2008 Strategy Presentation: 27 February 2008

Tony Hayward: Group Chief Executive

Ladies and gentlemen good afternoon and welcome to our 2008 strategy presentation – it's great to be with you here in the City – and to those of you joining by web or phone we look forward to meeting you in person in the coming months.

Before we start, may I draw your attention to this cautionary statement.

I became CEO ten months ago, so today is my first strategy presentation in this role. It is also a great opportunity for you to hear from my new executive team. No doubt some of you know them well already, but I have alongside me: Byron Grote CFO, Andy Inglis Head of Exploration & Production, Iain Conn Head of Refining & Marketing, Viv Cox Head of BP's Alternative Energy business and Bob Dudley, the CEO of TNK-BP. Also in the audience are John Mogford the newly appointed global Head of Refining and Steve Westwell my Chief of Staff and Sally Bott our head of HR.

Our chairman Peter Sutherland had also wanted to be with us today but he is attending an important meeting on behalf of BP with the President of Mexico. Working together in this way is proving hugely beneficial to BP.

I think its fair to say it's been a pretty eventful first year - as I said at the time of the 4Q results three weeks ago, 2007 was a year some of us were very pleased to leave behind. Having said that the last six months have seen a lot of things begin to go BP's way. We have begun to stabilise our operational performance, to resolve many of the issues we faced in the US and to create strategic clarity on the future. In 2008 we expect to begin to build on that operational momentum and start to convert it into financial momentum in the second half of 2008 and into 2009 and beyond.

The purpose of our strategy review today is two-fold. To describe in more detail how we are going to close the competitive gap with our peers and to outline for you the long-term growth potential of BP. Our plan to close the competitive gap includes:

- Restoring revenues in both the upstream and the downstream.
- Addressing the issues of greater consistency across our operations, reducing complexity and controlling costs; and
- Transforming and refocusing our downstream business to restore its performance

Regarding BP's long-term growth potential:

- In Exploration & Production we have a strong track record and an excellent, market-leading resource base. Indeed, on current planning assumptions we now believe we can sustain longer term production above four million barrels of oil equivalent a day out to 2020 with no new access or new discoveries. Based on our track record we would expect to do better than that.

- In Refining & Marketing, we are going to further develop our manufacturing portfolio and continue our investment into growth markets, such as China, where BP is one of the two leading foreign oil investors.
- And in our Alternative Energy business we are creating equity value for BP, by investing in the technologies for a future low carbon economy.

We plan to present for just under two hours, there will then be plenty of time for Q&A and the opportunity to chat informally afterwards.

Let me begin with the overall trading environment. There's probably not much I can say about oil prices that hasn't already been said – they remain volatile and difficult to forecast – historically prices have been cyclical and we see no reason to believe that has changed. Over the last five years the trend has been steadily upwards and it seems likely that prices will be supported at higher levels on the downside of the cycle than in the past.

The upward trend has been supported by very strong demand growth from the non OECD world a trend that seems likely to continue as nearly one billion people make the transition from a rural way of life to an urban one over the next decade. Other factors are also playing a part – for example the increasing mismatch between sources of supply and centres of demand and the perceptions of geopolitical risk. Taking everything into account it is our view that there appears to be support for oil prices above $60 per barrel for the next few years – most likely in the range $60-$90 per barrel. We are using $60 per barrel as a central assumption for financial planning but recognising the long-term cyclical nature of oil we will continue to test long-term investments at a wide range of prices, both lower and higher.

Turning now to gas, this slide compares US Henry Hub gas prices with WTI and residual fuel oil prices since 2003 and looks at potential future market prices through to 2011.

Natural gas traditionally trades at parity with residual fuel oil but as oil prices have risen US gas has traded at a material discount to residual parity. The discount in 2007 set all time records.

The impact in Europe and Asia has been much less significant, in part because gas contracts in those places tend to be indexed to oil.

History would suggest that, in time, inter-fuel competition will tend to equalise prices. However, that could take a while as we don't see much evidence in the forward markets that gas prices will tighten significantly.

Our long-term gas assumption relative to $60 is $7.50 a million cubic feet, and we will continue to test projects on a wide range of prices.

As you are aware, BP has significant US gas production and would benefit if US gas prices strengthen. There would be between $2-$3 billion of additional operating profit if US gas prices traded at parity to residual fuel oil today.

In addition to volatile oil and gas prices our E&P business faces a number of challenges.

Sector inflation remains significant at around 12% per annum for capital spending and at around 6% per annum for operating spend. We expect that service sector tightness will continue for the next few years although capacity building should provide relief in some specific areas. We will continue to offset some of this inflation through a rigorous focus on supply chain management and discipline on capital costs.

Resource holders are increasingly seeking a greater share of rent. In places such as Venezuela, Bolivia, Kazakhstan and Russia we have seen a shift towards increased participation. Taxes are also rising. Since 2002 BP has seen tax increases in the UK, Trinidad, Latin America, Russia and more recently Alaska.

Further evidence of the increasing pressures facing the industry are seen in much greater competition at the point of access. Bid prices are escalating in established basins as licensing rounds become increasingly competitive. It is, however, still possible to access large acreage positions at low cost in unproven basins. BP has achieved this recently in Pakistan and Colombia.

Despite these challenges BP has had notable successes in securing new access during 2007 and we continued our track record of exploration success.

Going forward we expect cost escalation to continue at least over the medium term until supply and demand fully rebalance. We also believe that some of these developments represent a more fundamental shift in our industry that will continue to require us to respond in a different way to the past. You will see evidence of this response as we outline our strategy today ---- in increasing investment into exploration and access, in a greater focus on reciprocity and partnerships, in a disciplined effort to control costs, in a greater focus on the application of technology and in the development of our low carbon businesses.

Turning now to the outlook for our downstream business.

If anything, refining margins are more unpredictable than oil prices with margins reaching unprecedented levels over the last few years. These recent margin peaks have largely been caused by refinery outages and the consequence of hurricanes.

Going forward it seems likely, that margins will be higher than in the last 15-20 years. This is because of the erosion of structural spare capacity and clean product specs reducing operational flexibility. But there are also other forces that will put pressure on margins including substantial new capacity planned from 2009 onwards, the growth of renewables and advanced biofuels, and a growing gasoline-distillate production imbalance versus demand trends.

Taking all this into account we have based our planning assumptions on near term margins similar to the last three to four years, and a more moderate margin structure in the longer-term.

Let me now move on to give you an overview of BP – where we stand right now – the changes we are making and the actions we are taking to restore our competitive performance.

Let me begin with safety.

2007 saw further improvement in our overall safety performance. Over the last eight years our safety performance measured by Recordable Injury Frequency Rate – the standard measure of safety in our industry has improved three-fold. As you can see on this chart our performance is amongst the best in our industry.

Notwithstanding this track record our intense focus on process safety continues. We are making good progress in addressing the recommendations of the Baker Panel and have begun to implement a new Operating Management System across all of BP's operations. Integrity related incidents have fallen significantly over the last three years and oil spills of more than one barrel continue a strong downward trend.

Safe and reliable operations remain our number one priority.

A key focus in restoring the performance of BP is to ensure that we have much greater consistency in our operations and a much more rigorous application of BP standards across our global operations.

In 2003 we established a Projects Academy at the Massachusetts Institute of Technology and at the same time developed a Major Projects Common Process to be applied uniformly and consistently across all of our upstream projects. Over the last five years this programme and approach have made an enormous impact on how our projects are executed. The Academy which is proprietary to BP has now trained almost 200 of our senior project managers and is recognised throughout the industry. More importantly we are seeing significant benefits in helping projects meet budget and schedule. Andy will talk in more detail about how this is working in places like Azerbaijan, Trinidad, Angola and Egypt.

Based on the success of the Projects Academy we established an Operations Academy at MIT early last year. It has already met with significant success and is beginning to redefine operations leadership in BP – to date almost 80 of our senior operations managers have started a six week course spread over 18 months. In parallel we have begun to implement a new more rigorous Operating Management system across all of BP's operations. This is designed to ensure that across the world BP's operations look, feel and perform the same. Over the course of the next three to five years we are determined to transform our core operations to be amongst the very best in the industry.

Part of this programme has been an extensive recruitment effort – over the last two years we have recruited nearly 2000 additional engineers, including senior operations managers to strengthen our team and bring an external perspective to BP. We have also increased our graduate recruitment which is now running at more than 750 graduates a year, up from less than 300 three years ago.

The final element we have changed significantly this year is a much stronger link between performance and reward. There is now a much greater focus on individual performance coupled with greater differentiation on how people are paid.

Regarding performance we have already made substantial progress towards restoring operating momentum in our core businesses, much of which we shared with you a few weeks ago.

In Exploration & Production in 2007 we started up nine projects, including the delayed Atlantis platform in the deepwater Gulf of Mexico. We continue to expect the Thunder Horse project to start production before the end of this year.

At our US refineries, we have restored Whiting to available distillation capacity of more than 300 thousand barrels per day and expect it to reach full crude capacity during the first half of this year. At Texas City, we have successfully recommissioned the three units necessary to allow restart of the remaining crude distillation capacity. The final sour crude unit is mechanically complete and it is expected to be fully operational later this quarter. This is a major milestone. By mid-2008, we expect most of the margin capture capability at the Texas City refinery to have been restored.

We are also working to reduce complexity and cost within the organisation.

We have announced a number of changes to create a fundamental shift in how BP works. These are designed to simplify the organisation, improve productivity, enable consistent execution and focus on business performance.

BP now comprises just two business segments – Exploration & Production and Refining & Marketing. Alternative Energy is a separate unit within Other Businesses and Corporate. This will simplify both our corporate governance and decision-making.

Our objective is to reduce the corporate overhead by between 15 and 20%. We are starting from the top with fewer layers of management and a smaller corporate infrastructure. We have reduced the number of Executive Directors from six to four and the number of Group Vice Presidents by more than 10%. By the end of 2008 we will have reduced the number of senior positions from more than 630 to around 550. All our corporate functions will have a simplified and smaller structure and will be managed centrally to drive standardisation, increase capability and prioritise spending.

At the same time we are strengthening front-line operations through a programme of restructuring that will also deliver benefits through cost reduction - for example in our US retail business and our North Sea and North American E&P businesses.

We expect an overall headcount reduction of around 5,000 by the middle of 2009 in addition to the 9,500 relating to the franchising of our US convenience retail operations. Some 50% of this reduction results from the streamlining of high cost head office functions. A further 40% is in the Refining & Marketing business and the final 10% in the Exploration & Production business.

Overall restructuring costs are around $1 billion in 2008. We expect to see material benefits in 2009 and beyond.

Technology is pivotal to both today’s performance and our longer-term growth.

We are successfully developing leadership positions in many areas, focusing on those offering the largest prizes.

Our approach is to conduct major field trials, implement at scale and transfer know-how.

Field trials of innovative seismic acquisition and processing technologies continue to allow us to see opportunities before others and underpin our long-run exploration track record.

In the well completion area, we have almost doubled the production rates of Azeri producers using open-hole completion techniques and this capability has already been transferred to Angola. You will see examples of the application of technology throughout our presentation today.

In partnership with key players we continue to pursue a long-term commitment to scientific research. Our research organisation manages 14 major university programmes around the world with a total investment of $50 million in 2007. These are substantial multi-million dollar programmes often conducted over many years. For example, the Energy Biosciences Institute at Berkeley is now fully operational with an endowment of $500m; we agreed to open a Clean Energy Commercialisation Centre in China; we also have long-term energy research programmes across the US, the UK and in Russia.

Our combined Research, Development and Technology spend has increased by an average of 15% per annum since 2003. This is underpinned by growth in both the long-term technology areas, such as bioscience and conversion and also by growth in technology for our core business. These include advanced petrochemical processing and the flagship programmes of E&P.

Before I ask Andy, Bob, Iain and Vivienne to take you through their respective businesses in detail I want to spend a moment reflecting on why we are confident about the future.

In E&P that future is based on the strength of our resource base. Over the last few years we have focused on a new wave of access, securing new opportunities in Algeria, Oman, Libya, Colombia, Pakistan, Canadian heavy oil and coal-bed methane. In Russia, with TNK-BP, we have a unique position in one of the world's most prolific hydrocarbon provinces.

Net resource additions in 2007 amounted to one billion barrels of oil equivalent. Our 2007 reserve replacement ratio was 112%. Excluding the effects of year end prices this ratio would have been 130%. This is the 14th consecutive year that we have reported a reserve replacement ratio of over 100%. This resource base underpins production potential of around 4.3 million barrels per day by 2012 at our planning assumption of $60 per barrel. We are now confident we can sustain production above four million barrels per day through 2020, without any future exploration success or new access. We expect to do better than this by continuing to gain new access and confidently anticipate further exploration success.

In Refining & Marketing we have a clear plan to close the performance gap progressively over the next few years. At the same time we are pursuing a number of longer term growth opportunities in manufacturing and in expanding markets like China.

In Alternative Energy we are working steadily to advance a number of significant strategic growth options. Two parallel concerns are emerging across the world: climate change and energy security. Government policy is already being adapted and we are responding. Our Alternative Energy business is turning these challenges into significant opportunities.

So that's the summary, now over to Andy to take you through the plans for E&P.

Andy Inglis: Chief Executive Exploration & Production

Good afternoon. It is a great pleasure to have the opportunity to review our upstream strategy after a year of leading E&P, a year of both challenges and successes.

As Tony has said, in 2007 we continued to face the industry challenges of sector inflation, rising government take and competition for access. However, in E&P it was a successful and important year.

Our top priority continues to be the safety and reliability of our operations. In 2007, we saw both an improvement in personal safety and increased reliability.

This contributed to our production delivery within the guidance of 3.8 to 3.9 million barrels per day, despite prices being higher than we had assumed.
We built operational momentum as the year came to an end, and we expect that underlying momentum to continue into 2008.

We are focused on improving efficiency throughout the Upstream. I have reduced the size of my top team by 30% and we have restructured our businesses in the North Sea, Colombia and Venezuela, North America Gas and the Gulf of Mexico. We are strengthening our system of incentives for delivering continuous performance improvement. We are also increasing our focus on the efficiency of our cost base, upgrading and increasing our supply chain staff by over 30% to lead this effort.

Many people in the financial community are concerned that the business model of the international oil companies is dead. I disagree. We are excited and confident about the future and over the next few minutes I will explain why.

I will look at exploration and access, then focus on the impact technology is having on the pull-through of resources, the resulting medium-term production guidance and then the picture out to 2020.

First, exploration and access. We saw significant success in both exploration and development-led access in 2007. In exploration drilling, we continued our track record with a number of significant discoveries. Notable successes were:

- A major new reservoir beneath the currently producing Shah Deniz field in Azerbaijan, estimated to be one of the largest discoveries in the world last year;
- Satis and Taurus Deep in the Nile Delta in Egypt;
- Three discoveries in Angola – Miranda, Cordelia and Portia - to bring the total number of discoveries in deepwater Block 31 to 15; and
- Isabela in the Gulf of Mexico, building our resources around the Nakika hub.

Further, we secured licence extensions in the Cerro Dragón block through PAE and in West Siberia through TNK-BP.

Reserves replacement demonstrates the sustainability of the business and is the ultimate test of exploration and technology strategy. Our reserves replacement was 112% in 2007, and averaged 104% over the last five years. This is our 14th consecutive year that our reported reserve replacement ratio has been over 100%. It is worth noting that our 2007 reserve replacement was achieved despite year-end prices approaching $100 per barrel. Had prices in 2007 been in line with 2005 and 2006 year-end prices, our reserve replacement ratio would have been 130% in 2007 and 108% over the five year period.

Reserves were added across the portfolio. About 45% were from TNK-BP, broadly in-line with the resource position. Important contributions also came from Latin America, Alaska, the Middle East, North America Gas and the Gulf of Mexico. 77% of 2007 reserve adds were oil and 23% were gas.

It was also a good year for access. In Oman, we are planning the development of the K/M fields using the same tight gas technology we are currently deploying at our Wamsutter field in the US. In addition, we successfully accessed new exploration acreage in Libya, the Gulf of Mexico and Colombia.

- In Libya, we signed a major exploration and production agreement with Libya's National Oil Company, covering both onshore and offshore acreage;
- In the Gulf of Mexico, we bid on and have now been awarded 171 leases; and
- In Colombia, we accessed acreage in the deepwater Magdalena Cone.

In 2008, we expect to invest around $900 million in core exploration, reflecting the continuing depth of our exploration portfolio.

Just a word about our deal with Husky which brought new access to Canadian oil sands. We have always said that we were interested in participation in the Canadian oil sands on the right terms, meeting our criteria for quality. Our joint venture with Husky shows that we do not need to pay a premium to gain access to these resources. The deal creates an integrated upstream/downstream business based upon Husky's upstream assets and BP's mid-west US downstream position.

The deal is expected to close this quarter and we expect the first phase of development to be sanctioned this year with joint investment to 2012 estimated at around $3 billion. First production is expected in 2012, building to more than 200,000 barrels per day gross by the end of the next decade, with an expected 40-year production plateau.

The partnership brings together assets, skills and technology of two excellent companies and is the ideal opportunity for BP to expand our unconventional oil position and complements our heavy oil positions in Alaska and Venezuela.

Our upstream strategy is focused on exploration in the world's most prolific hydrocarbon basins, building leadership positions in these areas, and managing the decline of existing producing assets.

Successful execution has resulted in the growing resource base we have today – 60 billion barrels. In 2007, we added 2.4 billion barrels to our resources – 800 million barrels from the drill bit and the remainder from improved recovery, revisions and net purchases. We converted 1.6 billion barrels of non-proved resources to proved, and produced 1.4 billion barrels, expanding our total resource base by one billion barrels. We also extended our total resources and reserves to production ratio from 41 to 43 years – whilst maintaining a proved reserves life of almost 13 years.

20% of the resource base is non-conventional – that's LNG, tight gas, coal bed methane and heavy oil – all resources with a long, stable production profile. This resource base is expected to grow and the reserves to production ratio to lengthen further with the addition of Canadian heavy oil, and with the Oman access. We have developed world-class technology and expertise in building and operating this resource position – deepwater, complex waterfloods and tight gas. Through our partnership with Husky, we expect to build additional capability in heavy oil.

The result of our strategy is evident in the focused, large-scale positions we have built around the world. The chart shows the 14 Strategic Performance Units we deploy to manage the E&P business.

The materiality of these positions enables us to do two things –

- First create and execute technology plans linked to the resource progression challenges within a specific geographic area; and,
- Second, apply a standardized programme approach to projects within a location to drive project execution efficiencies – as evidenced in Azerbaijan, Trinidad, Angola, and Egypt.

So we have a strong and growing resource base. The conversion of resources to reserves and ultimately production is heavily dependent on the application of technology. We are clear on the key technologies we need to focus on and have created 10 flagship technology programmes, each with the potential to deliver more than one billion barrels of reserves.

The scale of our resource base means technology can access a significant prize. A 1% improvement in recovery factor on the original hydrocarbons in place equates to 2 billion barrels of additional reserves. E&P research and development spend is expected to increase by almost 50% in 2008.

Technology, the key elements of which we hold proprietary, is not only a core part of how we are optimising our incumbent positions, it is also becoming a distinctive enabler for new access. Our entry into Oman, Libya and Pakistan all reflect the technology capability that we bring to bear.

Building on the success of the Projects Academy at MIT, we have now signed an agreement with Rice University to lead a consortium of universities in helping us develop an industry leading learning offer for all petrotechnical staff in E&P. The resulting programme will help us attract talent and grow their skills.

Our track record in reserve replacement underpins solid near-term production growth, which reflects the operational momentum created at the end of 2007. This is expected to continue through 2012 when we expect production of around 4.3 million barrels per day, assuming a $60 oil price.

This outlook is underpinned by Russia, North America Gas, the North Sea, and Alaska – our big base businesses – and by growth from areas such as Angola, the Gulf of Mexico, and Asia Pacific.

In practice, of course, reported production will be impacted by production sharing contract effects.

Last year, we gave production guidance, on the basis of a $60 outlook, and we reaffirm that guidance. At $100, the annual production impact is expected to be between roughly 100 and 170 thousand barrels per day in the near term, reducing to around 100 thousand barrels per day to 2015 compared with the $60 outlook.

As you can see, you cannot apply a simple rule of thumb to PSCs across multiple years. Profit tranche movements occur on a contract-by-contract basis based on the cumulative performance of the contract over time. The timing of cost recovery and profit tranche movements is directly related to price and investments levels, as well as other performance drivers associated with that PSC.

Most importantly, the chart also shows that the effect diminishes with time, as the tranche changes are complete and the PSC reverts to the residual flat production share.

Though reported production is affected by high prices, it is worth remembering that the reduction results from the benefit of increased cash flow and improved economics on the contract.

Near-term production capacity growth is underpinned by the delivery of projects in the Gulf of Mexico, Angola, Trinidad, Azerbaijan, Egypt, and Asia Pacific. In 2007, we have demonstrated a strong track record of project delivery, doing what we said we would do and successfully starting up nine projects – Rosa, Greater Plutonio, Kizomba A Phase 2, Atlantis, King Sub-sea pump, Mango, San Juan coal bed methane expansion, Cashima and Denise.

In 2008, we have already seen first oil from the first phase of Kizomba C. In addition to this, a further 8 projects are expected to start up – Saqqara and Gas supply to Damietta Train 1 in Egypt, Kizomba C Phase 2 in Angola, North West Shelf Train 5 and Angel in Australia, and Thunder Horse, Tangguh and ACG Phase 3, in the Gulf of Mexico, Indonesia and Azerbaijan respectively.

Between 2007 and 2009 we expect to bring on-stream more than 25 projects, and to progress a further 30 projects. By 2009, over 650 thousand barrels per day of production is expected to come from projects starting up between 2007 and 2009.

The improved reliability of our operations, our track record of project delivery, and the application of technology to our vast resource base give us growing confidence in the longer term future. Our current resource base is expected to be capable of sustaining production above four million barrels per day from 2009 through 2020, at $60. This is without assuming any future exploration success from our existing portfolio or new access. New access opportunities or exploration success are likely to provide upside to this projection.

We have a deep slate of geographically diverse projects for the future. We expect these projects to contribute around 1.3 million barrels per day by 2015 and to sustain this to the end of the next decade. The outlook is further sustained by additional projects and ongoing development of our existing operations. An increasing proportion of these projects is expected to develop unconventional resources – tight gas, coal bed methane, LNG, and heavy oil – all of which have long, sustained profiles.

I would now like to give you a little more detail about some of our key assets – our Strategic Performance Units – to demonstrate why we have such confidence. I am going to cover eight of our SPUs which together accounted for almost 60% of 2007 production and more than 80% of 2007 cash flow.

Bob Dudley will speak to TNK-BP.

First, Alaska, which continues to be an important foundation stone in our portfolio. Our intent is to maintain a competitive and material business to 2050, through:

- Managing light oil decline;
- Accelerating infrastructure renewal; and
- Unlocking heavy oil and gas resources.

We are making good progress in increasing recovery factors. In 2008, we expect to start implementing bright water treatment technology at scale and to move forward with the light oil LoSal™ technology trial at Endicott. These technologies are expected to improve oil recovery from fields under waterflood.

Advanced drilling technologies like multi-lateral wells have also been developed and used in Alaska. BP drilled Alaska's first five-legged well in 2005 and is expected to drill Alaska's first six-legged well in Greater Prudhoe Bay this year. We are also developing ultra-extended reach drilling technology to access the Liberty field which lies eight miles offshore from the North Slope.

Alaska also holds a large heavy oil prize with over 20 billion barrels in place of which over two billion barrels gross are currently estimated as recoverable. In order to unlock this substantial resource, we have established a dedicated team to steward the development of technology. We are making good progress in field testing technologies, such as drilling a CHOPS well (that's Cold Heavy Oil Production with Sand) in 2008. These new heavy oil technologies will help develop similar resources in Venezuela and Canada.

In North America, we are the second largest holder of natural gas reserves.

Our intent is to sustain the business at greater than 450 thousand barrels of oil equivalent per day through safe and reliable operations, maximizing margins and progressing two billion barrels of oil equivalent into proved reserves over the coming decade.

Almost 60% of our resources are in tight gas – a source of long-life production in a stable environment.

Tight gas technology is an integral part of our North America Gas strategy.

For example, use of advanced fracture techniques in horizontal wells has unlocked significant value. At Noel, this has improved production performance 30-fold compared to early vertical wells.

Ultimately the tight gas technology programme supports other challenging gas resources such as coal bed methane and shale gas, and other businesses like Oman and North Africa.

The scale of our resource base in North America enables level-loaded operational plans, resulting in the ability to have long-term supply arrangements. In 2006, we contracted more than 60 rig years which allowed our suppliers to provide new high performance rigs and job security for the crews. This drives continuous improvement in operational performance. And we have leveraged our new global frame agreement for automation to reduce costs in new projects such as San Juan. Active supply chain management across all of our businesses is a key priority in 2008.

The North Sea. BP has been active in this basin for more than 40 years. It remains a material business that delivers good margins and substantial cash flow for the group.

The key to success in the North Sea is to deliver safe and reliable operations and progress resources within the operating radius of our established hubs. To achieve this goal we have restructured the organization around these two priorities.

We will have fewer organisational units, with reduced management layers and consolidation of the onshore non-technical support activities. We expect around 350 positions will be removed with no impact on the workforce offshore or on the plant-based positions at onshore sites.

Application of technology is also key to enable progression of our significant resource base. Proprietary optimization techniques from our FieldoftheFuture™ programme have already boosted production capacity in fields such as Schiehallion by 5%.

Turning to our growth areas, in the Gulf of Mexico, our priorities are clear – grow revenues near term through the safe start-up and ramp-up of Atlantis and Thunder Horse; grow our resource position through successful exploration and access; and advance key deepwater technologies to exploit that resource base.

We are on track in executing that strategy. We have established a highly competitive position through our extensive lease-holding and track record in exploration. Our exploration success over the last seven years has created a deepwater resource position of 1.2 billion barrels. We added to that with the Isabela discovery last year and renewed our lease holding position with the award of 171 leases in the 2007 sales.

Near-term production growth is expected to occur through the ramp-up of Atlantis and the start-up of Thunder Horse in 2008. Last quarter, we started up Atlantis, the deepest moored floating oil and gas production facility in the world. The water depths and reservoir structure make Atlantis one of the most technologically challenging developments undertaken by BP. Since start-up, we have been operating with facility reliability averaging greater than 90%. We are on track to deliver Thunder Horse production by the end of 2008, and are achieving the near-term milestones consistent with that target.

In addition to Thunder Horse, we are progressing six BP-operated and two partner operated projects: Atlantis North Flank, Tubular Bells, Isabela, Greater Puma, Dorado, King South, Great White and Ursa/Princess waterflood.

I have spoken in the past about our success in subsalt imaging. In the Gulf of Mexico, we are also advancing key deepwater subsea production technologies. In 2007, we successfully delivered the world's deepest multiphase subsea pump at 5,500 feet water depth with the largest step-out from host facility of over 15 miles. The King subsea pump is expected to increase production and resource recovery, extending the economic life of the field. We think a significant portion of our deepwater resource base could benefit from this breakthrough in technology.

In Trinidad & Tobago, we have successfully built a world-class LNG business, growing gas production from around 340 thousand barrels of oil equivalent a day in 2003 to 450 thousand barrels of oil equivalent a day in 2007.

The goal for this business is to sustain long-term gas supply at current levels, underpinned by our large proven reserves base and the efficient development of new fields. To achieve this, we rigorously manage our base production and drive efficiency into field developments by using standardized concepts.

Mango and Cashima successfully started up in 2007, following Cannonball in 2006. Both projects were delivered within budget and ahead of schedule. The fields used the same design for platform, pipeline and wells, copying Cannonball. This has resulted in significant savings and a reduction in cycle time from 34 months to 26 months.

These developments are also benefiting from the deployment of technology from within BP. One example is sand control completion technology, which allows us to deliver high production rates in our gas wells. Of the top 10 largest producing BP-operated gas wells in the world, five are in Trinidad.

Angola represents another area where we have built a highly competitive, unique resource position with interests in four of Angola's principal deepwater blocks – 15, 17, 18 and 31, as well as the Angola LNG project.

2008 is expected to be a year of tremendous growth with the ramp-up of Greater Plutonio and the phased start-up of Kizomba C. Our production is expected to increase from around 140 thousand barrels per day in 2007 to more than 200 thousand barrels per day in 2008.

Production delivery is underpinned by high productivity wells; in some cases in excess of 50 thousand barrels per day. Production delivery is enhanced through real-time reservoir monitoring, downhole flow control technology and Advanced Collaborative Environments. These are all key components of our FieldoftheFuture™ agenda.

Exploration success continues, with the 'Portia' oil discovery we announced this month. This brings the number of discoveries in Block 31 to 15.

The scale of this resource base now allows us to apply a standardized design for future developments. This 'programme approach' of standard repeatable developments should lower costs and improve cycle-time and also bring safety and reliability benefits.

In September 2006, we took many of you on a field trip to Azerbaijan enabling you to see the transformation that has occurred there.

The resource base in Azerbaijan is world class with two giant fields ACG and Shah Deniz containing over 25 billion barrels of oil equivalent. We are currently producing around 700 thousand barrels per day gross from ACG. With the delivery of ACG Phase 3 this year, we expect the field to ramp up to over 1 million barrels per day gross.

In 2007, we drilled the deepest well in the Caspian at more than 7,300 metres and made a high pressure gas condensate discovery below the existing reservoirs of the Shah Deniz field.

We continue to explore in the region.

And finally Egypt, where we have been operating for 40 years, producing almost 40% of the country's oil production and investing almost $14 billion. While our operations have historically centered around oil production in the Gulf of Suez, we are now building a significant gas business, both domestic and export, from our growing resource base in the Nile Delta.

We have discovered more than 600 million barrels of oil equivalent over the last four years. We recently announced our discovery at Satis and our exploration drilling programme continues in 2008.

Our innovative Multi Azimuth seismic technique, which enables us to look at the Nile Delta reservoirs from many different angles, is giving us better definition of prospects, leading to more efficient development planning of discoveries. We are also leveraging High Pressure High Temperature technology from the Gulf of Mexico in our drilling operations and subsea developments.

Taurt, due onstream later this year, is establishing our standard subsea solution for the Nile Delta, learnings from which are being extended to a programme approach for future Pliocene and pre-Pliocene developments such as Raven.

In concluding the review of our upstream portfolio, I want to say a brief word about our growing LNG business.

As you can see, we have a diverse and growing portfolio of LNG supply positions around the globe.

In 2007, BP supplied almost two billion cubic feet per day of gas to LNG plants in Trinidad & Tobago, Australia and Indonesia – almost a quarter of the group's total gas production, and second only to Shell. This year, we expect to begin supplying gas to the SEGAS Train 1 plant in Egypt.

BP participated in liquefaction projects with net BP output of 9.2 million tonnes per annum in 2007.

Sanctioned projects are expected to add over four million tonnes of net capacity to the portfolio, an increase of almost 50%. The Tangguh and North West Shelf Train 5 projects are expected on-stream within the next 12 months. Angola is expected to come on-stream in 2012.

Prospective projects, the second phase of Egypt and Tangguh Phase 2, are expected to add a further three million tonnes per annum of net capacity by 2015.

On the basis of the sanctioned projects alone, we would expect gas supplied to LNG plants to increase by over 600 million cubic feet a day by 2012. Prospective projects are expected to add a further 400 million cubic feet a day by 2015.

We also have market access through ownership interests in over 400 million cubic feet per day of re-gasification capacity in Bilbao and Guangdong, and access to a further 625 million cubic feet per day of capacity in the US (that's Cove Point and Elba Island) and the UK - the Isle of Grain.

Market access allows BP to market and trade LNG on its own account from equity supply in Trinidad and third party contracted supplies in Egypt and Oman.

Turning now to the investment associated with our activities. 2007 organic capital expenditure was $13.7 billion including $200 million of capex previously attributable to the Gas Power and Renewables Segment. This excludes $500 million related to the asset swap with Occidental in 2007.

We expect our investment level to total around $15 billion in 2008 including around $500 million relating to the Gas and Power business. This excludes the accounting treatment related to our Sunrise deal with Husky.

The projected capex increase for 2008 reflects continued industry inflation and investment to support continued growth. In 2007, the industry capex inflation was around 12% of which we were able to offset roughly 4%. We expect this inflation level to broadly continue into 2008.

Also shown on this chart is TNK-BP's and Pan American's capital investment. Neither is reported as BP's capital expenditure, but both are important components of our overall economic investment. Both of these operations are biased towards brown-field development of onshore oil and gas. Pan American and TNK-BP are able to fund investments from their own cash flow. On this basis, total E&P investment in 2007 was around $16 billion, and we expect that to increase to around $17.5 billion in 2008.

So to sum up: 2007 was an important year as we built operational momentum into 2008, while continuing to meaningfully execute our strategy.

We continue to see the benefits of a focused exploration strategy with important new discoveries in 2007 and significant new access. We have a large and growing resource base, which increased by one billion barrels in 2007.

We continued our track record, reporting 14 consecutive years of proved reserves replacement of 100% or more.

Long term, we expect to sustain production above four million barrels per day to 2020 as a result of the resource position we have built, and the progression of that resource into production through the application of technology and the execution of a deep slate of quality projects. If our track record of exploration and access success continues, we will do better than that; and, I believe we will.

Finally, near term, we expect production to grow to around 4.3 million barrels per day by 2012 at $60 per barrel underpinned by major projects that are on track, steady performance from TNK-BP and strong operational performance.
So, as I stated at the beginning, we are excited and confident about the future.

Thank you for your attention. Now over to Bob.

Bob Dudley: President and CEO, TNK-BP

Thank you Andy, and good afternoon ladies and gentlemen.

I am very pleased to be invited here on behalf of TNK-BP to report on progress in 2007 and to share our view on the future.

First a brief note about the numbers. The financial results I will refer to are in accordance with US GAAP and the reserves statistics are on a PRMS or formerly the SPE basis, which is consistent with other Russian oil companies. Therefore, there will be differences between the numbers I outline and BP's reported share of TNK-BP's results.

To start, a reminder of the context. TNK-BP is a Russian company owned 50% by our Russian investors – Alfa, Access and Renova – and 50% by BP. It is Russia's third largest oil company and globally a top ten private sector oil producer with average daily production approaching 1.8 million barrels of oil equivalent per day, representing about 18% of Russia's oil production. These figures include the contribution from Slavneft, which TNK-BP owns jointly with the Gazprom subsidiary Gazpromneft.

Upstream, TNK-BP's proved reserves at the end of 2006 were close to nine billion barrels with our top 20 fields holding 80% of these reserves. Our top 10 fields deliver two thirds of our production.

Downstream we operate five refineries in Russia and Ukraine and own 50% of Slavneft's Yaroslavl refinery, which together account for about 13% of Russia's refining. This refining capacity, together with the 1,600 retail sites working under both the TNK-BP and BP brands, makes TNK-BP a truly vertically integrated company.

Today we employ more than 60,000 people in Russia and Ukraine, of which only approximately 190 are expatriates coming from BP.

2008 marks the fifth anniversary of the company, and it would be appropriate to reflect on the four promises made to the Russian Government at the outset in February 2003.

Firstly, production growth. Since day one, we have grown production at an average of 6.5% per year, which is 2.5% higher than the Russian average. We indicated last year that production would flatten in 2007, and TNK-BP liquids production adjusted for the 2006 Udmurtneft divestment was essentially flat. Given a 10% drop in Slavneft liquids and with gas volumes negatively impacted by the warmer winter and a major plant outage, total boe production was down around 3%.

On reserves, we continued our track record. Having replaced an average 133% of production from 2004 to 2006, our latest view on 2007 reserves replacement is well over 100% and we expect to release the final figures in the next month. Since day one, we have also accessed 60 new licences with around five billion barrels of new resources for the future, at a cost of less than 10 cents per barrel.

Technology transfer into TNK-BP continues. 3D seismic is delivering success, with seven new satellite accumulations proved in the Samotlor area. In exploration, we have discovered 1.7 billion barrels of resources during 2004 to 2007, an average of 400 million barrels per year. In the mature fields, infill drilling and reservoir management continue to deliver the expected potential. To give you an idea of scale of the activites in 2004 we performed our first sidetrack and this year we expect to deliver over 330. We have tripled our annual drilling programme in this time and this year we expect to drill more than 500 wells. This increased focus on active reservoir management is slowing production decline and adding new reserves.

The company continues to improve corporate governance, increasing transparency and providing minority shareholders with the ability to share in the profits of the business. We have paid out more than $500 million in dividends to minority shareholders.

TNK-BP is committed to good corporate citizenship, and to playing its full role in Russia's development. Since we commenced operations, we have paid more than $68 billion dollars in taxes, duties and excise. The company is also the country's second largest corporate donor, after Gazprom, with over $100 million spent on external social programmes, including cultural restoration projects and support for the 2014 Winter Olympic Games in Sochi.

In addition, since the beginning of 2004 we have invested over $1 billion in HSE-related projects, including our Associated Gas Utilization Program, land remediation of more than 1,700 hectares, and replacement of 2,600 km of pipelines.

We are pleased with the results since the formation of TNK-BP but Russian companies, like those elsewhere, face challenges going forward, so let me now turn to how TNK-BP is tackling some of the issues facing Russia's oil and gas sector today.

We continue to focus on growth in production in the long term. TNK-BP has mature producing fields and they remain world class resources. We are confident that by applying technologies we can extend the track record of improving recovery from existing fields while bringing forward competitive new greenfield production and reserves. I will return to this in a moment.

Russia is no different from other states in recognising the importance of its hydrocarbon resources, and Russian State companies have continued their growth as major competitors. TNK-BP has responded by demonstrating its willingness to work within the framework and priorities set by government and by entering into successful ventures with both Rosneft (in the development of the giant Verkhnechonskoye field in East Siberia) and Gazprom (with the Sibur gas processing joint venture). We continue to explore further co-operation with Gazprom in accordance with the agreement reached in June last year over future ownership of the Kovykta field. We understand what we can contribute to Russia and we believe TNK-BP has much to offer as a partner to the Russian government and to the state companies.

Organizational and industry capability remain challenging as increasing investment stretches supply chains and skills. TNK-BP is responding by working with suppliers to encourage improved performance and capability, including ground-breaking long-term master agreements in key supply sectors and Russia's first major tender for long-term drilling and workover rigs. This has resulted in three to five year drilling and workover contracts totalling over $3 billion. These are innovations in Russia. Internally, we hired more than 500 graduates last year and are supporting 18 projects to improve university education across a wide range of disciplines, including major support for petroleum-related masters programmes with world-class teaching.

The level of compliance and scrutiny for the industry in Russia continues to increase as the government seeks to raise standards. Since 2003, TNK-BP has focused closely on improving governance and regulatory compliance, delivering improved workplace safety and tackling legacy HSE issues such as remediation and associated gas flaring.

Finally, in 2007 the investment environment has grown more challenging as margins are pressured by the revenue based tax regime and high inflation. Cost management remains a challenge. As elsewhere, Russia continues to see substantial oilfield inflation – around 14% versus general Russian inflation of 11% between '04 and '07. We are working to minimise its impact through supply chain management initiatives, including the use of long-term contract strategies, demand aggregation and development of relationships with selected suppliers. It is important that the fiscal framework continues to support investment and I believe the government recognises the industry is calling for reform. The introduction of Mineral Extraction Tax relief for Eastern Siberia and for heavy oil are examples of this, as is our co-operative approach with the Tyumen Oblast opening the UVAT area to develop new and more remote fields.

I touched on technology earlier but let me provide the mature examples of the contribution it continues to make. The first is around the mature Samotlor field: TNK-BP's biggest asset with approximately 55 billion barrels of original oil in place, and one of the world's largest oilfields. Here 3D seismic, coupled with extended reach drilling, has successfully proved seven satellite structures close to the field, with five currently on line, accessing 60 million barrels of oil equivalent of proved reserves. Another nine targets have been identified, and we intend to test two more this year. These increased step-outs allow us to access more reserves.

Additional recovery potential was a key component of the TNK-BP original investment case. Although our existing fields are mature, their scale creates a large recovery prize. This slide shows the additional potential of our top five fields where a 1% increase in recovery equates to another 750 million barrels of oil. It is being delivered. In these fields alone, we have progressed 3% of reserves adding around two billion barrels of oil equivalent through the advancement of technology. Given the scale and experience to date, we would expect at least an additional one to two billion barrels of oil equivalent from these mature fields to be recoverable with the pace dependent on the investment environment.

Our latest example of technology driving field developments is in the Russkoye field. This is the largest undeveloped oilfield in the Yamal-Nenets region with estimated recoverable reserves of somewhere between 1 and 2.5 billion barrels of oil equivalent. The field was discovered in 1970 with previous attempts to develop the reservoir not being successful due to low productivity from vertical wells. Fluid samples indicate this field qualifies for full Mineral Extraction Tax relief, given the oil's viscosity.

Four pilot schemes are being fast-tracked to evaluate the reservoir through application of both hot and cold water injection as well as steam injection. A current deployment of horizontal well drilling technology in a pilot area has yielded encouraging results with two wells flowing at more than 1,000 barrels of oil per day. Options for commercial development are being evaluated.

I have talked extensively about our Upstream business but vertical integration is an important factor in both the Russian oil industry and in TNK-BP's success and is core to our future plans.

In Downstream, our activity includes continued leverage of 2006 upgrades at the Ryazan refinery, which now produces European spec products and we have plans for further investment at both Ryazan and Saratov.

In Retail, we have continued focus on our three primary high margin / high growth markets - Moscow, St. Petersburg and Kiev, by growing our two brands – TNK and BP. Over the next four years we intend to upgrade and re-brand up to 150 recently acquired sites, underpinning our Moscow market share of over 20% and growing our Kiev market share to around 15-20%. We have recently opened our first retail sites in St Petersburg.

We plan to increase associated gas utilisation across the company through investment of more than $1 billion over the next five years and expansion of our Sibur gas processing JV with Gazprom. Finally, in partnership with other investors, we are entering the power business in a joint venture that is expected to eventually generate about 2,400 megawatts and secure demand for 1.2 billion cubic metres per year of our associated gas in the Nizhnevartovsk area in West Siberia.

Vertical integration in Russia enables us to capture integrated margins throughout the value chain. It has allowed us to respond rapidly to changes in netbacks as refined product margins have increased at the expense of crude exports, and to capitalise on the potential of the Russian fuels market. If you have visited Moscow recently, you will know that the market has been growing rapidly in terms of both the volume and quality of products.

TNK-BP's marketing EBITDA has grown by greater than 50% annually over the last three years. This flexibility will be key going forward, as Russia's energy markets continue their dynamic expansion.

Going forward our strategy remains unchanged. In 2007, TNK-BP invested about $3.5 billion excluding acquisitions. In 2008, we expect this to rise to around $4 billion as investments in major projects and downstream increase.

Investment in the base business in 2008 is expected to be around $2.4 billion and major projects spend just over $1 billion. This compares with 2004 where base spend was around $900 million and almost no major projects spend.

Throughout we intend to continue our long-term programmes to improve HSE and integrity performance, particularly in refineries, pipelines and gas utilization.

We now have over $15 billion invested in the major projects shown on this slide. We expect to begin to see a production contribution from these post 2009. Therefore, in 2012, we expect production to be around 1.9 million barrels per day with additional contribution from the Uvat, Verkhnechonskoye and Kammenoye projects. Future potential production comes from the wealth of development opportunities we have including the Bolshekhetskiy, Russkoye and Talinskoye fields.

Ladies and Gentlemen, Russia attracts much media coverage, but the underlying picture for TNK-BP is one of a consistent track record of delivery and an established presence as a respected and successful Russian company.

We have a very strong resource position which we intend to maintain and produce with improved recovery rates in the future. We now have five years of experience and shared learning across our asset base and know how and where to best apply our enhanced technologies. We are expanding our market positions and extending the scope of our business to capture the opportunities which this dynamic market provides. And we take care to keep delivering on those original four promises to the government.

For these and other reasons, I remain confident that our next five years can be as fruitful as these first.

Thank you and now over to you Iain.

Iain Conn: Chief Executive, Refining & Marketing

Good afternoon. I am pleased to talk to you about the performance and strategy of the Refining and Marketing Segment.

I have now been in the job for nine months. It has been a very challenging time. As Tony has said with our fourth quarter results, R&M's competitive performance has been very poor.

My main focus today is on closing the performance gap relative to the competition. I want to give you a clear overall sense of the size of this gap, how we intend to close it and by when, and what you can expect to see as we deliver that outcome. At the end I will touch briefly on some of the future prospects and opportunities for the portfolio in the longer term.

I have set three goals for Refining & Marketing:

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

On the first of these, we have been focusing a huge amount of our efforts on improving safety performance through reduction of risk, the significant investments underway in integrity management, and the implementation of our Operating Management System. Safety remains our top priority in everything we do, and in 2007 we delivered continuous improvement across a wide range of safety and environmental measures. In our US refining system I believe we are making progress in addressing the recommendations of the Baker Panel, particularly around process safety.

Now I would like to turn to our financial and operating performance and what we are doing about it.

This chart shows the underlying ROACE of BP's R&M segment relative to the competition at actual prevailing conditions. In order to compare performance, earnings and capital employed have been adjusted for acquisition and accounting effects such as goodwill, asset revaluations and LIFO to RC profit differences.

As you can see, on a returns basis, BP has materially underperformed the competition since 2003. This has been particularly exacerbated by a period of high refining margins because BP is relatively underweight in refining and as you are clearly aware, we have had major parts of our refining system down over the last three years.

In the last five years, BP's refining Global Indicator Margins (GIM) have averaged $7.50 a barrel. While high relative to the last 15 to 20 years, recent history is probably as good a guide as any for the short to medium term outlook. I will therefore use this margin environment as the basis for describing the size of our performance gap. This slide depicts that earnings gap.

Adjusting to $7.50 a barrel GIM, based on comparative returns, we estimate that the total difference in R&M pre-tax earnings relative to our leading competitors has grown to about $5.5 billion in 2007. This is represented by the whole of the pie chart on this slide.

We estimate about a third of this earnings gap arises from the difference in the mix of business and geography of BP's Refining & Marketing portfolio. Mix and participation differences will take time to address and will depend on the choices we make over the longer term.

This leaves about two thirds, or about $3.5-4.0 billion pre tax which we judge relates to the current poor underlying performance of Refining & Marketing relative to the competitor set.

It is this competitive performance gap of $3.5-4.0 billion which we are committed to close, and our goal is to achieve this over the next three to four years.

While a large part of the gap results from the poor availability of the Texas City and Whiting refineries and their associated repair costs, significant aspects of our poor performance arise from lower refining availability generally, a complex and fragmented approach to our marketing execution, and uncompetitive overhead and support costs.

In the following sections, I will describe these specific issues of performance and what we are doing about them.

Let me start by describing the R&M portfolio and provide you with some additional granularity relating to returns.

I think of the R&M segment as being made up of two principal components as depicted by the pie charts on this slide

- Firstly, the operation of Fuels Value Chains which are highly integrated businesses comprising refining, logistics, supply, and marketing of ground transportation fuels, with strong links to our convenience retail activities. These fuels value chains are concentrated in six geographies, and together represent about 80 percent of our capital employed.
- Secondly, International Businesses - which are only partially integrated and to varying degrees have separate business models, customers, offers and brands. Included here are our aromatics and acetyls businesses, lubricants and the global fuels businesses comprising Aviation, Marine and LPG.

Briefly looking at each in turn, you can see that in the marketing and supply half of the fuels value chains, returns are low. Marketing businesses are highly competitive and one might expect low returns, but here we have considerable capital employed, and some parts of the business have been performing particularly poorly. We are already in action on this point as demonstrated by our announcement in November that we will exit the company operated convenience retail channel in the US and move to a franchise model. In other geographies we will be ensuring that participation in operated or company-owned convenience delivers adequate returns.

In the refining half of the value chains we have a similar picture. However, the issue here is largely about earnings - we have had significant parts of our portfolio down, and our overall availability performance is not where it needs to be, particularly in the US. In 4Q 2007, about 20% or about half a million barrels a day of our refining capacity was down along with highly valuable upgrading capability. Here the focus is on restoring our missing revenues and then continuous improvement.

The International Businesses deliver quite good returns in aggregate. However, their model can result in participation in too broad a geographic footprint and a focused participation strategy is key.

This gives you a sense of the portfolio and some of the specific business challenges. Finally, BP's overhead structure and business service delivery model in support of our businesses has become too complex and burdensome, contributing to underperformance across the portfolio. This needs to be and will be addressed.

I would now like to turn to what we are doing about our underperformance.

I have five priorities to improve the performance of R&M.

It starts with a focus on safety and progressive delivery of our Operating Management System.

Another foundational component is to deliver a major shift in behaviour - we have become too complex, bureaucratic, heavy on process and insufficiently business-like. This is something Tony has talked to and I won't address further here.

The three other priorities are.

- Firstly, restoring missing revenues and delivering earnings momentum. The main focus area here is refining, and in addition to bringing Texas City and Whiting back to full capability, it also involves moving to top quartile operating performance.

- Secondly, business simplification. Here the focus is the simplification of our marketing businesses and the way we run them. We will move to a less fragmented and more joined-up approach to our fuels value chain businesses, focus down the footprint and optimise the channels of trade of our marketing businesses generally.
- And third, repositioning our cost efficiency. Having simplified our businesses, their footprint and their processes, the focus here is to deliver a way of managing and supporting them which is significantly more efficient and effective.

Before describing our actions in these areas in more detail, I want to give you an overall sense of how much of the performance gap could be closed as we address them, and when you might expect the improvements to occur.

This slide depicts the last three priorities for performance improvement I have just described, and when we expect the benefits to accrue.

We estimate that approximately half of the performance gap will be closed through restoring revenues in refining, starting with the restoration of Texas City and Whiting, and then an ongoing improvement programme focused on safety, availability and our competitive performance relative to Solomon benchmarks.

In the case of business simplification, we judge that about 20% will be closed with our focus on improved investment choices, margin capture, reduced costs and better returns from a simplified more focused portfolio.

Finally, the remaining 30% is planned to come from improved cost efficiency within our overheads and business support services.

Because to some extent they are inter-related, the exact split of performance improvement between business simplification and repositioning our cost efficiency represents our current judgement.

Overall, in terms of phasing, we would expect about half of the performance improvement to be delivered in the next two years, the most significant part being from restoring revenues in refining. The remaining improvement, also about half, would be delivered in 2010 and 2011 and would be mainly from the more structural interventions associated with business simplification and repositioning our business services and overheads.

You will be able to monitor our progress through improved refining availability, improving marketing performance, an overall reduction in headcount and a reduced cost base. The ultimate test of course will be an overall improvement in profitability and returns that I am confident we will deliver.

You now have the overall picture of our view of the performance gap, and the main strands of our recovery plan.

I'd like to backfill and provide you with a little more detail on our performance and actions in the three principal areas of intervention, starting with Refining.

This slide shows on the left the historical and expected Solomon availability of our refineries. The light green line is the availability of our three poorest performing refineries on this measure – Texas City, Whiting and Toledo. The dark green line shows the availability of the rest of the portfolio. The rest of the portfolio is already approaching the top quartile level for individual refineries of about 97%. On the right of the chart, there is a graph showing the estimated pre-tax RCP lost opportunity from these three US sites in a $7.50 GIM world. This reached nearly $2 billion in 2007. Clearly, as we restore availability in refining, the actual improvement we see will depend upon the prevailing margin environment.

We will underpin our performance improvement in refining by a clear focus on process safety and integrity management, control of work, good project and turnaround execution and improved performance management generally. We are also ensuring we have the right leadership capability, both at site and portfolio level.

Specifically for the three sites highlighted here, at Toledo in 4Q we completed the largest turnaround in the site's history and should now see material improvement in availability going forward.

At Whiting, having restored available distillation capacity to over 300 thousand barrels a day at the end of 2007, we are on track to restore full sour crude capability and flexibility to the site in the second quarter.

At Texas City, the remaining distillation capacity is now in the final stages of commissioning, with the main units gas tight and ready to receive crude oil. We're completing the final checks including instrumentation and expect to begin crude feed to the units in the next week or so. A material part of the heavy sour upgrading capability is scheduled to be returned in the second quarter as the first two trains of the Residual Hydrotreating Unit (or RHU) come on stream. This would restore most of the margin capture capability of the site. In the second half of 2008 the remaining RHU train and ultraformer should complete the restoration of the site's flexibility and capability.

Now turning to Business Simplification in our marketing businesses.

Firstly, fuels value chains.

This map shows highlighted in green the geographies of our integrated fuels value chain businesses. We are organising ourselves into six strategic performance units around these geographies:

In the US we have two – the West Coast and Mid West, each with two refineries. Texas City is less fully integrated but as a world scale advantaged manufacturing site with key pipeline connection it provides material additional support to the robustness of the East of Rockies position and is a stand-alone performance unit in its own right.

In Europe we also have two key positions. Most of our integrated activity occurs in the wider Rhine envelope, involving six refineries, built upon the excellent position we acquired from Veba Oel. We also have a small but competitively advantaged integrated position in Iberia.

Outside of the US and Europe we have a good position in Southern Africa, and lastly we will be operating our integrated positions in both Australia and New Zealand as a single value chain.

As I said earlier, the vast majority of our R&M earnings come from these positions and they will be a major focus for our simplification and integration efforts. Performance improvements in these businesses are expected to come from a more integrated approach through:

- Improved margin management across the whole value chain from crude into the refinery to product sales to customers
- Eliminating duplication and interfaces up and down the chain to improve our cost efficiency
- Concentrating and simplifying our supply activities and the interface with our oil trading organisation
- Making better investment choices across the chain rather than in small sub-optimised units
- And developing world class supply chains through investment in the right infrastructure

The other part of our Business Simplification efforts focuses on simplifying our channel participation strategies. There are two main strands to this:

- In Convenience Retail, moving to a franchise offer in the US and removing the duplication of overhead and marketing support of our operations in the West Coast and East of Rockies. In the rest of the world, convenience participation will be subjected to tough hurdle rates.
- Secondly, whilst maintaining the global coverage that is important to our customers, we can also reduce complexity and costs in the Lubricants and Aviation businesses. We will achieve this by greater use of distributors in Lubricants in about 20 countries, and by reducing our presence in Aviation by exiting about 20 countries out of a total of 100.

When the actions in the fuels value chains, convenience retail, lubricants and aviation are taken together, we estimate that approaching 2,000 jobs will be eliminated in the first phase of simplification of our marketing businesses. This is in addition to the reduction of 9,500 payroll positions in US convenience retail as site staff move to franchisee employment.

Turning to the repositioning of our overheads and cost efficiency:

As we re-organise the business segment around integrated positions, at the highest level we have reduced the number of strategic performance units from 40 to 15.

We need to support the different business models and these units as efficiently and effectively as we can. We will do so through a much simplified central structure and common business service delivery platforms, covering customer service, accounting services, procurement operations, HR operations and IT support. We intend, subject to appropriate consultation, to centralise our business services within a very small number of centres globally – probably three or four – in cost-advantaged locations.

The integrated value chains will be the principal business model around which we will design our business services, with other parts of our marketing operations being forced to share the same services rather than seeking to adopt their own solutions. This will not be simple to do, and it starts with simplifying the business itself. The prize however could be significant and many of our competitors are ahead of us in this area.

As an example, in Europe BP has over 80 business service centres, and the goal would be ultimately to move to one.

In the matter of overheads, we are deploying the vast majority of segment level activities into the 15 units directly so that they have more visibility and control of their true costs. We are also simplifying our planning, finance and performance management organisation.

As part of all this, I estimate that relative to the middle of 2007 we will have reduced the senior management of the segment by about 15% by the end of this year. This is obviously before some of the longer wavelength structural changes. I would expect similar reductions at more junior management levels.

Finally, we have much more to do in the matter of Procurement and Supply Chain Management. We are in the process of further centralising authorities for the purchase of key product and service lines to enable full leverage of our scale.

I have now been through the main focus of my presentation - the size of our competitive performance gap, how we are thinking about it, how we intend to close it, and by when. As you can see, this is not just about Texas City and Whiting refineries and not just about refining.

Such a change over a number of dimensions will not be easy to execute, and undoubtedly we will encounter unforeseen factors to contend with as we proceed. It is also clear that we have multiple sources of performance improvement to go after in the next few years and I am personally confident that with the whole team pulling together, we will succeed in closing most if not all of the gap.

I thought it would be appropriate before ending to talk to some of the prospective strategic points of emphasis and opportunities within R&M beyond fixing the current performance.

This slide shows the organic capital expenditure within the segment and compares planned 2008 levels to 2004.

The important thing I want to emphasise is that going forward our investment bias will be manufacturing led, not marketing led.

We will be concentrating on upgrading within our refining portfolio and focused growth of our petrochemicals footprint as the manufacturing mainstays of our business.

In refining, the main focus will be on upgrading investments in the US and Europe, and the potential for new greenfield opportunities mainly in Asia. In petrochemicals, having refocused our participation mainly into the Aromatics and Acetyls businesses, with Olefins and Derivatives growth only in Asia, we would see this business continuing to expand focused on the growth markets of the world.

We will also continue to invest in our marketing businesses, but the focus will be on ensuring excellent returns and on making the right choices within our integrated positions.

I believe we have a portfolio of opportunities to invest in manufacturing which could sustain the shape of investment depicted on this slide for a number of years. Continuing to invest at this level would depend on our ability to turn around R&M's performance and begin to deliver more competitive returns and more material net cash flows.

Going into each geography in a little more detail, the main focus areas of this manufacturing-led investment are:

- North America, where the focus is on upgrading our refining portfolio and repositioning our northern tier refineries at Whiting and Toledo towards Canadian crude. On the West Coast, over time we will ensure we are investing to provide sufficient crude oil flexibility to maintain advantaged sites for a range of crude oil supplies.
- In Europe, we have completed the repositioning of the portfolio with the sale of Coryton and the acquisition of the minority share in Rotterdam. We have just installed new cracker furnaces at Gelsenkirchen, are currently building a new coker at Castellon and making some configuration adjustments to Rotterdam. Rotterdam is a large scale site in an advantaged location and highly connected into our Rhine value chain. A major set of opportunities exists to further upgrade this refinery, potentially involving a hydrocracker investment. We are currently expanding our Geel PTA plant, and there are opportunities also at our JV refineries.
- In Asia, the main focus to date has been growth in China through petrochemicals investments. BP is one of the two leading Foreign oil investors in China. The Group's exposure to China is anchored by Refining and Marketing. Our R&M investments have been growing at an average of 22 percent per annum over the last decade to total some $2.2bn at the end of 2007. We have expanded our Zhuhai PTA plant where we have just brought onstream the largest PTA unit in the world. We have plans for further PTA investments in Asia, and also to expand our acetic acid business in China through a new 500 thousand tonne plant at Nanjing. With our partner, Sinopec, we are currently considering the expansion of our world scale petrochemical cracker and derivative complex south of Shanghai.

I hope this gives you a flavour of some of our future manufacturing investment plans. However, the main focus today is clearly to fix our current performance and to close the competitive gap.

So, to summarise:

We have identified a competitive performance gap in pre-tax earnings in a $7.50 GIM environment of some $3.5-4.0 billion per annum.

We have plans in place to close this gap over the next three or four years so that by end 2011 we should be delivering much more competitive returns, and have the capability to produce material cash flows. No doubt there will be unforeseen challenges along the way, but I believe our actions are the right ones.

Beyond a foundation in safety and changing the culture within the segment, our actions focus on three areas

- Restoring revenues and operating performance, mainly in refining, which should deliver about half the improvement required.
- Simplifying our marketing businesses, which should deliver 20% of what is needed
- And repositioning our cost efficiency, which should deliver the remaining 30%.

The accrual of these benefits in each of the following four years are expected to have different phasing, with earnings momentum from refining up front and the more fundamental shifts in efficiency towards the end of the period.

In terms of job reductions other than at the retail site level, overall these actions within R&M are likely to result in approaching half of the 5000 job reductions announced recently, before including indirect effects within business services and other areas of BP arising from R&M simplification.

We have excellent marketing positions, customer relationships, technologies and brands. However, on their own some marketing positions would not be robust and our emphasis will be to ensure our business is always rooted in excellence in safe and reliable manufacturing operations, and that the fuels value chain business is run in an integrated way. We need to ensure that other marketing positions deliver good returns, and have an appropriately focused footprint.

BP has very good asset positions and excellent people. We also have material opportunities for the long-term.

Our job today is to close the competitive performance gap in the near term so that we can earn that future. I am personally committed to delivering that outcome.

Thank you.

I will now hand over to Vivienne.

Vivienne Cox: EVP Alternative Energy

Thank you. I am Vivienne Cox, EVP with responsibility for Alternative Energy.

You may remember that we established BP's Alternative Energy business at the end of 2005, with a low carbon power portfolio of solar, wind, hydrogen energy and gas-fired power. At that time we said we expected to spend $8 billion over 10 years.

Since the beginning of this year we have expanded our definition of Alternative Energy to bring in Biofuels and ventures in Clean Coal and Carbon Capture and Storage. We will manage this as a broad portfolio.

We will grow our established Solar and Wind businesses:

- In Biofuels and Hydrogen Energy businesses, we will focus on proving the business models; and
- We will incubate the new businesses like clean coal and carbon capture where neither the technology nor business models are proven at scale. However, these could represent material growth options for BP going forward.

We expect Alternative Energy to form a major component of the Group's corporate renewal agenda, as the demand for clean energy grows, motivated by policy and public demand. Why is an oil and gas company doing this? It's quite simple: alternative energy is expected to be a major part of the global energy mix in the future and energy is BP's business. Our portfolio of businesses is both good for today and creates material opportunities for the future.

For us, being successful in this space means being business-like. We will manage the portfolio as a corporate venturing entity and we will use equity value as our primary performance measure. Alternative Energy will have a separate advisory board and a distinct financial framework. I believe this is what it will take to be successful.

I'd now like to talk about the market context for Alternative Energy.

Of course there are those who say this isn't "Alternative" anymore, that this is mainstream. 'Clean Tech' is the most rapidly growing part of the Global Energy Market. Solar, Wind and Biofuels have been growing at more than 30% per annum since 2001. Primary energy demand has grown at 1.6% per annum.

And the level of investment has also escalated in recent years, to $117 billion in 2007; this is no longer a 'fringe' energy activity, and Clean Tech investment is expected to comprise at least 10% of total energy investment between now and 2030.

Growth will continue to be strong in the future. Solar, wind and biofuels are expected to outpace conventional energy growth by factors of five to ten.

The drivers of this growth are well-known; high energy prices, security of supply issues, renewables policy and public demand. In the policy area, renewable portfolio standards and transitional incentives are becoming tougher year-on-year and show no signs of softening.

In 2008, investment in this market is expected to be 15-20% higher than 2007, in spite of weaker economies and the credit crunch.

However, if government targets are to be met, the investment has to be much higher. Within the next five years the industry needs to be investing around $300 billion per annum and up $2-3 trillion by 2030. This sector is already material and will grow strongly.

I'd now like to focus on just two of the businesses in the Alternative Energy portfolio, wind and solar. Taking solar first:

Our investment in BP Solar is expected to double in 2008 allowing us to capture the growth in the solar market. We expect to grow by more than 60% between now and 2012 and aim to position BP Solar as a global top three player.

We cast, wafer and manufacture modules and have strong positions in on-grid and off-grid markets. Growth in the past two years has been constrained due to lack of silicon supply. However, we do now have secure silicon supply for 2008 and beyond.

Moving now to our wind business, in 2006 we had two operating wind farms in the Netherlands, with just 32MW of installed capacity. By the end of 2007 we had 372MW of installed gross capacity, in total enough to power at least 100,000 households. This includes the commercial operation of Cedar Creek in Colorado, one of the biggest wind farms in the US. So far we have invested $825 million in Wind since the launch of Alternative Energy, with a further $600 million planned for 2008.

We expect to grow at more than 80% per annum between now and 2010, well in excess of market. This growth is underpinned by our US onshore development portfolio of almost 15GW. This portfolio is one of the largest of all major US players. Development is underpinned by turbine coverage through 2008 and into 2009.

In addition, we are growing globally: we operate a wind farm in India at Dhule, with further Indian operations planned for this year, and are developing opportunities in China and elsewhere in Europe.

With a rapidly growing, new business the traditional performance measures such as ROACE or RCOP aren't the best representation of value. In this sector investors are looking for growth in equity value, as the best representation of long-term cash flows to shareholders. Our current view is that the equity value of Alternative Energy is between $5 and $7 billion at current market conditions.

We have used the valuations of a group of seven Solar peer companies to make this assessment – the market calculates the enterprise value as a multiple of the megawatts produced or as a multiple of revenue. Triangulating between these two different methods gives us a range of $2.1 to 3.9 billion.

Wind companies are valued according to the stage of development of the portfolio. Installed capacity is worth more than projects under construction or projects in development. There are several transactions to set market ranges and these lead to an estimated valuation of $1.8 to 2.1 billion.

At the end of 2007, we had $1.5 billion capital employed in wind and solar, demonstrating that focused, business-like investment in these businesses can create value. Of course the market is volatile, and these estimated valuations will go up and down – but we have considerable growth in both wind and solar and expect to be able to demonstrate growth in equity values. We expect to provide updates periodically to these valuations.

Finally, the Gas-Fired Power valuation is $1.2 billion based on internal DCF analysis. This is a business that is much more closely linked to our core BP assets. We have not valued the other components of Alternative Energy’s portfolio as they are still immature.

I would like to conclude with our forward priorities and investment in Alternative Energy.

BP has invested $1.5 billion in Alternative Energy since its launch at the end of 2005. We plan to invest c. $1.5 billion of capital and revenue into the portfolio during 2008, with flexibility to direct this investment according to where we forecast highest returns from more mature businesses and where we identify winning ventures. Our level of investment is consistent with our Alternative Energy launch investment commitment at the end of 2005.

For Wind, we intend to continue the build out of our 15GW portfolio in the US, and develop projects in India, China, and Europe. We expect to have 3GW gross capacity online by the end of 2010.

For solar we are expanding our manufacturing capacity to meet market demand, achieve our target sales of around 800MW with similar levels of production by 2010 and become a global top three player by early next decade.

For Biofuels, we intend to access advantaged land and assets for bioethanol production, deploy our trading capability and to continue to develop platforms for second generation biofuels, notably biobutanol.

We also expect to continue funding nascent biofuel technology development through our EBI programme in the US, with $500 million investment over 10 years.

We have recently announced a Hydrogen Energy project in Abu Dhabi, with our joint venture partner Rio Tinto. We expect to continue exploring carbon capture and storage projects globally, recognising that there is a lot of work to be done to ensure the right regulatory framework is in place to enable these projects.

In summary, I believe Alternative Energy offers excellent growth opportunities for the BP group. The current portfolio, comprising growing businesses and gamechanging options, positions the group well for the future in this expanding market space.

Byron Grote: Chief Financial Officer

Thank you Viv.

Let me begin with a little more detail about re-segmentation.

As Tony indicated, BP now comprises primarily two business segments. The Gas, Power and Renewables segment has been eliminated, and its gas businesses - natural gas liquids, liquefied natural gas, and marketing and trading - have been transferred to the Exploration & Production segment. Its other arm, the Alternative Energy business, has been established as a separate unit and held within Other Businesses and Corporate.

As a consequence, Other Businesses and Corporate has been redefined. It now consists of our growing Alternative Energy business, a wider spectrum of centrally directed corporate activities consistent with our forward agenda, and other business areas such as aluminium and shipping.

On this re-segmented basis we expect our annual charge for the expanded set of activities in OB&C of around $1.5 billion with an uncertainty range of plus or minus $200 million.

Restated historical data based on this organizational construct is now available on our website.

Turning to our investment plans for this year.

We are increasing our capital spending to reflect higher sector inflation and higher growth; we expect 2008 organic capex of $21 to $22 billion.

The level of disposal activity is expected to be lower than seen in the recent past. This guidance does not include the accounting related investments and disposal required associated with setting up our two joint ventures with Husky Energy.

I would like to now talk about our financial framework. Our long established framework has been to distribute to shareholders 100% of all free cash flow, in excess of that required for investment. And, we have had a progressive dividend policy, which means that we increase dividends in line with the underlying growth of the firm.

Under this framework, we have, over the past seven years, distributed over $91 billion to shareholders in roughly equal proportion between dividends and share buybacks.

The dividend per share in dollar terms grew at an annual average of 12% during the period 2001 to 2007.

Share buybacks of $46 billion, the majority of which has been funded by divestments, have reduced shares outstanding by 16% compared to year end 2000.

And we have maintained a consistent approach to gearing. We believe that a gearing band of 20-30% provides an efficient capital structure and an appropriate level of financial flexibility.

As I outlined in our fourth-quarter results, the broad principles of our financial framework remain, but changes to the business context have given us greater confidence in the future cash flows of the firm and have led us to rebalance the uses of this cash.

So what are those changes?

Firstly, as Tony has described, we hold a more positive view of the pricing environment, especially for oil.

The second factor is the growing momentum of our operations, which Andy and Iain have already highlighted.

The third reason is that our reduced equity base has made per share dividend increases more affordable.

So how have we adapted the framework to rebalance the uses of this cash?

- First, we are increasing investment to support future growth.
- Second, there will be no change in our approach to the level of gearing.
- And third, we are rebalancing our distributions between dividends and share buybacks and in line with this announced a step up in our dividend three weeks ago.

This diagram is a simple representation of the way in which we balance our sources and uses of cash under this framework by adjusting debt within our targeted gearing band and through the level of share buybacks.

Given higher organic capex, lower divestments and a higher dividend, the level of free cash flow available to be allocated to share buybacks will be less than would otherwise have been the case.

Nonetheless, we will continue to use share buybacks as a mechanism to return excess cash to shareholders when appropriate.

We believe this updated financial framework gets the balance right, with our confidence in greater expected cash flows from our strong asset base allowing us to both increase investment in the future growth of the company, and increase the dividend component of our distribution to shareholders.

On that note, I will now hand back to Tony.

Tony Hayward: Group Chief Executive

Thanks Byron. You've seen the plans for each of our businesses, let me very briefly summarise the key points before we take your questions:

We've reviewed our plans based on a more positive view of the environment and expect to invest on the basis of a wider range of prices in the future. We will always test to lower levels to ensure long-term sustainability.

We are taking action to close the competitive gap through a focused effort on our three priorities of safety, people and performance. We are determined to operate safely and reliably, to develop the capability of our people and to drive performance through restoring operational momentum. At the same time we are rigorously reducing complexity and cost.

In Exploration & Production we continue to see the benefits of our strategy. Our resource base, even as it stands today, underpins the potential to sustain production of at least four million barrels per day out to 2020. We will do better than this as we continue to pursue new access and deliver further exploration success.

In R&M we intend to close the performance gap progressively over the next few years – by restoring performance in our key refining facilities and by re-organising to operate more efficiently and optimise margin capture.

In Alternative Energy we will manage the business to grow equity value for BP, by investing in long-term strategic growth options in low carbon technologies.

Against this backdrop of greater confidence in a sustained higher price environment and in the ability of our businesses to deliver improved operational performance, we have adapted our financial framework. Increased capex will support growth – and a greater proportion of free cash flow will be distributed via dividends, with a continued but lower level of buybacks. In line with this and our confidence in the future we have just increased our dividend per share by 31% versus a year ago.

I hope that we have conveyed some of our confidence to you today.

On behalf of myself and my team thank you for listening; we're now very happy to take questions.