recommends. Our '07 plans already include significant investments on integrity management and I will discuss these later.

There were, as I mentioned earlier, many positives in '06. Across the Group, our staff continued to perform strongly. Their efforts enabled us to achieve a number of milestones:

- our reserves replacement ratio using reserves calculated in accordance with SEC guidance was 113% on a combined basis of subsidiaries and equity-accounted entities, excluding the effects of acquisitions and disposals. We have elected to move solely to the US Securities and Exchange Commission (SEC) basis of reserves reporting to simplify disclosures and allow for easier comparison to competitors.

- we continued our strong track record with 10 new discoveries including Kaskida, Titania, Urano and in the Uvat area; secured a new access option in Pakistan, an initial presence in India and in Oman which was announced last month;

- we started nine new upstream projects, notably the Baku-Tbilisi-Ceyhan (BTC) pipeline and gas condensates from In Amenas in Algeria;

- we started Texas City safely and have so far achieved a production rate of about 250 thousand barrels per day;

- we commissioned the first LNG receiving terminal at Guangdong, China;

- we made significant progress in Alternative Energy by building momentum in wind and solar through capacity increases; and

- we announced plans to invest $3 billion at the Whiting refinery in the US to process heavy crudes from Canada.

So, in summary, record results, a number of significant milestones but some major incidents.

Let us now have Byron take us through the key aspects of the 4Q and full year results for ‘06.

Byron Grote, Chief Financial Officer

Thank you John, and good day. I’ll now elaborate on our fourth quarter and full year results, starting with a summary of the trading environment.

Overall the trading environment weakened significantly during the fourth quarter. I will now look at each of our indicators in turn.

After increasing over most of the previous two years, our average oil realization declined in the fourth quarter to around $56 per barrel, although it was still 5% higher than in 4Q’05.

By contrast, our average gas realization has been relatively flat since the second quarter. Our 4Q gas realization of around $4.40

per thousand cubic feet was 30% lower than the quarterly peak experienced a year earlier.

Taking both oil and gas together, our total hydrocarbon realization was 10% lower than in 4Q'05, but still 12% higher on a full year basis compared with last year.

Our refining indicator margin in the fourth quarter was $6.30 per barrel, 17% lower than in 4Q'05 and around half the peak level seen over the past two years.

Finally, although not shown, retail margins in 4Q were significantly lower than both the prior quarter and a year earlier.

Turning to the financials, I'll focus my comments on our fourth quarter results shown at the top of the slide.

Our replacement cost profit was $3.9 billion, 12% lower in absolute terms than 4Q'05, and down 6% on a per share basis.

Our profit including inventory gains and losses was $2.9 billion, down 22% compared to last year.

These figures include charges from non-operating items, which were around $200 million in aggregate in 4Q'06. I will describe

these items in more detail when discussing individual segment results.

Fourth quarter operating cash flow of $5 billion was 17% higher than a year earlier, and up 24% on a per share basis, reflecting the benefit of share buybacks.

The 10.325 cent per share dividend announced today, which will be paid in March, is up 5% on the prior quarter and 10% higher than a year ago. The Sterling dividend is down slightly year-on-year, reflecting the sharply weaker dollar.

Whilst we recognize the effect the exchange rate has had on the sterling dividend, let me remind you that this is a dollar business and we manage the financial framework of the Group on that basis.

Despite the softer 4Q environment, our full-year replacement cost profit of $22.3 billion is 15% higher than 2005 in absolute terms and up 22% on a per share basis. We also generated 5% higher operating cash flow than in 2005.

I'll now summarise our segment results, starting with Exploration and Production.

In E&P we reported a pre-tax profit of $5.1 billion for the fourth quarter, compared with $6.6 billion in 4Q'05. This reflects lower gas realizations and lower volumes, the continued impact of sector specific inflation, greater integrity spend and higher non cash costs.

Non-operating charges for the quarter improved versus last year, mainly due to the relative change in the valuation of embedded derivatives relating to our North Sea gas contracts. Excluding non-operating items, our underlying result was $5.2 billion.

Reported fourth quarter production of 3.84 million barrels of oil equivalent per day declined 5% relative to 4Q'05. However, taking into account the impact of disposals and lower entitlement in our production sharing contracts, production was broadly flat.

The TNK-BP fourth quarter contribution of approximately $180 million was much lower than 4Q'05, reflecting the absence of last year's divestment gains and the adverse effect of lagged tax reference prices which I highlighted in last quarter's webcast.

Turning to Refining & Marketing, we reported a fourth quarter profit of just over $300 million.

Excluding non-operating items, our underlying result was $600 million higher than a year ago. This reflects higher refining

throughput at Texas City and the absence of the significant rationalization costs taken in 4Q'05, along with a smaller charge from IFRS fair value accounting. These positive factors were partly offset by higher turnarounds costs, greater integrity spend, and lower refining and marketing margins.

Our 4Q result in Gas, Power and Renewables increased to $470 million. This includes a significant contribution from non-operating items, mainly related to gains from disposals.

Excluding non-operating items, the underlying result was down $200 million versus last year. This reflects lower contributions from our NGL and gas marketing and trading businesses, as well as a smaller fair value accounting gain.

In Other Businesses and Corporate, or OB&C, the fourth quarter underlying charge was just under $100 million. This brought the full year charge to around $900 million, in line with the guidance I provided last February.

Looking to 2007, we expect a similar annual charge for OB&C of around $900 million, with an uncertainty band of plus or minus $200 million.

Consistent with previous guidance, we expect an effective tax rate on earnings of around 37%. This compares with a 35% rate in

2006, which was impacted by a number of once-off factors. This guidance is based on the assumption of similar market conditions as in 2006.

The rules of thumb that some of you use to model our results have remained largely unchanged. As in the past, these should be considered simply as broad directional indicators, which are more useful on an annual basis than for quarter-on-quarter comparisons, and for price moves within a much narrower range than we have seen in the past few years.

Returning to 2006 results, this slide compares our sources and uses of cash for the past two years.

Cash inflows in 2006 were more than $34 billion. Operating cash flow exceeded $28 billion, and disposals added more than $6 billion.

Uses of cash remained consistent with our strategic intent. We have reinvested nearly $16 billion of this cash back into the business and also increased total shareholder distributions by 22% to $23 billion.

Our net debt ratio ended the year at 20%. The 4Q increase reflects normal year-end working capital and tax phasing.

Consistent with our commitment to distribute 100% of all excess free cash flow to investors, we bought back $15.5 billion of shares in 2006. We also issued the last tranche of shares related to TNK-BP. The net effect was a 6% reduction in shares.

Buybacks are continuing in 2007. Since the start of the year, about $1 billion of shares have been purchased under our closed period buyback programme. We now have fewer shares outstanding than immediately prior to the ARCO acquisition in April 2000.

That concludes my presentation of the results.

Now back to John.

John Browne: Chief Executive Officer

Thank you Byron

3. Strategy and Performance in Context

Those are the results. They always should be seen in the longer term context. Strategy is the starting point. During the last decade, we have operated with a strategy that has enabled us to shape our business direction, respond to the external environment

and make portfolio choices. It was based on economies of scale, quality of assets and the responsiveness to market trends. It has enabled us to deliver distinctive growth across a number of dimensions.

Since '95, our total production has grown almost three fold to 3.9 million barrels of oil equivalent per day and production per share has increased by a factor of 1.5. At the same time, the share of gas production has more than doubled and we are now the second largest gas producer among IOCs with production of 8.4 billion cubic feet per day.

A major part of our success has been the number of discoveries and reserves added through exploration, along with the lowest finding cost per barrel in the industry. This has contributed to our reserves more than doubling to 17.7 billion barrels of oil equivalent.

Our footprint is also much larger. The number of countries in which we produce more than 100 thousand barrels per day has increased from three in '95 to eight in '06. We now have significant positions in the deep water Gulf of Mexico, Trinidad, Angola and Azerbaijan, whilst maintaining our strong presence in Alaska and North Sea. We have also established a significant footprint in Russia with investments of around $10 billion through our joint venture TNK-BP.

Consistent with our strategy, over this period we have divested assets generating over $56 billion of proceeds of which over $25 billion was in respect of E&P assets. These numbers include divestment of non-core olefins and derivatives portfolio in Petrochemicals whilst retaining the PTA and Acetyls business where we are the market leader with advantaged technology.

In the downstream, we have also increased our footprint since '95. Our total refining capacity has grown roughly by 40% and the average refinery size has increased from 120 thousand barrels per day to 215 thousand barrels per day. We have a portfolio of advantaged and complex refineries in some of the most profitable markets. We are restless in our pursuit to bridge resources and consumer markets with our downstream presence in 100 countries catering to some 13 million customers a day with a leading competitive position in most of the major markets where we operate. We are also the largest marketer of gas in the United States and are building a new business in Alternative Energy.

Between '95 and '06, our market capitalisation more than quadrupled and our share price out-performed the FT All Share Index and S&P.

To summarise, our portfolio choices driven by enduring strategic principles have created a very strong company, with a distinctive asset and reserves base, well positioned for the future.

4. Trading Environment

Over the same period there has been a significant evolution in the energy markets.

World energy markets have seen important changes over the past decade – although there are probably elements of continuity. Most notably, prices have increased sharply. In ’95, Dated Brent averaged $17 per barrel; Henry Hub traded for $1.66 per million BTU; and BP's indicator refining margin averaged about $2.30 per barrel. Since ’95, world oil consumption has increased by about 14 million barrels per day – 20%. Half of that growth was met by new non-OPEC supplies, primarily from growth in production in former Soviet Union countries. OPEC's share of world oil production is virtually the same today as it was in ’95. In addition, OPEC surplus capacity in ‘95 was about 3 million barrels per day, as it is now.

Global proved oil reserves have increased over this decade by about 17% or roughly 170 billion barrels to 1200 billion barrels – including an increase of nearly 60 billion barrels in non-OPEC reserves; natural gas reserves have also increased, by about 25%. So there is no shortage of hydrocarbons in the world.

Turning to ’06.

In ’06, the world economy grew just under 4%, somewhat faster than in ’05. This continued to support modest oil demand growth of around 1% despite continued strength in oil prices. For ’07 we expect global economic growth to moderate somewhat. Global oil demand growth should be slightly above the ‘06 figure.

In ‘06, the year-on-year growth in non-OPEC volumes resumed, reaching 0.6 million barrels per day – close to the 10-year average. Unlike ’05, hurricanes in the Gulf of Mexico did not disrupt supplies. Elsewhere, production continued to grow in Angola, Russia, Azerbaijan, Canada and Brazil, offset by declines in the North Sea and other mature provinces. Non-OPEC supply is expected to expand by about 1 million barrels per day in ‘07.

Crude oil prices rose steadily in the first half of ’06 due to a variety of factors including concern over risks to supply and low OPEC surplus capacity. By October, however, OPEC members announced a new round of production cuts in the face of rising inventories and falling prices. By year-end ‘06, OPEC surplus capacity was near the 10-year average of 3 million barrels per day, despite ongoing production losses in Nigeria.

The net result of these dynamics was that the Brent oil price averaged over $65 per barrel, up 19% from the ‘05 level, although

the decline in oil prices which started in second half of '06 continued in January.

We continue to believe that there is good medium term support for prices to average above $40 per barrel. As we have said previously, this presumes no major sustained downturn in demand which could result from a deep and long global recession. Over the longer term, the range of possible price outcomes remains uncertain, and BP has a strategy that is designed to be robust to a very broad range of outcomes.

Turning now to gas prices.

Price movements in the world's major gas markets were mixed in '06. US natural gas prices declined while UK prices rose only slightly; meanwhile, markets in which gas contracts are indexed to crude prices, such as Japan and Germany, saw continued price increases.

Prices in the US retreated in '06, falling 16% from '05 levels in the face of mild winter weather and high inventories. Looking ahead, US gas consumption is expected to grow modestly on the back of continued increases in gas-fired power generation. While the outlook for domestic supply over the medium term is stagnating, LNG imports are expected to increase significantly. At high crude prices, the US market has demonstrated a tendency to balance at

prices close to parity with residual fuel oil. Everything else being equal, we expect this relationship to hold as long as prices stay above $40 per barrel.

And finally, refining margins.

Refining margins continued to be strong in '06. BP's Global Indicator Refining Margin averaged about $8.39 per barrel in '06, down just 1% from '05's record level and still about double the 10-year average. Over the past two years, product demand growth has slowed in the face of higher oil prices but refining capacity continues to be tight, particularly conversion capacity to upgrade low value fuel oil.

For the next couple of years, the refining environment continues to look robust, particularly for upgraded sites. Capacity growth is unlikely to exceed demand growth significantly until towards the end of this decade, thereby supporting higher than average margins. Capacity growth could then accelerate with the new builds in the Middle East and Asia putting pressure on margins beyond '10.

5. 2007 Priorities

So within this context, what are our priorities for this year? Tony and I believe that the events of '05 and '06, along with the lessons

learned from them, suggest that above all else we need to concentrate on two things: safety and performance.

Safety is fundamental to everything that we will do. We will embrace, with equal commitment each of the three dimensions of safety: personal safety, process safety and the environment. Our aspiration is to be an industry leader in each.

We have a good track record of improvement in personal safety and our performance continues to improve. During '06, seven members of our workforce including contractors died in work related incidents. Every fatality is a tragedy but the number of fatalities has reduced to the lowest level in nearly 20 years. Of note is the fact there have been only two vehicle related workforce fatalities showing significant improvement on driving related incidents following the implementation of our Driving Safety Standard. We are committed to achieving zero fatalities in our operations. The recordable injury frequency in '06 was the lowest in our history.

In '06, actual spills and integrity-related major incident frequencies have declined by about 23% and 34% respectively on a like-for-like basis. At the same time the reporting of integrity-related high potential incidents has increased by about 20% – a good sign, showing that we're improving reporting of all incidents at their highest potential so that we can learn.

Process safety management, the second dimension of safety is not new to BP. The Baker Panel has reinforced its importance and we have already committed to implementing the panel's recommendations. John Manzoni, Tony and I met with the panel two weeks ago to consult on how best to do this across our US refineries and apply the lessons learned elsewhere in our global operations. We are in action as the report acknowledges.

We are taking a number of specific actions to improve the integrity of our plants and operations. We are implementing the Control of Work and Integrity Management Standards across the Group. Building on our existing safety management system called "getting HSE right", a new Group-wide system, called the Operations Management System is being implemented.

We are reaching a higher sustaining level of integrity management spend as we implement the new Integrity Management Standard. In '07, our investment is expected to increase by around $1 billion over '06. Our spend on US refining assets has been increased by $500 million to an annual average of $1.7 billion over the next four years. These costs are included in our current plans.

We are starting to see improvements in our performance with reductions in major incidents and increased reporting of high potential incidents as I have already mentioned. The various integrity related actions will deliver increased operational efficiencies. John Manzoni will talk more about that in a moment.

The third dimension of safety is the environment for which we have a good track record. Greenhouse gas emissions from our operations decreased last year, with real and sustainable reductions of over 1 million tonnes delivered in ’06, keeping us on track to achieve our commitment to offset around half of our operational emissions growth through energy efficiency measures

A hallmark of BP for a very long time has been its performance drive. Under Tony’s leadership, BP will, in the course of the next couple of years, re-focus on the material actions required to ensure we are getting the best from our investments. In particular, we expect Texas City to process around 400 thousand barrels per day by end ’07 and Thunder Horse is expected to come on-stream by the end of ‘08. A number of upstream projects will be coming on line in ’07 and ’08 as Tony will discuss those next. Start-up of new projects along with improvements in operating performance would enable us to deliver strong financial performance.

So I’d now like to turn to our business segments and their future plans and priorities starting with E&P and Tony.

Tony Hayward: Group Chief Executive Designate

Thanks John. Good afternoon ladies and gentlemen. What I'd like to do in the next 30 minutes or so with the help of Bob Dudley, who will update you on TNK-BP, is to demonstrate that although the last 12 months have been a difficult period both for us as a company and you as investors, there were many things that went right and that underpin our confidence in the future of our E&P business. Our reserves continue to grow and we have increasing confidence that our production profile will continue to grow well into the next decade.

As many of you have heard me say on previous occasions our strategy begins with a focussed exploration programme.

In 2006 we continued our strong track record with 10 discoveries from 17 wells. Notable successes included the Kaskida discovery in the deepwater Gulf of Mexico, and the Titania and Urano discoveries in the ultra-deepwater of Block 31 in Angola. In Russia, TNK-BP continued a successful exploration programme with a number of significant discoveries in the Uvat area in West Siberia.

We have also had significant success in securing access to new options for the future.

In Oman, we recently signed a Production Sharing Agreement to appraise and develop the Khazzan/Makarem fields, a very large tight gas resource, which we believe can be developed using the same technology as we are currently deploying at our Wamsutter field in the US.

In Pakistan, we were awarded three offshore exploration licences covering around 20,000 square kilometres offshore in the Indus Delta and have recently signed the Heads of Agreement for cross assignment into a further two licences covering another 10,000 square kilometres.

In India, we established an initial presence through the Birbhum Coal Bed Methane licence in West Bengal.

We were also successful in extending our very significant acreage position in the deep water Gulf of Mexico – winning 100 blocks covering more than 2,200 square kilometres in two Gulf of Mexico lease sales.

So as we assess 2006, both exploration and new access matched our long term track record of success.

In 2007, we expect to invest around $750 million in core exploration, broadly in line with 2006 and a reflection of the continuing depth of our exploration portfolio.

Our reserves replacement over time demonstrates the ongoing success of our exploration and renewal activities. As John has already highlighted, we have elected to move to the SEC basis for reserves reporting. On this basis, excluding the effects of acquisitions & divestments, our reserves replacement in 2006 was 113%. Averaged over the last 5 years we have replaced over 114% of our reserves and have had a track record of 13 years on this basis of greater than 100% reserves replacement. Full details in respect of our reserves replacement will be published in the Annual Report next month.

Let me now give you an update of our major projects.

The first thing to say is that despite the problems with Thunder Horse and the knock-on impacts on Atlantis, 2006 was on balance a successful year for project delivery. The highlights were of course the BTC pipeline and the East Azeri development, which came on stream in June and October of last year. The ACG fields are currently producing at around 650 thousand barrels of oil equivalent a day on a gross basis, and will ramp up to over 750 thousand barrels a day by year end. Overall, the combined projects started up ahead of schedule – including East Azeri which came on almost 4 months ahead of our schedule and around 6 months ahead of a typical industry schedule. Elsewhere we saw the start up of In Amenas in Algeria, the Cannonball development in Trinidad, the Temsah redevelopment in Egypt, and Dalia, the second hub in Block 17, in Angola.

Taken together, these four profit centres currently produce around 700 thousand barrels of oil equivalent a day net to BP.

In 2007 in Angola, we are planning to start up Greater Plutonio, Rosa and Phase 2 of Kizomba A all by year end. In the deepwater Gulf of Mexico, both Atlantis and the King Subsea projects are on track to start-up by year end. In Trinidad, Red Mango is also expected to start up before year end. In our North America Gas business, we have just announced a major expansion of the San Juan Coal Bed Methane Project, which will contribute for the first time in 2007.

Looking to 2010 and beyond we have a deep slate of major projects that continue to progress into development. In 2006 we took the final investment decision and moved 7 major projects into development and conducted active appraisal programmes on a further 30 future developments.

Let me turn to our existing profit centres which to remind you are Alaska, the North Sea, North America Gas, Latin America, Egypt and the Middle East.

Even after adjusting for the effects of disposals and of price on production sharing contracts, production in 2005 and 2006 was lower than we had been forecasting. The reasons for this are higher than expected levels of downtime, the failure to achieve

targeted improvements in operating efficiency and delays in the execution of infill drilling activity in an overheated supply chain. These problems primarily impacted production in the North Sea and Alaska.

In the North Sea, the key issue has been our ability to execute multiple work fronts and to manage the interfaces effectively at a time when the supply chain is under extreme pressure. Over the last year we have invested considerable effort to prioritize and focus activity and establish a reliable foundation for the future. The resource base is robust and appraisal results on the Clair field and the recent acquisition of acreage adjacent to the Andrew field have further increased the opportunity set. Following on from several recent field start-ups – including Clair and Rhum – the future is further underpinned by a series of major projects including Skarv (in Norway), the redevelopment of Valhall, expansion of Clair, the Harding Area Gas development including the Devenick field and additional development in the West of Shetlands. We expect to make the final investment decision on all of these projects over the next 12 to 24 months.

In Alaska, last year we lost around 25 thousand barrels a day primarily because of higher than expected downtime at Greater Prudhoe Bay. Despite these problems, we continue to have a very substantial light oil business, that over time we expect to transition to heavier more viscous oil, and eventually a major gas business supplying gas to the Lower 48.

This year's performance in the North Sea and Alaska is clearly disappointing. We have identified key areas of focus for future operational improvements and have taken specific actions in this regard.

That said, our forecasts do not assume significant near term improvement in operational performance in either of these areas.

It is important to note that across the EPC portfolio, the major reservoirs continue to perform as expected. The issue is not the quality or quantum of the resource base, but rather it is operational performance in a couple of key areas – affecting the rate at which we are translating resource into production. It is the strength and quality of the overall resource base that gives us confidence in the long term.

The rest of the EPC portfolio continues to perform well. Our North American Gas business has a resource base of more than 5 billion barrels of oil equivalent and currently produces around 450 thousand barrels of oil equivalent a day. The use of key technologies in our Coal Bed Methane and tight gas assets combined with long term rig and well service commitments have allowed us to level load activities and reap the benefits associated with repeatability and continuity. This has resulted in an average reserves replacement ratio of more than 100% over the last five years.

In Argentina with our Pan American Energy joint venture, we continue to see the benefit of the application of BP's technology and management processes, combined with the local operating capability of our partners, to the very significant resource base. We have grown overall production by 12% per annum since 1999 – with gas production growing at 14% per annum, including the development of deep gas that had not been previously accessed.

In Egypt we continue to make solid progress in developing a major new gas profit centre. In 2006, we signed a framework agreement to participate in the development of the second LNG train at Damietta. We also continued our appraisal of the Raven discovery, and in the last few weeks have made another significant gas discovery, Giza, which further increases our resource base.

Let me now hand over to Bob Dudley, who will give you an update on TNK-BP. As many of you know, I have been closely involved with the company as a director since its inception in 2003. I am pleased to report that TNK-BP continues to perform very well.

Bob Dudley: President and CEO TNK-BP

Thank you Tony, and good afternoon ladies and gentlemen.

It is good to be here and as I begin, a brief note about governance. I am here representing TNK-BP, which has 4 principal shareholders: BP and the Alfa, Access and Renova groups. BP owns 50% of our shares, and our Russian owners between them hold the remaining 50%. Note that the financial results I will refer to are in accordance with US GAAP and the reserves statistics are, like other Russian companies, on a Society of Petroleum Engineers or 'SPE' basis. Therefore, there will be differences between the numbers I outline and BP's reported share of TNK-BP's results.

First, some context. The formation of TNK-BP was announced four years ago this month. The company is a leading Russian oil major and produced some 1.94 million barrels per day of energy equivalent in 2006, comprised of 1.75 million barrels per day of liquids, and around 1.1 billion standard cubic feet per day of gas. These figures include the 50% of another Russian company, Slavneft, which TNK-BP owns jointly with the Gazprom company, Gazpromneft (or formerly Sibneft). We employ around 70,000 people and are present in almost all of the major hydrocarbon basins in Russia, with most of our production and reserves concentrated in West Siberia.

Our proved liquids reserves at the end of 2005 on an SPE basis were 9.2 billion barrels, and we expect 2006 annual reserves replacement before divestments to be confirmed at over 100% - an objective that we have achieved each of the last three years. To date we have not booked significant forward gas reserves but we have a four year track record of growing gas sales.

We are an integrated company, with five refineries, and some 1,600 retail outlets in Russia and Ukraine, which are critical to maximising our margins. We are also building additional profitable marketing businesses in both lubricants and bitumen.

Everyone knows the business environment in Russia is challenging but TNK-BP does operate successfully as a member of the Russian oil sector and, I believe, remains well placed to build on this position. Since the formation of the company, the strategy is unchanged, and our results in 2006 extend a sound and healthy track record.

In the Upstream, the company continues to bring resources through to reserves and then to production. Our 2006 organic production growth, including our 50% interest in Slavneft, was greater than 2% on a barrel of oil equivalent basis, and we have delivered greater than 9% production growth annually on average since 2003 – far above the original forecasts, and more than double the Russian industry average. TNK-BP has replaced more than 100% of our production with new reserves each year from

2004 onwards, and in 2006 we secured extensions of our two largest production licences for the super-giant Samotlor field to 2038.

Since 2004 we have accessed new licences containing an estimated 5 billion barrels of oil equivalent of risked resources and continued a successful exploration and appraisal program. In 2006 alone, the company secured 23 new licenses and our exploration and appraisal drilling success rate was over 60%.

In the Downstream, we continue to enhance margins. Last year TNK-BP completed the major upgrade of the Ryazan refinery, allowing us to produce European spec products. We retail under two separate, well established fuel brands – TNK and BP. We are expanding these retail activities having rolled out a new TNK brand offer at 68 sites in 2006 with approximately 150 more planned in 2007, focusing on our three primary markets - Moscow, St. Petersburg and Kiev. The BP retail brand also continues to be very successful, enhanced by the launch of BP Ultimate fuels this past September.

The company is also quietly developing the gas business, and we have announced plans to increase associated gas utilisation through investment of more than $1 billion over the next five years. As part of this we entered into a 50/50 partnership with Sibur, a Gazprom subsidiary, for gas processing in our core West Siberian production area.

In parallel we continue building a foundation for major new gas projects in Rospan and Kovykta – both are large resources which will require major capital and technological investments for the long term. Kovykta particularly seems to attract much attention and it is worth noting that reserves are yet to be booked for this project.

The company continues on a path of sustainable investment for longer term growth, and the portfolio is evolving accordingly. This slide shows the simple inputs and outputs of capex and production.

As we foreshadowed at the time of the company's formation, we have reshaped the portfolio. In 2005 and 2006 we completed the sale of $4.5 billion of Upstream and Downstream assets to increase focus and take advantage of very favourable market conditions. On the acquisition side, just last month we purchased the remaining 50% of the Vanyoganneft JV from Occidental for $485 million. We know this asset well - it has attractive synergies with our core Samotlor area and offers some 1.4 billion barrels of oil equivalent resource potential.

Our initial production growth, driven by asset optimisation and wellwork, is now being complemented by application of improved waterflood management to underpin production. Our initial view of the improved recovery potential from our reservoirs is being borne out - you may recall that every 1% increase in recovery factor of

our 5 largest fields adds around 750 million barrels of oil equivalent to our reserve base.

In 2007 we expect to increase capex spend to around $3.4 billion, of which around half will be invested in existing fields, where we plan to increase drilling and side-tracking activities significantly. Despite the maturity of the core fields, we expect to see production broadly flat through to 2009, and growing thereafter with the contribution of new greenfield developments. We shall also continue our long-term programmes to improve HSE and integrity performance, particularly in refineries, pipelines and gas utilisation.

The balance of the capital programme is in greenfield developments, exploration and appraisal programmes and downstream investments. Over the last year we have taken a conscious decision to re-phase some of our greenfield developments. This will ensure that our activity is aligned with our organisational capability and that we execute in the most efficient way possible – we believe this is the right way to create long-term value. As these projects move through to development, we will create a portfolio capable of delivering sustained growth based on: continued exploration success, new greenfield oil developments and best practice mature field management – all underpinned by tailored technology application. The major gas fields offer additional long term options when the necessary commercial frameworks can be put in place.

We continue to build for the long term, with a substantial resource base of more than 20 billion barrels of oil equivalent of non-proved resources at the end of 2005.

In 2007, our development focus will be in the Uvat area of West Siberia, the giant Verknechonskoye field (or VC field) in East Siberia, and in Uvat we are constructing road, pipeline and field infrastructure, progressing the first production hub and continuing our exploration & appraisal program. On VC we, together with our partner Rosneft, are carrying out additional appraisal activity and are progressing an early oil scheme to link the field with the East Siberia Pacific Ocean pipeline now under construction. We will also continue a focused appraisal and pilot production programme in the Bolshekhetsky area.

In exploration we expect to continue spending on new access and exploration which has averaged around $250 million annually since we commenced operations. Our focus is in Orenburg, the Uvat and Bolshekhetsky areas of West Siberia, and in East Siberia - access costs are very competitive, averaging $0.09 per boe on a risked basis.

These projects are predominantly oil but, as I have said already, we also have large and long term options in gas. Our Kovykta regional project is now delivering gas to local customers and we continue to appraise full field developments of both Kovykta and Rospan. Both will require alignment with Gazprom; we continue to

work this and despite the occasional headline, I am optimistic about progress.

Since the JV, which created TNK-BP, was announced in February 2003, BP and its Russian partners have committed the company to delivering production growth and to introducing new technology to the business. We have done this, and we have also built for the future, developing a 'conveyor belt' of greenfield projects and a track record of successful exploration.

The company is also delivering on its commitments to improve corporate governance – to increase transparency and provide minority shareholders with the ability to share in the profits of the business – and I know we are making a real contribution to Russia in several other ways. We are one of the country's largest taxpayers, in 2006 paying more than $20 billion in taxes, duties and levies.

Ultimately, the goal of building a world-class and successful Russian company is dependent upon people. We face the same capability challenges as everyone in the industry, but we have a talented workforce and we are committed to their development, with some 150,000 man days of formal training delivered since 2003. We are also able to tap into BP by way of secondments to accelerate skills development and broaden experiences.

Putting aside the ever present headlines about Russian companies, TNK-BP has come of age as a Russian oil and gas company, and this is our fourth successive year of consolidation, delivery and progress. In that period we have built a stable, robust and attractive business. I remain optimistic about the future and our contribution to our shareholders, BP and the Alfa, Access and Renova groups, all working together and committed to the long term success of the company.

Thank you….. And now back to you Tony.

Tony Hayward: Group Chief Executive Designate

Thanks Bob. Let me now discuss the overall level of investment in the E&P segment.

This chart shows the level of capital investment over the last three years and a projection for 2007. 2006 capital investment was around $12 billion excluding our $1 billion investment in Rosneft. It included around a $1 billion impact from sector specific inflation. In 2007 we expect capital expenditure to be around $13 billion – the exact level will depend on the dollar exchange rate and our continuing ability to offset around 3-4% of the sector specific cost escalation.

We continue to see very strong inflationary pressures in all parts of our supply chain. For Exploration and Production within BP, we have seen price increases of some 14% in 2006 in the market place, a level we expect to continue into 2007. This brings the overall sector specific inflation that we have experienced to more than 35% over a three year period.

We have offset around 11% of these capital cost increases over the three years through a combination of technology, demand management and supply chain management - aggregating demand and making longer term commitments to our suppliers.

Let me give you some examples:

In 2006, the market rate for offshore rigs rose on average by around 44%; because more than half of our fleet was on long term contracts, we mitigated this rise to an average of around 34%.

Similarly, we have secured more than 80% of our US onshore rigs on long-term contracts with a limited number of suppliers.

Also shown on this chart is BP's share of TNK-BP's and Pan American Energy's capital investment. Neither is reported as consolidated BP capital, but both are important components of our overall economic investment. Both of these operations are biased to brown-field development of onshore oil and gas. Consequently,

we are able to generate high incremental volumes in these areas for relatively low capital investment. Pan American Energy and TNK-BP are able to fund investments from their own cash flow. On this basis total E&P investment in 2006 was $14.8 billion, and we expect that to increase to around $15 billion in 2007.

In the face of the continuing very high levels of cost pressure in the industry we are determined to take a disciplined approach to our capital investment programme. This is about focus, exercising rigorous quality through choice, progressing only the most material opportunities and ensuring that we do not pursue options where there is not the capability to execute efficiently. We will manage the pace of major projects to ensure that we are not drawn into long term commitments made in the current overheated market, and where necessary, we will slow down to preserve long term value.

Like others in our industry, we are seeing the effects of the current high oil price environment impact the costs of people, supplies and services. From 2004 to 2006 we experienced cost escalation of around 7% per annum of which we were able to mitigate between 1-2% through technology, demand and supply chain management. The primary reasons for the increases have been general wage escalation, especially in petro-technical disciplines, as well as increases in logistics, engineering and seismic services. We expect that we will see continued sector

specific cost escalation of around this level over the medium term until supply and demand rebalance.

As with capital expenditure, a focus on supply chain management is an important element of our programme to mitigate market cost escalation. Across the business, we are generating significant savings by aggregating demand, making longer term commitments to suppliers, and where appropriate locking in rates.

To give you some examples:

In the Gulf of Mexico long term contracts with options to renew have meant that we have the use of seismic vessels for most of 2007 at 2005 prices. Similarly, we have also single sourced 80% of our marine supply vessel requirements for 5 years, with inflation capped at 3%.

In Alaska, indexed agreements for trucking services in 2007 will result in cost increases of 2% for BP versus market rate increases of 8%.

The desire for a greater share of the higher rent available in this environment is not only restricted to suppliers of goods and services. Governments have already moved to raise taxes. The UK is a prime example, but over the last 12 months, tax take has also increased in Alaska and Venezuela, together these have an

approximate annual cash impact of around $800 million in the current environment.

Furthermore, in this environment, our barrel entitlements under production sharing contracts have been reduced, and development costs across the portfolio have increased. Consequently, we expect to see continued rises in depreciation per barrel.

Before I talk about future production, let me remind you of the evolution of our portfolio over the last six years. Over the last six years, we have divested a significant number of assets which had reserves of around 2.0 billion barrels of oil equivalent, and production of around 530 thousand barrels of oil equivalent a day in 2001. These divestments were made on strategic grounds to improve the quality of the portfolio, and we realized around $14 billion of pre-tax cash proceeds and around $4 billion of pre tax profits. Over this time period, the retained portfolio has grown from 2.9 million barrels of oil equivalent a day to 3.9 million barrels of oil equivalent a day – a compound annual growth rate of around 6% a year, driven by the acquisition and subsequent growth of TNK-BP. Underlying growth in the New Profit Centres (NPC) has been relatively constant at around 13% driven by the delivery of 33 Major Projects, and has more than offset decline in the Existing Profit Centres (EPC).

I'd now like to give you new guidance for our expected future production rates. Relative to our projections of February last year, our production forecast has been impacted by five things:

Firstly, we have further increased our focus on safety and operational efficiency, and will in some cases deliberately slow the pace of our activity in order to improve its safety and efficiency.

Secondly, we are using a higher price assumption of $60 rather than $40. This reduces 2007 by around 100 thousand barrels a day and 2009 by around 300 thousand barrels a day. We are using a higher oil price, not because we think the oil price will be $60, but because it is a more conservative basis on which to project volumes.

Thirdly, we made divestments in 2006 that will reduce 2007 production by 130 thousand barrels a day, around 60 from TNK-BP and around 70 from the remainder of the portfolio. Whilst we will continue to review the portfolio and make adjustments in line with strategy, we have now completed the major portfolio high grading and would not expect future divestments of production at this level.

Fourthly, the delay of Thunder Horse and Atlantis in the deep water Gulf of Mexico impacts 2007 by around 150 thousand

barrels a day, 2008 by 100 thousand barrels a day but has little impact by 2009.

Fifthly, as Bob has already mentioned, TNK-BP has taken steps to match the pace of greenfield development with organisational capability. This reduces BP's projected volume from TNK-BP by around 90 thousand barrels of oil equivalent a day in 2010.

We are also allowing for operational efficiency issues, a reduced ability to execute effectively at a time when the industry supply chain is operating at full capacity, and for the unexpected. As I have mentioned, we are deferring some activity due to an overheated supply chain, which we believe will deliver increased value.

Lastly, and most importantly, we have learned much from our experiences over the past two years, and I am incorporating these lessons into the more conservative guidance, which I am giving you today.

The key remains that our reserve and resource base is strong: the issue is the timing of production. So our new guidance is more conservative than in the past, and we believe conservatism is the right path to take at this moment in time.

In 2007 we expect production to be broadly flat - between 3.8 and 3.9 million barrels of oil equivalent a day and to grow thereafter. This takes into account the 130 thousand barrel per day impact on 2007 of divestments made in 2006. On the basis of a price assumption of $60/bbl and our current portfolio, we see production at more than 4.0 million barrels of oil equivalent a day by 2009 and at more than 4.3 million barrels of oil equivalent a day by 2012. Our portfolio is lengthening, and we will be able to sustain growth further into the future.

I would now like to turn to our resource base which underpins the potential for sustainable growth. This slide, which I first used last year, describes the movements in our resource base over the five year period beginning in 2002. You should note that the data shown here is on an SEC basis and, therefore not directly comparable to the data we showed on last year's slide. Over the time we produced 7.0 billion barrels of oil equivalent and moved 8.0 billion barrels into proved reserves from major projects and in-field activity. In the top left, we added around 7.2 billion barrels through exploration, and top right, 8.3 billion barrels through appraisal and reservoir evaluation activity. Finally you see the impact of A&D during this period.

So to summarise, over the last five years, excluding acquisitions, we have added 15 billion barrels of oil equivalent to our non-proved resource base and 8.0 billion barrels to proved reserves. We have extended our total resources and reserves to production

ratio from around 34 years to around 41 years – whilst maintaining a proved reserves life of more than 12 years, and at the same time grown production by around 500 thousand barrels of oil equivalent a day.

I cannot over emphasise the importance of our efforts to improve the recovery factor on the 200 billion barrels of oil equivalent hydrocarbons in place across our portfolio. To date we have produced around 38 billion barrels, an average recovery factor for the portfolio of just 19%.

Producing the 18 billion barrels of proved reserves will increase the recovery factor to 28%. Moving to the currently foreseen recovery limit would yield a further 41 billion barrels. This is equivalent to an additional 29 years of production at current rates and would take the recovery factor for the portfolio to 49%. In addition, there is a significant volume of hydrocarbons which is currently unrecoverable using today's technology. We believe over time we will be able to extend existing technologies and develop new technologies which will help us access part of this. These include recovery of viscous oil in Alaska, tight gas in North America, and low salinity water flooding, which has widespread applicability across much of our portfolio.

Simply put, as we continue to increase the technical limit a 1% improvement in recovery equates to a 2 billion barrel prize.

So if I can summarise the E&P segment. 2006 was a disappointing year. We experienced operational problems in Alaska and the North Sea, and delays to Thunder Horse and Atlantis in the Gulf of Mexico. All of these occurred in an environment where the supply chain is stretched to breaking point. And despite these difficulties, we managed to stay focussed and continue to make solid progress in the implementation of our strategy.

We continue to see the benefits of a focussed exploration strategy with a number of significant new discoveries in 2006 and important new access in a number of areas.

We continued our track record with 13 years of reserves replacement of 100% or more.

We expect production to grow to more than 4.3 million barrels of oil equivalent a day by 2012 at $60/bbl underpinned by a slate of major projects that are advancing steadily, strong performance from TNK-BP, and a growing opportunity set arising out of successful exploration and new access, and our strong incumbent positions - and as I have indicated, we face some major challenges with operational issues to overcome in Alaska and the North Sea.

Continuing upward pressure on costs is putting earnings under pressure, especially as oil and gas prices are no longer rising at the pace seen over the past three years.

Outside of my priority of safety and operational integrity, we have taken the decision to slow down in a number of places in order to manage costs in the current environment, and to ensure that we execute in the most effective way possible.

Government take continues to edge up.

However we believe we are as well placed as any company in our industry to meet these challenges. We have a strong and growing resource base in our major incumbent positions which is being progressively unlocked through the deployment of focussed technology programmes.

With a renewed focus on safety and operational execution, I am confident that we have the basis for sustainable long term growth.

Ladies and Gentlemen thank you very much, let me now hand over to John Manzoni.

John Manzoni: Refining & Marketing

Thank you Tony.

Good afternoon Ladies and Gentlemen.

I would like to describe the activities in Refining & Marketing, with a particular focus on 2006/2007.

I want you to take away three main messages from the next few minutes:

- that we are focusing great effort on safety and integrity;
- that we are building out from a very difficult 2006 – improvement should continue through 2007 into 2008, driven mainly by Texas City;
- and that we are continuing our disciplined execution of strategy, and the business has been improving all the time.

I must begin with the recent publication of the Baker Panel report on Texas City.

The report was issued on January 16th.

The panel provided a set of recommendations and insights which will help to accelerate our journey towards excellence in process safety. This has been a major focus for the organisation, especially over the last two years.

We have many actions underway as a result of the Texas City incident in 2005 including setting up a new integrated Operations Management System initially across our US refineries, but later more broadly.

We are now in the process of reviewing the panel's recommendations and many of these are fully consistent with the actions we have begun already. We have committed to fully implementing the recommendations, and will build them into our work programmes in a considered way which will ensure sustainable improvement to our process safety performance.

We've already signalled increased integrity spend in our US refining system: it has been increased by $0.5bn to an annual average of $1.7bn over the next four years including turnarounds, maintenance and integrity projects. All these projects are expected to improve safety, reliability and availability over the long term.

Stepping back we have learned fundamental lessons from the Texas City incident. Process safety, along with personal safety

and the environment, is a major focus. It is the first priority for our organisation, and it is a long term journey.

Returning now to 2006 and 2007.

This slide shows the volume and type of feedstock processed at Texas City in 2005 and 2006 and the forward plan for 2007 and 2008.

Throughput more than halved in the second half of 2005 – as Texas City was shut down due to a loss of steam related to Hurricane Rita in September of that year. We took the opportunity to fundamentally improve standards, engineering practices and procedures at the plant as a result of the shutdown.

2006 was a low point in Texas City throughput, as we began recommissioning the first process units, incorporating our new standards.

Since the shutdown over 15 million manhours have been worked at the refinery refurbishing and recommissioning process units as well as re-training personnel and introducing new procedures and standards.

As you know, crude processing restarted in April 2006 building to around 250kbpd by the end of last year. Most of the feedstock currently being processed is light/sweet crude.

Looking forward we expect the first half of this year to be similar to 2006 in terms of the type of crude processed, but we expect the percentage of high value products – gasoline, diesel , jet and aromatic feedstocks shown on the chart by the orange line – to increase through the year as major upgrading units are recommissioned.

During the fourth quarter of 2007 we plan to re-start the refurbished second train of the refinery, bringing the total crude throughput to around 400kbpd by the end of the year. This second train processes mainly high margin heavier sour crude.

This should significantly increase margin capability in 2007 as the overall proportion of sour crude into the refinery rises from around 15% to around 60% by the end of this year.

In terms of financial impact, Texas City lost around $1.1bn in 2006 excluding the costs associated with litigation. Based on the schedule of start ups underlying this chart, and depending of course on refining margins through the year, – these losses are expected to be at least halved in 2007.

Learnings from Texas City have had impacts on availability beyond Texas City itself, and this is shown on this chart.

The slide shows total refining system availability from 2004 to 2008. 2006 is a low point. While we would normally expect system availability to be around 95%, the low point reached in 2006 was just 82.5%.

This figure reflects reduced availability in many parts of our system in 2006.

One example of the broader impact is how we've applied new standards and work processes around turnarounds, which have increased turnaround time, in some cases by up to 30%, in 2006. We expect to learn as we go forward reducing the impact of new procedures on future turnarounds.

Our expectation is to be back at normal availability during 2008.

For Texas City and for the system as a whole – 2006 was the point of maximum financial impact. We will focus on building back from that point through 2007 and into 2008.

I want to make a brief comment on our refining portfolio strategy and investment plans. This chart shows a view of our strategic positioning.

We continue to believe the US to be an advantaged location for refining capacity in the medium term due to the import supported margin structure. 55% of our capacity is in that location.

After location, we see two other sources of advantage:

- first, complexity – the chart shows BP has more complex refineries than others, allowing us to make high specification products from cheaper crudes;
- and second, size/scale allowing us to access economies of scale.

So we have advantaged refineries in advantaged locations.

Our strategy is to continue to invest in the complexity and upgrading capability of our refining portfolio. This allows us to capture better unit margins when margins are high, and also ensures the portfolio remains robust should the overall refining margin weaken from the exceptional levels seen recently.

And we continue to adjust the geographical position of the portfolio, to optimise our exposure to the expected margin outlook.

We recently announced the sale of our Coryton refinery in the UK. At the same time we are working options to improve the

positioning of our European portfolio to meet diesel demand in this continent for the future.

We have a significant suite of investments planned which will further strengthen the quality of the portfolio.

These investments include the $3bn investment at Whiting, which will enable the 400kbpd refinery to process 85% heavy Canadian crude, compared to less than 25% today.

But there are others, including the commissioning of a coker at Castellon, site reconfiguration at Bayernoil and hydrotreating investments at Nerefco, all expected to be completed by the end of 2008.

Overall, between now and 2012, our planned investments should enable our refining portfolio to process 65% high sulphur crude – up from 52% today (including Texas City), as well as increase gasoline and middle distillates production by around 100 kbpd.

So from an advantaged set of assets, we have plans to continue investing to assure its position remains at top quartile.

And those investments are specifically targeted at ensuring the portfolio is robust in the event of softening refining margins.

Turning now to our marketing businesses.

The strategy is focused on three priorities, and I will comment briefly on each

- First, we continue to invest into the quality of our offers to maintain our margin generation capability. For example, in 2006 retail same store sales grew ahead of market at 4% and Ultimate fuel continued its growth to represent 10% of branded volume, with its margin contribution almost twice that in the markets where it is sold. And net marketing contribution with our 15 largest business marketing customers grew by 15%.

  These examples are important indicators of our continued focus on offer quality, which is especially important as product prices continue to rise.

- Our second priority is to focus our capital employed by decapitalising many of our retail markets to franchisees, so we can maintain a high quality, branded presence, but deploy our own capital into other opportunities;

- During 2006 we reduced the number of Company owned sites by almost 900 which is about 10% of the portfolio, and released around $800m of cash. We will continue along this journey in 2007, and expect around $700m of divestment proceeds, depending on the exact timings of the many transactions involved.

- And thirdly we are continuing our drive for efficiency, which is critical in any circumstances, but especially so in the current high price world.

In February last year I outlined a two phase programme intended to deliver at least $0.5bn by 2008.

This slide shows some measures of progress on that journey. We are firmly on track – and even a little ahead in some parts.

Phase one is a rationalization programme across our marketing businesses – shown here by reduction in head count. This underpins delivery of cost efficiencies and we believe we are ahead of our phase 1 target. We expect to reach full run rate for these reductions during this year.

Phase two is the design and implementation of improved systems for our marketing businesses. We're making good progress, and the first rollouts are planned to occur early in 2008. These are expected to deliver additional efficiency, as well as improved capability as we roll them out.

The combined impact of our investment in marketing capability and cost efficiencies result in the steadily improving ratio of gross margin to distribution and administration costs across all our marketing businesses, as shown in the chart at the bottom.

Finally, here is an outline of our investment patterns for this year. Organic capex is planned to be around $4bn, up from $3.1bn in 2006.

As you can see, most of the increase is in Refining. This is focused on integrity, Texas City refurbishment and the upgrading projects I outlined earlier.

Spend in the marketing businesses is broadly constant, although this year it does include some early planned investments in Biofuels manufacturing capacity.

I expect disposals this year to total around $2.5bn, and comprise mainly our Coryton refinery and continued retail decapitalisations.

Finally to return to my three main messages. I have touched on each.

First – we are focused on improving the safety, and integrity performance of our entire system, and we have built in expenditure to do so.

I am looking forward to having Texas City back, on the schedule that I have outlined today. This will be a major strand of financial improvement during this year – along with continued delivery of efficiency programmes.

And lastly, we are continuing the disciplined execution of strategy – both across the refining portfolio and our marketing businesses, which should continue to improve our business all the time.

Ladies and Gentlemen, thank you. Back to John.

John Browne: Chief Executive Officer

Thank you John.

Given the time constraints today, I will provide a brief update on Gas, Power & Renewables. We gained considerable momentum during '06 and see significant growth opportunities in '07 and beyond. In particular:

- gas remains an important part of our portfolio. We will continue with our strategy of capturing a greater share of the growth in global demand for gas;
- our LNG marketing and trading business continues to grow substantially;
- we are the second largest producers of gas among the IOCs;
- we are the world's largest marketer and trader of gas among the IOCs;

- in wind, we are on track to develop around 450 megawatts of wind capacity by '07. We have established one of the largest development portfolios in North America through the alliance with Clipper and our Greenlight and Orion acquisitions; and
- in solar, our capacity grew by 100% to 200 megawatts in '06, and is expected to grow to 300 megawatts by the end of '07.

We announced last week that we have selected the University of California Berkeley and its partners the University of Illinois and the Lawrence Berkeley National Laboratory to establish the BP Energy Biosciences Institute.

Vivienne will be happy to take any specific questions on Gas, Power and Renewables after our presentations. We also plan to hold an investor event to discuss progress on Alternative Energy later in the year.

6. Financial Framework

a. Investments

Now putting all this together – in '06, the total Group capital expenditure was about $16 billion, in line with our guidance last October.

For ’07, our organic capex is likely to be around $18 billion as we continue to increase investment in all our segments, including Alternative Energy. Continuing sector inflation is expected to add over $1 billion this year. In addition, we expect our share of the capex for associated companies to be around $2 billion in ’07. If you add these back to get a feel for the investments made by the Group as a whole, you get a level of around $20 billion in ’07.

The exact level of capital expenditure will of course depend on a number of things including the actual level of sector inflation that we will experience this year and any one off investment opportunities which further our strategy.

b. Dividends

Our dividend policy remains unchanged. It is to grow dividend per share progressively.

In ‘06, dividend per share grew by 10%. During the period ‘01 to ’06, the dividend per share in dollars grew at an average of 12% supported by the share buyback programme.

Since ’01, we have undertaken buybacks worth around $39 billion.

Our per share measures of value have been enhanced – an important outcome of our strategy to grow and distribute

sustainable free cash flow, and our primary emphasis on shareholder value growth.

c. Gearing

Our approach to the level of gearing is also 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. We started '06 below this level due to the proceeds from the sale of Innovene, and have stayed in the 15 to 20% range for most of the year. We ended '06 at the bottom of the gearing band at 20%.

7. 2007 Guidance

Overall, '07 will be a year to get back on track. We expect improved financial performance starting from 4Q'07 as new E&P projects start to come on line and Texas City continues to ramp up.

Specifically, we expect:

- production to be in the range of 3.8 to 3.9 million barrels of oil equivalent per day under an oil price assumption of $60 per barrel and our current portfolio;
- organic capex around $18 billion;

- total Group costs to grow in line with sector inflation; and
- distribution policy to remain unchanged.

8. Summary

To summarise:

- our main priorities are safety and performance;
- we hold high quality assets consistent with our strategy;
- we are committed to act on the lessons learned from our US experience and are implementing the recommendations of the Baker Panel; and
- we have a robust financial framework.

Thank you. We will now take questions.