IAIN CONN Petrochemicals

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petrochemicals

Thank you Ralph.

Good afternoon / good morning.

I am pleased to be with you again, updating you on our progress in Petrochemicals.

In 2003 we continued to be one of the sector leaders in safety performance. We also maintained high levels of reliability in our operations, giving us the opportunity to capture what margin was available. This resulted in cash returns of 10% on our total average operating capital employed of $13bn.

2003 was a very tough year for Petrochemicals, and I am very proud of the team which delivered all this in the face of the combined challenges of high feedstock prices, energy costs, SARS, sluggish demand and a strong Euro.

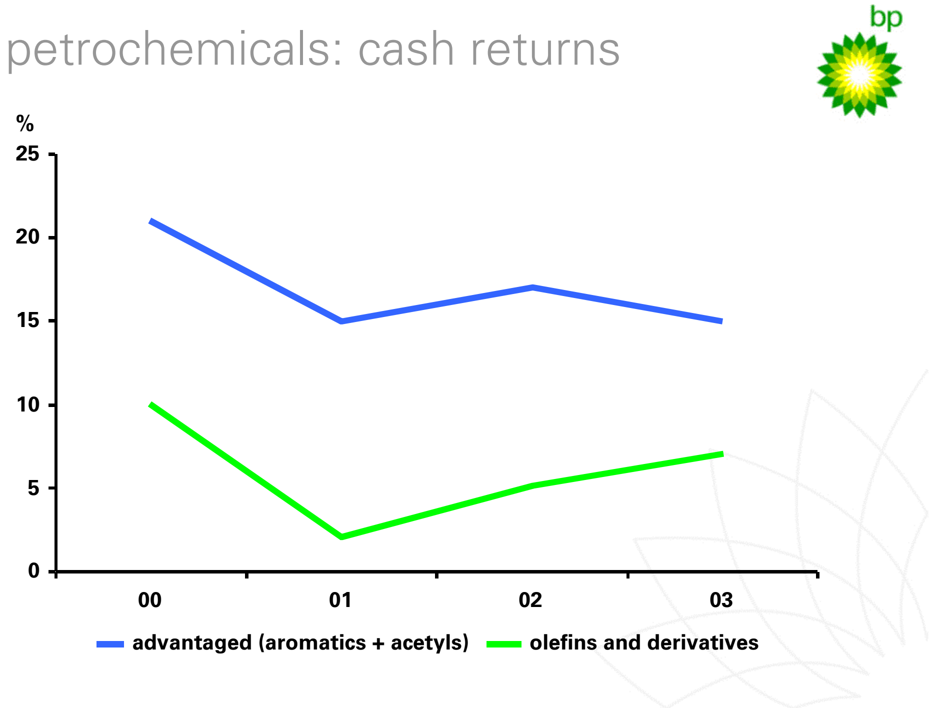
Whilst we have a relatively good Petrochemicals portfolio, within BP the Segment's overall performance is relatively poor. Earnings in 2003 were at comparable levels to those in 2000 despite over 25% production volume growth over the same period. It is imperative that we improve the performance of Petrochemicals and we cannot wait for the environment to help us.

With work begun by Byron, our management response has been to improve returns by 2006 through targeted investment into core products, portfolio action and performance improvement. However, within our seven core products, it is clear that there is material differentiation in terms of performance and therefore the management response required.

Today, I will therefore focus on outlining how our thinking has evolved and the actions we plan to take as we implement strategy in the context of important market trends.

I want to begin with cash returns. As John has outlined, we will now be using cash returns to illuminate performance of individual parts of the portfolio.

Petrochemicals: Cash Returns



This slide which John showed earlier, indicates the cash returns from what we are now referring to as our Advantaged Products (deriving from aromatics and natural gas chains and including our core products PX, PTA and Acetic Acid) and Olefins and Derivatives (which makes up the rest of Petrochemicals and includes the other core products Ethylene, HDPE, PP and Acrylonitrile).

Although the returns in Olefins & Derivatives have improved somewhat since 2001, I would like to explain why the Advantaged Products clearly have different cash returns to the rest of the portfolio.

Advantaged Products

advantaged products

- 40% of segment capital employed ($5bn)
- high growth, 2-4x GDP
- leading global market shares
- distinctive technology
- material exposure to Asia

segment capital employed refers to average operating capital employed

With respect to the Advantaged Products, these markets are very high growth and BP holds global leading shares along with differentiated technology. These positions exhibit comparable returns with the overall customer-facing activity of the Group.

They are material businesses - in total accounting for about 40% of Petrochemicals' capital employed, growing globally at 2-4 times GDP and self-funding, having delivered material cash flows back to the Group even in the recent 2000-2003 period - a very difficult time for global petrochemicals generally. You can think of these as the real heart of our portfolio.

BP holds a global leadership position in each of the three main products. We have approximately 20-25% of the global markets for PTA and Acetic Acid, and alongside ExxonMobil, BP is also the leading producer of Paraxylene, the feedstock for PTA manufacture. Together Paraxylene and PTA form a value chain integrated with our aromatics operations in refining.

BP has maintained technology leadership for PTA and Acetic Acid for about 20 years or more.

The combination of global leadership positions, distinctive technology, strong partnerships and continuous innovation have made BP the established leader in these value chains.

This gives us the confidence to invest at scale, to achieve advantaged returns relative to the competition and to provide our customers with the service and continuous improvements they need to compete in the onward applications of these products.

Olefins & Derivatives

olefins & derivatives

- 60% of segment capital employed ($8bn)
- moderate growth, 1-2x GDP
- low global market shares
- competitive but undifferentiated technology
- bias to Europe and US

segment capital employed refers to average operating capital employed

The Olefins and Derivatives businesses account for the other 60% of capital employed within Petrochemicals.

Olefins & Derivatives typically grow at roughly 2 times GDP with Acrylonitrile approximately keeping pace with economic activity.

The markets in which BP participates are more fragmented than the Advantaged Products and our overall global market share averages around 4-6%. The one exception is Acrylonitrile, in which BP has a global market share of 20% and leading technology.

In general BP has competitive technologies in Olefins & Derivatives but they are not particularly differentiated.

We view BP's position to be one of the better ones in the sector. Although our O&D portfolio is biased to Europe and the US, our crackers are on average well positioned on the cost-curves and we have growth opportunities in these businesses, notably through SECCO in China.

However, the market characteristics I have described combined with the large number of product grades and overall cost and complexity of optimizing the O&D system result in the disappointing returns we have seen in aggregate in these businesses - especially at a time of low economic growth and oversupply.

Now I'd like to turn to the Petrochemicals market context we face today. I am pleased to say, there is a little good news. As economic growth continues coupled with limited new investment in capacity, European and US utilization rates appear to be rising, albeit slowly. Beyond this, there are some other key market trends which provide further insight into our view of future opportunity and the performance response required.

Market Trends

market trends

- experience curve – margin erosion
- globalising product markets
- middle east gas feedstock advantaged at higher oil prices
- strong euro
- china – major driver of:
  - growth
  - price setting mechanisms
  - finished products exports

In Petrochemicals commodity markets, the "experience curve" tends to erode margins as participants pursue efficiency gains and compete for share. The response has generally been to seek scale economies, cost efficiency, distinctive technologies, advantaged feedstock, system integration benefits and products with lower competitive intensity. This has also been BP's experience.

Today there are four important factors which are influencing the markets beyond simple commoditization:

- Firstly, other than olefins which tend to be mainly regional, petrochemical product markets are now essentially global with all regions connected by product flows and arbitrage, whether of raw material or finished goods.
- Secondly, Middle East ethane feedstock has a cost advantage, especially at high oil prices, and is driving investment in Middle East polyethylene which is competing for share, particularly in Europe.

- Thirdly, the strong Euro is making life tough for European manufacturers as their revenues tend to be set by competing dollar-based product while their cost base rises.
- And finally, growth in China has become a major driver in terms of overall volumes and utilization rates, marginal arbitrage tonnes and price setting mechanisms.

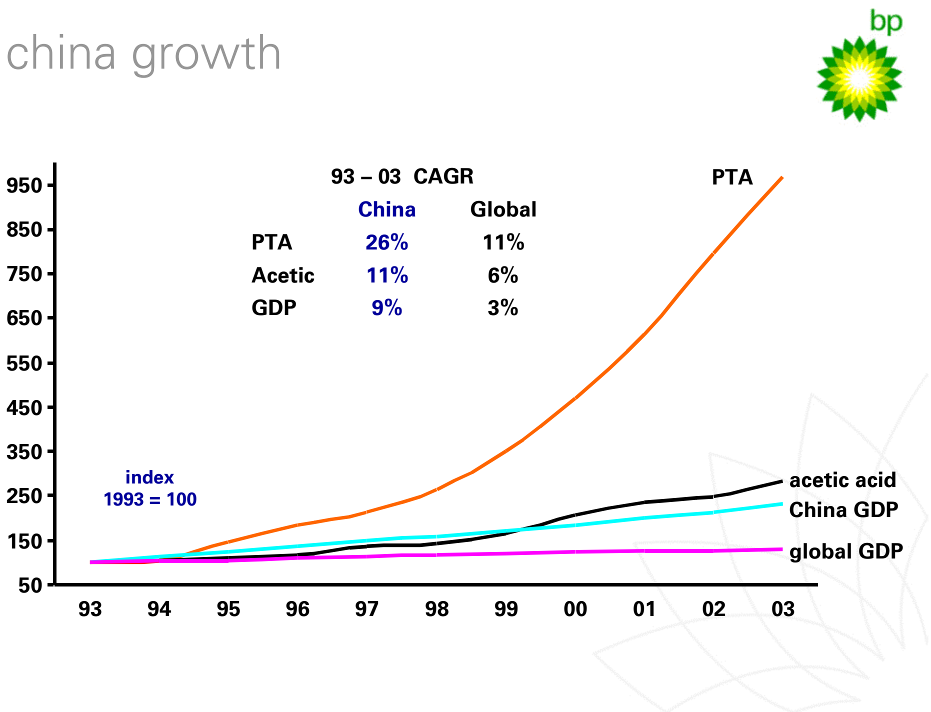
So what does all this mean?......

- European manufacturing is under particular pressure from the combination of advantaged Middle East product, imports of finished goods, and the strong Euro.
- Investment in new capacity is increasingly being focused on China and the Middle East.
- Competitive advantage is sought particularly in the less fragmented markets, which have high growth rates and which are independent of Middle East feedstock.

This underscores the pressure that our Olefins & Derivatives activities are under, given their geographic bias to Europe, and the need for further improvement in underlying performance.

This has also translated into focusing nearly all new investment into China and Asia, and particularly into the high growth Advantaged Products for the China market.

China Growth



At this point, I'd like to spend a moment focusing on China. The main driver of growth in China is the domestic market, but China is also taking share of growth through re-export of finished goods. China's advantage comes from lower labour costs coupled with new investments in world-scale plants and relatively modern manufacturing techniques for finished goods. I would like to give you two examples relevant to BP's Advantaged Products.

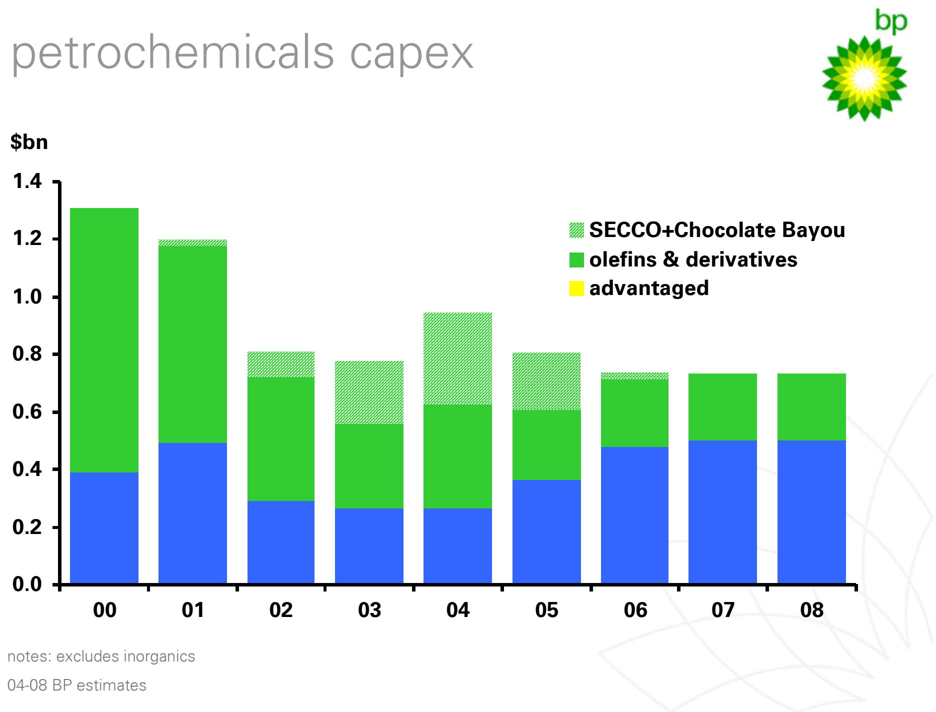
First, demand for PTA in China has been growing at an average rate of 26% p.a. for the last 10 years. This is driven mainly by polyester demand for clothing and other fiber applications both in the China domestic market and for export. BP has approximately a 25% share of the China merchant market.

Similarly, the Acetic Acid market in China is growing at 11% per annum and BP has a 25% merchant market share today.

With these fundamentals and recent performance, our thinking has therefore evolved. BP needs a different management approach to the Advantaged

Products compared to Olefins & Derivatives in terms of investment, portfolio management and performance improvement.

Petrochemicals Capex



Firstly, investment levels. This chart shows BP's total organic capex levels. The yellow bars represent investment in the Advantaged Products. The green bars show investment in Olefins and Derivatives. The shaded green bars refer to our major investments in the Shanghai Cracker Complex (SECCO), and the expansion of our cracker at Chocolate Bayou in Texas.

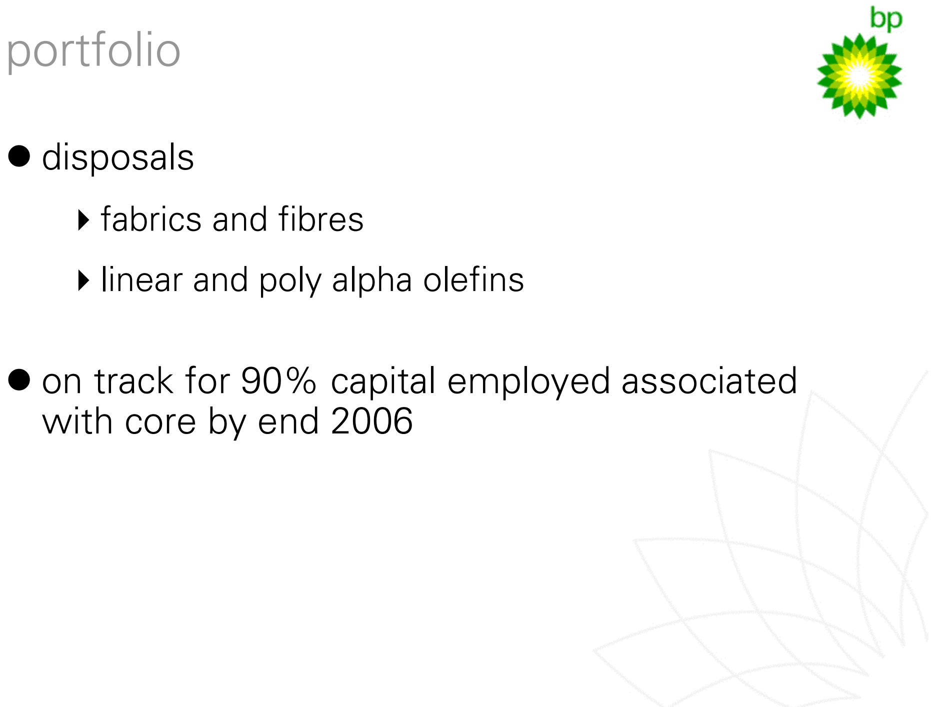
Total spend has been running at about $1bn p.a. over the last four years with the majority of our investment flowing into these two large projects and other Olefins & Derivatives.

In rolling the picture forward, you can see that post the completion of SECCO, from 2006 BP's investment levels are planned to fall to about $750m p.a. with the majority of investment now planned for the Advantaged Products. Given the performance described earlier, beyond SECCO and Chocolate Bayou, Olefins and

Derivatives will only receive sustaining levels of capital investment. This investment pattern is a major shift from BP's recent history.

Secondly, turning to our portfolio actions.

Portfolio



In Olefins & Derivatives, we must continue to take portfolio action. We have material "speciality" businesses where we have decided we are not the "natural owner" and therefore not likely to invest in pursuit of a global leadership position.

We are therefore announcing today that we are putting our Fabrics and Fibres business and our Linear and Poly Alpha Olefins business on the market.

In total, these businesses represent \$1.2bn of operating capital employed or about 10% of the portfolio and employ about 30% of our workforce. We will pay close attention to our people in what are always difficult transitions. In terms of what remains within BP, these actions will allow us to drive further simplification of our routes to market, processes and supporting infrastructure.

With these actions, and our investment in the core, we remain on track with the goal announced last year for 90% of BP's capital employed to be either directly in the core products or closely associated with them by 2006.

We will continue to look to optimize the portfolio as we move forward.

Finally, performance improvement.

Performance Improvement

performance improvement

bp

- margin capture
  - enhance reliability/ uptime
  - marketing/ system optimisation
- costs
  - continue fixed/ variable costs reductions
  - focused revenue investment
  - reduce overhead

We have considerable further potential in this area. This underpins my confidence in our ability to improve cash returns. Across the system, our main focus is on capturing more margin dollars and in continuing to drive costs down and improve efficiency.

In terms of margin capture a major focus area for both parts of the portfolio is site reliability, and I am pleased to say that we achieved 95% reliability in 2003, establishing a two year track record at these levels.

Beyond reliability, we have been focused on increasing the utilization of our plant through optimization of the overall system and inter-regional arbitrage. We were successful in improving average utilization rates by 1% in 2003 despite the problems associated with SARS and sluggish economic growth.

We are also focusing on improving our marketing and sales performance through better offers and keener pricing.

Our focus on fixed cost reduction continues, in the face of a strong Euro and increasing costs of employment. Our attention is also returning to variable costs where we have room for improvement. We will focus on energy and utility savings and process efficiency enhancements.

While these efforts will continue across the portfolio, in Olefins and Derivatives the near term focus will be on only two things - safe operations and delivering short term performance improvement and therefore better cash returns. The time horizon is over 2004 and 2005 to underpin our goal of improved returns by 2006.

We will be focusing down the marketing effort in Olefins & Derivatives, challenging the number of grades we produce and market, the complexity and cost of our logistics and of the offers we make. We will be re-focusing revenue investment levels, tackling the costs and activity levels of services, and transforming the overhead structure.

Petrochemicals: Summary

petrochemicals: summary

- different management approach
  - advantaged products
  - olefins & derivatives
- capex lower post 2005
  - bias to advantaged products
- olefins & derivatives - cash returns focus

In summary, BP has a relatively high quality Petrochemicals portfolio. As outlined last year, our focus remains on targeted investment, portfolio management and returns improvement. However, we are now thinking about it in two distinct parts - Advantaged Products and Olefins & Derivatives.

Their performance, and the challenges and opportunities they face require different management approaches. Post 2005, our total investment levels will be lower, and the bias for new investment will be towards the Advantaged Products given their superior fundamental positions and returns.

Olefins & Derivatives will also be sustained, but after considerable recent investments in this area our urgent focus will now be on only two things - safe operations and cash returns. We will continue to look at all options for further improvement in these activities.

Overall these actions and continued portfolio high-grading are intended to result in an improving cash returns mix on a broadly flat but more focused capital employed base.

I look forward to updating you on progress in the future.

Thank you for listening, and I will now hand over to John Manzoni.