Ladies and gentlemen, welcome to BP’s 2009 Strategy Presentation, both to those here in London and those joining us through the internet and by telephone. My name is Fergus MacLeod, BP’s Head of Investor Relations. Given we have a live audience with us in London today, I would like to run through the evacuation procedures for our headquarters.

We do not have any planned tests of the alarm system today. The alarm is a single stage, continuous one in this building. On hearing the alarm please evacuate using the nearest fire exit, which are the three sets of doors behind you. Do not use the stairs to the atrium or the lifts on exiting this room. The muster point is St James’s Square park. And finally, please be careful when crossing the road as traffic is a major hazard. Thank you.

As you may know, 2009 is BP’s centenary year. In April, we will be celebrating this event, and given this theme, we would like to share a short three-minute trailer for the film that has been produced to mark the anniversary.

I hope you all found that of some interest.

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

Thank you, and now over to Tony.
BP has been, and remains, an organization operating at the frontiers of the energy industry. Our technology and capability allows us to take on challenges that others are unable or unwilling to address, securing access to new resources now as in the past – from Iran 100 years ago to the Beaufort Sea today.

One of BP’s special characteristics is that we believe deeply in relationships based on mutual advantage. That was true in 1909 when the company brought together investors, local people and governments to develop the resources of Iran. And its true in 2009, from Angola to Azerbaijan and Muscat to Moscow. We are proud of that track record.

But enough of the past. Today’s presentation is about the future. We plan to talk for about 90 minutes, followed by plenty of time for your questions.

A year ago, as a new team, we laid out our strategy; both the team and the strategy remain unchanged. We aim to grow our upstream business, to turn around our downstream business, to make focused and disciplined investments into Alternative Energy, and to simplify and drive greater efficiency across BP.

In a few minutes, Iain and Andy will update you in detail on our progress and our plans.

Before that I’d like to bring you up to date on the progress that BP as a whole has made since the start of 2008 – beginning with safety.

2008 was another year of progress on our number one priority of safe and reliable operations.

Fatalities were the lowest since the BP Amoco merger in 1999, with five deaths in 2008, compared with seven in 2007. This was still five too many, and we are relentless in pursuit of no fatalities.

As the graphs show, the number of major incidents involving integrity failures has continued to decrease, and our track record continues to improve.

We remain focused on process safety and asset reliability. We have begun the implementation of our Operating Management System, which covers everything from employee competencies to risk assessment, and we’re already seeing the benefits.

We are building capability with extensive training programmes such as the Operations Academy, developed in partnership with MIT.

We are intent on establishing a track record that is the very best in our industry.

2008 has also seen us build operational momentum across the group. In E&P, we successfully grew production in line with guidance, the only one of the majors to do so. Underlying production, excluding the effects of high oil prices on our entitlements under production-sharing contracts, was 5 per cent.
We started up nine major projects and made good progress on controlling costs. We also delivered our 15th consecutive year of reported reserves replacement of more than 100 per cent, and resource replacement of more than 200 per cent, a performance that puts us among the best in the industry.

In R&M, we have rebuilt full economic capability at both the Texas City and Whiting refineries. The Fuels Value Chains are now fully established and our International Businesses delivered a very strong performance despite the world economic slowdown. We have also made significant progress in simplifying our marketing footprint.

And we have begun to reduce the complexity and cost base of BP – by the end of 2008, we had reduced our corporate overhead by around 3000 people, and are on track to exceed our original target of 5000 by the middle of 2009. We have also eliminated nearly 20 per cent of the senior positions.

We are also seeing the first signs of financial momentum. Significantly, our 2008 results showed the greatest increase among our peers.

All in all, we made progress in 2008 and expect to see further financial benefits as we move into 2009.

Our goal is to maintain this momentum in what will be a challenging environment.

And it’s that environment I’d like to turn to next.

As we all know, in 2008 oil prices were extremely volatile. They fell from a peak of $144 per barrel in early July to as low as $34 per barrel in December. The average for the year was $97 per barrel.

In the short term, prices will be determined by a balance between OPEC cuts and the state of the global economy and demand for oil.

While OPEC has announced production cuts totaling more than 4 million barrels per day since September, and so far compliance seems to be good, these will take time to have an impact, and are unlikely to be fully reflected in inventories before the second half of 2009.

On the demand side, global oil consumption is likely to decline for a second consecutive year in 2009, probably by more than 1 million barrels per day – the largest amount since 1982.

We therefore do not expect a quick recovery and it would be wise to prepare for continued volatility, which may extend into 2010.

Despite today’s pessimism, the future has not been cancelled – merely delayed. Once economic growth recovers, we expect oil demand and gas prices to recover as well. Countries outside the OECD contributed more than half of total global GDP growth in 2008 and will continue to do so in the future. As growth resumes, they will need more energy, including oil, to continue their rapid industrialization.
Meanwhile, the growth in oil supply has been disappointing due to a combination of field maturity and constraints on access. Cuts in investment, in response to the fall in prices, will only make this worse. So the medium-term prospects for oil prices remain robust.

Turning to natural gas – and beginning with the US, where we are the nation’s largest producer, we have also seen prices fall sharply. We believe the US natural gas market is an efficient market and expect it to self correct – albeit with some lag. The timing of the correction is uncertain and there are many variables influencing the market, so it is difficult to predict exactly when prices will improve.

Demand is weak, due to the economic slowdown, and the timing of the US economic recovery will be a key factor in underpinning US gas prices. However, supply is responding quickly to low prices, with rig count falling sharply since its peak in the third quarter of 2008 and continuing to fall. Based on the latest data, February’s rig count was just over 1000 – levels not seen since 2004. The actual impact of this on prices will obviously also depend on storage levels and LNG imports.

In the rest of the world, gas prices are expected to be weak as the global downturn in industrial activity reduces demand and a number of major LNG plants start up in 2009.

Refining margins remain more volatile and perhaps more difficult to forecast.

Margins increased steadily between 2002 and 2007, driven partly by tightening product specifications.

However, 2008 was a more difficult environment for the industry, with BP’s global average refining indicator margin falling to $6.50 per barrel, down from almost $10 per barrel in 2007. The fall in margins was greatest in the US, where BP has more than half of its refining capacity.

In the short term, refining margins in early-2009 are seeing some support from very strong heating oil demand, but once the cold winter weather passes, margins are likely to weaken once again, as demand softens and potential refining capacity additions approach 2 million barrels per day.

Global capacity utilization is expected to be around 83 per cent in 2009.

All in all, the pressure on refining margins looks likely to continue in 2009. Of course, as in 2008, the picture may vary significantly from region to region, but tighter product specifications and the associated higher operating costs imply a return to the lows of 2002 are less likely.

So overall we see a challenging environment both upstream and downstream in the short to medium term, and we are making plans accordingly. This difficult period could last some time. However, this should not blind us to the potential for improvement when the tide turns, and we plan to be ready for that too.
In such a challenging environment, BP’s commitment to technology is more important than ever. Technology plays a critical role in addressing the world’s energy challenges, from fundamental research through to wide-scale deployment.

Over the past 10 years, BP has been consistently building its internal technology capability. This means a sustained increase in investment and building focused leadership positions in those areas where we expect to get the biggest pay-back, where we can implement and make a difference at scale and transfer know-how across operations.

Our commitment to R&D is long term.

Our research collaborations provide access to the leading minds at the forefront of science and technology, particularly in areas that are relatively new to the energy sector, for example biosciences and nanotechnology.

We work with a range of partners in R&D, from leading academic institutions to small start-up companies.

BP has 20 major technology programmes, each of which has expenditure that generally runs into tens of millions of dollars.

About two thirds of our programmes relate to existing businesses in E&P and R&M, and one third in AE, consistent with the competitive advantage fossil fuels have today and our expectations as we move towards creating new low-carbon energy opportunities.

Before I hand over to Iain, let me update you on TNK-BP.

2008 was a challenging year with our partners. However, we believe we now have a solution supported by all parties.

Most importantly, the revised shareholder agreement, which we signed on 9th January, retains the 50/50 ownership structure, a fundamental construct of our agreement that we were not willing to compromise on. It allows for an improved balance of interests between ourselves and AAR and puts the focus and emphasis of TNK-BP on value growth.

The new governance structure replaces the evenly balanced main board structure with four representatives from each of BP and AAR, plus three independent directors.

The search for a new CEO is progressing and an announcement will be made in due course. Until that appointment is made, Tim Summers will continue in the role.

The charters of significant TNK-BP group subsidiaries and a number of other significant entities will be revised to reflect the new corporate governance including, where appropriate, both BP and AAR-appointed directors on their boards.

Ourselves and our partners remain committed to pursuing a potential future sale of up to 20 per cent of TNK-BP through an initial public offering at an appropriate time, subject to certain conditions and the consent of the Russian authorities.
All of this lays the foundation for the next phase in the development of TNK-BP.

The original premise for the foundation of TNK-BP in 2003 was to combine AAR’s ability to operate on the ground in Russia with BP’s technology and capability. This combination has proven extremely successful.

By any metric, TNK-BP’s operational performance has been outstanding since 2003. In terms of the contribution to BP:
- Production has grown by 30 per cent
- The five-year average reserve replacement is around 200 per cent
- Proved reserves have increased from 1.8 billion barrels of oil equivalent to 3.6 billion barrels of oil equivalent
- Total resources have increased from 11.6 billion barrels of oil equivalent to 18.9 billion barrels of oil equivalent, excluding Kovykta, bringing the resources to production ratio to 56 years
- And, this has underpinned TNK-BP’s five-year average finding & development cost of less than $3 per barrel

The financial performance has been equally strong:

Since 2003, and based on our latest estimate for 2008, TNK-BP has generated total income exceeding $25 billion and distributed dividends exceeding $20 billion, while investing around $14 billion into future growth and paying more than $90 billion in taxes and excise duties. Return on capital employed is the highest in the Russian oil industry.

2008 was also another strong year
- Production grew 1.5 per cent
- Reserves replacement was 136 per cent
- And dividends paid were in excess of $4 billion

TNK-BP is in good shape to address the short-term challenges in the industry.

Capital is expected to be reduced in 2009 to around $3 billion to ensure the company remains self-financing. Production is expected to be broadly flat with the last few years. The weaker rouble is already resulting in lower costs and stronger cash flows. Changes to the fiscal regime will reduce the tax burden and the volatility of quarterly earnings.

In the market conditions experienced so far in the first quarter of 2009, we expect TNK-BP to return to profitability.

We remain committed to TNK-BP and to the opportunity the joint venture provides to continue to invest in a material way into the Russian oil and gas sector.

Let me now hand over to Iain to update you on progress in the turnaround of the downstream.
Thank you Tony. Ladies and gentlemen, it is a pleasure to talk to you today and to update you on progress in Refining and Marketing. As Tony has said, the turnaround of the downstream and closing the performance gap with our competitors is a key part of BP’s strategy and also represents a real source of relative momentum. Today I am presenting you with an interim update or “report card” on that turnaround.

I ended my presentation last year by saying that in R&M, BP has very good asset positions, excellent people and material opportunities for the long term. I am even more convinced of that today. I also said that our job today is to close the competitive performance gap so that we can earn that future.

One year into the R&M turnaround, I am pleased with progress and believe we are well on track. In 2008, we have closed about half - or $2bn p.a. pre-tax - of the earnings performance gap and have good momentum going into 2009.

I am going to cover four things:

- Our 2008 performance and how we closed half the earnings gap
- Where we are on our turnaround journey and what to expect going forward.
- Our portfolio and what we are doing to improve it
- Our investment plans in 2009

So firstly, 2008 performance:

A year ago I outlined these five priorities to improve the performance of R&M. They are unchanged. What is shifting between 2008 and 2009 is the relative emphasis as we go through different phases of performance improvement. Our top priority, at the centre of this chart, remains a focus on safety and progressive delivery of our Operating Management System (OMS). 2008 was mainly about safe and reliable operations, restoring missing revenues, and simplifying the business across R&M. We have done exactly that. It was about creating a robust platform which can take some load, and upon which we can drive further efficiency and continuous improvement. In 2009 the journey on safe operations continues but in other areas the emphasis shifts to the priorities of driving the right behaviours and core processes into the organisation, and the sustainable repositioning of our cost efficiency.

I would now like to explain the sources of underlying performance improvement in 2008 and how the various parts of the portfolio contributed.

This slide, used last year, portrays the size of the performance gap at a global indicator margin (GIM) of $7.50/bbl. As a reminder, we identified an underlying performance gap in earnings of $3.5-4.0bn pre-tax as represented by the left hand section of the pie chart.

In closing about half of this underlying performance gap in 2008, the main contributors were:

- Firstly - safety: underpinning the reliability and margin capability of our operations, our safety performance has improved on nearly all input and output measures and we have materially de-risked our operations. Four major manufacturing sites - two refineries and two petrochemical plants - are already...
operating under OMS and many more cut-over in 2009. As ever, there is much more to do in this area.

- Secondly – refining operations: we have re-established full operation at Texas City and Whiting, and I was pleased to see over 91% Solomon availability globally from our refining portfolio in 4Q 2008...the highest level since Texas City shut down in 3Q 2005.
- Thirdly - simplification: as indicated a year ago, we have re-organised our Refining and Fuels Supply and Marketing businesses into six regional integrated Fuels Value Chains, and are well advanced in focusing our marketing footprint.
- Fourth - our margin-capture capability across the portfolio has strengthened with excellent performance in our International Businesses and strong supply optimisation and trading.
- Lastly – costs: we have managed to fully contain our cost base despite material inflation, higher energy costs and adverse foreign exchange effects.

This all represents a good start, underpins solid momentum as we enter 2009 and is something we can really build upon.

So, looking at our performance another way, let’s turn to how the various parts of our portfolio actually did.

A year on, I have updated this slide which shows both pre-tax operating capital employed and replacement cost profit for the main parts of our portfolio. I would like to take the individual parts in turn, starting with the fuels value chains.

Despite a challenging demand environment, pre-tax profits grew by $800m in the Fuels Marketing and Supply parts of the business to $2.0bn through better integrated margin management across the whole chain, strong supply and trading performance, and close attention to costs. This was enabled by the considerable simplification of the way we run the business through the implementation of integrated Fuels Value Chains. We managed to capture margin in both marketing and trading in a very volatile price environment. Here, average capital employed fell from the effects of reduced working capital, the decapitalisation of our convenience retail business in the US and the significant movements in product prices. Overall the pre-tax returns in this part of the value chains therefore improved materially.

Looking forward to 2009, full year demand is likely to be down on last year and we may not capture as much margin in a less volatile environment, and so currently I expect our marketing and supply results to be down on 2008.

In Refining, we have improved significantly in our operations but it has been a very different story from a financial results perspective. Capital employed rose mainly as a result of the increase in the carrying value of the Toledo refinery in relation to the Husky transactions, and from the early investments in plant and equipment associated with the Whiting Refinery Modernisation Project. Pre-tax earnings fell from a profit of $1.2bn in 2007 to a loss of $(700m) in 2008 representing a $1.9bn degradation. As mentioned at the time of our 4Q results, the GIM rule-of-thumb deterioration year-on-year was $3.3bn. This therefore gives a reasonable indication of the underlying improvement in our refining delivery. Overall, our refineries did reasonably well in 2008 and clearly with Texas City now operating and the new Castellon Coker operational, we have further momentum as we move into 2009. Financially, much depends on margins of course. This year margins began strongly but have weakened in the last fortnight. As Tony said, the outlook is not strong and
it is likely we will see lower margin levels than in 2008. With Texas City on stream,
better overall availability and some cost efficiency, I am hopeful we should still see
refining return to profitability in 2009.

Turning now to the International Businesses, which consist principally of Lubricants,
our Aviation and Marine Fuels businesses and Petrochemicals, we saw a really
strong performance in 2008, despite the fourth quarter fall-off in petrochemicals
margins and volumes. It is always worth remembering that Refining and Marketing
contains a reasonably material petrochemicals portfolio - some 14 million tonnes of
production in a typical year - which can make direct comparisons with our
competitors a little more complex.

International Business pre-tax profits were up by a third to $2.0bn. This was driven
by particularly strong performance in our Global Fuels and Lubricants businesses,
and reasonable performance in Petrochemicals for the year as a whole. In Global
Fuels, we saw excellent optimisation and management of price volatility, and this
has been enhanced by strong customer service and Brands, and aggressive action
on portfolio simplification. In Lubricants, the quality of our products, the service we
deliver to our customers, cost control, and the strength of our Brands have allowed
us to deliver an excellent result despite significant upward movement in base oil
prices in the year. As we enter 2009, clearly the demand for the products of our
International Businesses is being challenged by the economic situation, whether
through reduced air travel, trading down from premium product in Lubricants or
through a continuing very difficult environment in petrochemicals. The International
Businesses have been a performance mainstay of our portfolio over the last two
years as we improve the underlying performance in our Fuels Value Chains and I still
expect reasonably good performance in 2009 despite a tough market.

Adding all this up, we earned $3.3bn pre-tax, $600m below the previous year. The
environment was about $3.3bn worse for which the GIM rule-of-thumb is a
reasonable guide. Once again, this indicates underlying performance improvement
well in excess of $2bn.

We’ve covered how the various parts of the portfolio have done in 2008. Sticking
with the format we used last year, I would like to look at our overall competitive
ROACE and why this performance improvement is not fully visible in our 2008 result.

This chart of BP’s ROACE relative to the competition shows that in 2008 we have
only improved post-tax returns relative to the competitor average by about 1%. A
1% improvement on returns represents only about $0.5bn pre-tax.

Two things affected our actual result in 2008.

In the second half of the year we experienced significant adverse one-off impacts
from foreign exchange and the rapid fall in the price of oil, as I explained during our
4Q conference call.

The second factor, which is fundamental in nature, is the shift in regional refining
margins between 2007 and 2008, and the extent to which this has affected BP
disproportionately.
This slide shows on the left the regional refining margins for the US, North West Europe and Singapore. On the right, the pie charts show the mix of BP’s regional refining capacities relative to the average of our competitor set. The key point is that more than half of BP’s capacity is in the US, relative to about a third for our average competitor.

As shown on the left, in 2008 the US experienced a material refining margin decline in absolute terms versus the previous 5 years and a large relative decline compared to other regions that continued to experience year on year margin improvement. This decline in US margins relative to the rest of the world was by far the largest we have seen in 20 years. As you saw in 4Q, this margin weakness and other factors drove our US portfolio back into negative earnings territory.

Using BP’s regional margin methodology, and comparing BP’s resultant GIM to the average of the competitors, shows that in 2008 BP experienced a relatively larger margin decline of approximately ~$1.5/bbl. Using our rule of thumb, this is equivalent to about $1.4bn pre-tax RCP. It is this effect which has significantly masked the underlying performance improvement. This relative degradation in US margins is not likely to be repeated from here and I am pleased to say that as we begin 2009, as also indicated on the chart, US margins to date have improved relative to 2008 and relative to other regions. If US margins return to a more typical relationship versus other regions we will see a significant proportion of the performance improvement delivered in 2008 flow to the bottom line.

Taken together with the improvement you can see, and ignoring the other negative one-off factors in 2H 2008, I am therefore confident we have closed about half the competitive gap or about $2bn in pre-tax earnings.

Having covered 2008 delivery, I would now like to turn to the multi-year journey we are on, how specific elements of the sources of recovery I outlined last year are doing, and a sense of what you might expect going forward.

A year ago I indicated that over 3-4 years we would close the earnings performance gap, with about half of it coming from restoring revenues in refining and then continuous improvement across the portfolio, about 20% coming from business simplification in our value chain and marketing businesses, and the remaining 30% coming from cost efficiency within our overheads and business support services.

We have made material progress in all areas, with the efforts in restoring revenues and simplification delivering the first benefits to the bottom line. The more structural efficiency programmes will take longer to implement.

The ticks on the right hand side of the chart are designed to qualitatively show progress to date.

Let’s focus on a few of these areas in a little more detail, looking at what we achieved in the first year of our journey and some indication of what one might expect in 2009. I’ll start with restoring revenues and refining availability.

This is the same chart I showed you last year, updated for 2008. We have largely completed the activities associated with restoring our operations at Texas City and Whiting. On the left you see that we are on track for restoring availability of Texas
City, Whiting and Toledo to strong competitive levels in 2009. Whiting came up as planned, and Toledo has seen a major step change in its performance. However, Texas City restoration took approximately 3-4 months longer than planned. We therefore achieved our targeted run-rate at the end of 2008, but our margin capture from availability during the year was worse than we had planned for. There is therefore further revenue benefit to be captured in 2009.

The rest of the refining portfolio had an excellent year overall, despite a few operational problems at Carson and Sapref in South Africa, and our availability and overall performance remained at very competitive levels. In the whole portfolio, eight refineries achieved availabilities of over 95%.

On the right hand side, you can see that the lost opportunity in a $7.50/bbl GIM environment has improved materially with most of the gap closed at Whiting and Toledo. There remains a significant opportunity of over a billion dollars a year, most of which should be captured in 2009 now that Texas City is running at full economic capability.

Having returned the plants to full operation, the focus will be on safety, better optimisation, utilisation and cost efficiency. During our recovery efforts we know we have become inefficient in our US refining portfolio, and without taking our eye off the priority of safe operations, we need to drive more efficiency back into the business - particularly in our 3rd party supply chains.

In business simplification, we are very much on track and the Fuel Value Chains have already generated real and material benefits. We are starting to see the results of reduced overheads as well as more efficient and effective operations and channels of trade. However, our performance is not as good as the best competitor in many geographies. Having established these integrated Fuels Value Chains our focus is shifting to the capabilities, behaviours and core processes to enhance our optimisation and margin capture, and the cost efficiency of the supply chain and of our operations. The biggest opportunity for BP therefore lies in delivering fully competitive results from our integrated businesses.

In US Convenience Retail, despite a very challenging environment in terms of financing, we have sold 300 out of a total of 800 sites, 200 more sites are under firm contract, and the remaining 300 sites are expected to be sold in 2009, even in the current credit environment. We are finding that the “am/pm” convenience brand is a strong franchise - positioned a few places behind “7/11” in the US “top 500” rankings in 2008.

In Lubricants we have exited 10 countries and are on track to reduce our direct presence in up to 30, in excess of our goal of 20 indicated last year.

In Air BP, we have exited 32 countries to date, well ahead of our original plans. Our programme goal here is to reduce our direct country operations from over 100 countries to approaching half that number, without materially shrinking the business and improving returns.

Turning now to headcount.
Last year, as part of BP’s overall headcount reduction target, I indicated we would eliminate approaching 2000 jobs in the first phase of simplification of refining and marketing. The left hand chart indicates that although we are not complete, we have delivered this outcome by end 2008, reducing our net headcount above retail by 2,150 and including growth in our refining headcount of about 300 as we continue to build operational capability at the front line. There is significantly more room to travel in 2009 with over another 1,000 headcount reduction likely.

I also committed to reduce our senior management headcount by 15%. This is also progressing well with a net 9% reduction to date and firm plans to deliver more than 15% by the end of 2009.

In Retail we are also on target for reducing headcount by 9,500 as part of the US convenience de-capitalisation programme.

Turning now to costs. This chart shows our cost performance indexed to 2004. As the bars indicate, I am pleased to report that after many years of significant cost growth, in 2008 Refining and Marketing’s cost base was held essentially flat relative to 2007. This was in the face of strong inflationary pressures. The dark line represents indexed costs adjusted for energy, foreign exchange and portfolio. This means the underlying costs have begun to come down – the first time in at least five years.

Given the current environment and economic situation, further cost efficiency is a key focus for us as we go into 2009, and we are likely to see positive effects from deflation in our supply chains as we drive reductions in 3rd party costs, the full benefits of simplification and overhead reductions, and as we drive a sustainable cost management culture into our performance units. In addition, the longer-term and more structural cost efficiency arising from a move to Business Service Centres and common end-to-end processes built around SAP-based systems will deliver real benefits. We are well underway in Europe and have clear plans for the US and Asia.

That ends what I wanted to cover on the first full year of the turnaround of Refining and Marketing and where we are on the journey.

Before concluding, I would now like to spend a few minutes on the strengths and weaknesses of our portfolio and a brief summary of our investment plans going forward.

As we work on turning around the segment, it is important not to lose sight of the fact that a large part of our portfolio is materially advantaged relative to the competition.

Four out of six of our integrated Fuels Values Chains have advantaged competitive positions in which good refining scale and configuration is combined with strong logistics and marketing positions. In Petrochemicals, our Aromatics and Acetyl portfolio of leading global positions and technologies and SECCO, our major Olefins and Derivatives complex south of Shanghai give us an advantaged petrochemicals portfolio significantly weighted towards the growth markets of Asia. Lubricants has been performing extremely well and we are very proud of what has been achieved since the acquisition of Castrol in 2000. Through a combination of BP’s business and cost focus and Castrol’s premium products, brand and marketing capabilities,
we have established a track record of improved efficiency and premium sales growth. Today, our Lubricants operation is perhaps the leading business in its sector. In Global Fuels, we have strong brands, good asset positions and supply optimisation, and excellent customer relationship management. BP is one of the leading oil traders, and through our Integrated Supply and Trading of crude oil and products we can expand the overall margin capture in our value chains. In technology, we have distinctive leadership positions in Lubricant formulations and Petrochemical processes. Lastly, BP has amassed a portfolio of some of the strongest fuel and convenience brands in the industry. All of this underpins R&M’s innate ability to be an advantaged leading player. However, we need to improve those areas where our portfolio is not as strong. We have been working on this for a number of years now and are making real progress.

As always, there is a lot to do and the competition are continuously moving forward. I am confident that we are pursuing the right things as we deliver a leading and sustainable competitive portfolio.

Firstly, let me cover the major milestones we have completed prior to this year in repositioning our portfolio (shown in grey):

In 2005 we concluded that our commodity olefin and derivative petrochemicals in the US and Europe were not advantaged and we sold them to Ineos.

In Europe we have repositioned our refining portfolio away from UK gasoline length and into a refinery in Rotterdam which is world-scale, more integrated into the Rhine, and has the potential for major process improvements.

We have moved away from a fragmented approach to our business and through establishing the Fuels Value Chains we are returning to a more logical integrated end-to-end value chain business. We have also materially re-focused the footprint of Lubricants, Air and US Convenience Retail.

Then there are two things which are our current focus in 2009 (shown in green):

We have significantly improved the margin capability in the Iberia Fuels Value Chain through the completion of the new coker at the Castellon Refinery. This unit will approximately double the profitability of the refinery at mid-cycle conditions and came on stream in February.

Lastly, in the Mid West, we have aligned Toledo to Canadian heavy oil via our Husky transaction, and in one of the largest investments we have ever made in R&M, we are creating real feedstock and location advantage through the multi-billion dollar modernisation project at Whiting.

I would like to talk about that project briefly: The crude oil flows in North America are shifting from being largely South-to-North to a situation in which Canadian flows will compete with Gulf Coast feedstock in the US Mid-Continent. BP’s Whiting refinery is a world-scale plant located close to the Canadian border with strong infrastructure and integrated into the Midwest value chain. Re-positioning Whiting towards heavy crude oil delivers a refinery which can take full advantage of Canadian freight differentials, the light-heavy spread and shift the yield of the refinery to higher value products. The project is well underway, with most long-lead major items purchased and fabricated, and the major contracts let. We expect the repositioned Whiting to come on-stream in 2012.
Beyond these structural portfolio improvements, today our focus must be on delivering better performance from the portfolio we have, through better overall reliability, the delivery of excellent performance at Texas City now that all units have been commissioned. And, as I mentioned earlier, a major part of our agenda for the next two years relates to improving the sustainable cost efficiency of R&M.

Finally, I would like to touch on our investment plans for R&M in the current environment.

Again, this slide is an update of the one shown last year. We plan to invest about $4.0bn of capex in 2009, about 20% lower than in 2008. Investment will remain predominantly weighted towards manufacturing, with most directed to refining. The largest single component of the refining investment is the project at Whiting. Our investments in petrochemicals will be lower in 2009 although in China we are debottlenecking the cracker at SECCO and bringing on stream a new Acetic Acid plant at Nanjing. We are reducing the investment levels into our fuels marketing activities, logistics and convenience retail. Other than the major investment into Whiting, these levels represent reinvestment at approximately the level of depreciation which is appropriate in the current market context.

So, to summarise.

R&M has made a lot of progress in 2008, with major improvements in safety, in operations, in margin capture, and cost management. We have closed half the performance gap or about $2bn pre-tax RCP. We have established a sound platform upon which we can build, and we have considerable momentum as we enter 2009.

In 2009, the major focus will be moving from revenue restoration and simplification to sustainable performance delivery and cost efficiency, which are critical as we respond to the current economic environment.

We are very much on track to close the performance gap in advance of 2011, and to meet the three goals I set out last year:

- The delivery of safe and reliable operations
- The restoration of earnings momentum, and
- The delivery of sustainable competitive returns and cash flows.

I look forward to updating you on our further progress in a year’s time. I will now hand over to Andy.

Andy Inglis: Chief Executive, Exploration & Production

Iain thank you. It’s a pleasure to see so many of you here today and to have the opportunity to demonstrate the strategic progress made in our Exploration & Production business in 2008 and what this means going forward.

2008 was a very good year for E&P. We delivered:

- A resource replacement ratio of 283%
And a reserve replacement ratio of 121% – our 15th consecutive year of reserve replacement greater than 100%.

We also
- Grew production - with our major projects starting up on time and strong, reliable, performance from our existing operations
- And we held cash costs flat with 2007, despite an inflationary environment for the first three quarters of the year

But the big message I want you to take away from today is that our world class resource base and improving track record for execution give us confidence in the future. In particular, it gives us the confidence to expect growth.

Last year we said we expected to grow production to 2012, and that we could maintain it out to 2020 from existing projects. But the picture is quietly and steadily improving.

Today, I can tell you that we expect to grow production between 1 and 2% out to 2013 based on existing projects and that we have the potential to continue that growth rate out to 2020.

But we are not just focusing on volume growth. We are also focusing on efficiency and quality. We are responding to the current environment by driving efficiency into everything we do – both cash cost efficiency and capital efficiency.

As this is a strategy presentation, I thought I would recap what our strategy is for E&P.

Our strategy is to focus on exploration in the world’s most prolific hydrocarbon basins, building leadership positions in these areas, managing the decline of existing producing assets and developing and applying new technology to increase the overall recovery factor from our resource base.

Our activities are underpinned by our resource base, which is biased to conventional hydrocarbons. It is good for all seasons, even the stormy season we are now in.

Let’s take a look at our resource base – first without TNK-BP and then including TNK-BP.

Excluding TNK-BP, in 2008:
- We added 5.1 billion barrels to our resources, made up of:
  - 2.3 billion from purchases – Canadian oil sands from Husky and North American gas shales from Chesapeake
  - 1.5 billion from the drill bit (including both discoveries and extensions), and
  - 1.4 billion from improved recovery and revisions

With production of 1.1 billion barrels, this resulted in net growth in our resource base of some 4 billion barrels, extending its life from 36 to 39 years.

And we progressed 1.3 billion barrels of non-proved resources to proved reserves – a reserve replacement ratio, using SEC reported reserve additions, of 117% excluding A&D.
With TNK-BP included, our reserve replacement ratio on this basis, was essentially the same at 121%.

Reserves were added across the portfolio with important contributions from our businesses in Angola, Azerbaijan, North America Gas and TNK-BP.

55% of the reserves added were conventional oil, 30% were conventional gas and 15% were tight gas and other non-conventionals.

The year-end price had a negative effect on our reserve replacement ratio. The reduction in our Tax and Royalty regimes more than offset increases in PSCs. Using annual average prices, the basis of the new SEC reserve reporting guidelines, our reserve replacement ratio would have been 175%.

Three activities drive growth in our resource base:
- New access
- Exploration
- And technology.

I would now like to take you through those one by one, giving some examples.

First, access.

We had another successful year of access in 2008, to both undeveloped resources and new exploration acreage, with a good balance between oil and gas and between Tax and Royalty, and PSC regimes.

In March 2008, we concluded the integrated oil sands/refinery deal with Husky. A key aspect of the deal was to create an integrated position, with high-quality upstream resources linked to an upgraded US refinery, allowing BP to capture the full value chain.

In the middle of last year we deepened our position in North America Shale Gas through two deals with Chesapeake, close to our incumbent position in the Arkoma basin.

Strategically, this gives us a material position with technology upside in three top tier shale basins and creates a balanced portfolio of conventional gas, tight gas, coalbed methane and now shale gas in the world’s biggest natural gas market.

Initial results from our shale assets are encouraging. Average production rates from our recent Woodford wells show a 50% improvement on our initial expectations, demonstrating the robustness of this element of our North American gas business.

In terms of access to new exploration acreage, we completed the Libya exploration deal and were successful in lease sales in the Gulf of Mexico. We also accessed our first exploration block in the east coast of India.

We were also the successful bidder on three exploration licenses totaling 6,000 square kilometres in the arctic Canadian Offshore Continental Shelf or OCS. This is a particularly exciting prospect for the future. Arctic OCS is one of the most significant
global renewal opportunities containing some 20% of the world’s yet to find hydrocarbons.

Let me say a little bit more about Libya as an example of our access success. Libya has given BP a leading acreage holding that builds on our positions in adjacent countries of North Africa.

In the deepwater of the Sirt basin we accessed 30,000 square kilometres of an emerging play fairway. To put this into perspective this area equates to the size of Belgium or 1,300 Gulf of Mexico deepwater blocks. The deepwater Sirt is the offshore extension of the prolific onshore Sirt basin, where most of Libya’s production comes from.

In the onshore Ghadames area we accessed 23,000 square kilometres of the proven Paleozoic gas play. We have been working this fairway successfully in the Illizi basin of Algeria, which contains our In Amenas field.

Together with our partner, the Libyan Investment Corporation, we commenced seismic operations in both offshore and onshore areas during 4Q 2008. We anticipate the first wells will be between 2010 and 2012.

Any big access depends on a critical ability to develop relationships, something that is core to our strategy at BP. These two projects are a significant mutual commitment by BP and Libya to the future of oil and gas development in Libya. And they provide the opportunity for us to use our proven expertise in exploration, onshore gas and deepwater development to build a material new profit centre.

Moving to the second strand of activity that underpins the growth of our resource base: exploration.

I am proud to say that 2008 was one of BP’s best years in the past decade for exploration.

In total we made 13 new field discoveries from exploration in 2008; the most significant ones are outlined on the map on this slide.

Importantly, we participated in four of the most significant discoveries reported globally in 2008. According to the current IHS database this is the leading performance amongst the supermajors.

Our discoveries range from opening up new plays to extending the life of mature ones. For example:

- In Egypt, we opened up a significant new play with the Satis well in the Nile Delta;
- In Algeria, we completed a test that significantly extended the Illizi basin resource base.

And we continue to find new growth opportunities in places where we already have production operations. These include:

- Two Miocene discoveries in the Gulf of Mexico in BP’s Mississippi Canyon heartland. Kodiak is close to our existing Tubular Bells discovery and Freedom is potentially large enough to be a stand alone development.
• We also made two discoveries in Angola with Dione and Leda giving us a total of 17 discoveries in Block 31. These will underpin three to four new hub developments.
• Even in the heavily explored North Sea we have found new resource through our Kinnoull discovery - this is valuable as it can be produced through our existing Andrew infrastructure at competitive development costs.

We also have a strong portfolio of exploration opportunities. So in 2009 we expect to sustain exploration investment at 2008 levels.

The Gulf of Mexico is a good example of how our approach to exploration has built a material profit centre in the past 20 years.

In fact, based on Wood Mackenzie data, BP is the leading resource holder in the deepwater Gulf of Mexico. And now, with Thunder Horse online, we are the largest producer.

BP also holds the largest net acreage position. We further strengthened it with our successful lease sale access in 2008. This acreage position supports our exploration programme through 2015 which targets three areas:
• Expansion in the highly productive Miocene play fairway that has delivered Thunder Horse and Atlantis, and has a pipeline of development projects including Dorado, King South, Puma, Tubular Bells, Kodiak and Freedom.
• Continued exploration in the Paleogene, where we already have a material discovery at Kaskida; and
• Exploration of a new deep gas play in the shallow water of the Gulf of Mexico.

The third strand of activity underpinning our resource base is technology.

It is an important truth in our business that the conversion of resources to reserves and ultimately production is dependent on the application of technology.

BP is well-placed in this regard. The scale of our resource base enables us to use technology to access a significant prize. A 1% improvement in recovery factor on the original hydrocarbons in place equates to 2 billion barrels of additional reserves.

As we highlighted last year, we have created ten flagship programmes, each of which has the potential to deliver more than one billion barrels of oil equivalent of reserves.

In 2009 we expect to sustain our technology investment on these programmes at 2008 levels.

Let me give an example. The Pushing Reservoir Limits flagship provides a suite of enhanced oil recovery technologies, including those targeted at improving waterflood efficiency in our conventional and deepwater oil fields - which represent some 60% of our proved reserves.

Take one technique, Bright Water. Bright Water technology deploys new inter-well polymer treatments which improve waterflood recovery.
When warmed at reservoir temperatures, the polymers expand to block pathways where injection water has already swept oil out of the rocks, and divert that water to un-swept areas of the reservoir.

BP has led the industry in the application of these polymer treatments. The initial field trials were in Alaska, but the technology is highly transferable and we have now performed more than 25 treatments in waterflood operations in Alaska, Argentina and Pakistan. So far these have delivered an increase of over 6 million barrels of reserves at a development cost of less than $6 per barrel.

So let me now turn to where this takes us: our production outlook. Our strategy has resulted in a portfolio of focused, large-scale positions around the world, which is well placed for sustainable volume growth.

That growth requires two things. First, getting the most from our incumbent positions through:

- Enhancing access to existing resources through more efficient drilling and better reservoir management
- Increasing recovery factors through the application of new technologies, such as Bright Water
- And finally, continuously improving the safety and reliability of our operations

The second source of growth is the reliable delivery of Major Projects.

The scale of each of these resource positions allows us to adopt standardized programme approaches for our Major Projects to improve capital efficiency and reduce execution risk.

Production is expected to continue to grow in 2009 and our portfolio has the potential to grow at an annual average rate of 1-2% over the next five years.

The actual growth rate will depend on a number of factors including our pace of capital spending and the efficiency of that spend (in turn depending on industry cost deflation); the oil price and PSC effects; and OPEC quota restrictions.

Growth at a steady 1-2% per year may sound less exciting than the projections made by some companies.

But we need to pause and remember the actual track record over the decade since the wave of mergers which created today’s supermajors.

The reality is there has been little or no growth from any of the supermajors, despite the many promises that have been made. Every single company has fallen short of the goals set at the time of the mergers. The reasons have been many, but the outcome has been the same.

Some companies are clearly shrinking. Once that process begins we know you have to work hard to reverse it.

BP has done better than most, helped by our successful entry into Russia, partly offset by a disposal programme that high graded our portfolio.
Our industry leading track record of access and exploration success has given us great potential to grow. Over the past year we have begun to realize that potential. In fact, as Tony said, we were the only supermajor to grow in 2008.

I’d like to give you some more detail on how we are doing that, starting with our drilling performance.

The standard industry measure of drilling efficiency is days per 10,000 feet.

Between 2007 and 2008 we have delivered a 15% efficiency improvement in our days per 10k across our portfolio. We have done this through:
- Applying a common approach everywhere we drill
- Setting technical limits for the activity
- And having deep engagement with the front line

About half of our annual drilling and completions spend of $7 billion is impacted by days per 10k, so 15% equates to some $500 million of savings. I hope you agree, that is material.

We are now implementing a similar approach to our production operations through the implementation of OMS. This is allowing us to systematically drive continuous improvement throughout our businesses, from the bottom up.

During 2008, we started the migration to OMS across the business. By year end, the majority of our operations in North America Gas, the Gulf of Mexico, Colombia and the Endicott field in Alaska were using it.

We are planning to fully implement OMS in all of our operations by end 2010.

In parallel, we are growing the capability of our operating leadership through the Operations Academy, which is building on the success of the Projects Academy, also at MIT.

Turning to production costs, as this slide shows, over the last four years rising commodity prices and global economic growth led to increasingly high levels of sector-specific inflation. That was experienced not just by us, but by our peer group too.

2008 was the year that we brought this escalation to a halt. We are now endeavoring to put it into reverse. This is a key part of our response to the turbulent economic environment.

As you can see, we have made a good start on improving cost efficiency by holding our production costs per boe essentially flat despite higher energy costs and sector specific inflation in the first three quarters of 2008.

We keep hearing about deflation and what I have said to my team is we want to see it in our supply chain. So we are now taking advantage of the current environment to begin to drive cost deflation.

We are working with all of our suppliers to reduce rates in response to rapidly deflating input prices, such as energy and steel.
We are also working with our suppliers to improve efficiency by finding better ways to execute activity.

There is one important caveat: safe and reliable operations come first whatever cost efficiency measures we undertake, and we continue to advance the safety and reliability of our operations through implementing OMS.

Turning to our Major Projects, we are continuing to build on our track record of improving execution. In 2008, we sanctioned seven and started up nine Major Projects on time, including the world’s largest semi-submersible platform, Thunder Horse.

Thunder Horse North has now started up with two wells online. Together with the four wells already producing in the South, that means we have more than enough well potential to reach full capacity of 280 thousand barrels of oil equivalent per day. We have already achieved 260 thousand barrels of oil equivalent per day - making Thunder Horse the second largest producing field in North America, after Prudhoe Bay, which we also operate.

Delivery of Thunder Horse has been technically challenging, but the technology developed and applied here will benefit the next wave of our developments in the deepwater Gulf of Mexico.

In addition to Thunder Horse, we saw the successful start-up of Major Projects in other parts of the world - Saqqara and Taurt in Egypt, Angel in Australia, Deepwater Gunashli in Azerbaijan and Mondo and Savi Batuque in Angola. In aggregate, the 2008 start-ups have delivered ahead of plan.

In 2009 we expect to bring onstream a further seven Major Projects including the second phase of Atlantis. These start-ups remain on track.

We continue to make good progress on the Tangguh gas project in Indonesia and we are on track to export the first commercial cargo of LNG in the second quarter of this year.

The other projects shown in the slide are post-FID and underpin production growth over the next five years. Over half of the projects are considered conventional oil.

These near-term start-ups are expected to add around 600 thousand barrels of oil equivalent per day by 2013.

Our positions in the rapidly developing market for LNG are also an important part of our growth story.

In 2008, we saw the start up of gas supply into Train 1 of the SEGAS plant in Egypt, and Train 5 of North West Shelf in Australia. This enabled us to grow our equity gas into LNG plants by 12%. We supplied almost 2.2 billion cubic feet per day to LNG plants in Trinidad and Tobago, Australia, Indonesia and Egypt.

Competitively this volume is second to Shell and ahead of Total, ExxonMobil and Chevron.
In 2009 we expect to continue this growth by increasing our supply of gas going into LNG plants by 15%, driven mostly by the ramp up of Tangguh.

This growth is expected to continue and to total over 650 million cubic feet per day by 2013. Beyond this, Tangguh Phase 2 has the potential to add a further 200 million cubic feet per day.

We also have market access through ownership interests in re-gas capacity in Bilbao and Guangdong; and access to additional capacity in the US at Cove Point and Elba Island; and in the UK, at the Isle of Grain. This allows us to market and trade both our equity LNG and third party contracted supplies in Egypt and Oman.

As Tony said earlier, a key element of BP’s strategy is to grow our E&P business and we will continue to invest to support that growth.

The results of the increasing investment we have made between 2004 and 2008 will show through in the next five years and, together with our track record of greater than 100% reserve replacement, supports our projection of growth out to 2013.

We expect our organic investment to total around $15 - 16 billion in 2009 which, adjusted for inflation, maintains our track record of investment to support growth.

Also shown in the chart is TNK-BP and Pan American Energy Capex. Neither is reported as BP’s capital expenditure, but both are important components of our investment proposition. TNK-BP and Pan American are able to fund investments from their own cash flow.

BP has a long standing track record of competitive finding and development costs. Based on the quality of our resource position, I am confident that we are well placed to continue to invest to grow the E&P business over the long-term.

We have good visibility of the projects that we expect will deliver that growth; those with gross capacity of 40 thousand barrels of oil equivalent per day or higher are shown on this slide. The list of smaller projects is excluded. This is a globally diverse opportunity set and remains biased to conventional resources.

Our existing portfolio provides the potential to sustain production growth to 2020 at 1-2%, with no new access or exploration success.

However, we would expect to do better than that with additional access and new discoveries.

So, let me conclude by summarizing the key points about the strategic progress of E&P in 2008.

We finished the year with strong momentum. We delivered volume growth, our existing operations continued to perform and we had nine Major Projects start up on time.

We extended our track record of more than 100% reserve replacement to 15 years.
We expect to grow production out to 2013 – the projects are there and we have been investing for growth.

But our story doesn’t stop here. Our resource base is biased towards conventional resources; it is competitive in a range of environments and is well diversified. It gives us the potential to grow volume at 1-2% right out to 2020.

And we are responding to the current environment, by exploiting the advantages of our scale, and by driving continuous improvement and efficiency into our operations. This is a compelling picture of both growth in volume and sustained quality.

Ladies and gentlemen, thank you and I will now hand you back to Tony.

Tony Hayward: Group Chief Executive

Thank you Andy.

Before I wrap this up let me say a few words on the progress of our Alternative Energy business.

As I said earlier, our strategy in Alternative Energy is to invest in a focused and disciplined way in the areas where we believe we can create the greatest competitive advantage.

And in that respect, 2008 was a successful year.

Solar sales increased more than 40 per cent, and we optimized our solar manufacturing footprint by closing less efficient facilities in Sydney and some lines in Madrid.

In Wind, we made a strategic decision to focus our portfolio in the US where we believe we have the most attractive opportunities. BP has the third-largest wind portfolio in the country.

In Biofuels, we started production from our joint venture in Brazil. This is the largest single investment in Brazilian biofuels by an international oil company. We also entered a strategic alliance to accelerate the development and commercialization of biofuels produced from lignocellulosic bioethanol.

Overall investment in Alternative Energy in 2008 was $1.4 billion.

Despite the economic downturn, we believe that a disciplined approach to Alternative Energy continues to offer good opportunities.

In Solar, we plan to continue to optimize our manufacturing footprint, including the development of Asian manufacturing options.

In Wind, we intend to continue to build out our US portfolio.
In Biofuels we have a three-part strategy; one, the expansion of our Brazilian position; two, the demonstration of biobutanol commercialization; and three, the development of lignocellulosic conversion technology.

And finally, we plan to continue to invest in our Hydrogen Energy venture in Abu Dhabi in conjunction with Al Masdar to demonstrate pre-combustion hydrogen power technology. This is a 420MW power plant, with CO2 capture. The CO2 is planned to be used for enhanced oil recovery in nearby oilfields.

In 2009, we expect to invest between $500 million and $1 billion in Alternative Energy.

Before concluding I’d like to address how we are responding to the current environment and how our financial framework enables us to deal with it.

Our goal is clear; to continue to invest for long-term growth while retaining our focus on safe and reliable operations, paying the dividend and driving deflation into our cost base.

At BP we have a mantra “that every dollar counts, every seat counts” and we intend to follow it through. We have momentum on both cost control and in our operations: production is expected to continue to grow, and refining availability is expected to be materially higher in 2009 than in 2008. These improvements in our underlying business are expected to add to our cash flows in 2009.

Our portfolio is well-positioned to weather the current storm, helped by our deep focus on technology. We have positions in many of the world’s leading hydrocarbon basins, and relatively low exposure to higher cost upstream options such as tar sands and gas to liquids conversion.

Focusing specifically on costs…

We started more than 18 months ago in our drive to counter the cost inflation that developed alongside rising oil prices.

As you can see, we managed to halt that inflationary trend in 2008 despite the continued rise in oil prices for most of the year.

Our aim in 2009 is to begin to roll back the inflationary trend by driving deflation into our business.

How realistic is this? Well, we’re seeing early signs of it happening already.

Historically, US oil and gas equipment prices have lagged behind oil prices by 12-18 months.

The market is beginning to soften and, over the last few months, we have already seen sharp drops in the price of steel and petrochemicals.

Our approach will be a proactive one and we intend to use our significant global purchasing power to negotiate better contracts.
Based on the actions we took in 2008, and the deflation we can already see entering our supply chain, we expect our costs to fall by around $2 billion in 2009.

Let me now talk about our investment plans for 2009.

In this environment, there is an opportunity for those who are prepared to look beyond today and to invest in readiness for the upturn, whenever it comes. We are planning to keep our overall level of capital spending broadly the same in 2009 compared with 2008.

In our Refining & Marketing and Alternative Energy businesses, we are reducing investment.

In E&P, by contrast, we are maintaining investment while vigorously driving down costs. The last few years have been a poor time to put capital onto the balance sheet, but the next few may be a lot better.

In 2009, we expect divestments to be in the region of $2-3 billion.

To support these plans, we have a long-established financial framework that has stood the test of time and which we believe is good for all seasons, including the current one.

Our objective has been to distribute to shareholders 100 per cent of all free cash flows in excess of investment needs. Over the last seven years, we have returned a total of $105 billion, around half via dividend and half via share buybacks.

In 2008, following feedback from investors, we took the decision to weight returns towards dividends and away from buybacks. As a result, we increased the dividend per share in dollar terms by 30 per cent.

Turning to gearing, our approach has been consistent and prudent – some might say old fashioned! Of course some gearing is efficient for shareholders and over the last seven years, for most of the time, we have stayed within our targeted range of 20-30 per cent.

We ended 2008 with gearing at 21 per cent, close to the lower end of our target band.

We believe this 20-30 per cent range remains the right one, providing us with both an efficient capital structure and flexibility.

Our ability to access the debt markets remains excellent.

Despite the pressures in the financial markets, BP has had continued access to both the short-term commercial paper and bond markets.

In the long-term debt markets, we issued $7.5 billion of new bonds in 2008, including $4.6 billion in the volatile fourth quarter, for which we saw a healthy demand.
In 2009, we have between $5-6 billion of bond maturities to refinance. Bond and commercial paper markets have opened strongly in 2009 reflecting strong investor demand especially for highly rated corporates. We expect good access to continue.

With regard to our costs of borrowing, BP continues to issue commercial paper at very low rates, only slightly above US Fed Funds.

BP’s bond credit spreads have widened as with all other corporates but have been offset by the fall in underlying government rates.

On average, therefore, we expect BP’s average cost of borrowing in 2009 to be the same as, or slightly lower than, 2008.

This slide shows that our financial framework has stood us in good stead throughout a volatile decade.

Our aim remains to balance cash inflows and outflows over time. When oil prices rise faster than costs, as in 2005 and 2006, we had a surplus above investment and dividend requirements, which at that time we chose to distribute by way of share buybacks.

When oil prices fall, we expect that there will be a similar period of adjustment before costs realign. The strength of our balance sheet gives us the flexibility to maintain investment and dividends whilst that adjustment takes place.

Past experience shows that if oil prices remain low for an extended period, then both costs and fiscal regimes are likely to adjust and we are already seeing evidence of this.

Based on our current plans, we expect cash inflows and outflows in 2009 to balance at an oil price of around $60 per barrel. That break-even point should continue to fall as we realize the benefits of our operational momentum and our action on costs.

We remain confident in our ability to strike the right balance for our shareholders between continued investment for long-term growth, delivering returns today via the dividend and prudent management of our gearing level.

So to conclude: 2009 will be a challenging year. But one that we’ll meet head on and turn to our advantage.

Our strategy is an enduring one.

We are delivering upstream growth, and production is expected to grow again this year.

In the downstream, the turnaround is underway. Operational momentum has been restored and we expect to see the benefit of this in 2009.

Costs are expected to continue to fall and we expect underlying revenues to continue to grow.
At BP, the future has not been cancelled. We have been here for 100 years and our resolve is as strong as ever. I am confident that BP can face the next 100 years with pride and a renewed sense of purpose.

The task we face today is no different from that faced by our forbears: to strike the right balance for shareholders between investing for the future, providing current returns via the dividend, and ensuring an appropriate and prudent level of gearing.

Our view is that the right current balance is to both continue to pay the dividend and to maintain investment to grow the firm, and to use the capacity of our balance sheet while the industry cost structure adjusts.

Thank you ladies and gentlemen.

I hope that today we have given you a sense of the progress we are making.

The team and I would now be pleased to take your questions. I will start with questions from our live audience and then move to any questions from our telephone listeners.