2010 Strategy Presentation: 2 March 2010

Tony Hayward: Group Chief Executive

Ladies and gentlemen, a very good afternoon to those of you joining us here in London, both in person and over the phone and web, and a very good morning to those of you in the US. Welcome to BP's 2010 Strategy Presentation.

Before we get going - for the benefit of our audience here in London, I'm sure you will have seen behind me the safety evacuation guidelines. We're not planning to test the alarm system today, so should you hear it, please proceed as advised. Further details can be found in the handout on your chair.

For those of you who can't see us, I have alongside me: Byron Grote – our CFO, Andy Inglis – Head of E&P and Iain Conn – Head of Refining and Marketing.

With us in the audience, I'm delighted to welcome our new chairman Carl-Henric Svanberg. We also have Bob Dudley and Steve Westwell, and I am particularly pleased to introduce Maxim Barskiy, CEO designate of TNK-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.

Here is today's agenda. I will start by describing the economic environment and updating you on our performance to date. I'll also outline our plans for 2010 and beyond.

Andy and Iain will then go into more detail on each of their businesses, before we take your questions.

The key message from all of us is that whilst our portfolio is among the best in the industry, our financial performance still has some catching up to do. We've made a lot of progress over the last 3 years but there's more to be done. There is a real opportunity to make this portfolio work harder for our shareholders and we'll explain how we plan to make that happen.

But first let me start with the broader environment and how it is shaping our priorities.

I think most people would agree that 2009 was an unusually volatile year for the world economy. And clearly that had an impact on the energy industry. In the short term the global downturn has reduced energy demand. But over the longer term, the trend is increasingly upwards. Driven by industrialisation in the developing economies, global energy consumption will continue to rise.

So the outlook for the industry is fundamentally robust. We anticipate that the world will consume around 45% more energy by 2030 than it does today and that fossil fuels will remain the dominant source. Of course, we face some big challenges especially in the realm of policy, where the question of how to meet rising demand in an **affordable** and **sustainable** way has risen to the top of the global political agenda.

For a long time, BP has advocated a proactive approach to climate change and supported action to curb carbon emissions. And we continue to believe that the world needs a diverse **energy mix** that incorporates all available sources – from oil sands to solar – and leverages investment in **technology**. There is no one single solution: a **mix** of resources and technologies will be required to deliver energy security and to lower CO2 emissions.

Central to this is a need to promote **efficiency** to minimise the environmental impact of fossil fuels and to ensure that we make best use of the world's energy resources.

We also believe that encouraging free and open **energy markets** is the best way to induce change. A **carbon price**, preferably created by capping emissions, would provide a strong incentive for energy efficiency and encourage investment in alternatives to fossil fuels.

BP is supporting the transition to a low-carbon economy in a number of ways.

Firstly by improving energy efficiency within our own operations as well by developing more efficient products such as BP Ultimate and Castrol lubricants

Secondly by using an internal cost of carbon when making investment decisions about fossil fuel projects. This will encourage investment in technology to reduce the carbon they produce.

And thirdly by promoting the lowest-cost energy pathways to reduce carbon emissions – a good example is natural gas for power generation. Gas is easily the cleanest-burning fossil fuel - it's efficient, versatile and abundantly available.

We also continue to invest in our low-carbon businesses.

- Since 2005 we have invested more than $4bn in Alternative Energy, and focused our activity in 4 key areas.

- In **Biofuels** - we're converting sugar cane to ethanol in Brazil. In the UK we're constructing a technology demonstration plant for biobutanol with DuPont. And in the United States we are working on the conversion of ligno-cellulosic material to biofuels.

- In **Wind** we've focused the business in the US where we have more than 1.2 gigawatts of gross spinning capacity. We expect this business to become cash flow positive this year.

- In **Solar** we've focused the business and are repositioning our manufacturing footprint to lower-cost locations, principally in India and China.

- And in **Carbon Capture and Sequestration** we're concentrating on two major projects - one in California, the other in Abu Dhabi. We've recently been given considerable support by the US Department of Energy to move the Californian project forward.

All this is further supported by investment in research and technology. BP currently has 20 major technology programs underway. Around two thirds relate to existing businesses in E&P and R&M and the remainder to new forms of energy and ways of making today's energy more efficient.

We will talk more about some of these today as we look at each of our business segments.

Let me now turn to the oil and gas markets:

We have begun to see economic recovery taking hold. To date it has been led by China. In the major economies of the US and Europe we expect recovery to be slow and gradual.

Tracking the path of the world economy, oil demand grew in the fourth quarter of 2009 and we expect this to continue in 2010, led by increasing consumption in the non-OECD world.

The oil markets look well supported by OPEC, but we expect gas markets to remain volatile.

In Refining, BP's Global Indicator Margin averaged $4.00/bbl in 2009 and it remains extremely depressed, averaging around $2/bbl for the year to date.

Excess capacity and substantial amounts of product in floating storage are capping margins even with the cold weather.

Despite rising global demand, extra supplies from sources other than refineries, such as biofuels, as well as floating storage, are likely to limit refinery throughput still further.

On top of this, close to 2 million barrels per day of additional refining capacity is expected to come on stream this year, although around half of this growth could be offset by closures in the US, Europe and Japan.

With such weak fundamentals, we expect global refining margins to remain depressed.

Yet, in this volatile and uncertain environment BP's Forward Agenda remains firmly on track.

Our focus on safe and reliable operations is now strongly embedded in our business; we are continuing to build the core capabilities of our people; and we have started to see the benefits of improved performance flowing through to the bottom line.

Let me address each of these in turn.

Safety remains our number one priority and we can see clear progress.

There has been a significant reduction in the frequency of recordable injuries and the number of major incidents related to integrity failures has fallen. At the same time we're reducing containment losses in our operations.

We are continuing to improve our skills and capabilities as we roll out a common Operating Management System across our business. By the end of 2009 we had achieved full implementation at 70 sites, covering around 80% of our operations – the remainder will be completed in 2010.

But implementation is just the beginning. Our Operating Management System provides the basis to now drive continuous improvement across all of our operations.

In summary, we are strengthening the safety culture throughout our business, and building a track record that we intend to become industry leading.

Our people agenda has been a key aspect of the company's transformation over the last few years.

Not only have we refreshed the highest levels of leadership within BP but we have also reviewed our whole approach to the organisation. We have developed a new leadership framework ensuring we value and deepen specialist expertise, and we're fostering a culture of excellence and continuous improvement across all our operations.

Over the last two years almost 22000 people have left BP and over 14000 have joined, accelerating the process of change within the company.

We are focussing on deepening capability by putting the right people with the right skills in the right place. We are also ensuring they get the support to reinforce their technical and functional expertise through development programmes like our Operations Academies.

We are continuing our drive to create a diverse and inclusive workplace to ensure that we can attract and retain the best talent.

And we have linked reward more closely to performance.

Taking all of this together, a significant change is underway in our culture. It will ensure that we have the organisational quality to face the challenges that lie ahead.

These changes have been clearly reflected in improved operational performance.

Over the last two years we have closed the competitive gap we identified in 2007, and restored momentum in our core businesses

In 2009 we grew production ahead of the guidance given to the market. We achieved 4% growth, building on the track record of momentum relative to our peers since 2000.

In refining we have brought our US network back to full operation, and our system is now back to pre-2005 availability levels.

The drive to reduce costs and increase efficiency remains a key focus for everyone at BP.

We started more than two years ago in our effort to counter cost inflation and drive much greater efficiency into our business.

In the upstream we are leading our peer group in driving down production costs, with BP's unit costs in 2009 12% lower than in 2008. Going forward we will maintain momentum through activity choice and supply chain management.

In the downstream our efficiency initiatives have reduced cash costs by more than 15% in 2009 and our goal over the next 2 to 3 years is to return costs to 2004 levels.

For the group as a whole in 2009 we reduced our cash costs by more than $4bn. Around 60% of this was due to our own actions and the remainder to forex and lower fuel costs.

We intend to sustain this momentum through a focus on continuous improvement and operational excellence.

Cash costs are expected to fall further in 2010. Andy and Iain will outline our plans in more detail and explain how we're going to do this.

As we predicted our operational progress has translated into improved relative financial performance.

Much lower oil and gas prices and very weak refining margins have created a challenging environment for the whole sector.

But as this chart shows, the operational momentum in our business and our drive towards efficiency has clearly improved our performance relative to our peers.

As well as delivering a good operational performance in 2009, we saw significant strategic progress right across the company.

In **E&P** we achieved major new access to resources, most notably in Iraq, and made a series of discoveries including the giant Tiber field. Our 2009 **resource** replacement ratio was over 250%. We have maintained our strong track record of reserve replacement with a 17th consecutive year of reported **reserves** replacement above 100%. Year on year production growth was 4%. We started up seven major projects and sanctioned two major new developments.

In **R&M**, our refining system has been fully restored. We have decapitalised our US convenience retail business and reduced the geographic footprint of our international businesses. At the same time we have reduced our costs by 15%.

Alternative Energy is more focused and disciplined.

And we have also furthered our corporate simplification agenda by reducing headcount by around 7500.

So all in all, good progress. But what about the future? How will we maintain momentum and where's the opportunity?

Let me begin with our portfolio of assets. 2009's strategic progress is part of a longer track record. Over the past decade our strategy has allowed us to build a portfolio of great quality and huge potential: equal in our view to any in our industry.

Andy and Iain will detail the opportunities in each of their businesses, but I would like to give you a sense of the quality of that portfolio.

In E&P, we have a long history as both an efficient and successful explorer. This has given us a reserve replacement track record, which is amongst the best in the industry and a long-lived asset base with a bias to conventional oil. We have confidence in robust medium term growth and considerable potential to apply new technologies to enhance recovery.

In R&M, we have less overall exposure to refining than our peers. We have high-graded our portfolio over the past decade to end up with, on average, larger and more advantaged refineries than the other supermajors. We believe we have the best supply optimisation capability and a set of world class international businesses.

Both the challenge and the opportunity is that while our portfolio ranks amongst the best in the industry, our financial performance has yet to reflect this. There is now a real opportunity to make this portfolio work harder for us and we intend to do just that.

So how do we define the opportunity?

There are many ways to view it. From company-wide issues such as the gap in earnings versus our peers, to return on capital employed versus the competition. And from segment-level issues such as improving refining efficiency and closing the gap in fuels value chain performance in the US to improving efficiency in our drilling and in the execution of projects in the upstream.

Whichever way you look at it, there are significant opportunities for improvement and in every case firm plans are in place to close those gaps.

Our direction is clear: it is the unrelenting pursuit of competitive leadership in respect of cash costs, capital efficiency and margin quality. We believe we have made a good start – but it's only a start.

Our goal over the next few years is to realise the latent potential of our asset base by improving the efficiency and effectiveness of everything we do.

We will vigorously drive cost and capital efficiency whilst at the same time maintaining our first priority of safe and reliable operations.

We believe that there is still a considerable prize to be had from embedding a culture of continuous improvement across the organisation

In E&P we will drive cost and capital efficiency through a new organisational structure. This will provide clearer accountabilities and a centralised approach to project management.

In R&M we will focus on driving efficiency, quality and integration as we start to realise the potential of our refinery network and restructured fuel value chains.

All of this will be underpinned by our continuing investment in technology and by the new culture we are establishing at BP.

Let me now hand over to Andy and Iain to take you through our plans in more detail, beginning with Exploration and Production…..Andy!

Andy Inglis: Chief Executive, Exploration & Production

Thank you, Tony, and good afternoon.

As you just heard, 2009 was another very good year for E&P, with continued strong **strategic** and **operational momentum**.

I have two big messages that I'd like you to take away today.

First, we continue to **strengthen the portfolio** to underpin long-term volume growth. I am now **confident** that at a $60 oil price we can sustain average production growth from 2008 at 1 to 2% per annum out to 2015, and see **increasing** potential to sustain growth to 2020.

Second, we are resolutely focused on driving sustainable **capital and cost efficiency** improvements. We have been making progress, but as Tony has said, there is much more to do, and we are in action to secure these opportunities.

I want to talk about our progress and our future in three parts;

- Our **portfolio** – founded on a strong and growing resource base
- The **growth in production** we **foresee** – out to 2015 and then beyond 2015
- And **growth from efficiency** – where we have a significant opportunity to improve returns.

Our strategy is clear. We invest to grow production **safely**, **reliably** and **efficiently**.

This involves **strengthening our portfolio** of leadership positions in the world's most prolific hydrocarbon basins, enabled by the application of technology and strong local relationships

And it involves **sustainably improving cost and capital efficiency** driven by deep technical capability and a culture of continuous improvement.

Our portfolio is strong and diversified

- It is a 4 million barrel a day business – enabling economies of scale.

- We have material positions in the world's best oil and gas basins.
- Our portfolio is balanced – 60% oil, 40% gas.
- It is characterized by strong base businesses which we have operated for decades, and new areas of growth for the future.
- Our resource base is 64 billion barrels oil equivalent. It is high quality, biased towards conventional resources and will underpin sustained long-term growth.

Let's now look at the ways in which we strengthened our portfolio in 2009.

We added to our exploration inventory; deepening in the Gulf of Mexico, Egypt and Indonesia.

We further expanded our shale gas portfolio by securing a new resource position in the Eagle Ford Shale; established a Coal Bed Methane position in Indonesia, and in Jordan we agreed to join with the National Petroleum Company to exploit the Risha gas field.

We entered Iraq, where with CNPC, we will expand production from the super giant Rumaila field.

Over the last two years, through exploration, appraisal and access we have added a total of around 7.5 billion barrels of new resources – that's 5 years of production replaced in 2 years, and it excludes Iraq.

Equally important, we have added exploration resources efficiently – our discovery cost was a dollar forty per barrel in 2009. This is consistent with our track record over the last 5 years of having the lowest discovery cost in the industry.

Now let me turn to the pull through of those resources to reserves and ultimately to production.

In the past 5 years, we have grown our non-proved resource base from 39 to 45 billion barrels, through a combination of exploration, access, field extensions and improved recovery. This translates into extending the life of our portfolio from 39 to 43 years of production at today's rate.

This **scale** of resource enables us to execute quality through choice. We don't have to do everything – we establish projects only when the resource is fully appraised. We progress projects only when they are fully optimized.

The **quality** of the resources is also improving. Over the last 5 years, we have increased the contribution of additional reserves from high-margin areas such as the Gulf of Mexico, Azerbaijan, Angola and the North Sea.

2009 resource and reserve replacement shows continuing growth. With a reported reserves replacement ratio of 129%, it was the 17th consecutive year we achieved over 100%. Excluding TNK-BP, our reserves replacement ratio was also above 100%.

Normalizing for the price impact between average '09 prices and year-end '08 prices, it still remains above 100%.

And the application of the new SEC rules accounted for only 6% of 2009 reserves additions.

So, however you look at it, 2009 was another year of 100% plus reserves replacement.

Reserves were added across the portfolio, from the North Sea, North America Gas, Gulf of Mexico, Trinidad, Asia Pacific, Angola *and* TNK-BP, with more than 90% from conventional oil and gas.

And this was **not** driven by a significant number of Major Project sanctions. As previously signaled, 2009 was light for projects reaching final investment decision.

It **was** driven by strong base management in our incumbent positions, translating into a **proved developed** reserves replacement ratio of 139%. This should give you further confidence in the robustness of the base performance underpinning our projection of volume growth.

Not only was it strong performance in terms of reserves replacement, it was also delivered **efficiently** with 2009 Finding and Development costs of $12 per barrel – the lowest in the past 5 years. Today's F&D is tomorrow's DD&A – and this is an important signal of the quality of the resource base we are pulling through.

Now let's turn to **production growth**, firstly out to 2015.

I shared with you our production outlook a year ago. Nothing has changed, including the 2010 forecast, except we are confident to extend the outlook to 2015.

At $60/bbl, as used last year, annual average volume growth remains within the 1 to 2% range from 2008.

This view is conservative in that it does not include any volume contribution in the Middle East from either Iraq or renewal of our Abu Dhabi licenses, the first of which expires in 2014. We are currently in constructive dialogue with the Government of Abu Dhabi on license renewal.

This is a forecast at $60 per barrel and the actual growth rate will depend on a number of factors including the oil price, PSA effects and OPEC quota restrictions.

But it is a robust production outlook, and my confidence stems from our strong base performance as well as our Major Project portfolio proceeding as planned, both in terms of FIDs and start-ups.

Now I'll take a look at these projects in detail.

We are currently planning to make final investment decisions for 24 new Major Projects in the next two years. Each project has been high-graded through our project selection and progression process. They are concentrated in the Gulf of Mexico, the North Sea, Azerbaijan and Angola – high margin production areas that improve the portfolio.

We are progressing projects not only in new fields, for instance Tubular Bells in the Gulf of Mexico and West Nile Delta in Egypt, but also expanding our existing producing fields.

Big fields keep getting bigger, and the extension of known resources also means lower execution risk. This has been proven many times. For example, the next phase of the Chirag Oil field in Azerbaijan and further development of Atlantis. The second phase of Atlantis started last year, and had immediate success in the first well in the northern segment. This has given us confidence to continue to expand this phase in 2010.

So a long list of major project FIDs that grow production out to 2015 off a strong base.

We continue to improve our track record of on time project delivery. In the last 3 years we had 28 project start-ups, including 7 in 2009.

This slide shows our upcoming projects in more detail. Over the 2010 to 2015 time frame, we plan to bring on stream a total of 42 projects, which we expect to contribute around 1 million barrels a day to total production by 2015.

And we are achieving this performance without increased capital investment. In fact, in 2009 our improvement in capital efficiency resulted in lower investment than 2008. This was largely due to our drilling performance, coupled with our management of sector deflation.

We expect 2010 organic investment to total around 15 billion dollars. Taking 2009 inorganic activity into account, and expected further efficiency gains in 2010, we believe we will be able to increase activity by approximately 10% in support of long-term growth.

In addition, we are investing through TNK-BP and Pan American Energy. Neither is reported as part of BP's capital expenditure, but both are important self-funding components of our overall growth.

To recap, I have demonstrated my confidence in the strength and depth of our resource base, and its conversion to production in the medium-term.

Now let's look at growth beyond 2015.

BP's strength lies in operating at the frontiers of geography and technology, and executing projects at a scale only a few companies can take on.

That has been our history for one hundred years. It is also our future.

As a result of the significant growth in our resource base over the last 2 years, I am increasingly confident of the potential to sustain production growth out to the end of this decade.

Further out, there are many other things I could talk about, such as the Arctic, but they are for 2020 and beyond.

I'll focus today on three key sources of growth for the second half of this decade which play to BP's technology and relationship strengths;

- Firstly, the **Deepwater**
- Secondly, **Gas**, in particular unconventional gas; and
- Thirdly, management of the world's **giant oilfields**

Among the majors, we are the leading deepwater producer and have developed strong capability.

We believe significant yet-to-find resources remain in the world's deepwater basins. We will continue to grow our deepwater resources and production throughout this decade.

We have four key deepwater positions:

- **Gulf of Mexico** – where the recent Tiber discovery and strong production from Thunder Horse have strengthened our number 1 position,

- **Angola** – where we have made 19 discoveries in Block 31. Our project pipeline, together with existing production from BP-operated Greater Plutonio and partner-operated interests in Blocks 15 and 17 will underpin production growth in this decade,

- **Egypt** – where our major gas discoveries in the Western Nile Delta position us for long-term growth; and

- **Libya** – where we hold an acreage position of 30 thousand square kilometers and plan to drill our first well later this year, after completing BP's largest offshore 3D survey.

In the Gulf of Mexico, we significantly strengthened our portfolio in 2009.

We successfully started up three projects ahead of schedule – Dorado, King South and the second phase of Atlantis. These projects, along with strong performance from Thunder Horse enabled Gulf of Mexico installed capacity to reach 500 thousand barrels per day.

We made a giant oil discovery – Tiber, drilled to over 35 thousand feet, the deepest oil and gas discovery well drilled. We are now progressing with appraisal.

We drilled a successful appraisal well in an untested segment of the Mad Dog field. With the additional hydrocarbon resources found, Mad Dog is firmly established as the third giant field in BP's Gulf of Mexico portfolio, joining Thunder Horse and Atlantis.

We have a strong pipeline of projects. We are progressing well on material new hub developments – from significant discoveries in the Lauri Basin – Freedom and Tubular Bells, our Paleogene giants Kaskida and Tiber, plus our interests in partner-operated Great White and Mars B fields.

We see the potential for production from this province to continue to grow through this decade.

The second source of growth for the future is gas.

Currently we produce approximately 8.5 billion cubic feet per day and expect continued steady growth throughout the decade, with our gas weighting increasing from 40 to 45%.

In our gas fields, we have total resource of 130tcf. Our resources are diversified. In terms of **pricing** – 2.5 billion cubic feet per day into LNG in 2010, and in terms of the **mix** of conventional and unconventional.

The enormous depth of our gas portfolio is shown on this map. Today we have material positions in **North America**, **Trinidad** and the **North Sea.** We also have a portfolio of high quality opportunities for the future:

- We see growth from the Nile Delta in **Egypt** through 2 new projects and continued exploration

- There will be a second phase of Shah Deniz in the **Caspian** - a giant field by any standard.

- We plan to expand in **Indonesia** where there is new potential around our Tangguh LNG facility, and we have Coal Bed Methane opportunities through our VICO JV in our newly acquired PSA.

- In Australia there is the **Browse** LNG development and North Rankin 2.

- In **China** where we are currently assessing opportunities for Coal Bed Methane and Shale Gas with CNPC and Sinopec; and

- In the Middle East and North Africa we have accessed strong resources – in **Oman**, the Khazzan and Makarem fields are under appraisal, as is the **Bourarhat** field in Algeria. We are in the early stages of assessing gas potential onshore **Libya**.

Confidence in the development and scale of our global unconventional gas resources comes from decades of experience and know-how in North America.

We have **42 tcf** of resources in the Lower 48 and Canada, of which more than 80% is unconventional, and we produce over 2 billion cubic feet per day. In 2009 we further expanded our shale gas portfolio by securing a 5 tcf position in the Eagle Ford.

We now hold material positions in **4 top quality shales**; the Woodford, Fayetteville, Haynesville and now the Eagle Ford with a combined resource potential exceeding 10tcf. The important metric here is not the number of acres we hold – but the **quality of the resource**.

Leadership in 'unconventionals' is about technology – imaging and identifying the best locations, combining horizontal drilling with frac'ing, and low cost 'factory' drilling. We will continue to drive down costs through efficiency and technology innovation.

We are **demonstrating that we can get more out** of these resources than others. For example, within a year of purchase, we increased Woodford well rates by 60%; and the latest well initial production rate was 10 million cubic feet per day; that's three times the pre-BP rate. We are drilling longer laterals and staying in the pay through improved geosteering. We are also fracturing wells with more stages.

This US 'unconventional' know-how is being rapidly transferred to our global portfolio in Oman, North Africa and Indonesia.

The third source of longer term growth is our deep capability in managing the world's giant oilfields, gained from our experiences from Prudhoe Bay to Samotlor and from ACG to Thunder Horse, all of which makes our entry into Iraq a natural fit for BP.

Let me give you an update on our progress on Rumaila. BP has a long history with Rumaila dating back to its discovery in 1953. We have provided technical assistance from 2005.

Since our access in 2009, we have made a lot of progress. In December we signed the contract and agreed the Initial Production Rate. The budget and work programme for the year have all been approved.

BP and CNPC are establishing a strong relationship with the South Oil Company – helping to leverage their presence and resources.

We are focused on raising production by 10%. Under our agreement, once we attain this level we can recover costs from incremental production. By 2015, Rumaila has the potential to be the second largest producing oil field in the world.

The contract and the organization are structured in a way that allows us to develop Rumaila profitably. We see this as the beginning of a long-term relationship with Iraq and are continuing to look for further opportunities

Let me update you now on TNK-BP.

Our Russian joint venture is a continuing success story.

The new Shareholder Agreement and Board are working well with the new Independent Directors playing a full role. The board appointed Maxim Barskiy as **CEO designate** and he is currently spending time with BP prior to taking over at the end of 2010. Two ex-BP senior managers including the COO are members of the Management Board.

Operations are also going very well. Safety performance was the best ever last year. Volumes were up 2% versus 2008. New project start-ups are on track.

Dividends are strong. And TNK-BP has paid over 100 billion dollars in **taxes** since inception.

In 2010, capital investment is expected to increase to almost 4 billion dollars gross in order to progress a rich opportunity set. Production growth will continue at a rate of 1 to 2%.

And management will continue to focus on cost efficiency to improve returns.

TNK-BP's financial framework is strong as evidenced by the recent upgrade of its debt rating, and provides a good opportunity for us to continue to invest in a material way in Russia.

TNK-BP has a strong production base of which around 75% comes from West Siberia. This includes Samotlor, where for several years we have applied technology to sustain production.

Last year was the beginning of the transition in TNK-BP to adding new Greenfield projects with the ramp-up of VC, Uvat and Kamennoye. These projects will underpin continued growth through 2015.

Longer term growth will come with the development of a new province in the Yamal Peninsula – specifically the Russkoye, Suzun and Tagul fields, which are all proximate to existing pipeline infrastructure.

Technology is at the heart of strengthening our portfolio. It enables us to grow our existing resources, reach **currently** inaccessible resources and improve capital efficiency. We bring a distinctive technology offer when partnering with resource holders.

Our model is **simple** and it **delivers**. We continuously **'reinvent'** our leadership in the fundamental aspects of our business – imaging reservoirs, drilling and completing wells, and improving the recovery of hydrocarbons from our reservoirs.

We continuously **find solutions to real business problems** – our 10 technology flagships, shown at the centre of this slide, are the **primary vehicles** for ensuring our technical experts are focused on solving the specific challenges in **our** portfolio.

And we leverage our global scale – these flagships bring our technical experts together and enable us to rapidly share solutions across the portfolio.

A good example of how our model delivers is in **advanced seismic imaging;** where we reinvented how onshore 3D seismic is acquired with the Independent Simultaneous Sweeping acquisition technique. We recently deployed this in Libya, where we were able to capture up to 10 times more shot points per day than with traditional seismic. This has allowed us to acquire 8 thousand square kilometers of high quality seismic in just over a year, which in the past would have taken 5 years.

This is just one of many examples - I could talk for hours about the impact of our technology flagships.

The point is that the prize is significant; each flagship has the potential to add 1 billion barrels of reserves.

In summary, our growth to 2015 is underpinned by the strength of the base and the pipeline of quality conventional projects coming forward for final investment decision.

The key sources of continuing growth beyond this are expansion in the deepwater; growing gas; and taking advantage of opportunities to deploy our expertise in managing giant oilfields. All of which is enabled by the application of technology.

This gives me the **confidence** that we will continue to average **1 to 2% production growth** per annum to 2015, and that we have increasing potential to sustain growth out to 2020.

But that's only half the story. The other half is about driving cost and capital efficiency.

While we have demonstrated improving efficiency over the past 2 years, the remaining opportunity is significant. There are three actions underway to capture this.

First, how we are organized – fundamentally changing the way we work:

We have established a new Centralized Developments Organization, with accountability for managing all Major Projects across the Upstream to drive capital efficiency.

In the past, we did not fully leverage the scale of our projects portfolio. For example, we have 15 Major Projects being FID'ed with subsea infrastructure in the North Sea, Angola, GoM, Egypt and Trinidad. We will make significant efficiency gains by using standardized designs and equipment. We demonstrated the effectiveness of this approach in the development of ACG using standard platform designs. We are now going to use the same approach across the whole of the Upstream.

We are also transitioning to a standardized functional Strategic Performance Unit organization to improve the efficiency of our operations. For example, when we centralized drilling and completions in the North Sea, their drilling performance improved to first quartile through accelerating the pace of learning and deployment of technology. Here too, we are now going to use the same approach across the whole of the Upstream.

By retaining the SPU structure, we maintain the strong foundation of our local relationships.

Second, deepening our capability

This is about building a more highly skilled work force. For example, we are creating a roadmap for developing every professional and have just opened a new global learning center in Houston - which you should come and see. It is about intentional learning – a step change in the way we develop our staff.

And finally, enhancing capital discipline

We have re-engineered how we make capital choices, with greater rigor in decisions at the front end, driving quality through choice.

These changes are in service of delivering sustainable improvements in efficiency in the key drivers of our business. They are the most fundamental changes to the Upstream since the 1998 merger.

So, what do they mean in terms of the potential for performance improvement?

As I will illustrate, the prize is significant and we have clear plans in place to deliver it. Let me start with supply chain.

We started to make improvements in our supply chain in 2008, and in 2009 we were successful at capturing deflation. However, based on internal benchmarking, we believe we have a significant opportunity to improve our performance in the **way** we procure goods and services and manage suppliers – sustainable performance improvement irrespective of the environment.

The key point of access is **category management** which is about the **consistency** of the strategies we use to approach the market place; the **rigor** with which we put contracts in place, and the **way** we proactively manage them to stop value leakage, which is our major challenge today.

Currently, we have around 30% of our spend under category management, whereas the sector leader has 80%. Closing this gap is a significant opportunity.

The new Centralized Developments Organization will accelerate the implementation of category management for our Major Projects.

You can see the initial progress we have made in managing the supply chain flowing through to our **production costs**.

In 2009 we reduced unit production costs by 12%, equivalent to 400 million dollars pre-tax replacement cost profit.

Whilst the external environment is now more challenging, we believe we can sustain momentum through **Category Management**, and also through **increasing efficiency in execution** – through leveraging our functional SPU organizations; and through **prioritizing activity** with better plans driven by a culture of continuous improvement.

There is one important caveat: safe and reliable operations always come first, whatever cost efficiency measures we undertake.

Turning to our Major Projects, we are improving but we still have more to go.

For our operated Major Projects as a whole over the last five years, we have overspent by 20% relative to our sanction estimates. While 5% was due to industry-wide inflation, the remaining 15% of the gap was from the inconsistency in our approach to project management.

Actions are in place for us to close this performance gap – an opportunity of around 700 million dollars of capital per annum.

I already covered the supply chain.

In project execution, the creation of the Centralised Development Organisation will be the catalyst for driving fundamental improvement through greater standardization, as in the subsea example I gave you earlier, improved organizational efficiency, stronger capability and faster learning.

A third area where we have a significant opportunity is drilling and completions. We spend around 6.5 billion dollars a year on this; of which 60% is drilling.

We are targeting performance improvements in every basin in which we operate through application of BP's technology and Beyond the Best process. This deconstructs each step of a well, and sets a technical limit target for it. For each step, we then aim to achieve the technical limit. We learn as a result, and then the process is repeated for the next well. Always targeting to do better.

Global benchmark data shows we are already the best in some basins, but in others we aren't. Over the last 2 years we have improved by circa 15%. However, if we drill all wells at best-in-basin levels, we can deliver another 500 million dollars of capital savings per annum.

I would now like to conclude.

We finished another year with strong momentum. We extended our track record of more than 100% reserve replacement to 17 years and had another successful year of exploration and new access that further strengthened our resource base.

We delivered volume growth and improved efficiency by reducing our unit production costs by 12%.

The strength of our resource base together with another year of strong performance momentum gives me confidence in the future.

We are pulling through a strong list of quality projects that will underpin average volume growth of 1 to 2% p.a. to 2015.

Last year, I said we had the potential to continue to grow production at an average of 1 to 2% p.a. to 2020. This year we can see that potential much more clearly and have increased confidence in delivery.

What has also become clearer is that the size of the remaining opportunity set to improve efficiency is significant. We are in action to capture that opportunity.

This is what our growth agenda is all about, and my entire leadership team is behind it.

Iain, over to you.

Iain Conn: Chief Executive, Refining & Marketing

Thank you Andy and good afternoon ladies and gentlemen. It is a pleasure to have an opportunity to update you on progress and prospects for Refining & Marketing.

2009 was a very challenging year for R&M, particularly due to the weakness of the refining environment, but we have closed the gap versus the competition and delivered significant performance improvement.

In absolute terms, the returns from this Segment remain low. The good news, however, is that there is still much more room to travel as we deliver improvements beyond our achievements to date.

After nearly three years leading this business I am more convinced than ever of the relative quality of our asset positions, the strength of our brands and people, and the opportunity these offer to continue to improve our competitive performance.

Today I am going to cover

- our 2009 performance and how we have closed the competitive gap
- how cost efficiency, portfolio quality and integration, and growing margin share will drive further sources of performance improvement
- our investment plans for 2010

and therefore, what you might expect from us going forward.

So let me start with an overview of the turnaround of R&M and where we have got to.

The agenda we set out in 2008 across these 5 dimensions is enduring.

Safe and reliable operations remain the no. 1 priority. In 2009 we had one of the best years in terms of safety performance, with many of our personal and process safety measures comparing favorably with industry peers and no workforce fatalities. This is very encouraging and is down to the tremendous efforts of the team and our focus on process safety, training, targeted risk-reduction programs and our Operating Management System (OMS). To date we have completed the roll-out of OMS at all our operated refining and petrochemical sites.

We have been focusing a lot on improving core processes and behaviours associated with engendering a stronger performance culture in the organization. Turnover in senior management has approached 50% as we focused on getting the right people with the right skills into the right roles. We have redefined our executive processes and functional guidelines to drive clarity of roles and responsibilities across the Segment.

On financial performance we set ourselves a challenge to close the gap vs our peers by the end of 2011, through a focus on restoring missing revenues, business simplification and repositioning cost efficiency. I am very pleased to say we have already exceeded our original targets in this respect, two years ahead of what we

were originally aiming for. In Phase 1 of the Downstream turnaround we have closed the $3.5-4bn competitive gap that I outlined 2 years ago.

But this doesn't mean the journey is complete and I am excited by the prospect of delivering material further performance from this portfolio over the next three years, even in these challenging times.

The chart on the left shows R&M's ROACE relative to the competition for the period from 2003 to 2009. I have used this chart for the last three strategy presentations. As you can see in 2009 our returns are at the top of the competitor set albeit with the whole sector at very low levels. This reflects a significant step change in R&M's underlying performance. In the chart on the right, our Net Income per barrel of refining capacity has improved in absolute terms and was also the highest of all the super majors last year. This demonstrates a strength and quality in our portfolio that goes beyond the recovery of our operational performance.

It is underpinned by four key competitive advantages:

- a focused network of large, highly upgraded refineries sitting in integrated Fuels Value Chains with strong fuels marketing positions and brands
- an ability to optimize and add value to these positions through integrated supply and trading activities
- a focused Petrochemicals portfolio with leading technologies and market shares
- and a high performing premium Lubricants business

Another way to look at our progress is to correlate our pre-tax profit margin per barrel with BP's Refining Global Indicator Margin. The shaded green band on the chart represents the strong correlation that existed between the Global Indicator Margin and our reported pre-tax Replacement Cost Profit per barrel between 2001 and 2004. This methodology tends to provide a good relationship on a 4Q rolling basis for BP or its competitors, and allows us to judge relative business performance. Between 2005 and 2007 the significant set-backs in our US refining operations coupled with cost inflation and a complex organisation shifted our performance away from this band, culminating in a pre-tax earnings degradation of about $5bn per annum in 2007.

What we can now see is that we are back performing in line with the historical performance relationship to GIM, indicating that in aggregate the $5bn performance gap has been restored. Some parts of the portfolio are doing better than historically, but as I will come onto later others still have some way to go, providing for further opportunity to improve beyond the historical profit/ margin relationship.

There have been many drivers of the improvement since 2007. Two key aspects, which I have been updating you on over the last two years, have been refining availability and headcount reductions. As Tony showed earlier, the 11% Solomon availability improvement since 2007 was primarily driven by the restoration of Texas City and Whiting. The rest of the portfolio has continued to perform well. Our average refining availability is now above 94% and approaching industry standards you should expect from such a portfolio.

In terms of headcount, excluding retail, we have reduced levels by over 4500 against a 2008 target of 2000, and senior management levels have been reduced by approaching 20% net against a target of 15%.

The momentum of the last 2 years is also clearly visible if we look at our underlying pre-tax replacement cost profit in the context of a deteriorating environment. In 2009 we experienced a $1.8bn degradation in environment, as shown in the red bar, primarily driven by falling refining margins. Despite refining margins falling by over 40%, we were able to deliver a 9% improvement in underlying pre-tax RCP in the year, corresponding to a performance improvement of $2.1bn, as shown in the green bar. From 2007, the total improvement in performance has been $4.8bn per annum, in line with what I described earlier.

As always, I provide you with a breakdown of how the different parts of the R&M portfolio fared during the year.

Starting with the Fuels Value Chains, we can see that despite the deteriorating environment the absolute performance in aggregate has improved by $200m since 2008, with a $900m decline in refining more than offset by a $1.1bn improvement in the rest of the FVC. This underscores the way in which running the portfolio on an integrated basis is improving our overall results. Breaking the refining component down further, the $900m decline represents the net impact of a $2.4bn drop in refining margins, in line with the GIM rule of thumb, offset by a $1.5bn improvement in underlying performance. On a per barrel basis this represents an approximately $1.6/bbl portfolio breakeven improvement, and in 2008 conditions would have meant a profit of 80c/bbl for refining.

Our next goal is to ensure that our Refining portfolio is capable of breaking even in an environment similar to 2009, and the biggest opportunity relates to the US refineries. Having got them running again, there is considerable inefficiency in the way in which we plan and execute work and I will come onto this in a moment.

Our International Businesses - which consist of Lubricants, Petrochemicals, and Global Fuels - have sustained and improved upon the excellent performance seen in 2008, despite the deteriorating market dynamics across the whole global economy including material losses in volume and intense competitive pressures. Having established market leader positions we see continued growth and performance from this portfolio, albeit at a slower pace than we have seen since 2007.

So looking back over the last three years, we have come a long way, further and faster than we originally aimed for.

Relative to 2007, we set ourselves the task of closing a $3.5 to 4bn per annum competitive gap over 3-4 years, with about half of it coming from restoring refining revenues and earnings momentum, about 20% coming from business simplification, and the remaining 30% coming from cost efficiency within our overheads and business support services.

Of the $4.8bn of performance improvement since 2007, $2.8bn has come through restoring refining revenues, and strong supply and trading optimisation. The oil trading and supply optimisation activities had a very good year in 2009, particularly in

1Q although as volatility reduced later in the year performance was below average in 4Q.

Business simplification has delivered around $1.4bn surpassing the levels we first envisaged. This came from refocusing the portfolio into Fuels Value Chains, by removing internal interfaces, and simplifying the marketing footprint in Lubricants and Aviation. We have also successfully de-capitalised our US Convenience portfolio.

Beyond benefits from simplification, most of which was delivered as cost reduction, progress in fundamentally repositioning our cost efficiency for the long-run has delivered at the rate originally expected given this is a more structural and longer wavelength set of activities. So far we have delivered $0.6bn largely from restructuring our Head Office, support and functional organisations. Our three new regional Business Service Centres are operational and will start to deliver benefits over the next 2 years.
That covers the history. I would now like to turn to the environment we are likely to be operating within, and our plans for further improvement in performance going forward.

This chart is an extended version of the one Tony used earlier, showing refining margins going back to 1990 and corrected to 2009 dollars. What I have concluded from this is that the "Golden Age of Refining" during 2004-2008 was more of a "Golden Moment" caused principally by rapid growth in China ahead of new build and major operational outages resulting from a combination of meeting more stringent specifications, extreme weather conditions and operational issues, including our own at Texas City and Whiting.

Today there is significant excess capacity in the market. It is therefore quite likely that we will see margins similar to those during the twelve years from 1992 to 2003 during which utilization rates were much lower. In this period, refining margins ranged from roughly $3 to 6/ bbl as denoted by the grey band on the chart. 2009 margins were among the lowest of the last 20 years and weaker refiners could not even cover variable costs resulting in an estimated 3.5mbbl/d of economic run-cuts, closures and mothballing. So 2009 margins were at levels at which some refineries could not operate even on a marginal basis and this may therefore represent something nearing a floor. Given the relative quality of our refining portfolio, this underlines our conclusion that an appropriate target is to breakeven at 2009 margins, which will yield real advantage, implying a further performance improvement of $1.6bn per annum.

Against this backdrop, I would now like to turn to expectations for future performance. Relative to the historical performance I showed earlier, Phase 2 of the improvement of R&M lies in moving the line up the page as represented by the yellow band on the chart. This is not meant to be a precise representation but gives you a sense of what we see as possible. We are confident we have competitive assets with material additional performance improvement potential especially in US refining. In the world we are seeing, there will definitely be winners and losers, and our job now is to make an already competitive portfolio a winning one in absolute terms, and to do it sustainably. We believe the way to win is through having very high quality positions , that is the right asset, footprint and location, operated

efficiently and managed in an integrated manner and all clearly underpinned by safe and reliable operations.

Turning to the sources of further performance opportunity in Phase 2 we can see well over $2bn per annum pre-tax. The largest part will come from repositioning our cost efficiency, as you might expect given that our operations are now largely restored. We can see at least $1.5bn per annum of further improvement potential. A large part of this will be from improving effectiveness with which we plan and execute work in US refining.

Secondly, we must continue to improve the absolute and relative quality of our portfolio and ensure that in the integrated Fuels Value Chains in particular they are operating in an effective, integrated and joined-up way utilizing only those assets and capital employed which enable them to do so. The main components in this area are the investment in modernising Whiting as well as selective divestments of non-core assets within the Fuels Value Chains. Taken together we would expect by the time the repositioned Whiting comes on stream a net improvement of over $0.5bn per annum pre-tax.

The final component of up to $0.5bn per annum of future performance improvement relates to using our skills, brands, technology and targeted revenue investments to grow margin share, largely in our International Businesses, oil trading and in other marketing channels.

After ensuring a continued focus on safe operations, this next phase is mainly driven by a focus on efficiency, quality and integration, supplemented by some growth in margin share. I would like to touch on each of them in turn, starting with efficiency.

This chart shows you the significant step-change in our cash costs in 2009. We were able to reduce costs by well over 15%, of which over half was underlying improvement. Our next target, excluding forex and energy price effects, is to get costs below 2004 levels which translates into a reduction of about $1.5bn. We need to do this if we are to perform effectively in a refining environment similar to that which prevailed before 2004. There are many targeted sources of this reduction and let me start with the largest part - efficiency in refining

This is a chart of refining availability versus cost efficiency based on Solomon metrics. The large circles indicate where the refining portfolio is at specific points in time. To sustain improvement in refining, you first have to focus on safety, availability and operational effectiveness and then turn attention to efficiency. As you can see, since 2004 we went from good availability levels to very poor levels at around 75%, and our cost efficiency severely lagged the industry by 2007. This in part was driven by repair costs as we restored throughputs at Texas City and Whiting, coupled with our accelerated approach to take integrity management to a new level. However, it was also caused by poor planning and execution of work in many aspects of refining operations as we tackled a very broad agenda in a short period of time. There is significant opportunity to reverse this, without damaging progress in safety. Our focus will be to do things more efficiently and effectively, and not change the things that we are doing.

In the main, our focus will be to do the right things more efficiently and effectively, rather than change the things we are doing. As you can see from the chart, we have

made significant progress on availability since 2007 but have further to travel in terms of efficiency.

The dark green diamond denotes R&M's top 3 performing refineries. As you can see, it is eminently possible to "walk and chew gum" - getting both high availability and high cost efficiency.

The major focus areas here are in terms of better planning and execution of work – whether for routine maintenance, turnarounds or major projects - improved contractor management, better sourcing strategies and driving for improved energy efficiency.

Having restored availability levels, the largest part of getting refining back to breakeven in a 2009 environment must be cost efficiency, and heavily weighted towards the US.

Outside refining, there is also a significant prize. To sustain a winning position it requires excellence in manufacturing efficiency, whether in Lubricants or Petrochemicals. We have made major inroads into Procurement and Supply Chain Management across R&M but there is much more to do. The Business Service Centres are all now established and we are cutting over more operations to them. This will enable significantly more effective and standardised transactional services and at a lower cost. We have spent a lot of time developing new end to end SAP-based "back office processes" for the Fuels Value Chains. This has been successfully implemented in Iberia and we now have plans to roll out a programme into the other regions. There is still room to reduce overheads, making embedded functions more efficient, improving the efficiency of logistics and marketing channels, and as I indicated earlier we intend to keep our footprint very focused.

I would now like to turn to the portfolio quality and integration, starting with the Fuels Value Chains.

In an oversupplied market, there must be a total focus on quality not quantity.

In the first instance it is about having the right quality of assets positioned in the right markets and in the right specific locations. From this base it is then about strengthening our structural position versus the competition. We aim to only own those assets which as part of BP can win in their markets, which will compete for resources within the company, and in the case of the integrated Fuels Value Chains those which ensure strong competitive integrated positions. Our recent divestments of our ground fuels position in Greece and retail in France, and announced plans to divest of certain pipelines and terminals in the US are examples of interventions in line with this strategy. We also drive distinctive performance through supply optimisation and trading. Integration is the end-to-end margin capture from crude oil to customer enabled by strong operations and optimisation, and supported by common processes and an efficient back office. Not all our Fuels Value Chains are where we want them to be yet, but we have plans to get them there.

At the heart of the relative quality of our Fuels Value Chains is the relative quality of our refineries

This chart on the left shows BP's refining portfolio compared to the other super majors, and is a plot of Nelson Complexity vs average refinery size. As you can see, BP's refining portfolio is very competitive with on average the largest unit size and equivalent complexity to other leading players. It is also worth noting that the interests in ten refineries BP has divested since the merger with Amoco had characteristics significantly worse than the current portfolio. This reflects our sustained strategy over the last decade of upgrading our refining portfolio.

The graph on the right shows utilization changes between 2008 and 2009 based on the simple calculation of crude throughputs divided by nameplate capacity. There is a reasonably good correlation between portfolio quality and utilization, as you might expect. For BP, the dark bar is after correcting for increased utilization from the restoration of Texas City. The bottom line is that in a market like this, relative quality translates into relative business performance. So we are well positioned to compete, even during prolonged downturns in the refining cycle, provided we can get the cost efficiency of the portfolio into the right place. Our current focus in refining is therefore on performance, and not portfolio high-grading.

Where our refining portfolio is not sufficiently margin capable to be competitive, we are making appropriate investments. We have built a coker at Castellon, and are planning to upgrade both Toledo and Cherry Point with more product quality capability. The largest single investment we are making is at the Whiting refinery.

Our Whiting Refinery Modernization project provides an excellent example of how investment in refining quality can leverage value, even in very challenging margin environments.

The Mid-West is an attractive market in that it is deficit product. However, today Whiting is a large refinery running sweet crudes with limited flexibility in a market close to the Canadian border. That location could give Whiting access to a wide range of low cost heavy crudes both from Canada and the Gulf Coast, but today it is not configured to process them.

The project involves repositioning Whiting to be able to run much more heavy sour crude oil, including Canadian extra heavy oil. It involves a new crude distillation unit, a 100kbd coker, world scale hydrotreating and sulphur recovery, and improvements in infrastructure. It is about half-way through, on track and on budget and is due on-stream in 2012.

The line at the bottom of the chart shows the indexed historical profit performance of the MidWest Fuels Value Chain against the Mid West refining margin, on a similar basis to the R&M line I showed you earlier.

The wide green band at the top of the chart shows where the value chain would be with a modernized Whiting for a range of light-heavy differentials. As you can see, based on this range, there are multiples of historic profitability available to the Mid West Value Chain but accessing these takes considerable investment. The upgrade of the refinery will allow it to run a flexible and most likely lower cost slate of crudes, and will ensure enhanced margin capture through integration within the Mid West Fuel Value Chain. Because Whiting is 15% of our total refining capacity, this upgrade will constitute a material increase in the overall profitability of R&M. Finally, and very importantly, this upgrade enables full integrated margin capture for BP in

any future E&P access to more Canadian heavy oil, irrespective of where the rent is captured in the upstream/ downstream chain.

Turning briefly to the International Businesses, the focus on quality also applies. As with refining, a process of high-grading has positioned them well to compete in today's challenging markets. This is particularly true in Petrochemicals.

The sale of our bulk Olefins & Derivatives business, Innovene, back in 2005 has left us with a select, advantaged Petrochemicals portfolio, concentrated in the growth markets of Asia. Our Aromatics and Acetyls business enjoys leading global market shares & technologies, whilst the start-up of our SECCO Olefins and Derivatives complex south of Shanghai in 2005 has significantly extended our scale and reach within the region. Growth in these businesses continues to be robust, and compares well against the competition. In 2008 we brought on-stream an expanded Zhuhai PTA plant, in 2009 we added 30% to the cracker at SECCO and in 2010 will bring on a new Acetic Acid plant in Nanjing.

Our Lubricants business is one of the most successful in the industry, again built on the fundamentals of leading product technologies, efficient blending, premium brands and strong customer relationships. The Global Fuels businesses also enjoy excellent brands and customer relationships.

The International Businesses are particularly exposed to growth markets, with about 40% of their capital employed in the growing markets of China, India, Russia, Eastern Europe, the Pacific rim and Latin America.

We expect the International Businesses to contribute to grow margin share over time.

I have now covered the performance potential we see in Phase 2. Beyond simply delivering an overall competitive performance, it will come from the areas of cost efficiency, portfolio quality and integration, and delivering margin share growth.

Finally, I'd like to focus on what you can expect in terms of investment levels before summarising.

The green bars on this chart are net investment into R&M - i.e. the level of capex less divestment proceeds on a pre-tax basis. The blue dotted line is depreciation, and the black line is capex.

What you can see is that since 2006 cumulative net investment has been on average about in line with depreciation. If you include the divestment of Innovene in 2005, then it remains well below depreciation.

It is important to realise that as we focus on portfolio quality we are effectively moving capital from less core assets into those key to competitive success, while net investing at broadly the level of depreciation.

For 2010, this is also true despite a headline capex number of just below $4bn including the major investment in Whiting. Longer term you should continue to expect net investment of marginally above depreciation, depending on the quality of the investment opportunities.

This means that, other than price effects on working capital, we expect to hold capital employed essentially flat. With our plans to grow profitability we are targeting to improve returns. If you add the potential performance improvement I have indicated to our delivery in 2009, it is not too hard to see post-tax returns of approaching 10% even in 2009 conditions. It is this sort of absolute performance which we must now strive to deliver.

So finally, to summarise…….

A lot has been achieved in R&M in the last two years and I am very proud of the team who have delivered it. We have closed the competitive gap two years ahead of our original plan and delivered approaching $5bn per annum of underlying performance improvement. We have achieved this in parallel with improving our safety performance.

The market will remain extremely challenging and the only place to stand is one of quality. Our portfolio has been materially high-graded since 2000, and we will continue to focus and strengthen the portfolio to compete effectively, both in a relative and absolute sense.

We have identified the next phase of performance improvement over the next two to three years, totalling a pre-tax opportunity of over $2bn per annum.

This will come from cost efficiency through better execution, a focus on increasing quality and integration of the operations, and growing our margin share.

Specifically, we aim to:

- ensure safe and reliable operations remains our no.1 priority
- reduce cash costs to below 2004 levels a large part coming from improving the refining portfolio breakeven to 2009 conditions
- improve the portfolio quality and integration of Fuels Value Chains, focusing on advantaged assets and completing the modernization project at Whiting
- continue margin share growth, particularly in the International Businesses, and
- ensure that net investment remains at or just above depreciation

Through this I am confident we have a business able to be highly competitive, deliver returns above cost of capital, and make a sustainable contribution to group cash flow and dividend.

Let me now hand you back to Tony…….

Tony Hayward: Group Chief Executive

Thanks Iain. Let me summarise the key points from today's presentation.

Our goal over the next few years is to realise the latent potential of our asset base by improving the efficiency and effectiveness of everything we do, whilst at the same time maintaining our priority of safe, reliable operations.

In E&P we are pulling through a strong list of projects to deliver an annual average production growth rate of 1-2% out to 2015 and we see increasing potential to sustain growth to 2020. At the same time we have established a new centralised developments organisation with accountability for all major projects. We expect this to be a catalyst for significant improvements in capital efficiency through standardisation, organisational efficiency, stronger capability and faster learning. There is also the potential to realise large capital savings by drilling the best well in every basin. We have already made progress on reducing production costs and we will maintain that momentum through activity choices and better management of the supply chain.

In R&M we will focus on driving efficiency, quality and integration as we continue to realise the potential of our refinery network and restructured fuel value chains. We have plans to return costs to below 2004 levels and are targeting break-even in refining in a similar environment to last year.

What does this all mean for our financial framework?

In 2009 we essentially balanced cash inflows and outflows at $60/bbl despite much weaker than expected refining margins and North American gas prices. Clearly the improved performance in our underlying business added significantly to our cash flows.

We therefore ended the year with gearing at the bottom of our 20 to 30% target band - a good outcome.

Looking ahead, we expect to be able to continue to balance cash inflows and outflows even if conditions are equally challenging

This will allow us to continue to invest at the right pace to efficiently grow the company and to meet our dividend commitment to shareholders. Capex for the Group is expected to be around $20bn in 2010.

And so to summarise…..

Our strategy remains unchanged – but we are now embarking on a new phase to realise the potential of the portfolio built over the past decade. We have considerable scope to pursue sector leadership, particularly in costs, capital efficiency and margin quality.

In the Upstream we will focus on cost and capital efficiency to deliver profitable growth. In the Downstream we will drive further efficiencies and a focus on quality and integration.

We will maintain our disciplined approach to Alternative Energy and we will continue to unlock corporate efficiency through a culture of continuous improvement.

The future looks challenging. It always does. But we have emerged from 2009 in great shape and with a renewed confidence and determination. We can see the prize and we believe we are well positioned to capture it.
We would now be happy to take your questions.