2010 Results and investor presentation: 1 February 2011

Bob Dudley: Group Chief Executive

Hello, everyone, and welcome to BP's 2011 Investor Update. We are very pleased to have you with us, whether in person, over the phone or on the web, where I understand there's a large group.

For those here in London, you will have seen behind me our safety evacuation guidelines. We're not planning to test the alarm system today, so if you hear it, please proceed as advised. Further details can be found in the handout on your chair.

I am pleased to be joined on stage by Byron Grote – our CFO, and Iain Conn – Head of Refining and Marketing.

With us in the audience we have our chairman Carl-Henric Svanberg as well as the BP Executive team, who I will come back to introduce in a short while. We also welcome Maxim Barsky, who's just walked in, perfect timing, as CEO designate of TNK-BP – our long standing and successful joint venture in Russia - and our guests from Rosneft, including Eduard Khudaynatov, Rosneft's President and CEO, Pavel Fedorov, First Vice President and CEO of Rosneft, and the CEO's General Counsel. Larisa Kalanda, . As you know we have recently forged a significant new global and Arctic strategic alliance with Rosneft so we are pleased to have them with us today, as well Maxim from TNK-BP, an important venture for BP.

Let me begin with our usual Cautionary Statement.

During our presentation we'll be making forward-looking statements. Actual results may differ from these plans and forecasts for a number of reasons, such as those noted on this slide and also in our SEC filings.

Please refer to our Annual Report and Accounts and fourth quarter Stock Exchange Announcement for more details. Both of these documents can be found on our website.

Our agenda today is a full one. I will start with a brief overview of 2010 and an outline of how we are moving BP forward. Byron will then take you through our results for the 4th quarter and the full year of 2010. Then we will move on to a detailed look at progress and future plans in each of our businesses, before taking your questions.

We had a difficult year in 2010. It was dominated by the tragic accident in the Gulf of Mexico in which 11 people lost their lives. We remain deeply sorry for what happened and its effect on the families and the communities that were involved. We know nothing can restore the loss of those 11 men.

Often the response to a tragedy defines the character of an organisation. And I am determined that we will emerge from this episode as a company that is safer, stronger, more sustainable, more trusted and also more valuable.

I believe that BP has a responsibility to meet its commitments in the US, which it will, and also has a responsibility to take our learnings deeply into the fabric of our organization. It means changing the way we manage our operations and concentrating on the things that drive long-term value – safety, capability, technology, portfolio choices and relationships.

We are taking the opportunity to reshape our portfolio and our operating model as well as working in new ways with National Oil Companies and many partners.

So let's look more specifically at the events of 2010 and our response. Following the accident we acted rapidly to fulfil our commitments as a responsible party – to stop the oil flow and clean up the water and shoreline. That work continues.

And the response was of unprecedented dimensions – at its peak it had 48,000 people, 6,500 vessels and 125 aircraft.

And we have acted in many other ways to meet our obligations.

We suspended payment of a dividend for three quarters of 2010. We know this has had a major impact on our shareholders.

We committed to pay $20bn over a three and a half year period into a Trust Fund out of which we are meeting legitimate claims.

We initiated a $30 billion asset divestment program.

We fully co-operated with the US federal government and the states.

We have made organizational changes, including setting up a new safety and operational risk function and we have restructured the upstream segment of BP.

We have introduced a new performance management system across BP.

We are fundamentally reviewing the way we manage contractors

And we are sharing and implementing our learnings globally.

Beyond the Gulf of Mexico incident, BP's global operations performed well.
2010 was a year of good financial performance with strong underlying earnings and cash flows.

In the upstream, we continued to move forward on many fronts. We are today reporting reserves replacement of 106%, this is the 18th consecutive year above 100% for BP, and we replaced 470% of our resources. It was a very good year for new access, with many new opportunities added to the portfolio. That trend was continued last month with the new access to deepwater blocks in Australia, new blocks in Angola, and the BP-Rosneft Arctic alliance.

Fifteen projects were progressed through Final Investment Decision, or FID, and we achieved a very important milestone with the Improved Production Target in Iraq in December.

In Refining & Marketing we delivered $900m of underlying performance improvement, mainly driven by improved US refining operations and our International Businesses.

And we have made good progress on our divestment programme and have significantly exceeded net book value on these sales.

Byron will provide more detail on our 2010 results in a moment, but before we do that I would like to say a few words about how we see the future of our industry and BP's role going forward.

Two weeks ago we shared our outlook for energy demand and supply through to 2030. By 2030 – based on our judgement of the likely path of global markets and energy demand - we estimate that the world could be consuming around 40% more energy than today. As this chart shows, this need for energy will have to be made from many different sources. We expect continued reliance on oil, but with new growth met increasingly by gas and renewables.

With many of the world's mature basins in decline, the industry will need to increasingly look to frontiers and new technology. This will include the deep waters, the Arctic, as well as unconventional sources.

One of our roles as a company is to help the world meet that increasing demand for secure, affordable and sustainable energy. Our license to operate depends on us delivering it in a safe and responsible way. We know that.

BP has many strengths to build on. We have scale and reach that spans the globe, and a leading track record of exploring and opening new frontiers. Our portfolio of assets, I believe, is among the very best in the industry. This portfolio, combined with the capability of our people, and with our relationships built over the course of decades, alongside our strong focus on technology, I believe positions us to play a key role in meeting the challenge.

We expect the growth in energy demand will be driven primarily by the non-OECD world. Today, China's demand for energy is already larger than that of the EU and is about the same size as the US. As you can see here, it is expected to nearly double in the next 20 years, while demand growth in the US and EU looks set to be much flatter.

This picture requires us to think differently from the past – increasingly looking to the East to invest, while rationalising our positions in the more mature OECD markets as appropriate – and you will have already heard of our decision on US refining.

Of course, this is an evolution that will take some time, but you can already start to see how these trends are influencing BP's decisions.

This brings me to the key part of our agenda today – BP's priorities moving forward.

2010 was an inflection point, challenging us to think about what changes we need to make to our business. So moving forward we have set ourselves three clear priorities:

The first is putting Safety & Operational Risk Management at the heart of the company. As investors you should expect this. We see this as a long term approach, bringing together how we manage risk, how we operate, how we partner with governments and contractors and how we reward performance. This will fundamentally reshape the way we work.

Secondly, we recognise that rebuilding trust is central to our continued license to operate. In the first instance we need to meet our commitments in the US. We also need to ensure that lessons are implemented across all our operations globally. Beyond this we need to play an active role in sharing the lessons with partners and governments to ensure such an accident can never happen again in our industry.

And importantly, our third priority is to deliver value growth for shareholders.

We have made a number of announcements this morning and you can start to see some of the choices we are making to realise greater value.

We are resuming payment of a quarterly dividend with the intention to grow the dividend level in line with the improving circumstances of the company.

We are divesting non-core assets in the upstream, unlocking hidden value while creating a portfolio with potentially stronger growth from a smaller base.

We are divesting half of our US refining capacity, retaining those positions with the greatest competitive advantage so as to improve returns.

We're creating long-term value by investing in strategic projects. Our upstream portfolio is very rich in growth opportunities with 32 project start ups planned by the end of 2016.

We're increasing our investment in exploration, one of our distinctive strengths and the means by which we turn prospects into value.

We're evolving the nature of our strategic partnerships with national oil companies and major resource holders, going beyond the traditional IOC model – such as our alliance with Rosneft and our joint venture with TNK-BP.

We're focusing on long-term value by investing in the key inputs – namely, safety, capability, technology and relationships.

All in all, we intend to focus on continuous reduction in risk, value as much as volume, and quality over quantity. It's about choices for the future rather than the legacy of the past.

As to the immediate future, 2011, it will be a year of consolidation as we focus on completing our $30bn divestment program, meeting our commitments in the US and bringing new rigour to the way we manage risk.

These actions may increase some costs and reduce volumes in the very short term, but we believe they are essential to growing value for shareholders for the long term.

With the new direction we are putting in place at BP, come a number of new faces, so before I hand over to Byron I would like to take a moment to briefly introduce the BP team.

This chart shows much of the leadership team, highlighting those of us that will get to meet, at least some of you, over the next few weeks on our annual Investor Roadshow.

Here in London with me today we have Iain and Byron whom I have already introduced and who will be presenting to you shortly.

Representing upstream, we have Mike Daly, he's responsible for Exploration, Bernard Looney who heads up Developments, Bob Fryar heads up Production, Andy Hopwood with overall responsibility for upstream Strategy and Integration.

Mark Bly heads the new Safety & Operational Risk organisation, Lamar McKay here has joined us from BP America, David Peattie from BP in Russia – I think he is out right now.

We also have with us is Brian Gilvary our Deputy CFO, some of you will know these people well, Steve Westwell, Head of Strategy and Integration for the Group, Sally Bott, our Head of HR, Peter Henshaw is the new Head of Group Communications and a face you all know well, Fergus MacLeod, who's Head of Investor Relations.

After the presentation you will have opportunity to put questions to all of us during the Q&A session.

Let me now hand over to Byron to take you through our 4th quarter and full-year results.

Byron Grote: Chief Financial Officer

Thank you Bob and good day to all.

I will begin my review with a summary of the trading environment.

The table shows the percentage year-on-year changes in BP's average upstream realizations and refining indicator margin, for both the fourth quarter and the full year.

Our liquids realizations increased to $79 per barrel in the fourth quarter, up 12% on 3Q and 16% higher than a year ago.

Our gas realizations increased slightly to $3.98 per thousand cubic feet, 2% higher than 3Q and 8% higher than a year ago.

Taking both oil and gas together, our total average hydrocarbon realization was up 10% compared to the fourth quarter of 2009.

Our refining indicator margin of $4.64 per barrel was slightly higher than the previous quarter but was around three times higher than the very weak margins seen a year ago.

From the first quarter of 2011, we will be using a new refining indicator margin which we will call the refining marker margin or RMM. The refining marker margin uses regional crack spreads to calculate the margin indicator and does not include estimates of fuel costs and other variable costs. It is similar to the approach used by many of our competitors. Full details and historical comparisons, including an updated rule of thumb, are available through Investor Relations and on BP.com.

Turning to the financials.

Adjusting for gains of $250 million for non-operating items and fair value accounting effects, our fourth-quarter underlying replacement cost profit was $4.4 billion, the same as in 4Q'09. The quarter's result benefited from a stronger environment, but was adversely affected by lower production and a significantly higher tax charge.

Fourth-quarter operating cash flow was an outflow of $(180) million. Excluding Gulf of Mexico oil spill expenditures of $(5.4) billion, underlying operating cash flow was $5.2 billion, down 28% compared with last year. The lower operating cash flow was primarily driven by temporary working capital effects.

Next I will provide you with an update on the costs and the provisions associated with the Gulf of Mexico oil spill.

In the fourth quarter we have taken an additional pre-tax charge of $(1.0) billion, primarily reflecting an increase in projected response and administration costs. The provision carried forward on the balance sheet at the end of 4Q represents our current best estimate of those future costs for which a provision can be made at this time, subject to all the exclusions and uncertainties that we described in the Stock Exchange Announcement.

We believe that BP was not grossly negligent and we have taken the provision on that basis. BP continues to believe that it has a contractual right to recover the partners' share of the costs incurred. Whilst no amounts have been recognized in our financial statements at this time, as of the 25th January $6 billion had been billed to our joint venture partners. We will continue to review our provisions quarterly and will be adjusting it as new information becomes available.

Total cash payments of $(5.4) billion were made in the fourth quarter, which included the second payment of $2 billion into the Trust fund as well as direct oil spill response costs. Full-year cash expenditures relating to the incident totaled $(17.7) billion.

In Exploration and Production, after adjusting for a gain of $1.3 billion for non-operating items and fair value accounting effects, we reported a pre-tax underlying replacement cost profit of $6.7 billion.

Relative to a year ago, the result was impacted by lower production volumes and a loss from our gas marketing and trading activities, but benefited from higher prices and lower depreciation.

Production was 3.67 million barrels of oil equivalent per day, 9% lower than a year ago and 6% lower after adjusting for the effects of acquisitions and divestments of around 85 thousand barrels per day, plus 40 thousand barrels per day of entitlement effects on our production-sharing agreements. This reduction reflects a higher level of turnaround activity than in the fourth quarter of 2009, particularly in the North Sea and Angola, and the continued impact of the Gulf of Mexico drilling moratorium. It also reflects the absence of the 40 thousand barrels per day benefit in the fourth quarter of 2009 related to the make-up of a prior-period underlift, which we talked about a year ago.

After adjusting for entitlement impacts in our production-sharing agreements and the effects of acquisitions and divestments, full-year production was 2% lower, largely due to the impact on Gulf of Mexico production.

Looking ahead, we expect first-quarter production to reflect the continued impact from disposals, the continued lack of drilling activity in the Gulf of Mexico, the impact from the shutdown of the Trans Alaska Pipeline System in January, and entitlement impacts in our production-sharing agreements if prices remain at current levels, partly offset by our first production from Iraq.

BP’s share of TNK-BP net income was $850 million for the quarter and we received a dividend of $790 million.

In Refining and Marketing, after adjusting for non-operating items and fair value accounting effects of $220 million, we reported a pre-tax underlying replacement cost profit of $740 million for the fourth quarter.

This is an increase of $730 million compared with the fourth quarter of 2009, principally due to stronger refining margins, stronger operational performance in the fuels value chains, continued momentum in the international businesses and continued cost efficiencies, partially offset by a loss from supply and trading activities. The results were also impacted by certain one-off items.
Our operational performance in the fuels value chains continues to be strong, with Solomon availability at almost 95% and refining throughput up 120 thousand barrels per day versus the fourth quarter of 2009, partly due to lower turnaround activities.

The international businesses continued to perform well, with petrochemicals maintaining high production and utilization levels and our lubricants business continuing to deliver earnings growth.

Underlying performance in the US was at breakeven during the fourth quarter compared to a loss of over $600 million in the same quarter of 2009.

Looking ahead, we expect first-quarter refining margins to be similar to the fourth quarter and the petrochemicals environment to remain robust. BP’s refinery turnaround activities are expected to be slightly higher than in the fourth quarter.

As I mentioned earlier, we incurred losses in the fourth quarter in our supply and trading activities in both the Upstream and Downstream segments.

It is worth noting that over the past few years the contribution from supply and trading has been volatile, both on a quarterly and on an annual basis, with 2008 and 2009 being particularly strong and 2010 being unusually weak. In light of the 2010 performance, we have made a number of structural changes aimed at reinforcing our ability to efficiently capture available market opportunities.

The long-term returns have been attractive to BP and we continue to view supply and trading as a core business activity within the Group.

In Other businesses and corporate, after adjusting for non-operating items, we reported a pre-tax underlying replacement cost charge of $(480) million for the fourth quarter, an increase of $(160) million versus the charge a year ago primarily reflecting adverse foreign exchange effects.

Turning to cash flow, this slide compares our sources and uses of cash in 2009 and 2010.

Operating cash flow, excluding post-tax Gulf of Mexico oil spill expenditures, was $29.6 billion, 7% higher than a year ago, mainly reflecting the benefits of a stronger environment partially offset by lower production.

We received $6.2 billion of disposal proceeds for deals completed in 4Q, bringing the total for the year to $10.8 billion. In addition to this, we held $6.2 billion in deposits for deals which are expected to complete in 2011.

Total cash held at the end of the year was over $18 billion.

Our net debt at the end of 2010 was $25.9 billion and our net debt ratio was 21%, 1% higher than a year ago. The $6.2 billion of deposits for deals to be completed post year-end was reported as short-term debt. As these deals close, net debt will reduce accordingly.

Consistent with maintaining a prudent and flexible financial framework for the Group, we intend to target gearing within a lower range of 10 to 20% in the future. The reduction of net debt to $10 to 15 billion over time, as we indicated in June, is consistent with the lower end of this range.

I will now turn to guidance for 2011.

First, we expect our organic capital expenditure to increase to around $20 billion in 2011 as we invest to grow.

Second, in 2010 we received $17 billion of proceeds for completed disposals plus disposal deposits. In 2011 we currently expect around a further $13 billion from disposal proceeds, taking the two-year total to around $30 billion.

Next, I remind you that under the terms of the Deepwater Horizon Oil Spill Trust, BP has committed to pay $5 billion of cash into the fund in 2011, 2012 and 2013, as well as meeting continued response costs.

DD&A is expected to be around $500 million higher than in 2010 due to the recognition of production in Iraq and increased production from fields with higher depreciation rates, partly offset by the impact from divested assets.

We have made significant progress in reducing our cash cost base over the past several years. In 2011 we expect to see a slight increase while we refocus our activities, as Bob has described.

The average underlying quarterly charge from Other businesses and corporate in 2011 is expected to be around $400 million. As in previous years, this is likely to be volatile on an individual quarterly basis.

And finally, the effective tax rate for 2011 is expected to be in the range of 32 to 34%, slightly higher than in 2010.

Bob will provide production guidance for 2011 in his remarks.

In closing, I would like to outline the medium-term financial framework for the Group.

We have resumed distributions to shareholders while we increase investment to grow the firm. This resumption of the dividend is supported by our continued success in the disposal programme, and by the improving business environment, but balanced by the need to retain a significant level of financial flexibility at this time.

To provide that financial flexibility we intend to maintain a significant cash liquidity buffer, as we have over the past six months, and reduce the gearing ratio to a range of 10 to 20% as I mentioned a moment ago.

A quarterly dividend of 7 cents per ordinary share was announced for the fourth quarter, which will be paid in March.

As you would expect, the Board has been prudent in setting the new quarterly dividend level, recognising the continuing obligation to pay $5 billion per annum into the Deep Water Horizon Oil Spill Trust and the uncertainties that we still face. The intention is to grow the dividend level over time in line with the improving circumstances of the company.

The Scrip programme, approved by shareholders at last years Annual General Meeting, will be available for 4Q dividend recipients.

That concludes my remarks. Now back to Bob.

Bob Dudley: Group Chief Executive

Thank you Byron. Let me now update you on progress in safety and risk management in BP. It is a vital focus for us.

Last year, as you all know, 11 contractors lost their lives on April 20 and sadly we also had 3 other contractor fatalities across our operations elsewhere in the world, making a total of 14.

The top chart here shows recordable injury frequency, which includes fatalities and lost time incidents.

It shows that the total number of recordable injuries increased last year. This was mainly due to the number of people involved in the Gulf of Mexico response where injuries occurred primarily during boom deployment and beach clean up.

Overall, we have had a declining injury trend for 10 years and performed in line with industry benchmarks.

As well as personal safety, we have taken a lot of steps in recent years to improve performance in process safety.

Two measures are shown here. The first is Process Safety related Major Incidents. In 2009 we recorded no such incidents but in 2010 we had three – including the Gulf of Mexico explosion.

Losses of primary containment, on the bottom right here, are unplanned or uncontrolled releases of process material.

The trends for all the metrics here show some progress but there is much to do and we know that.

So what are we doing to put safe, compliant and reliable operations at the heart of BP?

We have clear priorities and a programme of action. The main priority is to strengthen process safety and reduce operating risks. This requires the alignment of the organisation from top to bottom with a consistent set of standards and behaviours.

The primary mechanism to drive this consistency is our operating management system – or OMS. We are continuing to embed this across the organization as a single system to be respected and followed by every operation.

In human terms, we continue to focus on ensuring that we have a highly competent organization and a deep safety culture where everyone speaks up and takes action when necessary.

We are rebasing our approach to performance and reward to ensure every person in BP follows these priorities.

As I mentioned earlier, we have also created a more powerful Safety & Operational Risk organisation – which we call S&OR.

S&OR will strengthen our standards and processes and has personnel embedded in BP's operating divisions. They'll be working alongside the line management to guide, advise, scrutinise and if necessary intervene.

The S&OR team is confirming implementation of the 26 recommendations from the Bly report; approving critical personnel, reviewing risk mitigation plans and overseeing key decisions affecting operational safety.

Let me give you a little more detail by looking at what this means in the upstream specifically.

Within the developments division, we have established a centralized global wells team to make sure our wells are safe and compliant. They are working closely with S&OR to advance standards and ensure they are applied consistently.

We have five key areas of learning from the incident which we are advancing. These are Prevention, Containment, Relief Wells, Spill Response and Crisis Management.

We are committed to share what we have learned and we are bringing our capability, knowledge and, in some cases, our equipment to groups including the new Marine Well Containment Company in the US.

And we are also cooperating with investigations and supporting initiatives to bring about necessary regulatory change

Now let me turn back to the Gulf of Mexico. Our Gulf Coast Restoration Organisation is completing its response activities and working towards the longer-term restoration of affected areas.

BP expects to assume the day-to-day management of further activities from the existing Gulf Coast Incident Management Team at the end of March.

Around $5 billion has been paid in claims and government payments and the Natural Resources Damages Assessment process is underway.

We continue to have a local presence through our offices and staff and we have supported initiatives such as tourism and seafood testing and marketing to help rebuild the Gulf Coast's reputation.

We have also voluntarily contributed significantly to independent research & assistance initiatives. This includes investing $500 million in the Gulf of Mexico Research Initiative as well as other payments and grants.

While this activity continues, you will know that we are co-operating with a series of investigations, inquiries and hearings.

I believe it would be helpful to note some of the activities and the likely timeline.

We expect that the Presidential Commission will have completed their investigations and published their findings by the end of March, while publication of the final report from the Marine Board is scheduled for later this Spring. The National Academy of Engineers' report is scheduled for the end of this year. Less clear is the timing of the ongoing Department of Justice investigations, which are still expected to take some time to complete.

There are currently many active lawsuits against BP and other parties and these have been consolidated into two Multi District Litigation proceedings with most of the cases being consolidated under Judge Barbier in the Eastern District of Louisiana. Discovery in these cases is ongoing and Oil Pollution Act test trials may be scheduled for later this year. The Limitation and Liability trial is currently scheduled for early 2012.

So while there are still uncertainties as to how this will all progress, we should start to be clearer on the implications as we move into 2012.

As you have seen, we have thus far taken a charge of some $41bn against income in expectation of potential liabilities such as those I outlined a moment ago.

There are a few key points I would like to make to investors about this:

Firstly, we believe that the $20bn Trust Fund, within the provision, provides a substantive facility to cover claims brought by individuals and businesses, government claims, as well as the cost of the Natural Resource Damages claims. Should the $20bn turn out to exceed requirements, the balance of the Fund will return to BP.

Secondly, our estimate of the potential claims under the Clean Water Act - which we expect to be the major category of fine – is also included in the $41bn charge as well as response and clean up costs.

Further, as already noted by Byron, we continue to believe that BP was not grossly negligent and have taken the charge on that basis. We would expect to be able to recover a portion of cost from partners – which is not reflected in our provisions.

As far as the impact on the cash requirement of the Group is concerned, our commitment to the Trust Fund is spread over three and a half years, ending in the fourth quarter of 2013, after which a significant amount of cash will be available for other uses.

So now Ladies and Gentlemen let me turn to our lines of business – and I will start with a focus on our Upstream business and then Iain will overview Refining and Marketing.

As Byron has noted, 2010 was in fact a year of strong financial performance, aside from the Gulf of Mexico oil spill and lower production.

However, we realize – we have to realize that the Gulf of Mexico oil spill was a pivotal moment for BP and nowhere has this been felt more strongly than in the Upstream.

We will be a different kind of company in the Upstream going forward – with the fundamental restructuring into divisions, the embedding of the new S&OR organisation, redefining our performance setting and reward processes, and the systematic implementation of the lessons from the Bly report through our Operating Management System (OMS).

We are also taking this moment to make broad strategic change; our strategy remains to invest for growth, but our emphasis will be on value growth.

Going forward we will deliver this in a number of ways:
- We will continuously reduce risk
- We will evolve the nature of our relationships, particularly with National Oil Companies
- There will be increased spend in our highly value-leveraging activity of exploration

- We will actively manage our portfolio, looking to divest or sell down a portion of our assets if more valuable to others than to BP, or to acquire where BP can create significant value
- And finally, we'll be investing in building our technology and our human capability.

You can read into this that while volume is one indicator of growth it will be de-emphasised in favour of value.

So in this section, I'm first going to look at progress in 2010 with:
- An update on our divestment programme
- A look at the make-up of the portfolio and the picture on reserves and resources
- And a review of progress on major projects

Then I'll look ahead to 2011, including:
- our increased programme of turnarounds
- and the outlook for activity in the Gulf of Mexico, and then
- production and capex guidance for 2011

And I will finish by looking more broadly at the business, explaining our framework for growing value and using examples to demonstrate our confidence in the future of our Upstream business.

First, our divestments.
I want to be clear on the criteria we used in selecting assets for divestment. It was first to refocus our own portfolio for growth, and second where assets would be worth more to others than to ourselves, thereby unlocking value for shareholders. This latter point has clearly been demonstrated as our divestments attracted disposal proceeds greater than external valuation, and more than twice their book value.

The divestments represent around 15% of BP's current market value and yet a much smaller proportion of reserves - around 9% - and of pre-tax underlying replacement cost profit of around 7%.

In five countries we divested all of our upstream interests, simplifying the portfolio considerably. This means that our management can concentrate on regions where we believe we can grow value in a distinctive way.

But we divested none of our inventory of future major projects. So our long-term growth potential remains intact.

This slide shows the overall distribution of the asset value of our Upstream business. It excludes our shareholding in TNK-BP, which I will talk about later, and it also excludes the Gulf of Mexico where significant uncertainty for the industry remains. Again I'll come back to talk about this later.

There are several important observations on this slide. First, it shows just how much more focused our portfolio has become through the divestment programme.

A feature of our value-growth story will be to continue to divest where it is clear BP cannot uniquely add value. We will aggressively pursue the front end of value creation but will be prepared to divest when others can create greater value.

Second, the chart shows the inherent scale, strength and breadth of our portfolio. We have many material multi-billion dollar businesses.

Third, it also shows a set of currently smaller positions with significant potential to grow as we invest over the decade – these include; North Africa, the Middle East, Brazil and Canada.

And finally, we will be exploring our new basins with the intent of moving them onto this chart in the future – for example our work in Australia or with Rosneft in the Arctic.

A primary driver of value growth is how we manage the flow of resources from access to production. This slide shows how resources have progressed to reserves and then to production during 2010.

Year-on-year, our total resource base grew from 64 to 68 billion barrels of oil equivalent, and our inventory life has been extended from 43 to 48 years.

Resource additions resulted in a total resources replacement ratio of 470%.

Proved reserves were down slightly from 18.3 to 18.1 billion barrels of oil equivalent. But that is after divestments. Excluding acquisitions and divestments, additions exceeded production for the 18th consecutive year.

This chart shows how our resource base and reserves are now distributed.

One point to note is that the portfolio has a bias towards oil, with around 65% of oil and 35% gas.

We need that bias to oil to capture margin and maintain our leverage to higher oil prices. And, we want to complement that with a sizable share of gas to capture with growth.

The quality of our resource base in our subsidiaries is also continuing to improve. Over the last five years, we have increased the reserve additions from higher-margin areas such as Azerbaijan, Angola, the North Sea and the Gulf of Mexico.

Now I want to look in more detail at our access success in 2010.

We deepened in our existing positions in the North Sea in the Valhall field and in the recent UK Licensing round, shale gas in North America and Canadian heavy oil. We deepened in Azerbaijan through the Shafag-Asiman production sharing agreement, and intend to do the same in Angola through four new blocks in the Kwanza and Benguela basins. And we completed our access in Jordan with ratification of the Risha Concession and accessed the North Arafura block in Papua province, Indonesia.

Importantly we moved into four major new basins;

First, Brazil. It had represented a gap in our deepwater portfolio. Our agreement with Devon, subject to government approval, now provides us with that access and we'll continue to look for further growth opportunities there.

In the South China Sea we accessed new acreage in the deepwater.

In the Arctic we have just announced our future work in the South Kara Sea with Rosneft.

In Australia, we are pleased to enter the frontier Ceduna basin.

And we had a significant discovery with the Hodoa well in the West Nile Delta concession.

Now let me summarise the progress we have made in our major projects.

All of this activity is now managed by our Global Projects Organization – within the Developments Division - which was created last year to improve the quality of our project execution.

That organization has been hard at work strengthening safety, driving standardization, managing risk and building capability.

It has also used BP's scale to sign seven new long-term global supply agreements.

During 2010 we made final investment decisions on 15 projects.

A large number of the projects are in the North Sea, Angola, Azerbaijan and the Gulf of Mexico.

As a result, over two billion barrels of oil equivalent of BP net resources are expected to be developed with an expected total capital investment of $20 billion net to BP to bring them onstream.

Let's now turn to 2011 and provide you with some guidance on volume output and capital investment.

One practical effort of our focus on safety and risk management will be an increase of almost 50% in planned turnaround activity in key areas such as Alaska, the North Sea, Angola and Iraq.

All of this is expected to have some short-term production impact, around 200 thousand barrels of oil equivalent per day during 2011. This is roughly 50% more than in 2010.

I have no doubt that this activity will have long-term benefits in terms of reliability and is part of getting the foundation right for long-term growth.

You will know one of the key uncertainties we face in 2011 is the pace at which activity and getting back to work will be restored in the Gulf of Mexico.

We are not unique – the industry faces a similar uncertainty.

Production in 2010 was affected by the drilling moratorium and will carry over into 2011 as natural reservoir decline takes effect.

In 2011, our focus is on restoring rig activity safely. We have clear restart criteria, which includes meeting all new regulatory requirements, addressing each of the recommendations of our investigation under Mark Bly and compliance with our own standards, ensuring we have the right capability in place, along with appropriate contractor management.

Our plan is to have four development rigs and one exploration rig resuming activity this year, although there is industry-wide uncertainty around the exact timing.

We also have stakes in activities that are operated by others in the Gulf of Mexico including the Mars, Ursa, Tubular Bells, Galapagos and Great White fields as well as appraisal focusing on Freedom and Mad Dog North.

This uncertainty will clearly affect Gulf of Mexico production overall, and in 2011 we anticipate a further decline in production before returning to growth in 2012, but this will depend on the timing of the restart.

However, the key point for future value creation is BP's resource base is unchanged and we remain committed to its development.

So recapping on what I have covered here, production values are expected to be lower in 2011 than 2010; that's as a result of divestments, lower production from the Gulf of Mexico and the increased turnaround activity to improve the long-term reliability of the assets.

As a result of these factors, reported production in 2011 is expected to be around 3.4 million barrels of oil equivalent per day.

Of course, the actual outcome will clearly depend on the exact timing of the divestments, the pace of getting back to work in the Gulf of Mexico, OPEC quotas, and the impact of the oil price on production sharing agreements.

The actions we are taking in 2011 will set the foundation for longer-term growth. We are increasing our investment and plan a total of 32 project start-ups by the end of 2016. These will contribute an expected 1 million barrels of oil equivalent per day, which will more than offset natural declines.

The scope for accelerated growth from this now smaller base is clear, but our team's focus in the near term is on getting the inputs right. We will not compromise the ongoing reduction of risk, reliability, systematic execution of the activities – these are ultimately going to be the primary drivers of value.

To support that growth we are increasing our investment in 2011, and we expect organic investment in the Upstream to be around $15 billion. Our share of investment in TNK-BP will be about $2 billion of capital budgets.

Now Ladies and Gentlemen, at this stage I want to take a step back and explain more about what I mean when I say we are making broad strategic changes to grow value for the long term.

I've talked earlier about changes in safety and risk management, the restructuring of the Upstream organization and realignment of priorities and reward.

But we're also evolving the model of what an international oil company does.

Clearly, project scale and complexity, requiring access to financing, technology and capability continue to enable International Oil Companies to uniquely invest in our industry's challenges – Deepwater projects are a prime example, and we remain deeply committed to this important resource.

We are also pursuing new kinds of relationships with National Oil Companies and major resource holders. We don't see them only as competitors but increasingly as partners when our capabilities are suited to their needs. And those partnerships will take different forms according to the particular opportunities – BP and Rosneft is just the latest example of a new kind of relationship – and I see that as mutual benefit in action.

That agreement typifies the way that we are following the global trends. Growth in energy demand and economic activity is coming almost entirely from the emerging economies, especially the so-called BRICS, Brazil, Russia, India and China.
The other way the model is evolving for us is a shift in emphasis from volume to value. Of course, production numbers matter, of course, but we need to see our assets in terms of value and understand how we, as a company, can best create and realize value in those assets.

The focus on value also means that we will actively manage the portfolio and may not always participate in every stage of the life cycle of every project – as indeed we have shown in the divestment programme.

So let me show you how this value-based approach has worked in one of our key areas, namely in Azerbaijan.

It's an example for many points here, but value can be created at every phase, through the exploration, appraisal, development and production of the resources. Our experience in Azerbaijan shows that successive waves of exploration, development and production build on each other. Repeating this several times in each basin, incorporating learnings will enable us to unlock new opportunities and create unique value. There are different points as the value is created where you have options to sell down, partner in other ways. That could happen.

And arguably the most value creating part of an asset's life cycle, as you saw in the previous chart, is Exploration. BP is an explorer by instinct and tradition, and I think we are good at it.

This chart shows our history. We have consistently found around 600 million barrels of oil equivalent per year through the exploration drill-bit throughout the last decade – opening up new plays in Angola, Trinidad and the Gulf of Mexico – some of our key producing areas today.

We have also made significant progress in rebuilding our inventory of new plays. I think this access momentum will continue to build.

We believe this will give us the potential to double our rate of exploration spend over the next few years with discipline. There is enough choice to preserve the quality of our prospects, which can create the new producing areas for the next decade. We may choose not to take every success through to production and we may use success to bring new strategic partners to join us – I think that's value creation through exploration.

Let me review where we will focus our exploration capability.

Firstly we will continue to explore where we have been successful in the last decade – in Angola, in Egypt, Azerbaijan and the Gulf of Mexico.

Secondly, we will test five new provinces in the next few years. These will be in Libya, Jordan, Brazil, the South China Sea and in Australia. We see the potential prospectivity of these provinces as evenly balanced between oil and gas.

Thirdly, and for the longer term, we will test the exciting potential of the Arctic continental shelf in the Canadian Beaufort Sea and now also in the Russian South Kara Sea.

Finally, the Gulf of Mexico. We remain the leading lease holder and we have a very strong prospect inventory. We hold a leading position in the emerging Paleogene play with two significant discoveries in Kaskida and Tiber and a strong prospect inventory to drill out.

When I look at the global opportunity set I am excited about the big wells ahead of us as we test and drill out this strong portfolio.

Moving on from exploration to developments, we have a deep portfolio of high-quality major projects.

We have made the final investment decision (FID) on 24 projects. A further 10 are expected to reach FID in the next two years.

We also have 16 additional projects which are under appraisal.

Let's look specifically at a few of the Deepwater and Gas Projects.

BP does remain committed to the Deepwater. We are the largest deepwater producer amongst the major international oil companies and are determined to take the lessons of the last year around the world and build on our know how and capability. I think we have a responsibility to do this.

There are four focus areas for our Developments organisation. First investing in the capability of our people; second, developing new technology, third developing new arrangements with our contractors, and finally developing new engineering and operating standards.

We are currently progressing 19 deepwater projects in the Gulf of Mexico and Angola with an expected total investment of over $40 billion and we expect to shortly confirm Brazil in that portfolio.

Though oil forms the majority of the portfolio, natural gas is set to be the fastest growing fossil fuel in the next two decades and I would like to highlight four particularly exciting projects;

In Azerbaijan, the second phase of the Shah Deniz development is one of the largest gas development projects in the world, with the potential to open up a new source of supply for the European gas markets.

In Oman, we are appraising Block 61, using our expertise in tight gas reservoirs.

In Egypt, the West Nile Delta project reached a significant milestone in 2010 with the signing of a new concession.

And in Indonesia, we continue to explore and appraise potential resources to expand our existing Tangguh LNG facility with a third train now underpinned and work underway to identify resources for a potential fourth train.

So, pulling all of this together, here is an overview of the planned start-ups – by the end of 2016 we plan to start up 32 projects, which have the potential, as mentioned before, to contribute around 1 million barrels a day of production equivalent.

As I said earlier though, there may also be opportunities to create value at this stage of the project’s life-cycle.

Turning to the third division of our Upstream – Production. We are focusing on three areas. First, we are prioritizing safe, reliable facilities by continuing to invest in integrity and reliability.

Second we are pursuing excellence in reservoir management.

And third we are working on improving the recovery factors from our reservoirs.

Our operations in Iraq, I think, are a very good example of all of this. The learnings we have gained in other giant reservoirs in the US, Russia and the North Sea are now being transferred to the largest field in Iraq – the giant Rumaila field.

The Rumaila Operating Organisation (ROO) recently met a major milestone by safely achieving its Improved Production Target.

This was achieved through the ramp up in activity that began only in July 2010.

Some 10,000 people are currently working on Rumaila, over double the number at the beginning of 2010.

In 2011, we plan to continue to ramp up activity, including a water infrastructure upgrade and the engineering for a full field development.

And, reaching the Improved Production Target means we now start recovering costs and earning remuneration fees. This milestone is good for Iraq and it significantly changes the risk profile of our investment.

Let's now take a look at our business in Russia.

The relationship between BP and Russia has been forged over 20 years and it is a relationship we intend to build upon. Already we have the largest position of any International Oil Company in Russia.

We have a unique growth orientated position in Russia, through our distinctive partnership in TNK-BP and the long-standing partnership with Rosneft.

Let me firstly provide an update on TNK-BP.

Maxim is here for questions later. TNK-BP has a very strong onshore production base of which around 70% comes from West Siberia. This includes the giant Samotlor field where we have applied technology to sustain production for several years.

The transition to new greenfield projects began with the start-up of the Verkhnechonskoye, Uvat and Kamennoye fields in 2010. These projects will underpin continued growth for TNK-BP through 2015.

In 2010, production growth was up over 2%, greater than the national average.

Looking ahead, TNK-BP expects to see investment growing at an average growth rate of 11% over the next 5 years and production at 2%.

Longer-term growth will come with the development of new provinces near the Yamal peninsula.

TNK-BP is a core and significant part of our portfolio and we expect it will remain so.

Let me turn now to the recently announced alliance with Rosneft, this is a further important step for BP, for the industry, for Russia and for global energy over the long-term.

This is a long-term activity. The agreement to seek to form a joint venture to explore and, if successful, develop three licence blocks on the Russian Arctic continental shelf offers a new opportunity to access a world class basin. It utilizes BP's exploration skills and leading position in the Arctic region, which includes our 40-year track record in Alaska and drilling off the Sakhalin in Russia with Rosneft.

The licences were awarded to Rosneft in 2010 and cover approximately 125,000 square kilometres in a highly prospective area of the South Kara Sea – this is an area roughly equivalent in size and prospectivity to the UK sector of the North Sea.

The agreement also creates the first major equity-linked partnership between a national oil company and an international oil company. Following completion of this agreement, Rosneft will hold 5% of BP's ordinary voting shares in exchange for approximately 9.5% of Rosneft's shares, bringing BP's total shareholding in Rosneft to 10.8%.

We have also agreed to establish an Arctic technology centre in Russia.

And we have agreed to continue our joint technical studies with Rosneft in the Russian Arctic and we'll seek additional opportunities, as we have with TNK-BP, for international collaboration with Rosneft beyond our 50/50 joint venture partnership in Ruhr Oel in Germany.

As we come to the end of the Upstream section, I want to take a moment to highlight the role of technology. It is a common theme running through all the Upstream divisions.

We continue to exert discipline in selecting the technologies we pursue through our flagship programs. Clearly technology will be a key input to unlocking long-term value.

I believe we are an industry leader in seismic, both acquisition and imaging, as well as in sand control, and we have made dramatic breakthroughs in the development of waterflood technology and enhanced oil recovery.

These are just some of the examples.

So to sum up.

Our Upstream business is going through significant change as it refocuses to drive safety improvements and operational risk reduction in everything we do.

Our divestment programme has created a portfolio which is substantially refocused.

We are shifting the emphasis from volume to long-term value growth for shareholders.

I think we are good at finding oil and gas and we will take advantage of our growing world class exploration inventory to double exploration investment over the next few years.

We have high-quality projects capable of delivering around 1 million barrels of new oil equivalent per day by the end of 2016.

We will continue to make choices about where we invest, and will divest if others can add more value than we can.

We will continue to evolve our relationships with large resource holders and National Oil Companies.

And we will invest in technology and the capability of our people.

Ladies and gentlemen, that concludes my remarks on the Upstream. Now let me handover to Iain who is going to talk about our Downstream businesses.

Iain Conn: Chief Executive, Refining & Marketing

Thank you Bob, and good afternoon. It's a pleasure to update you on progress and prospects for Refining & Marketing.

Given today's announcements, my presentation is divided into three sections
- Firstly, an update on R&M's performance in 2010 in the context of the goals I set a year ago.
- Secondly, an in-depth description of our portfolio strategy including further detail on the announcements we made this morning regarding our US Fuels Value Chain portfolio.
- Finally, some indications of what you might expect from R&M in the future.

So let me begin by covering the R&M turnaround and our progress in 2010.

Our focus since 2007 has been on turning around R&M with an agenda built upon the five priorities outlined on this slide. These are unchanged.

Safety remains our top priority, and the events of 2010 only serve to underscore this. Bob outlined the agenda for our Safety and Operational Risk Function, and we are in the process of implementing that agenda within R&M. During 2010 R&M's safety performance was stable vs a very good 2009. Personal safety was slightly worse than 2009 and process safety was better with a 25% reduction in our severity-weighted Process Safety Incident Index and all of R&M's major operations are now on our operating management system, OMS.

Organisationally, we continue to invest for the future both in capability and core processes, as we consolidate the operating model.

Most of my presentation relates to the last three priorities - the improvement in our earnings momentum and returns, the portfolio and its simplification and our efforts to improve our efficiency.

I'd like to begin with 2010 starting with competitive performance.

Used for four years now, the chart on the left shows our post-tax ROACE vs the supermajors estimated on a consistent basis. Having closed the gap in 2009, we estimate BP has remained near the top of the competitor set, and absolute levels are improving. BP's ROACE in 2010 on this measure was 8%, a significant improvement on '08 levels and an improvement of about 2 percentage points vs '09. On the right, for two years BP's downstream has outperformed in terms of Net Income per barrel of refining capacity. As I said last year, we are not focused on being the largest player in any of our businesses, but of holding the highest quality portfolio and operating it well. I believe this is beginning to show through in our competitive results.

Turning now to earnings momentum, this chart shows 2010 pre-tax underlying RCP of $4.9bn vs $3.6bn in 2009. This is the highest absolute earnings level for R&M since 2006 but in a considerably worse environment. By our estimates the margin environment was slightly better than in 2009 giving $0.4bn of the improvement, with the other $0.9bn coming from underlying performance.

This improvement is about half of the goal to improve pre-tax profit by "over 2bn p.a." by 2012 which I set out last year, indicating that we are making good progress. You can also see that the total underlying pre-tax improvement since 2007 is now approaching $6bn p.a.

So, how have the different parts of the portfolio performed?

This is the usual breakdown of profits and operating capital employed between the Fuels Value Chains and the International Businesses including history back to 2007.

In the Fuels Value Chains overall, profit has improved by $0.5bn. In fuels marketing and supply, earnings were down $1.4bn, driven in large part by very poor oil trading performance and also the marketing impacts in the US in the aftermath of the Gulf of Mexico oil spill incident. Refining posted a profit for the first time since 2007, and improved by $1.9bn year-on-year. This was mainly driven by improvement in our US operations while maintaining good performance elsewhere. Refining Solomon Availability was 95% in 2010, the best level since 2004, throughputs were up 140,000 bpd and utilization rates globally were 91%, up over 6 percentage points vs 2009 and significantly above industry averages.

Refining returning to profit in 2010 means we have achieved another important milestone of refining becoming breakeven in an environment similar to that of 2009.

In the International Businesses, earnings improved by $0.8bn. The largest contribution to this was in Petrochemicals. Even though margins were only slightly up vs '09, demand recovery and new BP capacity coming on-stream drove a 23% improvement in production, and total costs were maintained at below 2008 levels.

Lubricants and Global Fuels also had another good year with further expansion of gross margin and good cost discipline driving double-digit earnings growth.

Returning to the Segment level, and looking at 2010 through the three themes of improvement I outlined last year which underpin the $2bn p.a. goal. Starting at the bottom with "growing margin share" we delivered considerable growth in the International Businesses, offset by oil trading, so we actually went backwards on this measure in 2010. We made significant progress in both "repositioning cost efficiency" and from "portfolio quality and integration" in the Fuel Value Chains through better operations, higher utilization and better optimisation of the integrated margin. We are ahead of our plans on both these dimensions.

The cost efficiency improvements were from across the portfolio with large contributions from refining efficiency gains, business continuous improvement and more efficient functional execution.

Last year I described our goals to improve refining efficiency without compromising our investments into safety and plant integrity. This is an updated chart showing our goal for 2012 in orange and the progress we have made in 2010. We remain on track with our plans for refining efficiency. The efficiencies have come largely from improved planning and execution of all types of work, improved contractor management and better sourcing of goods and services.

Looking now at cost efficiency overall. The green bars show costs indexed to 2004 levels with turnaround costs split out at the top. The yellow dot indicates costs normalised for energy, forex, turnaround levels and, as we are now growing volumes, additional variable costs. As you can see we have now reached our goal of 2004 cost levels on a broadly like-for-like basis. We will continue to drive to improve unit cost efficiency, but as we have announced some planned large portfolio changes, comparing absolute costs with a 2004 portfolio will no longer be useful.

Looking forward, our turnaround costs are expected to be slightly higher than average in 2011/2012.

I'd now like to turn briefly to refining margins. Byron has described our intention to move to a new Refining Marker Margin or RMM. Details are on the BP website. Our expectation continues to be for margins to remain in a range more reflective of pre-2004 levels. Taken with the recent realities of 2009 and 2010, our forward plans are currently based on an RMM range of $8-12/bbl.

As with GIM, there is a good correlation between this new marker margin and R&M's pre-tax RC Profit as indicated by the dark green line. The yellow band on the chart depicts our "over 2bn p.a. improvement goal" by 2012. I have plotted 2010 on the same basis showing the $0.9bn of improvement in the first year.

Finally, a word on investment levels. The black line indicates capex, the green bars net investment, with the dotted blue line depreciation.

In 2010, capex was $4bn and proceeds from divestments of about $1.8bn, leading to net investment of $2.2bn and in line with depreciation. On average for the last five years we have also net invested about in-line with depreciation. With strong operating performance, and investment discipline, R&M delivered material net cash flow back to BP in 2010.

For 2011 with the current portfolio you can expect capex to be slightly higher than in 2010, with a slightly lower level of proceeds from divestments. The chart excludes any proceeds from the US divestments we announced today.

I would now like to summarise the journey to 2010 which provides the context for the portfolio decisions we have made.

This slide shows profit and returns on capital employed, both pre-tax, for the major constituent parts of R&M. For each asset class both the 2008 and 2010 are shown. Capital employed is reflected in the size of the "bubble".

This chart is <u>not</u> adjusted for environment and refining margins fell from an RMM of nearly $16/bbl in 2008 to about $10/bbl in 2010.

You can clearly see the quality of the International Businesses, in orange, with absolute profit increasing by about $1bn over the last two years, and pre-tax return on capital in the 19-33% range. These businesses are also capable of material growth.

Indicated in yellow, the earnings in the Eastern Hemisphere Fuels Value Chains have fallen back by $1.3bn due to lower oil trading contribution and lower refining margins, materially offset by underlying improvements, delivering profit in 2010 of nearly $2bn and returns of over 10%. We have plans in place to further improve their performance.

Facing these same factors, US Fuels Value Chains, in green, have made very significant progress, improving by $1.9bn and moving into a breakeven situation. This is a considerable achievement and has been done while delivering materially improved safety performance. This represents the huge efforts of a very dedicated team. However, the reality is that in a 2010 environment, the US Fuels Value Chains remained breakeven.

I would therefore like to turn to the second part of my presentation, on strategy and portfolio.

The backdrop to our strategic choices is one of flat to declining demand for fuel in the US and Europe, with decline of fossil fuel demand accelerated by the penetration of biofuels. It is also in the context of significant growth for fuel, lubricants and petrochemicals in the emerging economies.

For the last 18 months we have been considering the future performance potential of the portfolio in both relative and absolute terms. In addition to meeting strategic hurdles such as configuration and market location, integration and growth potential, we also expect our Fuels Value Chain businesses to reach returns above cost of capital at bottom-of-cycle conditions, and make a material contribution to BP over time.

Although we have concrete plans to improve further all parts of the US Fuels Value Chain portfolio, parts of it fail the strategic hurdles and current performance does not meet these financial goals. This is the backdrop to the decisions we have announced this morning.

Therefore our portfolio strategy in R+M is now to:

- Reposition the US Fuels Value Chains, halving US refining capacity
- Improve the Fuels Value Chains in other geographies and access associated market growth, and
- Continue to grow the high quality International Businesses

As indicated here, there are many active elements underpinning this strategy. In the US, we have reached some major decisions. As announced we intend to exit the Texas City refinery and exit the Southern West Coast Fuels Value Chain including the Carson refinery. We will continue with our plans for the rest of the US Fuels Value Chains portfolio.

Our plans for both the Eastern Hemisphere Fuels Value Chains and for the International Businesses are unchanged, and I will provide more detail in a moment.

Starting with the US and with Texas City.

The Texas City refinery is a very large scale asset with a highly complex gasoline-oriented configuration. It is the 3rd largest refinery in the US, capable of producing about 3% of US gasoline production. It has improved its performance in safety and operations significantly and financially by some $2.5billion per annum over the last three years. This has been achieved under the most intense scrutiny. I want to thank and congratulate the team most warmly for that achievement.

However, Texas City is not strongly integrated into BP's marketing assets and so fails the hurdle of integration, and has limited logistics and tankage flexibility. BP would need to increase the footprint around Texas City to improve this. Strategically, we therefore have concluded that BP should sell Texas City and exit before the end of 2012, subject to legal and regulatory approvals including satisfying the authorities regarding future fulfilment of our obligations at the site.

We have received a number of inquiries from competent operators relating to Texas City.

Turning now to the West Coast.

In reality, the West Coast has two value chains, with a limited degree of overlap between them.

In the South, BP has a Fuels Value Chain with Carson refinery at its core and high marketing shares in Southern California, and related marketing in Nevada and Arizona.

However, the refinery has limited feedstock flexibility, is gasoline biased and will require investment in logistics and/or configuration to improve this. While this business has material potential for improvement which we are pursuing, it will also require investment to take it to a new level of capability in a highly competitive market. Given our plans elsewhere in the US, we have therefore decided to exit the Southern Fuels Value Chain and intend to complete this transaction also by the end of 2012, subject to relevant approvals. Again, I wish to thank the team for their considerable efforts and achievements in safety, and the operational and financial performance improvements delivered to date.

Our Northern position by comparison has the relatively modern 1970s Cherry Point refinery at its core, which is jet fuel and diesel fuel biased and into which we are making further investments to ensure it remains the leading refinery in the Pacific North West. The refinery is better-located and more feedstock flexible, being both pipeline connected to Canada and also closer to ANS supplies. The financial performance and integrated margin are better than the South and will meet our criteria.

As a result, we intend to retain the Northern part of the West Coast as part of a US Fuels Value Chain strategy which focuses on feedstock advantaged, product-flexible highly-upgraded, well-located refineries integrated into advantaged logistics and marketing.

Exiting Texas City and the Southern part of the West Coast will halve BP's US refining capacity and significantly improve the current financial performance of the US Fuels Value Chain portfolio.

We are also investing to improve the Toledo Refinery with our partner Husky, and continuing to transform the Whiting Refinery.

The Whiting project shown here is making good progress. As the chart shows, this is a very large and complex project and is now about 60% complete with all major lifts of key units completed in 2010.

The project start-up has now been deferred slightly from late 2012 to mid 2013.

This chart is a version of one I used last year showing indexed pre-tax profit per barrel in the Mid-West against refining margins on the new RMM basis. The yellow dot shows end-2010 conditions indicating that even at relatively low margins, this project is expected to deliver approximately a three-fold improvement in profitability and will contribute materially to improvement in our US Fuels Value Chain position overall. This comes from an improved ability to run heavy crudes, improved product yields and location advantage relative to the Gulf Coast for Canadian crudes.

Where do these major portfolio changes leave us in the US? Post 2013 we plan to have half the refining capacity of today, interests in three refineries with improved or transformed configurations, all of which have feedstock flexibility to run a range of crude oils including heavy grades, and which are on average more diesel-capable than BP's current portfolio. All of them have access to advantaged focused logistics and are integrated with marketing operations to support high utilization rates. Our import-led terminals and marketing on the structurally short East Coast are also very well positioned.

Although smaller, we believe this portfolio will be competitively very advantaged in the US.

I would now like briefly to turn to the Eastern Hemisphere Fuels Value Chains.

This portfolio, focused around the Rhine, Iberia, Southern Africa and Australasia, is comprised of well-located integrated refining which is generally of a high competitive quality and strong marketing positions.

We have been re-focusing this portfolio with the exits from retail in Greece and France, planned exits of marketing in 5 sub-Saharan countries, and the sale of non-core terminals and marketing assets.

This portfolio has material potential for improvement and growth, either through market growth, margin growth or new access. In terms of market growth, we are seeing continued profitable fuels volume and gross margin growth in China, Australasia, Turkey, South Africa, Poland and Iberia and opportunities to grow convenience retail in the Rhine geographies, Australasia and the UK.

Unit margin growth is expected largely to come from configuration improvements to our refineries and from some structural efficiency programmes. The configuration of Rotterdam, which will be BP's largest capacity refinery post exit of Texas City, has scope for upgrading and we are currently evaluating options, including investment in a hydrocracker. Gelsenkirchen also has a number of projects being evaluated to improve an already excellent refining position.

Finally, in terms of new access we continue to progress options to build on our other positions in Asia.

To complete the Fuels Value Chain picture, where will we be positioned competitively in refining after the changes we have announced and outlined today?

This shows the Nelson complexity and average scale of BP's global refining portfolio post 2013 relative to the current position.

Post divestment of the two positions in the US, and the transformation of Whiting, our average scale and complexity are both slightly lower than today, but still in the pack with our leading competitors. This is before any further upgrading of Rotterdam.

Perhaps the biggest implications of the announced moves will simply be that
- BP will be the smallest refiner of the traditional supermajors at just over 2mmbpd capacity
- The proportion of BP's capacity in the US market will fall from 50% of the portfolio today to just over one third.

That concludes my remarks on the Fuels Value Chains. I'd now like to turn to the International Businesses.

Our Lubricants business has been growing rapidly and also delivering excellent returns for a number of years. I want to explain the sources of growth, and why we are confident it will continue into the future.

On the right hand side of the chart you can see that profit from our land-based lubricants activities has grown significantly since 2007, with an annual growth rate of well over 20% p.a. The proportion coming from non-OECD geographies is about half of the total, or approaching half of the total, providing a long-term engine for volumetric expansion of the business.

Together with delivery of structural cost efficiencies, this has helped drive particularly high growth rates recently, but we do expect to continue to see something approaching double-digit profit growth well into the future from volume expansion and mix improvement, underpinned by a strong technology pipeline and powerful brands.

In terms of margin, a healthy product pipeline and the right product mix are key, and you can see on the bar chart underneath that BP's proportion of higher margin synthetic and premium sales is materially higher than the market average.

Finally, the rapid expansion of the business has not been at the expense of returns. While delivering material growth, over the last few years lubricants' returns have risen to levels in line with smaller but high quality competitors and reaching top quartile return on sales compared to the consumer goods sector in general.

Our strategy is to leverage technology and know-how, the Castrol brand and strong marketing capabilities to access new market growth, while also enhancing the margin mix of our product portfolio. The Lubricants business is a great success story for BP, and a major contributor to expected overall growth rates.

Turning now to Petrochemicals, this slide shows the geographic locations of our main plants. As you know, our focus is on Aromatics (being PTA and Paraxylene), Acetic Acid, and Olefins and Derivatives in China.

Beyond delivering safe, reliable and compliant operations, our strategic focus has had four pillars:

- Accessing growth in Asia
- Leveraging our superior manufacturing technology and efficiency to contract for further sales volumes, ensuring our plants in the US and Europe operate at high utilization rates
- Thirdly, managing fixed costs to ensure industry-leading returns and
- Fourthly, continuing to invest in technology and capability for the future.

Our production has been growing, by about 3% per annum since 2004 as you can see from the bar chart at the bottom of the slide. This growth has almost exclusively been in Asia, and principally in mainland China. Our Asian production has nearly doubled over this period, and in 2010 was about equal to that of the US and Europe combined. We have many projects under evaluation for further growth in China, the Middle East and in India.

Profit growth has also been material, with the majority now coming from Asia, as indicated in the pie chart you can see at the bottom-right of the slide.

Once again this growth has not been at the expense of returns. The chart on the left shows the high level of BP's return on sales vs the competition.

The Petrochemicals business is a core part of the downstream portfolio, and a key enabler of future growth and returns.

In the final part of my presentation, let's now turn to what you should be able to expect from R&M post 2013 when we should have completed the changes to the portfolio I outlined earlier.

Returning to the earlier format but now looking at post 2012 performance for a range of refining margins similar to a RMM of $8-12/bbl, you can see that the Fuels Value Chains in both the US and Eastern Hemisphere are expected to be of a similar quality, delivering 10-20% pre-tax return on operating capital, but with the US portfolio smaller than that of the Eastern Hemisphere. The International Businesses are expected to continue to grow and to deliver pre-tax returns in the 20-35% range through the cycle.

Taken together, this means that from 2013, all asset classes should be delivering absolute returns which are attractive while also being material.

That deals with returns and materiality. Finally, what about growth?

This slide shows in the green bars the pre-tax earnings of R&M normalised to a 2009 refining margin environment. The earnings growth has, not surprisingly, been very high - at over 50% CAGR - during the recovery period from 2007 to 2009, and is projected to be about 15-20% p.a. during 2009 to 2012 in line with the goals that I laid out last year. This represents a material source of earnings growth for BP over that period.

Longer term, with the investment in Whiting, planned enhancements to margin capture and some growth in the Fuels Value Chains, and the strong growth potential from the International Businesses, we would expect the whole portfolio to be able to deliver sustainable and attractive long-term growth to BP.

The red line on the chart shows the recent improvement in returns. Longer term, with the improvements I have outlined, we would also expect the portfolio to be able to deliver attractive pre-tax returns well above the cost of capital.

So, to summarise. R&M has had another successful year.

Safety has been, and will always remain, absolutely the top priority.

We are well on track to deliver "over $2bn per annum" of pre-tax RCP improvement by the end of 2012 and we had a good start in 2010. Like-for-like costs have returned to 2004 levels and refining achieved its goal of becoming break-even in a similar environment to 2009.

In terms of portfolio, our goal remains "quality before quantity". We have announced some major changes today. In the US we will exit Texas City and the Southern part of the West Coast, while continuing to invest in Whiting and the other refineries. This will halve our US refining capacity and reposition the portfolio. Globally, BP will become the smallest refiner of the traditional supermajors. In the rest of the Fuels Value Chains, we will continue to enhance margin capture capability and access available growth. In the International Businesses we will continue to see material and sustainable earnings growth and the delivery of highly competitive returns.

Taken overall, in the type of environment I have described, you can expect R&M post 2013 to be capable of delivering sustainable growth to BP, with attractive returns well above cost-of-capital, and material earnings and cash flows to the Group.

Thank you for listening and let me now hand you back to Bob.

Bob Dudley: Group Chief Executive

Thank you Iain. Now before closing and summarising, let's now take a quick look at the highlights of our Alternative Energy business.

You saw earlier our view of the demand for energy to 2030. Renewable energy will be the most rapidly growing category. BP has developed a very focussed portfolio of assets in the rapidly growing low carbon energy markets - with a total investment of more than $5bn since 2005.

We expect to invest a further $1bn in 2011 as we believe that as a leading energy company we must participate in this future growth.

Our biofuels business will continue to be a strategic priority for BP. It is a rapidly growing sector, with the potential to supply five to ten percent of all global transportation fuels by 2020. We plan to expand our Brazilian operations. Our advantaged Brazilian sugar cane production compares well against other non conventional supply sources, with supply costs of around $50 per barrel of oil equivalent.

We are also developing a position in the southern or south eastern US for the production of lignocellulosic ethanol. US regulatory support for this new fuel remains strong and we expect to sanction our first commercial facility in the next 12 months. Additionally, we are advancing technology for biobutanol production through our joint venture with Dupont.

Our other area of focus is low carbon power. We now have 10 operating wind farms of scale in the US, with a gross capacity of 1.3 gigawatts. This business is now cash positive and other wind farms will follow.

In summary, we are maintaining progress across our focused Alternative Energy portfolio and we will continue to build out our asset base in step with this rapidly growing market.

Now stepping way back, in summary today I hope you see that BP is a changing company as a result of what happened in 2010. I believe the changes will be for the better. These are not just words: you can see that from our actions which are highlighted on this slide.

We will meet our commitments.

We are investing for the future.

More investment in safety and risk management.

More investment in the emerging economies.

More investment in our core strength of exploration.

More investment in new projects.

And investment in strategic partnerships.

More investment in the drivers of long term value.

And yet at the same time we are not afraid to divest non-strategic assets, both upstream and downstream, if that is the best path. And we believe we can prudently restore a dividend stream to our shareholders.

We are a company building on its strengths and addressing its weaknesses. A safer BP, an agile BP, a stronger BP - a company that is committed to rebuilding value and trust for the long term, and doing it well.

Ladies and Gentlemen, that brings our presentation to an end. Thank you for listening so patiently.

We would now be pleased to take questions from you.