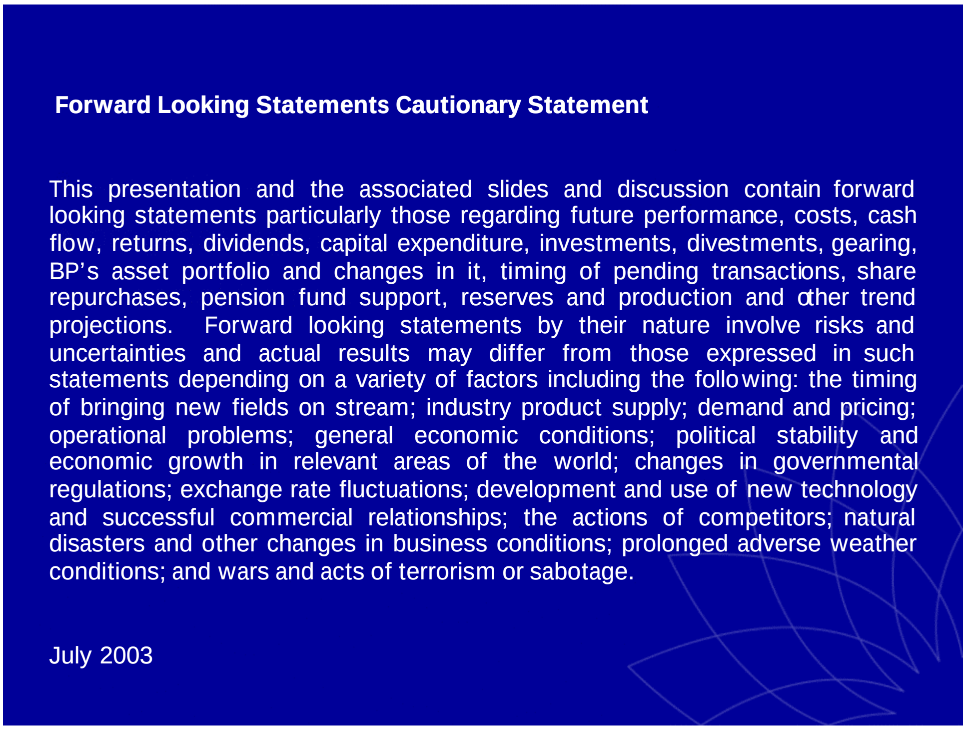
2Q 2003 Results – 29th July 2003

Presentation to the Financial Community

Good afternoon to those of you listening in Europe and Asia, and good morning to those in the Americas. I'd like to welcome you to BP's second quarter 2003 conference call. My name is Fergus MacLeod, BP's Head of Investor Relations. Joining me today are John Browne, BP's Chief Executive, and Byron Grote, our Chief Financial Officer. Tony Hayward, Chief Executive of our Upstream business, will join us for the question and answer session.

Safe Harbor Statement



Before we start, I'd like to draw your attention to two items.

First, today's call refers to slides that we will be using during the webcast. If you are listening on the 'phone, the slides are available to download from the investor center on our website, bp.com. Those of you on our e-mail list should have already received the slides. If you haven't received the slides, and would like to be placed on our list, please do let us know.

Second, I would like to draw your attention to this slide. We may make forward looking statements which are identified by the use of the words 'will', 'expect' and similar phrases. Actual results may differ from these plans or forecasts for a number of reasons, such as noted here.

I'd now like to introduce John Browne, BP's Chief Executive.

John Browne Introduction

Ladies and Gentlemen good afternoon, and thank you for joining us for this mid year review.

Agenda

I want to begin by giving you an overview of the highlights of the first half of 2003 , before I ask Byron to take you through the figures and our operational performance in detail.

Then I'd like to update you on our strategy, using the framework of indicators which we set out in February.

Then we'd be delighted to take your questions.

The Year So Far

The first half of 2003 was a very good period for BP.

Our operations performed well and all our major projects, including the joint venture in Russia, are on track, and in some cases ahead of schedule.

Our result is up by 80 per cent on the basis of stronger prices and margins.

Our capital spending net of divestments is down.

Our gearing is down by more than 6 percentage points, reflecting very strong cash flow.

And we've been able to continue to increase the dividend. We now foresee that, if our current outlook for the trading environment comes about, we'll be able to close some or all of the deficit identified at the end of 2002 on our funded pension obligations over the balance of the year.
……

Now let me give you some of the detail behind those headlines.

I'll start with the external environment.

Oil and gas prices, and margins in refining and chemicals have all been stronger than in the first half of 2002. Most notably gas prices in the US more than doubled compared to last year, and that's important for BP because we're the largest single producer of gas in North America and the owner of the largest volume of gas reserves.

The strategy we described to you in February is on track.

Our capital spending, excluding the investment in TNK-BP, is likely to turn out at the lower end of the range of $14-14.5bn that we identified, and our divestments at the upper end of our indicated $3-6bn range. So far in 2003 we have spent $6.1bn in capex and received $4.1bn in disposal proceeds.

We continue to renew our asset base and to improve its quality with projects in the five new profit centres of the deep water Gulf of Mexico, Angola, Azerbaijan, Trinidad and Asia Pacific gas - all of which are on schedule.

Our joint venture in Russia is nearing completion, and is set to contribute to our earnings, cash flow and production before the end of this year.

We had approval from the European Commission at the end of last week, and hope to have all the other legal approvals in place in the next few weeks. We then want to take you through the whole story in some detail at a special seminar for investors on the 16th of October .

The promise of our outstanding upstream portfolio is being realised.

Our financial position is strong.

We've generated over $13bn of pre-tax cash from operations, and the further $4.1bn from disposals that I mentioned.

Despite a capital program that is at its peak level, and increased distributions to shareholders via an 8 1/2% dividend increase and a $2bn share buy back program, our gearing has fallen from 28% to below 22%. BP is in great shape and well placed to deliver increasing amounts of free cash flow over the years ahead.

So a very good half year – with a good second half in prospect as well.

I will come back later to talk in more detail about how our plans for the future are unfolding.

Before that , let me hand over to Byron Grote, our Chief Financial Officer, who will discuss our Q2 and half year 2003 results in more detail.

Byron Grote Introduction

Thank you John. I will begin my remarks with a summary of the trading environment, and then review our business results for the second quarter and year to date. I will conclude with a review of our financial framework.

Trading Environment in 1H

trading environment

2Q02	1Q03	2Q03		1H03	1H02
			average realisations		
22.81	29.82	**24.90**	liquids $/bbl	**27.47**	20.81
2.45	3.87	**3.39**	natural gas $/mcf	**3.64**	2.36
19.01	26.39	**22.43**	total hydrocarbons $/boe	**24.49**	17.63
			indicator margins		
2.06	4.52	**3.27**	refining $/bbl	**3.89**	1.85
109	96	**120***	chemicals $/te	**108***	95

*provisional

Trading conditions in the second quarter were stronger than those of a year ago, but not as strong as those in the first quarter for most of our businesses. I will focus on the quarterly figures on the left of this slide.

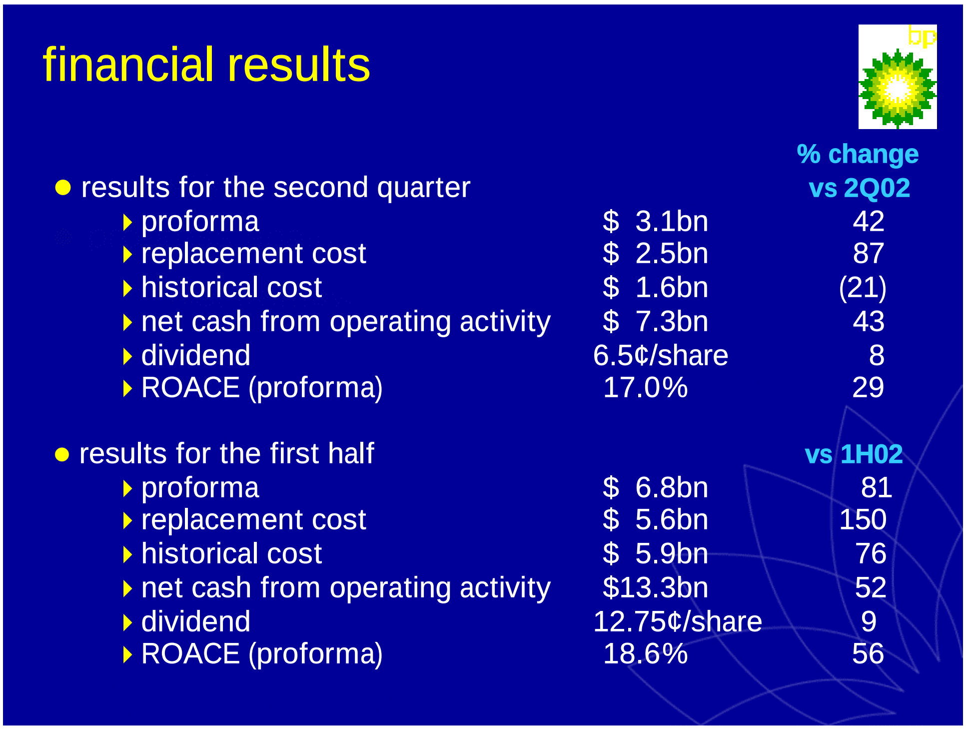
Our average liquids realization, which includes both oil and NGL's, was nearly $25 per barrel, up around $2 compared with the second quarter of last year, and down around $5 compared with the first quarter.

Our average natural gas realisation was nearly $1 higher than in the second quarter of 2002, and down around 50 cents compared with the first quarter. In North America, our most important gas market, we saw a tightening supply/demand balance as well as the benefit of new pipeline capacity which reduced the price differential between Henry Hub and our western US producing areas.

Taking oil and gas prices together, our average realized hydrocarbon price was about midway between the lower prices a year ago and the higher prices of the first quarter.
Similarly, our refining indicator margin of $3.27 per barrel was midway between the depressed levels in last year's second quarter and the higher margin environment earlier this year. Although not shown, our second quarter retail fuels margins recovered, and were more than one-third higher than either comparison period.
Petrochemical margins improved by nearly $25 per tonne from first quarter levels, as we were able to pass through some of the recent feedstock cost increases into the price of our products.

As shown on the right of the slide, our first half prices and margins were higher than in the first half 2002 across all lines of business.

<u>Financial Results</u>



With these price and margin increases, it is no surprise that our financial results are strong compared with those of a year ago. This slide shows key results for the second quarter and half year. I will focus on the quarter's results, shown at the top of the slide.

Our pro forma result of $3.1 billion was 42% higher than in the second quarter of last year. Our replacement cost profit, which includes special items and acquisition impacts, was $2.5 billion, up 87%. Our historic cost profit, which also includes disposal and inventory impacts, was $1.6 billion, down 21%. This historic cost result is of course dominated by unrealized inventory gains and losses caused by the volatility in hydrocarbon prices.

Of all these measures, we continue to believe that the pro forma result is the most valid and consistent indicator of our underlying profitability, and the measure most comparable to others in our industry.

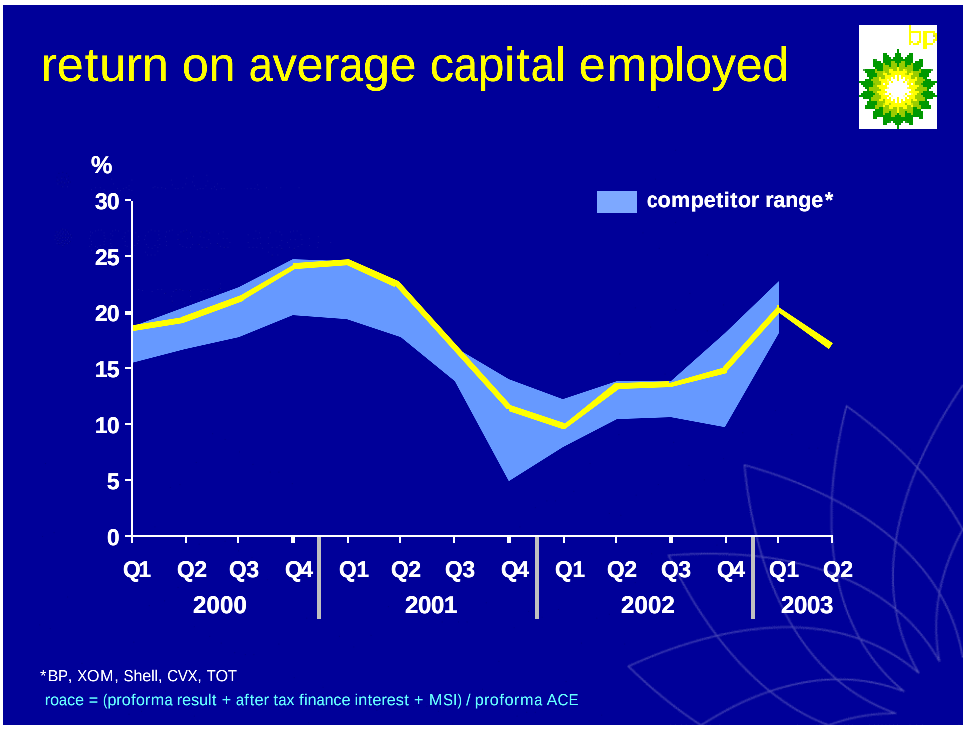
While there are several definitions of earnings, cash flow is much clearer. Our improved results continue to flow through to operating cash flow, which at $7.3 billion was up 43% on the second quarter of 2002 – about the same percentage increase as our proforma result.

The quarter cent dividend increase we announced today raises our dollar dividend by more than 8% compared with the second quarter of last year. The dollar weakened over the last year, holding the equivalent sterling dividend increase to 4% year-on-year, still well above inflation.

You should note that since the start of 1999 when we first moved to a dollar based dividend, we have increased our dividend by 30% in dollar terms, and by 32% in Sterling terms – so the effects of currency volatility on our dividends to UK shareholders has more than evened out over that time.

These are strong results. Our first half comparison, summarized on the bottom of the slide, is even stronger, as it incorporates our all time record results of the first quarter of 2003.

Return on Average Capital Employed

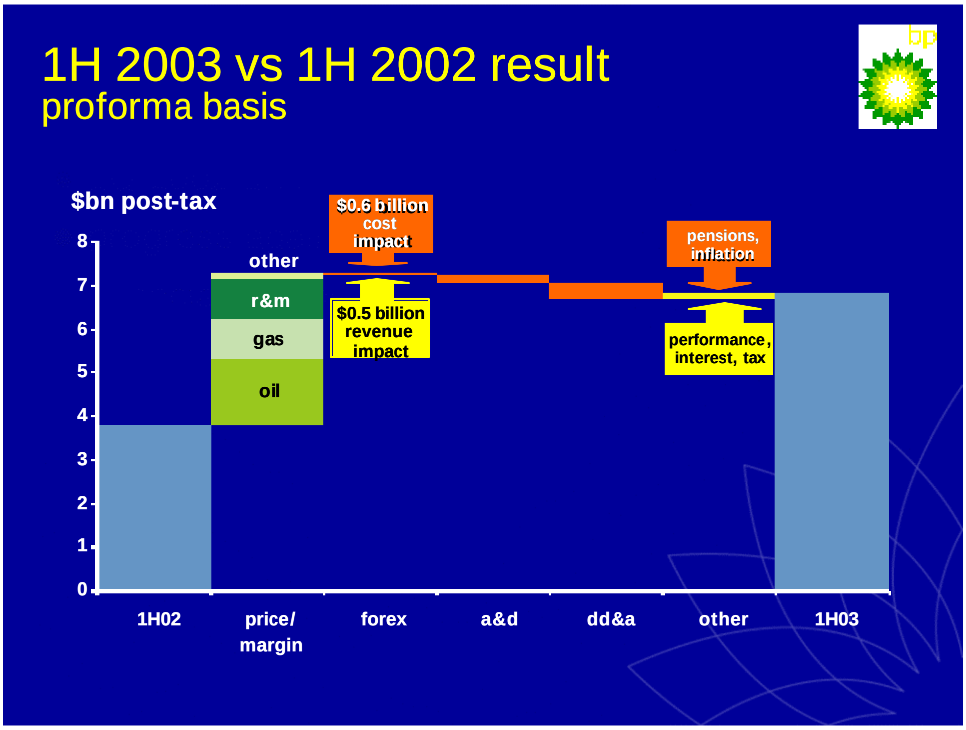


Turning now to return on capital employed, this slide shows BP's pro forma return history relative to our principal competitors. All results are calculated using a consistent approach, which we believe reflects industry best practice.

Our returns remain competitive with those of our peers, within a band driven by the industry price and margin cycle that is evident from the chart. There is also a small foreign exchange impact – around 20% of our capital employed is kept in currencies other than the US dollar – mainly the Euro and Sterling. The strength of these currencies versus the dollar has increased our capital base by around $2.5 billion since mid 2002. This has reduced our return on capital employed by slightly more than half a point.

Our 17% return for the second quarter reflects all these factors, as well as the significant capital we are investing in our distinctive portfolio of new upstream profit centres that will contribute increasingly to the bottom line over the next several years.

1H 2003 vs. 1H 2002 Result



This slide shows the main factors driving the $3.1 billion improvement in our first half pro forma result, from $3.8 billion in 2002 to nearly $7 billion in 2003.

Higher prices and margins are clearly the dominant factor, with a post-tax impact of $3.5 billion. Compared with last year, our first half result benefited by $1.5 billion from higher oil prices, around $900 million each from higher gas prices and higher refining and marketing margins, and around $200 million from other margins – a combination of petrochemicals and NGLs.

It is important to note that the refining and marketing improvements shown here combine both changes in overall industry conditions with our own performance in capturing the margins available in the market.

We have shown foreign exchange impacts separately. Appreciation of other currencies against the dollar increased both our revenues and costs – by roughly offsetting amounts. The net impact of forex movements was small - less that $100 million, which indicates the natural hedge inherent across our businesses.

Portfolio activities reduced our post-tax result by $200 million between years – about half from this year's E&P disposals, and half from the sale of our Ruhrgas interest in the middle of last year. As the year proceeds, the impact of E&P disposals will continue, but we expect these to be more than offset by the contribution from TNK-BP after that transaction closes.

Higher depreciation, depletion and amortization charges this year reduced our first half result by around $400 million compared with 2002. The increase partly reflects a full six months of Veba, but it is mainly in the upstream, as

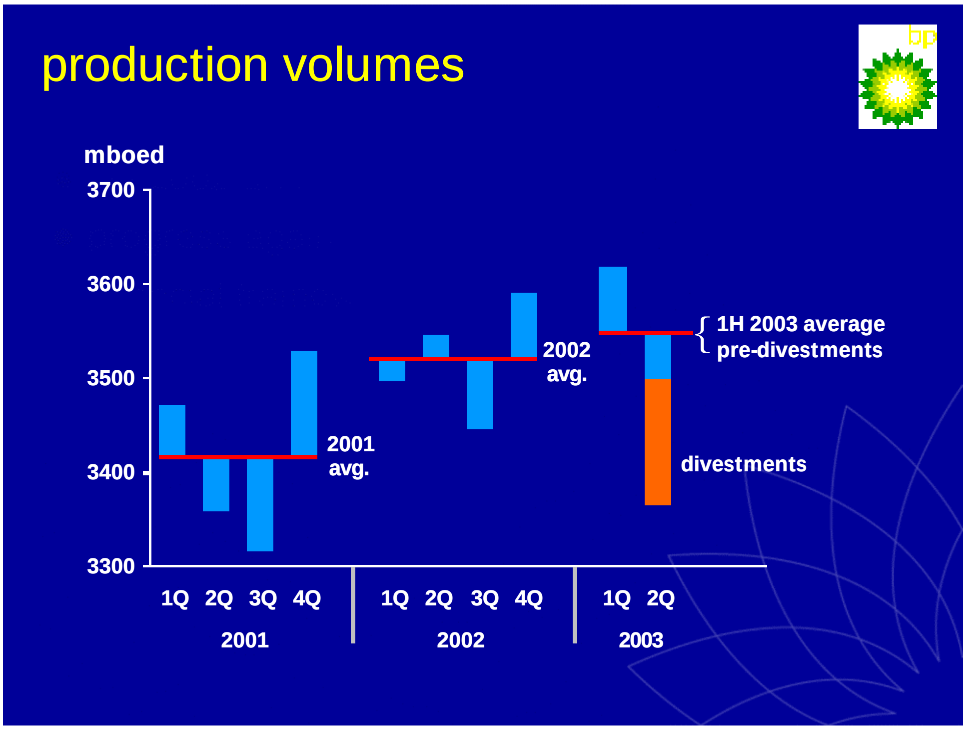
DD&A rose as expected in line with our long term finding and development cost of around $4 per barrel. Of course these higher DD&A charges have no impact on our cash generation.

Other factors netted out to a small improvement, around $200 million year-on-year. On the cost side, we saw normal inflationary pressures and the expected $150 million pre-tax increase in pension and post-retirement benefit charges in the first half.

Offsetting these negative pressures, we continued to improve underlying volumes and unit costs. This reflects a large number of actions across all our operations.

The savings from lower interest expense and lower income tax rates I mentioned in the first quarter continued in the second. For the half, these two factors benefited our pro-forma result by nearly $300 million, in roughly equal measure.

Production Volumes



In February, we indicted that we expected our underlying upstream production capacity to grow by between zero and 3 percent in 2003, excluding the impact of acquisitions and divestments. We remain on track to achieve this. This slide shows the pattern of quarterly variances around underlying annualized production volumes since 2001.

The orange bar in 2Q 2003 indicates the impact of our recent divestments on volumes. As shown, disposals this year reduced our second quarter production by 134 thousand barrels of oil equivalent per day.

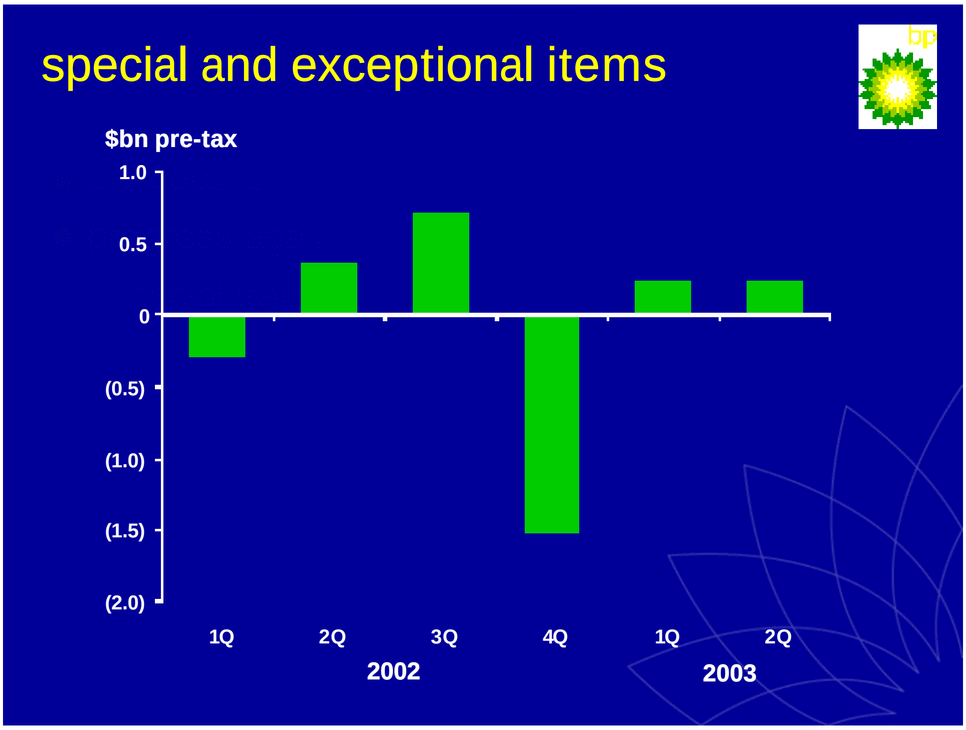
The slide clearly illustrates the high degree of volatility in each year's quarterly volumes relative to the underlying annual average. The 2001 pattern is indicative of normal seasonal fluctuations. However during 2002 we saw an unusual pattern of maintenance and weather effects, including a mild winter and a particularly severe tropical storm season in the Gulf of Mexico in the third quarter. We returned to a more normal seasonal and maintenance pattern in the first half of 2003.

Looking through the portfolio changes and the quarterly noise, our underlying production, allowing for disposals, increased by 1% in the first half. This is in line with our plan for the year and was despite a number of factors that depressed actual production relative to the growth in capacity. These factors included the impact of high oil prices on Production Sharing Contract volumes, and high gas prices which have led us to choose to restrict NGL production in order to capture more value in the gas stream.

Most importantly, both our existing and new profit centers continue to perform as expected. The 3% underlying decline in production from our existing profit centers was in line with expectation, and the growth from our new profit centers was also in line with our plans. In the first half, new volumes from the deepwater Gulf of Mexico, Trinidad and our current holdings in Russia more than offset normal and expected declines in our base operations elsewhere.

Our reported quarterly production volumes will continue to be volatile for the rest of the year. The impact of divestments will continue, but will ultimately be offset by new volumes from TNK-BP.

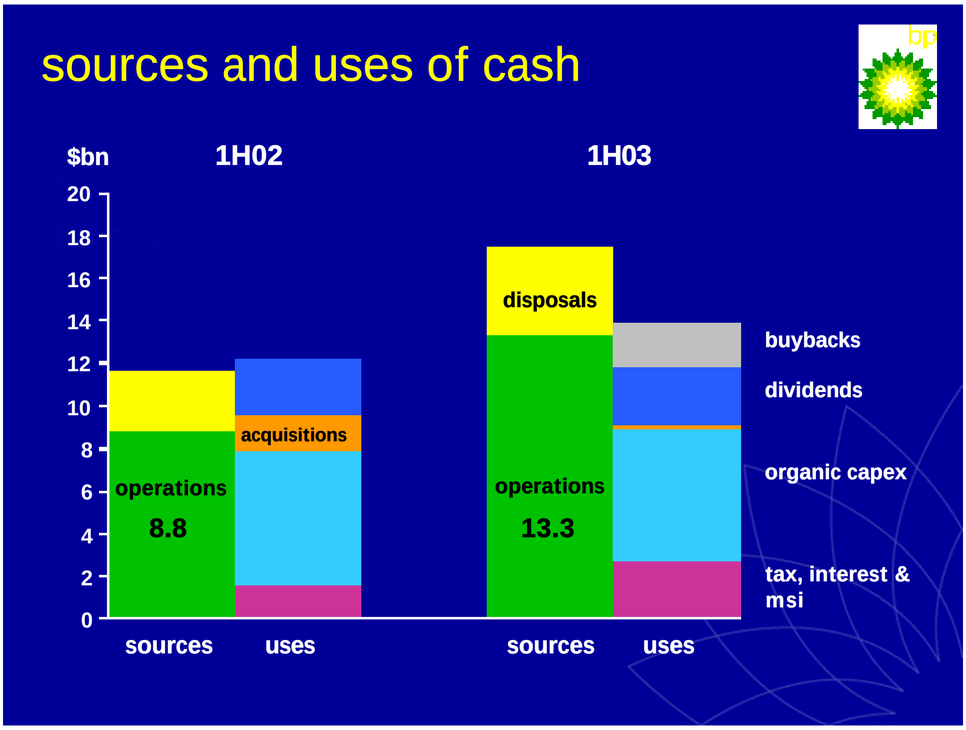
<u>Special & Exceptional Items</u>



I will now return to our financial results.

This chart highlights our track record of special and exceptional items since the start of last year. In the first half, we had disposal gains of nearly $700 million, partly offset by restructuring and impairment charges totaling around $200 million. We expect the balance of our full-year 2003 specials and exceptionals to remain a net positive.

Sources & Uses of Cash



Our long standing financial framework includes balancing sources and uses of cash over the business cycle. Our 25-35% gearing band gives us flexibility to sustain our underlying business strategies, and to time our acquisitions and disposals based on opportunities and market conditions.

This chart shows our sources and uses of cash in the first half of 2002 and 2003. Each pair of bars represents a single year, with cash sources on the left and uses on the right.

The improvement in trading conditions between last year and this year is evident in the cash from operations – shown here in green – which grew from $8.8 billion in 2002 to $13.3 billion in 2003. The 2003 figure includes a $120 million cash dividend on our interest in Sidanco. This indicates our success as a 25% shareholder in helping Sidanco improve its financial and operating performance – which we intend to continue on a larger scale with our 50% interest in TNK-BP.

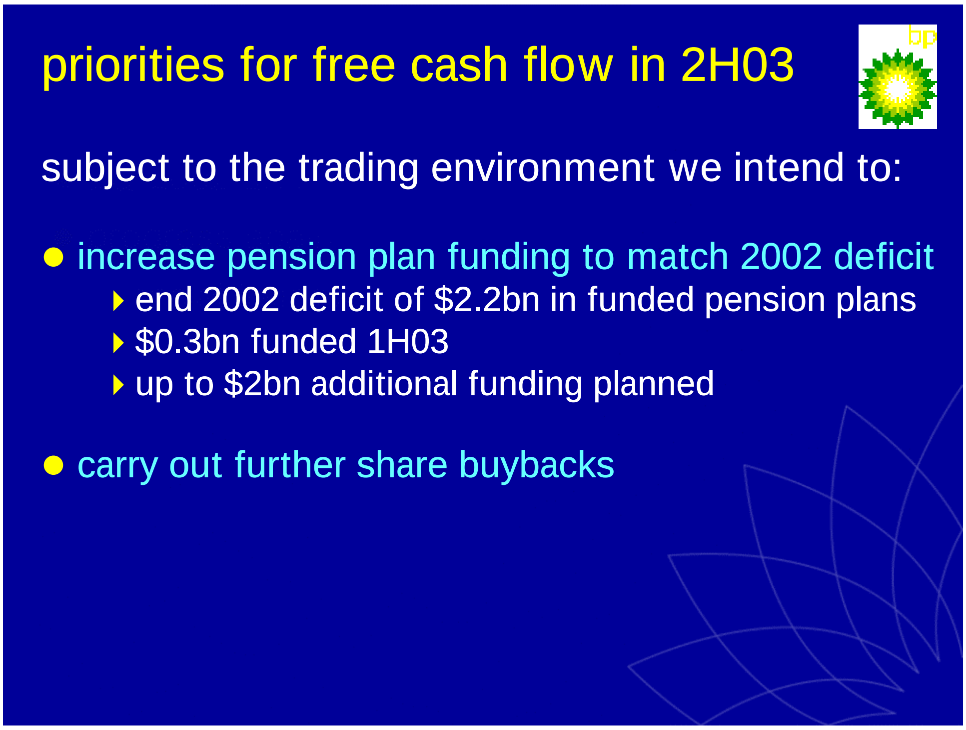
Interest and taxes - shown as a use of cash – increased along with operating cash flow.

In contrast to the more significant increase in operating cash, our organic capital investment – shown in pale blue – was about constant in the first half at just over $6 billion in both years

In the first half of 2003, our portfolio activity was concentrated on the disposal of a number of non-strategic properties, mostly in the upstream, capitalizing on strong buyer interest during a period of high prices. As shown in yellow, our first half disposal proceeds exceeded $4 billion.

The remaining uses of cash are distributions to shareholders via dividends and buybacks. Our first half dividend of $2.8 billion is up 8 1/2% in dollar terms on the first half of 2002. In addition to dividends, we bought back $2 billion of BP shares through mid-year, completing the program we announced in February. Having completed $6 billion of buybacks since second quarter of 2000, we will continue to view buybacks as a key element of our well-established financial framework.

Priorities for free cash flow



I would now like to spend a moment talking about the priorities for the use of our strong cash flow in the second half of 2003. Our first priorities are of course our dividend and the completion of our capital spending program. We also expect to be paying the $2.4bn previously indicated for our 50% interest in TNK-BP, and may – subject to a satisfactory outcome to negotiations now underway – pay an additional amount to include the assets of Slavneft.

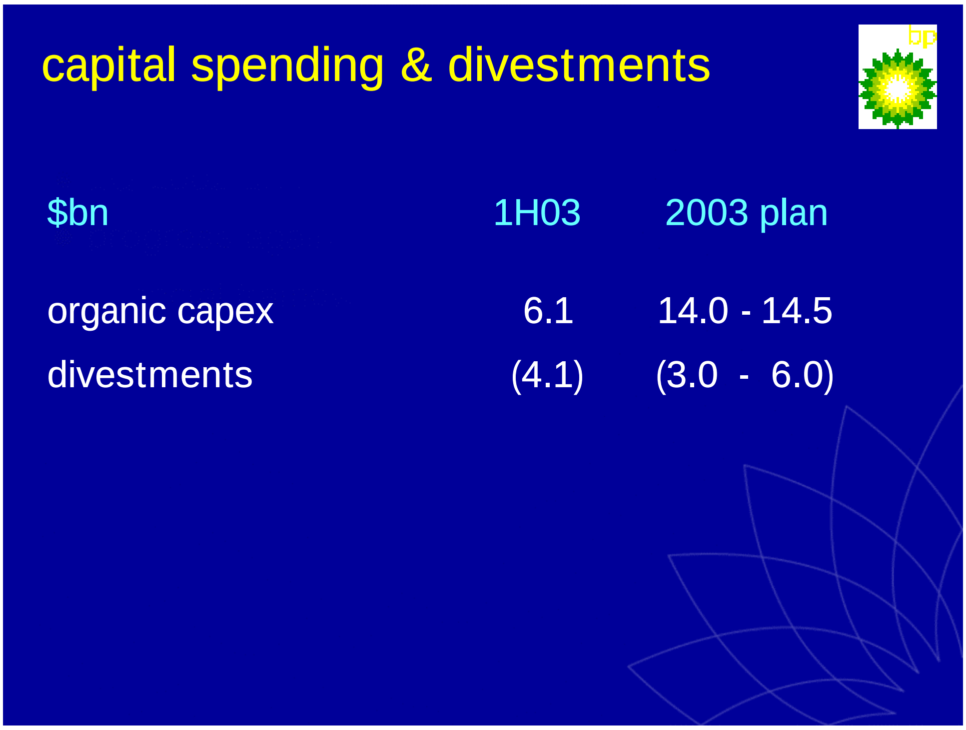
I know many of you are also interested in our plans for future share buybacks. However our financial prudence also extends to other areas – one of which is the funding of our pension plans.

As shown in our 2002 Annual Report, our funded pension plans had a net $2.2 billion deficit at the end of last year. This was due to a number of factors. Firstly, several years of stock market decline, secondly lower discount rates - which impact the present value of our future liabilities – and thirdly lump sum withdrawals following our extensive post merger restructuring activity. This deficit, which reflects a shortfall in our US position, is a relatively minor sum compared to the strength of our cash flows, but we believe that as part of our prudent financial framework, and given the strength of our cash flows, we should deal with it now.

The first half operating cash flow shown on my previous slide was after paying $300 million into our US fund. We now expect to direct up to $2bn more toward covering all or part of the year end 2002 funding deficit.

What I have described is a matter of cash flow only. The charge to our profit and loss account for pensions and post retirement benefits is a complex calculation, dependent on a number of actuarial assumptions. Nonetheless this accelerated funding will have a beneficial impact on the charge made against our earnings in 2004. After we have dealt with this additional funding of our pension plans, a high priority remains to continue our share buyback program. The actual outcome in 2H 2003 will as ever be dependent on the actual cash flows generated and so on the actual operating environment.

Capital Spending & Divestments

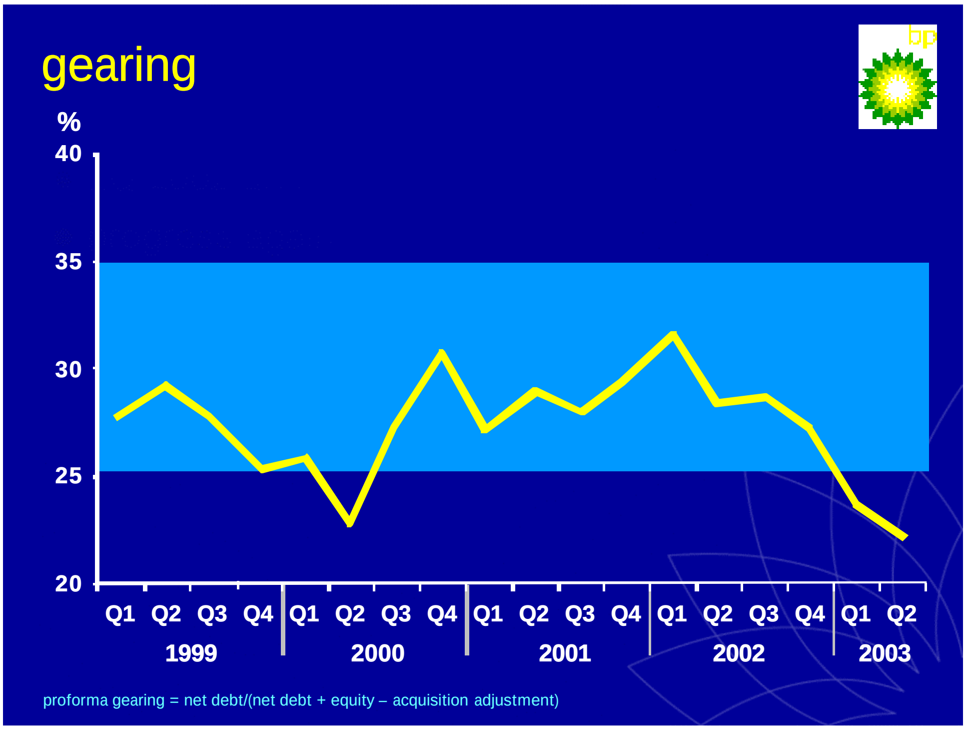


This chart summarizes our first half organic capital expenditures and divestments against the full year plan figures we set out in February.

We invested $6.1 billion in the first half, including $4.6 billion in the E&P segment where we are building the five growth areas highlighted in February. As John said earlier, spending programs remain on track with our $14 to14.5 billion indicator range for the year.

Our first half divestments across all businesses totaled $4.1 billion. We have since closed or have deals agreed for another $2 billion of divestments. This will bring our full-year disposals to the upper end of the $3 to 6 billion range set out in February.

Gearing



Our strong cash flow has allowed us to continue reducing our gearing, which was below our 25-35% target range in first quarter, and has moved even lower to 22% in the second quarter. This is more than 6 points lower than a year ago, including around three quarters of a point from forex effects.

As shown on this chart, we have generally maintained gearing in the bottom half of the range since the BP Amoco merger. This has given us the flexibility to return cash to shareholders through increased dividends and buybacks, as well as to pursue strategic opportunities, such as acquiring Castrol in 2000 and Veba in 2002.

As in early 2000, we expect the current low level of gearing to be temporary. Following the initial cash outlay for TNK-BP, and including the pension contributions I indicated earlier, we expect gearing to return to the target range later this year.

That completes my financial review. John will now summarize the progress we are making in implementing our core business strategies.

<u>John Browne – Strategy</u>

Thank you Byron. I would now like to return to the subject of strategy:

You will recall that back in February I stressed the importance of balance in our approach.

It is fundamental to our long-term approach that value cannot be pegged to any one single indicator , but rather requires a balanced view of all the factors which work together to create value and ultimately free cash flow for the benefit of our shareholders.

Our strategy has been developed with the aim of delivering a balanced outcome across a range of key indicators.

The strategy is about choices : allocating our resources to the best assets and projects, and divesting those that don't make the grade. We've been busy in this area in 2003, selling low return assets in the North Sea, US and elsewhere and investing heavily in the new profit centres which have the potential to deliver higher returns and margins.

At the same time we have accessed what we consider to be one of the most significant petroleum provinces in the world – Russia .

We're doing all this within a disciplined financial framework that manages risk – maintaining a prudent but efficient level of gearing, and balancing cash in and out over the longer term at $16 oil, compared to around $28 today.

We're focusing on costs – offsetting inflation and often doing even better than that - and on capturing the available gross margins.

We believe this strategy gives us a significant edge over our competitors

With a set of new upstream projects unrivalled in scale or potential returns …
…a unique portfolio of #1 or #2 positions in our refining, marketing and chemicals businesses
…and a portfolio strong enough to support a commitment to continuous asset high grading.

That's the model: so how are we doing in H1 2003?

<u>Upstream: indicators of strategic progress (1)</u>

In the upstream we're on track with the Strategy reviewed in February.

First, exploration success.

We've made a number of new discoveries – including Saturno and Clochas in Block 15 in Angola, and the sub-salt Saqarra field in Egypt. Our exploration programme continues with the majority of new drilling activity scheduled for the second half.

Then on development. All of our major project milestones have been delivered, and at least four significant projects will come on stream each year for the next few years.

- In Trinidad the third LNG train came on stream two months ahead of schedule and under budget, and is now operating at close to design capacity. The Government has recently approved the fourth LNG train.

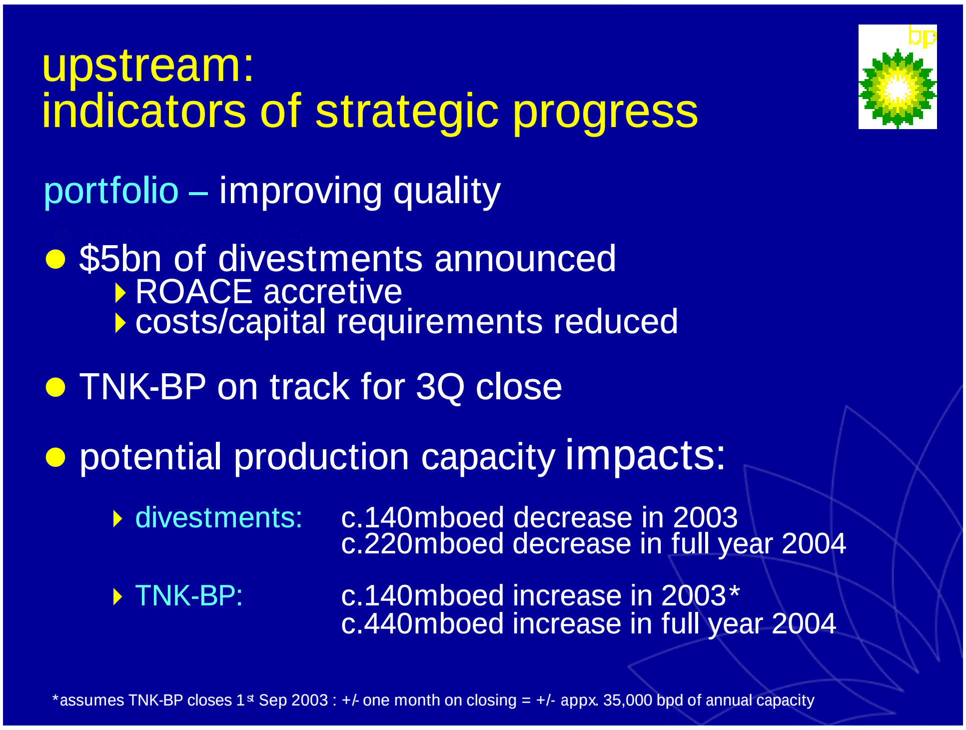
- In Azerbaijan, we've completed the pre-drilling of the Central Azeri wells and begun the pre drilling of West Azeri and Shah Deniz. The construction of the BTC pipeline has begun very successfully.

- In the Gulf of Mexico, the Na Kika platform has sailed from the construction yard, and pre-drilling has begun on Mad Dog.

And in Angola, construction work on both Kizomba A and Kizomba B is on track.

So, we have a strong portfolio of projects - all on track to underpin growth in our new profit centres.

<u>Upstream: indicators of strategic progress (2)</u>



We continue to highgrade the portfolio with the disposals of Montrose/Arbroath and Forties in the North Sea and further disposals announced of interests in China, Norway and in the 'tail' of our interests in the

US Gulf, Mid-Continent and Rockies. We've also agreed to dilute our interests in Algeria.

These transactions are accretive to returns, adding around half a per cent to our upstream return on capital on a full year basis. They also reduce our capital requirements, and improve average unit costs.

Of course, as the year goes on the impact of divestments on our production will grow, but in the third quarter and beyond it will be increasingly offset by a significant uplift from our interest in TNK-BP. Assuming the deal is closed by September 1, on a full year basis the increase from TNK-BP will almost exactly offset the impact on reported production of disposals this year. In 2004 TNK-BP is expected to substantially boost our reported output.

This calculation does not include Slavneft which, as I said, is still under consideration as part of the transaction.

<u>Upstream: indicators of strategic progress (3)</u>

In terms of costs we continue to drive efficiency, not least through a restructuring of our existing profit centres. Those gains will flow through in the second half of the year.

Capital productivity is also a key indicator. We expect capital spending for the full year to be at the lower end of the range we indicated in February, partly as a result of disposals, and partly because we've been able to further high grade our investments. Our focus remains on total return, not volume.

G,P & R: indicators of strategic progress

Turning to the Gas, Power & Renewables Segment, we continue to make good progress on our main objectives.

First, to maximise Group value through an enhanced focus on gas marketing.

In North America, BP is now the leading gas marketer based on wholesale volumes in the first quarter. Sales in the second quarter were up over 20% from the prior year.

LNG is a growing outlet for our equity gas, with sales up by around 45 per cent year on year.

We're now marketing LNG into the US market at a rate equivalent to 2 million tonnes per year.

We're also making progress on growing our NGL business. In North America, we have sustained our year-to-date earnings performance from NGLs in spite of the significant increase in costs for natural gas. This has been accomplished by restructuring the business to reduce our exposure to the gas-to-liquids spread, a continued attention to costs, and by utilizing the flexibility within our system.

R&M: indicators of strategic progress

In Refining and Marketing, our performance in the first half was driven by a continued focus on margin expansion. Margins increased relative to the same period of last year in all our businesses.

Our refineries performed well in the second quarter with availability averaging more than 96% – a good recovery following a disappointing first quarter performance caused by a fire at the Whiting refinery. Our refining availability in the second quarter was one of our best in recent history and allowed us to capture a greater share of the margins available in the market, especially in the US.

In our marketing businesses we've captured much of the available margin and focused also on margin expansion. This has led us to offer new products to our customers. In 2Q, we introduced BP Ultimate in Greece – a premium motor fuel designed for the customer who wants performance from a cleaner fuel. In India, we relaunched CRB, a superior consumer lubricant for the truck market. We're planning further new product launches later this year.

We continue to build our Retail offer and have re-imaged over 40% of our sites worldwide. The convenience market continues to grow more rapidly than fuel demand. Our growth in the quarter has been strong with same store sales growth of 3.5%.

We remain focused on efficiency, and are on track to deliver programs expected to reduce cash costs by over $300m this year.

Petrochemicals: indicators of strategic progress

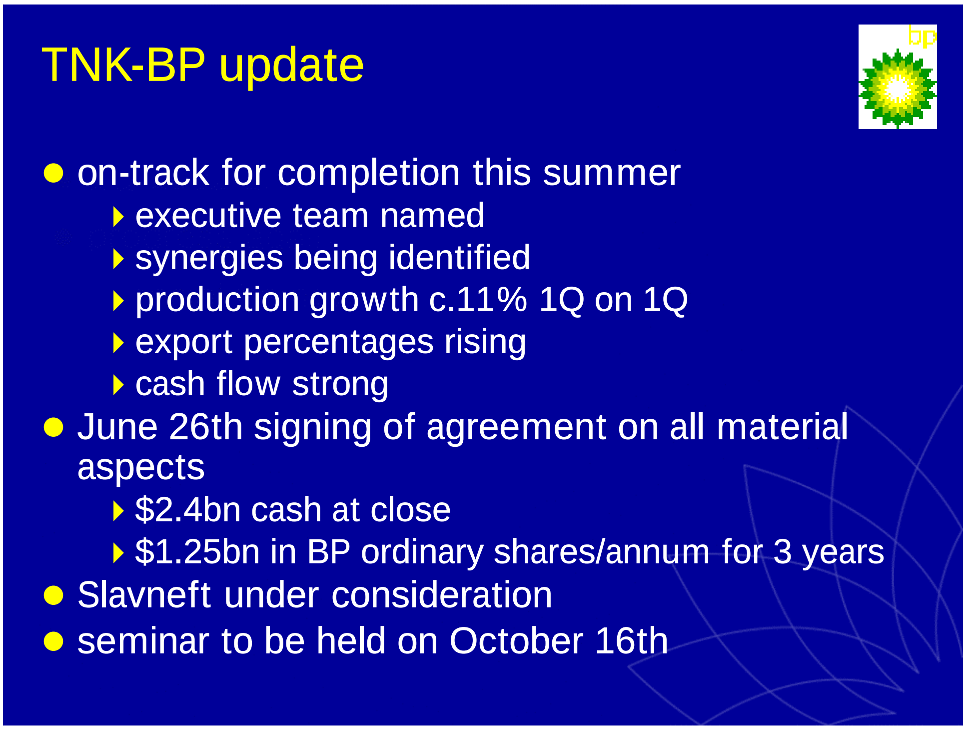
Turning to petrochemicals, we remain on track to focus 90% of our capital employed in our seven core products by 2006 and to improve underlying ROACE by 3% over the same period. We are also on target for a 40% reduction in our cash fixed costs per tonne from 1998 to 2003.

During the quarter we increased our share in two Asian joint ventures to produce PTA, in Taiwan and Korea. Including our startup in China in 1Q, our PTA capacity in Asia has grown by around 45% over the last year.

Construction at our new chemical complex in Shanghai (SECCO) is well underway and the complex remains on schedule for start up during 2005.

We continue to restructure the business. We've completed the sale of PTPeni in Indonesia and we've announced that we intend to sell our industrial intermediates business.

TNK-BP Update



Turning to Russia , I am pleased to confirm that we are on track for legal completion of the transaction later this summer.

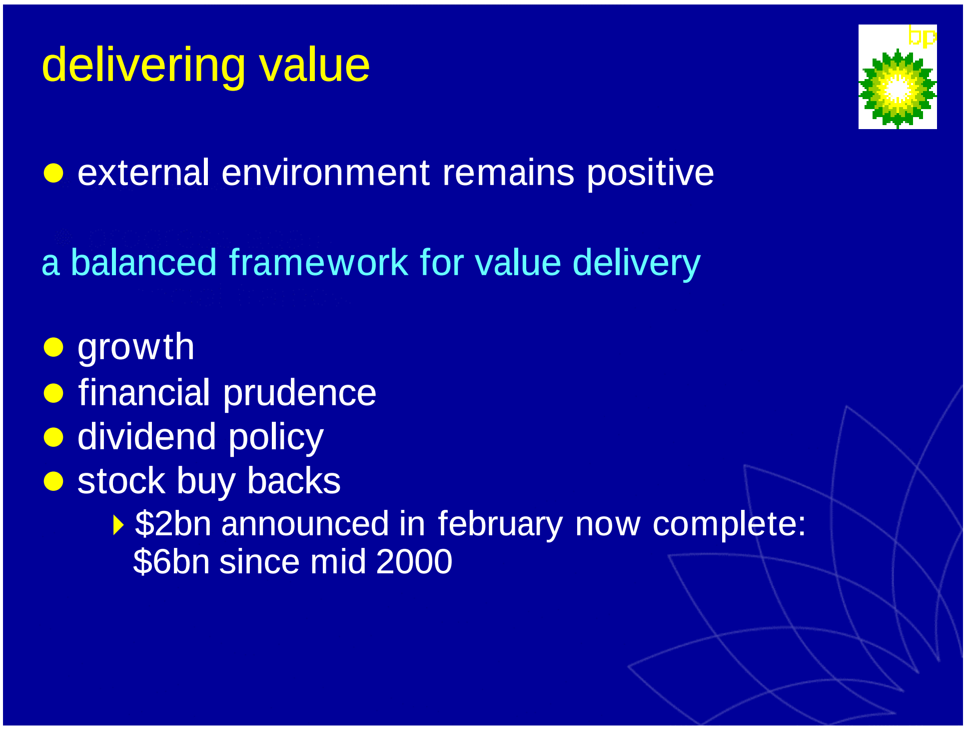
The transaction was signed on 26th June, and we're now awaiting the relevant regulatory approvals. We expect to have these by the end of next month. All the key appointments have been named.

The underlying business performance of TNK-BP has been good – 1Q on 1Q production growth was 11%, export percentages are rising (at around 74% of crude production), and underlying cash generation from the business is strong .

As I have mentioned, the inclusion of Slavneft in the transaction is under discussion.

We plan to describe in detail the assets we have in TNK-BP, the synergy opportunities which we believe exist and our plans for delivering value at a special seminar planned for October 16th .

Delivering Value



Now, of course, we've been helped in the first half because we've been able to take full advantage of a positive external environment

We see much of that positive environment continuing into the third quarter.

Crude oil markets are still tight. Inventories remain low by historical standards and the pace of output recovery in Iraq has been slower than many expected.

Gas prices in the US remain above parity with fuel oil. Refining margins are so far similar to those in the second quarter , although marketing and petrochemicals margins are softening.

So the outlook is reasonably positive – but we can't and don't rely on that . We can't know what will happen and so we continue to plan and to run the business on a set of prudent assumptions, which support the financial framework.
…………………

I'd like to conclude by reminding you of our philosophy on delivering value to shareholders – through value growth including a prudent financial framework, through the dividend, and through the repurchase of shares.

Byron has already mentioned that our financial framework indicates that we should devote some of our free cash flow in the second half of 2003 to eliminating some or all of the $2bn deficit on our funded pension plans which we identified at the end of 2002.

We see that as a disciplined step and very much part of taking a careful and balanced long term approach. The first call on cash flow is our dividend and the funds needed for reinvestment. Beyond that, if circumstances permit, we'll use available funds to meet our long term obligations and to return cash to the shareholder.

It is in that context that we'll use part of any surplus of funds available over the remainder of the year to close some of all of the year end 2002 deficit on funded pension schemes of just over $2bn which we noted in the Annual Report.

We believe that this is in the interest of both our employees and our shareholders. While the scale of this requirement is relatively small – compared to our overall cash flows and compared to the deficits of many of our competitors and other major companies - the issue is, nonetheless, important, and it would be inappropriate for BP to avoid taking action. We are in the fortunate position of being able to take that action.

Turning to the dividend, the Board sets its level on a balance of a variety of factors. They consider not only present earnings but also long-term growth prospects and cash flow. Of course this isn't a mechanical calculation. The Board judges the balance between all the factors and all the options available.

Our track record speaks for itself. Over the last 20 years, our dividends have increased by an average of 4% per year above inflation in dollar terms, and by an average of 3% per year above inflation in sterling terms.

Our dividend increase of over 8% in dollar terms in the first half of 2003 builds on that track record.

As we've said before, after paying the dividend, and meeting our investment needs and other commitments, our priority over time will be the repurchase of shares, building on the track record of $6bn of shares repurchased since the acquisition of ARCO, of which $2bn took place earlier this year.

The scale of share buybacks in the second half of 2003 depends very much on the external environment. Because of the payment we expect to make in respect of our investment in TNK/BP, and because of the action we're taking on pensions, we don't currently expect the repurchase of shares in the second half to be as substantial as in the first half – but this depends very much on how the trading environment develops.

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So in summary the figures for the first half of 2003 begin to show the potential of the strategy. We've been helped by the external environment but we wouldn't have been able to capture all the benefits if we didn't have the right business model in place – in each segment and across the group as a whole .

It has been a good half year, but there's more to come. It is a matter of maintaining a careful, dynamic balance. That's what we aim to do, and that is the test applied to me, and to my colleagues by the Board.

Thank you very much. Byron, Tony, Fergus and I would now be delighted to take your questions.

Q&A Session