Employee numbers decreased from 103,700 at December 31, 2003 to 102,900 at December 31, 2004 to 96,200 at December 31, 2005. The decrease in 2005 resulted primarily from the sale of Innovene.

| | Year ended December 31, | | |
|---|---|---|---|
| **Capital expenditure and acquisitions** | **2005** | **2004** | **2003** |
| | | **($ million)** | |
| Exploration and Production | 10,149 | 9,654 | 9,398 |
| Refining and Marketing | 2,669 | 2,692 | 2,945 |
| Gas, Power and Renewables | 235 | 524 | 439 |
| Other businesses and corporate | 885 | 940 | 815 |
| Capital expenditure | 13,938 | 13,810 | 13,597 |
| Acquisitions and asset exchanges | 211 | 2,841 | 6,026 |
| | 14,149 | 16,651 | 19,623 |
| Disposals | (11,200) | (4,961) | (6,356) |
| Net investment | 2,949 | 11,690 | 13,267 |

Capital expenditure and acquisitions in 2005, 2004 and 2003 amounted to $14,149 million, $16,651 million and $19,623 million, respectively. There were no significant acquisitions in 2005. Acquisitions during 2004 included $1,354 million for including TNK’s interest in Slavneft within TNK-BP and $1,355 million for the acquisition of Solvay’s interests in BP Solvay Polyethylene Europe and BP Solvay Polyethylene North America. Acquisitions in 2003 included $5,794 million for the acquisition of our interest in TNK-BP. Excluding acquisitions, capital expenditure for 2005 was $13,938 million compared with $13,810 million in 2004 and $13,597 million in 2003.

**Finance Costs and Other Finance Expense**

Finance costs comprises Group interest less amounts capitalized. Finance cost for continuing operations in 2005 was $616 million compared with $440 million in 2004 and $513 million in 2003. These amounts included a charge of $57 million arising from early redemption of finance leases in 2005 and a charge of $31 million in 2003 from early bond redemption. The charge for 2005 reflects higher interest costs partially offset by an increase in capitalized interest. The charge for 2004 reflects lower interest rates and lower debt buyback costs compared with 2003 offset by the inclusion of a full year’s equity-accounted interest for the TNK-BP joint venture.

Other finance expense includes net pension finance costs, the interest accretion on provisions and interest accretion on the deferred consideration for the acquisition of our investment in TNK-BP. Other finance expense for continuing operations in 2005 was $145 million compared with $340 million in 2004 and $532 million in 2003. The decrease in 2005 compared with 2004 primarily reflects a reduction in net pension finance costs. This is primarily due to a higher expected return on investment driven by a higher pension fund asset value at the start of 2005 compared with the start of 2004 while the expected long-term rate of return was similar. The decrease in 2004 compared with 2003 primarily reflects a reduction in net pension finance costs partly offset by a revaluation of environmental and other provisions at a lower discount rate and the inclusion of a full year’s charge for interest accretion on the deferred consideration for the investment in TNK-BP.

**Taxation**

The charge for corporate taxes for continuing operations in 2005 was $9,288 million, compared with $7,082 million in 2004 and $5,050 million in 2003. The effective rate was 30% in 2005, 28% in 2004 and 28% in 2003. The increase in the effective rate in 2005 is primarily due to a higher proportion of income in countries bearing higher tax rates, and other factors.

**Business Results**

Profit before interest and taxation from continuing operations, which is before finance costs, other finance expense, taxation and minority interests, was $32,182 million in 2005, $25,746 million in 2004 and $18,776 million in 2003.

**Exploration and Production**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2005** | **2004** | **2003** |
| Sales and other operating revenues from continuing operations | ($ million) | 47,210 | 34,700 | 30,621 |
| Profit before interest and tax from continuing operations (a) | ($ million) | 25,508 | 18,087 | 15,084 |
| Results include: | | | | |
| Exploration expense | ($ million) | 684 | 637 | 542 |
| Of which: Exploration expenditure written off | ($ million) | 305 | 274 | 297 |
| Key statistics: | | | | |
| Average BP crude oil realizations (b) | | | | |
| UK | ($ per barrel) | 51.22 | 36.11 | 28.30 |
| USA | ($ per barrel) | 50.98 | 37.40 | 29.02 |
| Rest of World | ($ per barrel) | 48.32 | 34.99 | 26.91 |
| BP average | ($ per barrel) | 50.27 | 36.45 | 28.23 |
| Average BP NGL realizations (b) | | | | |
| UK | ($ per barrel) | 37.95 | 31.79 | 20.08 |
| USA | ($ per barrel) | 31.94 | 25.67 | 18.39 |
| Rest of World | ($ per barrel) | 35.11 | 27.76 | 22.31 |
| BP average | ($ per barrel) | 33.23 | 26.75 | 19.26 |
| Average BP liquids realizations (b)(c) | | | | |
| UK | ($ per barrel) | 50.45 | 35.87 | 27.80 |
| USA | ($ per barrel) | 47.83 | 35.41 | 27.23 |
| Rest of World | ($ per barrel) | 47.56 | 34.51 | 26.60 |
| BP average | ($ per barrel) | 48.51 | 35.39 | 27.25 |
| Average BP US natural gas realizations (b) | | | | |
| UK | ($ per thousand cubic feet) | 5.53 | 4.32 | 3.19 |
| USA | ($ per thousand cubic feet) | 6.78 | 5.11 | 4.47 |
| Rest of World | ($ per thousand cubic feet) | 3.46 | 2.74 | 2.47 |
| BP average | ($ per thousand cubic feet) | 4.90 | 3.86 | 3.39 |
| Average West Texas Intermediate oil price | ($ per barrel) | 56.58 | 41.49 | 31.06 |
| Alaska North Slope US West Coast | ($ per barrel) | 53.55 | 38.96 | 29.59 |
| Average Brent oil price | ($ per barrel) | 54.48 | 38.27 | 28.83 |
| Average Henry Hub gas price (d) | ($/mmbtu) | 8.65 | 6.13 | 5.37 |
| Total liquids production for subsidiaries (c)(e) | (mb/d) | 1,423 | 1,480 | 1,615 |
| Total liquids production for equity-accounted entities (c)(e) | (mb/d) | 1,139 | 1,051 | 506 |
| Natural gas production for subsidiaries (e) | (mmcf/d) | 7,512 | 7,624 | 8,092 |
| Natural gas production for equity-accounted entities (e) | (mmcf/d) | 912 | 879 | 521 |
| Total production for subsidiaries (e)(f) | (mboe/d) | 2,718 | 2,795 | 3,011 |
| Total production for equity-accounted entities (e)(f) | (mboe/d) | 1,296 | 1,202 | 595 |

(a) Includes profit after interest and tax of equity-accounted entities.

(b) The Exploration and Production business does not undertake any hedging activity. Consequently, realizations reflect the market price achieved.

(c) Crude oil and natural gas liquids.

(d) Henry Hub First of Month Index.

(e) Net of royalties.

(f) Expressed in thousands of barrels of oil equivalent per day (mboe/d). Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels.

Sales and other operating revenues for 2005 were $47 billion compared with $35 billion in 2004 and $31 billion in 2003. The increase in 2005 primarily reflected an increase of around $13 billion related to higher liquids and gas realizations partly offset by a decrease of around $1 billion due to slightly lower volumes of subsidiaries. The increase in 2004 reflected higher liquids and gas realizations of around $7 billion with an offset of around $3 billion due to lower production volumes (for subsidiaries) as a result of divestment activity in 2003.

Profit before interest and tax for the year ended December 31, 2005 was $25,508 million, including inventory holding gains of $17 million and gains of $1,159 million on the sales of assets, primarily from our interest in the Ormen Lange field, and is after net fair value losses of $1,688 million on embedded derivatives (these embedded derivatives are fair valued at each period end with the resulting gains or losses taken to the income statement), an impairment charge of $226 million in respect of fields in the Gulf of Mexico, a charge for impairment of $40 million relating to fields in the UK North Sea and a charge of $265 million on the cancellation of an intra-Group gas supply contract.

Profit before interest and tax for the year ended December 31, 2004 was $18,087 million, including inventory holding gains of $10 million, and is after an impairment charge of $267 million in respect of fields in the deepwater Gulf of Mexico and US onshore, an impairment charge of $108 million in respect of a gas processing plant in the USA and a field in the Gulf of Mexico Shelf, an impairment charge of $60 million in respect of the partner operated Temsah platform in Egypt following a blow-out, a net loss on disposal of $65 million and a charge of $35 million in respect of Alaskan tankers that are no longer required. In addition, following the lapse of the sale agreement for oil and gas properties in Venezuela, $31 million of the previously booked impairment was reversed.

Profit before interest and tax for the year ended December 31, 2003 was $15,084 million, including inventory holding gains of $3 million and net gains on disposal of $1,188 million (primarily related to gains on the sale of the UK North Sea Forties field together with a package of shallow water assets in the Gulf of Mexico and Repsol’s exercise of its option to acquire a further 20% interest in BP Trinidad & Tobago LLC and net losses resulting from the sale of various other upstream assets); and is after an impairment charge of $296 million for four fields in the Gulf of Mexico, following technical reassessment and re-evaluation of future investment options; impairment charges of $133 million and $49 million respectively for the Miller and Viscount fields in the UK North Sea as a result of a decision not to proceed with waterflood and gas import options and a reserve write-down respectively; an impairment charge of $105 million for the Yacheng field in China; an impairment charge of $108 million for the Kepadong field in Indonesia; and an impairment charge of $47 million for the Eugene Island/ West Cameron fields in the US as a result of reserve write-downs following completion of our routine full technical reviews. In addition, there were impairment charges of $217 million and $58 million for oil and gas properties in Venezuela and Canada respectively, based on fair value less costs to sell for transactions expected to complete in early 2004. Furthermore, there were restructuring charges of $117 million in respect of ongoing restructuring activities in the UK and North America.

In addition to the factors above, the primary reasons for the increase in profit before interest and tax for the year ended December 31, 2005 compared with the year ended December 31, 2004 are higher liquids and gas realizations contributing around $10,100 million and around $400 million from higher volumes (in areas not affected by hurricanes), offset partly by a decrease of around $900 million due to the hurricane impact on volumes, costs associated with hurricane repairs and Thunder Horse of around $200 million, and higher operating and revenue investment costs of around $1,700 million.

The primary additional reasons for the increase in profit before interest and tax for 2004 compared with 2003 are higher liquids and gas realizations of around $5,150 million combined with an increase of $400 million due to higher volumes, partly offset by adverse foreign exchange impacts and inflationary pressures of around $350 million, higher costs of around $650 million and increased equity-accounted interest and tax charges of around $1,000 million. The result of TNK-BP was included for a full-year in 2004 compared with four months in 2003.

Total production for the year 2005 was 2,718 mboe/d for subsidiaries and 1,296 mboe/d for equity-accounted entities compared with 2,795 mboe/d and 1,202 mboe/d respectively, a year ago. For subsidiaries, increases in production in our new profit centres were more than offset by the effect of the hurricanes, higher planned maintenance shutdowns and anticipated decline in our existing profit centres. For equity-accounted entities, this primarily reflects growth from TNK-BP.

Actual production for subsidiaries and equity-accounted entities in 2005, after adjusting for the impact of severe weather and the impact of higher prices on production sharing contracts, was 2,849 mboe/d and 1,296 mboe/d, respectively, compared with the range of between 2.85 and 2.9 mmboe/d for subsidiaries and between 1.25 and 1.3 mmboe/d for equity-accounted entities as previously indicated.

Total production for 2004 was 2,795 mboe/d for subsidiaries and 1,202 mboe/d for equity-accounted entities, compared with 3,011 mboe/d and 595 mboe/d, respectively, in 2003. For subsidiaries, the 7.2% decrease includes 95 mboe/d impact of divestments and for equity-accounted entities the increase of 102% includes an increase of 108 mboe/d from the TNK-BP share of Slavneft from January 2004.

**Refining and Marketing**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2005** | **2004** | **2003** |
| Sales and other operating revenues from continuing operations | ($ million) | 213,465 | 170,749 | 143,441 |
| Profit before interest and tax from continuing operations (a) | ($ million) | 6,442 | 6,544 | 3,235 |
| Global Indicator Refining Margin (b) | | | | |
| Northwest Europe | ($/bbl) | 5.47 | 4.28 | 2.62 |
| US Gulf Coast | ($/bbl) | 11.40 | 7.15 | 4.71 |
| Midwest | ($/bbl) | 8.19 | 5.08 | 4.54 |
| US West Coast | ($/bbl) | 13.49 | 11.27 | 7.06 |
| Singapore | ($/bbl) | 5.56 | 4.94 | 1.77 |
| BP average | ($/bbl) | 8.60 | 6.31 | 4.08 |
| Refining availability (c) | (%) | 92.9 | 95.4 | 95.5 |
| Refinery throughputs | (mb/d) | 2,399 | 2,607 | 2,723 |

(a) Includes profit after interest and tax of equity-accounted entities.

(b) The Global Indicator Refining Margin (GIM) is the average of regional industry indicator margins which we weight for BP’s crude refining capacity in each region. Each regional indicator margin is based on a single representative crude with product yields characteristic of the typical level of upgrading complexity. The refining margins are industry specific rather than BP specific measures, which we believe are useful to investors in analysing trends in the industry and their impact on our results. The margins are calculated by BP based on published crude oil and product prices and take account of fuel utilization and catalyst costs. No account is taken of BP’s other cash and non-cash costs of refining, such as wages and salaries and plant depreciation. The indicator margin may not be representative of the margins achieved by BP in any period because of BP’s particular refining configurations and crude and product slate.

(c) Refining availability is the weighted average percentage of the period that refinery units are available for processing, after taking account of downtime such as planned maintenance.

The changes in sales and other operating revenues are explained in more detail below:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | 2005 | 2004 | 2003 |
| Sale of crude oil through spot and term contracts | ($ million) | 36,992 | 21,989 | 22,224 |
| Marketing, spot and term sales of refined products | ($ million) | 155,098 | 124,458 | 102,003 |
| Other sales including non-oil and to other segments | ($ million) | 21,375 | 24,302 | 19,214 |
| | | 213,465 | 170,749 | 143,441 |
| Sale of crude oil through spot and term contracts | (mb/d) | 2,464 | 2,312 | 2,387 |
| Marketing, spot and term sales of refined products | (mb/d) | 5,888 | 6,398 | 6,688 |

Sales and other operating revenues for 2005 was $213 billion compared with $171 billion in 2004 and $143 billion in 2003. The increase in 2005 compared with 2004 was principally due to an increase of around $31 billion in marketing, spot and term sales of refined products. This was due to higher prices of $39 billion and a positive foreign exchange impact due to a weaker dollar of $1 billion, partly offset by lower volumes of $9 billion. Additionally, sales of crude oil, spot and term contracts increased by $15 billion due to higher prices of $13 billion and higher volumes of $2 billion and other sales decreased by $3 billion, primarily due to lower volumes. The $28 billion increase in turnover in 2004 compared to 2003 was primarily due to due an increase in marketing, spot and term sales of refined products of around $23 billion. This was due to higher prices of $28 billion, a positive foreign exchange impact due to a weaker dollar of $8 billion and lower volumes of $13 billion. Additionally, sales of crude oil, spot and term contracts remained flat, reflecting higher prices of $1 billion offset by lower volumes of $1 billion. Other sales increased by around $5 billion, due to higher prices of $4 billion and higher volumes of $1 billion.

Profit before interest and tax for the year ended December 31, 2005 was $6,442 million, including inventory holding gains of $2,537 million and net gains of $177 million principally on the divestment of a number of regional retail networks in the US, and is after a charge of $1,200 million in respect of fatality and personal injury compensation claims associated with the incident at the Texas City refinery on March 23, 2005, a charge of $140 million relating to new, and revisions to existing, environmental and other provisions, an impairment charge of $93 million and a charge of $33 million for the impairment of an equity-accounted entity.

Profit before interest and tax for the year ended December 31, 2004 was $6,544 million, including inventory holding gains of $1,304 million, and is after net losses on disposal of $261 million (principally related to plant closures and exit from businesses, the disposal of our interest in the Singapore Refining Company Private Limited, the closure of the lubricants operation of the Coryton Refinery in the UK and the disposal of our European speciality intermediates businesses), a charge of $206 million related to new, and revisions to existing, environmental and other provisions, a charge of $195 million for the impairment of the petrochemicals facilities at Hull, UK and a charge of $32 million for restructuring, integration and rationalization.

Profit before interest and tax for the year ended December 31, 2003 was $3,235 million, including inventory holding gains of $43 million and is after a $369 million charge in relation to new, and revisions to existing, environmental and other provisions, Veba integration costs of $287 million (see below), net losses on disposal of $214 million (including the sale of retail assets, the Group’s European oil speciality products business, refinery and retail interests in Germany and Central Europe and pipeline interests in the US) and a credit of $10 million arising from the reversal of restructuring provisions.

The primary additional reasons for the increase in profit before interest and tax for the year ended December 31, 2005, compared with the year ended December 31, 2004 were improved refining margins contributing approximately $2,000 million, offset by lower retail marketing margins reducing profits by approximately $720 million, a reduction of around $870 million due to the shutdown of the

Texas City refinery, along with other storm related supply disruptions to a number of our US based businesses, an adverse impact of around $400 million due to fair value accounting for derivatives (see explanation below) and a reduction of around $430 million due to rationalization and efficiency programme charges, mainly across our marketing activities in Europe.

Where derivative instruments are used to manage certain economic exposures that cannot themselves be fair valued or accounted for as hedges, timing differences in relation to the recognition of gains and losses occur. These economic exposures primarily relate to inventories held in excess of normal operating requirements that are not designated as held for trading and fair valued, and forecast transactions to replenish inventory. Gains and losses on derivative commodity contracts are recognized immediately through the income statement whilst gains and losses on the related physical transaction are recognized when the commodity is sold.

Additionally, IFRS requires that inventory designated as held for trading is fair valued using period end spot prices whilst the related derivative instruments are valued using forward prices consistent with the contract maturity. Depending on market conditions, these forward prices can be either higher or lower than spot prices resulting in quarterly timing differences.

The full year average GIM was higher than that for the full year 2004, and consistent with the increase in BP's actual realized refining margin. Retail marketing margins, despite the recovery in the fourth quarter, were significantly lower than those for the full year 2004, although partly offset by increases in our other marketing businesses. Our purchased energy costs and operating and investment costs were higher year-on-year due to refinery repair, manufacturing integrity costs and the initial charges for the rationalization and efficiency programmes mentioned above. Refining throughputs at 2,399 mb/d were lower than in 2004 due primarily to the impact of disposal of the Mersin and Singapore refineries in 2004 and reduced availability at the Texas City refinery due to the explosion at the isomerization unit in March 2005 and the refinery's complete shutdown in late September, like other refineries in the area, owing to hurricane Rita. Refining availability was 92.9% compared with 95.4% in 2004. Marketing volumes were around 1% lower than 2004 due primarily to the effects of price increases as a result of supply disruption in the USA.

The increase in profit before interest and tax for 2004 compared with 2003 is primarily due to stronger refining margins contributing approximately $2,900 million, offset by a decrease in marketing margins of approximately $200 million, the impact of weaker US dollar of approximately $250 million and charges of around $310 million related primarily to a review of carrying value of fixed and current marketing assets. The increase was further offset by higher purchased energy costs of around $100 million and portfolio impacts of around $100 million. Refining throughputs at 2,607 mb/d were 4% lower than in 2003 due principally to the disposal of BP's interests in the Singapore Refining Company Private Limited, the closure of refining operations at the ATAS Refinery in Mersin, south eastern Turkey and the disposal of the Bayernoil refinery in Germany in the second quarter of 2003. Refining availability for the year was 95.4% compared with 95.5% in 2003 and marketing volumes were relatively flat compared with 2003.

The integration of Veba, which began in February 2002, was essentially completed during 2003. The 2003 charges of $287 million relating to the Veba acquisition comprised some $46 million of severance costs, $37 million of other integration costs such as consulting, studies and internal project teams, $48 million of system infrastructure and application costs and the balance of $156 million related to additional synergy projects. 2003 cash outflows related to these charges were approximately $260 million.

**Gas, Power and Renewables**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2005** | **2004** | **2003** |
| Sales and other operating revenues from continuing operations | ($ million) | 25,557 | 23,859 | 22,568 |
| Profit before interest and tax from continuing operations (a) | ($ million) | 1,104 | 954 | 578 |

(a) Includes profit after interest and tax of equity-accounted entities.

The changes in sales and other operating revenues are explained in more detail below:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2005** | **2004** | **2003** |
| Gas marketing sales | ($ million) | 15,222 | 13,532 | 12,929 |
| Other sales (including NGL marketing) | ($ million) | 10,335 | 10,327 | 9,639 |
| | ($ million) | 25,557 | 23,859 | 22,568 |
| Gas marketing sales volumes | mmcf/d | 5,096 | 5,244 | 5,881 |
| Natural gas sales by Exploration and Production | mmcf/d | 4,747 | 3,670 | 3,923 |

Sales and other operating revenues for 2005 was $26 billion compared with $24 billion in 2004. Gas marketing sales increased by $1.7 billion as price increases of $2.1 billion more than offset lower volumes of $0.4 billion. Other sales (including NGL marketing) remained flat reflecting $0.1 billion related to higher prices and $0.1 billion to lower volumes. Sales and other operating revenues for 2004 was $24 billion compared with $23 billion in 2003. Gas marketing sales increased by $0.6 billion as price increases of $1.8 billion more than offset lower volumes of $1.2 billion, and other sales (including NGL marketing) increased by around $0.7 billion of which $2.1 billion related to higher prices and $1.4 billion to lower volumes. Gas marketing sales volumes declined in 2004 and 2005 due to production and customer portfolio changes and, in 2005, production loss caused by hurricanes in the Gulf of Mexico.

Profit before interest and tax for the year ended December 31, 2005 was $1,104 million, including inventory holding gains of $95 million, compensation of $265 million received on the cancellation of an intra-Group gas supply contract and net gains of $55 million primarily on the disposal of BP’s interest in Interconnector, a power plant in the UK and an NGL plant in the US, and is after net fair value losses of $346 million on embedded derivatives and a credit of $6 million related to new, and revisions to existing, environmental and other provisions.

Profit before interest and tax for the year ended December 31, 2004 was $954 million, including inventory holding gains of $39 million and a net gain on disposal of $56 million.

Profit before interest and tax for the year ended December 31, 2003 was $578 million, including inventory holding gains of $6 million and is after a net loss on disposal of $6 million resulting from several small transactions.

The additional factors contributing to the increase in profit before interest and tax for the year ended December 31, 2005, compared with the equivalent period in 2004 are higher contributions from the operating businesses of around $170 million.

In addition to the factors above, the principal additional factors contributing to the increase in profit before interest and tax in 2004 compared with 2003 were a higher contribution from the natural gas liquids and solar businesses of approximately $350 million due to higher unit margins and higher volumes.

**Other Businesses and Corporate**

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2005** | **2004** | **2003** |
| Sales and other operating revenues from continuing operations | ($ million) | 668 | 546 | 515 |
| Profit (loss) before interest and tax from continuing operations (a)(b) | ($ million) | (1,191) | 164 | (253) |

(a) Includes profit after interest and tax of equity-accounted entities.

(b) Includes the portion of Olefins and Derivatives not included in the sale of Innovene to INEOS. This includes the equity-accounted investments in China and Malaysia that were part of the Olefins and Derivatives business. These investments have been transferred to Refining and Marketing effective January 1, 2006.

Other businesses and corporate comprises Finance, the Group's aluminium asset, its investments in PetroChina and Sinopec (both divested in early 2004), interest income and costs relating to corporate activities worldwide. In addition, as noted above, it included the portion of Olefins and Derivatives not included in the sale of Innovene to INEOS. On October 10, 2003 we completed the sale of our 50% interest in PT Kaltrim Prima Coal to PT Bumi Resources.

The loss before interest and tax for the year ended December 31, 2005 was $1,191 million, including a net gain on disposal of $38 million, and is after inventory holding losses of $5 million, a net charge of $278 million relating to new, and revisions to existing, environmental and other provisions and the reversal of environmental provisions no longer required, a charge of $134 million in respect of the separation of the Olefins and Derivatives business and net fair value losses of $13 million on embedded derivatives.

The profit before interest and tax for the year ended December 31, 2004 was $164 million, including inventory holding gains of $8 million, net gains on disposals of $1,164 million primarily related to the sale of our interests in PetroChina and Sinopec and a credit of $66 million primarily resulting from the reversal of vacant space provisions in the UK and the US, and is after a charge of $283 million related to new, and revisions to existing, environmental and other provisions, and a charge of $102 million relating to the separation of the Olefins and the Derivatives business.

The loss before interest and tax for the year ended December 31, 2003 was $253 million including a credit of $648 million relating to a US medical plan, net gains on disposal of $139 million (primarily comprising gains on the sale of our interest in PT Kaltim Prima Coal, an Indonisian coal mining company, and gains and losses on other smaller transactions) and a credit of $5 million resulting from a reduction in the provision for costs associated with the closure of polypropylene capacity in the USA and is after inventory holding losses of $1 million, a charge of $213 million in respect of new, and revisions to existing, environmental and other provisions and a charge of $110 million in respect of provisions for future rental payments on surplus property.

**Environmental Expenditure**

| | Year ended December 31, | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | | **($ million)** | |
| Operating expenditure | 494 | 526 | 498 |
| Clean-ups | 43 | 25 | 45 |
| Capital expenditure | 789 | 524 | 546 |
| Additions to environmental remediation provision | 565 | 587 | 599 |
| Additions to decommissioning provision | 1,023 | 286 | 1,159 |

Operating and capital expenditure on the prevention, control, abatement or elimination of air, water and solid waste pollution is often not incurred as a separately identifiable transaction. Instead, it forms part of a larger transaction that includes, for example, normal maintenance expenditure. The figures for environmental operating and capital expenditure in the table are therefore estimates, based on the definitions and guidelines of the American Petroleum Institute.

Environmental operating expenditures for 2005 were broadly in line with 2004. The increase in capital expenditure is largely related to clean fuels investment. Similar levels of operating and capital expenditures are expected in the foreseeable future. In addition to operating and capital expenditures, we also create provisions for future environmental remediation. Expenditure against such provisions is normally in subsequent periods and is not included in environmental operating expenditure reported for such periods. The charge for environmental remediation provisions in 2005 includes $512 million resulting from a reassessment of existing site obligations and $53 million in respect of provisions for new sites.

Provisions for environmental remediation are made when a clean-up is probable and the amount reasonably determinable. Generally, their timing coincides with commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination, the timing and extent of corrective actions and also the Group's share of liability. Although the cost of any future remediation could be significant and may be material to the result of operations in the period in which it is recognized, we do not expect that such costs will have a material effect on the Group's financial position or liquidity. We believe our provisions are sufficient for known requirements; and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

In addition, we make provisions on installation of our oil- and gas-producing assets and related pipelines to meet the cost of eventual decommissioning. On installation of oil or natural gas production facility a provision is established which represents the discounted value of the expected future cost of decommissioning the asset. Additionally, we undertake periodic reviews of existing provisions. These reviews take account of revised cost assumptions, changes in decommissioning requirements and any technological developments. The level of increase in the decommissioning provision varies with the number of new fields coming on stream in a particular year and the outcome of the periodic reviews.

Provisions for environmental remediation and decommissioning are usually set up on a discounted basis, as required by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Further details of decommissioning and environmental provisions appear in Item 18 — Financial Statements — Note 43 on page F-114. See also Item 4 — Information on the Company — Environmental Protection on page 68.

**Insurance**

The Group generally restricts its purchase of insurance to situations where this is required for legal or contractual reasons. This is because external insurance is not considered an economic means of financing losses for the Group. Losses will therefore be borne as they arise rather than being spread over time through insurance premiums with attendant transaction costs. This position will be reviewed periodically.

## LIQUIDITY AND CAPITAL RESOURCES

**Cash Flow**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | | ($ million) | |
| Net cash provided by operating activities of continuing operations | 25,751 | 24,047 | 15,955 |
| Net cash provided by (used in) operating activities of Innovene operations | 970 | (669) | 348 |
| Net cash provided by operating activities | 26,721 | 23,378 | 16,303 |
| Net cash used in investing activities | (1,729) | (11,331) | (9,281) |
| Net cash used in financing activities | (23,303) | (12,835) | (6,803) |
| Currency translation differences relating to cash and cash equivalents | (88) | 91 | 121 |
| Increase (decrease) in cash and cash equivalents | 1,601 | (697) | 340 |
| Cash and cash equivalents at beginning of year | 1,359 | 2,056 | 1,716 |
| Cash and cash equivalents at end of year | 2,960 | 1,359 | 2,056 |

Net cash provided by operating activities for the year ended December 31, 2005 was $26,721 million compared with $23,378 million for the equivalent period of 2004, reflecting an increase in profit before taxation from continuing operations of $6,455 million, an increase in net cash provided by operating activities of Innovene of $1,639 million, a lower charge for provisions, less payments of $1,210 million and an increase in dividends received from jointly controlled entities and associates of $634 million. This was partially offset by an increase in income taxes paid of $2,640, an increase of $1,320 million in working capital requirements, an increase in earnings from jointly controlled entities and associates of $1,263 million, a higher net credit for impairment and gain/ loss on sale of businesses and fixed assets of $775 million, an increase in interest paid of $429 million and an increase in the net operating charge for pensions and other post-retirement benefits, less contributions of $351 million.

Net cash provided by operating activities for the year ended December 31, 2004 was $23,378 million compared with $16,303 million in 2003. This reflects an increase in profit before taxation from continuing operations of $7,235 million, the absence of discretionary funding for the Group’s pension plans of $2,533, an increase in dividends received from jointly controlled entities and associates of $1,651 million (primarily due to the dividend from TNK-BP) and an increase in depreciation, depletion and amortization of $453 million. This was partially offset by an increase in income taxes paid of $1,584, an increase in earnings from jointly controlled entities and associates of $1,066 million, an increase of $1,054 million in working capital requirements and a decrease of $1,017 million in net cash provided by Innovene operations.

Net cash used in investing activities was $1,729 million compared with $11,331 million and $9,281 million for the equivalent periods of 2004 and 2003. The reduction in 2005 reflects an increase in disposal proceeds of $6,239 million, primarily from the sale of Innovene, and a decrease in spending on acquisitions of $2,693 million. The increase in 2004 compared with 2003 reflects a reduction in disposal proceeds of $1,395 million, increased acquisition spending of $191 million and increased capital expenditure of $401 million.

Net cash used in financing activities was $23,303 million compared with $12,835 million in 2004 and $6,803 million in 2003. The higher outflow in 2005 reflects an increase in the net repurchase of ordinary share capital of $4,107, higher repayments of long-term financing of $2,616 million, a net decrease of $1,433 million in short-term debt, and increases in equity dividends paid to BP shareholders of $1,318 million and to minority interest of $794 million. The higher outflow in 2004 compared with 2003 reflects an increase in the net repurchase of ordinary share capital of $5,319 million, lower proceeds from long-term financing of $1,647 million and an increase in equity dividends paid to BP shareholders of $387 million, partially offset by lower repayments of long-term financing of $1,356 million.

The Group has had significant levels of capital investment for many years. Capital investment, excluding acquisitions, was $13.9 billion in 2005, $13.8 billion in 2004 and $13.6 billion in 2003. Sources of funding are completely fungible, but the majority of the Group's funding requirements for new investment come from cash generated by existing operations. The Group's level of net debt, that is debt less cash and cash equivalents, was $20.3 billion at the end of 2003, $21.7 billion at the end of 2004 and was $16.2 billion at the end of 2005. The lower level of debt at the end of 2005 reflects the receipt of the Innovene disposal proceeds in December 2005.

Over the period 2003 to 2005 our cash inflows and outflows were balanced, with sources and uses both totalling $89 billion. During that period, the price of Brent has averaged $40.52/bbl. The following table summarizes the three year sources and uses of cash:

| **Sources** | | **Uses** | |
|---|---|---|---|
| | **($ billion)** | | **($ billion)** |
| Net cash provided by operating activities | 66 | Capital expenditure | 40 |
| Divestments | 23 | Acquisitions | 5 |
| | | Net repurchase of shares | 20 |
| | | Dividends to BP shareholders | 19 |
| | | Dividends to Minority Interest | 1 |
| | | Movement in net debt | 4 |
| | 89 | | 89 |

Significant acquisitions made for cash were more than offset by divestitures. Net investment over the same period has averaged $7.3 billion per year. Dividends to BP shareholders, which grew on average by 14.3% per year in dollar terms, used $19 billion. Net repurchase of shares was $20 billion, which includes $21 billion in respect of our share buyback programme less proceeds from share issues. Finally, cash was used to strengthen the financial condition of certain of our pension funds. In the last three years, $3.7 billion has been contributed to funded pensions plans.

**Trend Information**

We expect to grow cash flows underpinned by the following:

— We expect to grow production in a $40/bbl price environment.

— We aim to control cost increases below inflation.

— We plan to maintain capital expenditure at around $15 billion in 2006 and grow it at about $0.5 billion a year to 2008.

— We expect to continue to high grade our portfolio and expect divestments to be an ongoing rate of around $3 billion a year.

As noted above, we expect capital expenditure, excluding acquisitions, to be around $15 billion in 2006; the exact level will depend on a number of things including sector-specific cost escalation above levels we have seen so far, time critical and material one-off investment opportunities which further our strategy and any acquisition opportunities that may arise. At present, we do not expect any of these things to affect our capital expenditure. Refer to Item 4 for further information.

The UK Government's announced increase in the North Sea supplemental tax rate will, when enacted, result in higher tax charges. This increase will have two effects; first to create a one-time deferred tax charge of around $600 million and second to increase the ongoing Group effective tax rate by 2%. The full year aggregate effective tax rate is expected to be around 39%.

Total production for 2006 is estimated at an average of between 2.8 and 2.85 mmboe/d for subsidiaries and between 1.3 and 1.35 mmboe/d for equity-accounted entities; these estimates are based the Group's asset portfolio at January 1, 2006, anticipated start-ups in 2006 and Brent at $40/bbl, before any 2006 disposal effects, and before any effects of prices above $40/bbl on volumes in Production Sharing Agreements. The daily production of the Gulf of Mexico Shelf assets, whose sale was announced in April 2006, is estimated at 27 mboe.

The anticipated decline in production volumes from subsidiaries in our existing profit centres is partly mitigated by the development of new projects and the investment in incremental reserves in and around existing fields. We expect that this overall decline in production from subsidiaries in our existing profit centres will be more than compensated for by strong increases in production from subsidiaries in our new profit centres over the next few years. Production growth in our equity-accounted joint venture, TNK-BP, is expected to moderate to between 2% and 3% over the period 2005 to 2010.

The most important determinants of cash flows in relation to our oil and natural gas production are the prices of these commodities. In a stable price environment, cash flows from currently developed proved reserves are expected to decline in a manner consistent with anticipated production decline rates. Development activities associated with recent discoveries, as well as continued investment in these producing fields, are expected to more than offset this decline, resulting in increased operating cash flows over the next few years. Cash flows from equity-accounted entities are expected to be in the form of dividend payments.

***Dividends and Other Distributions to Shareholders and Gearing***

Our dividend policy is to grow the dividend per share progressively. In pursuing this policy and in setting the levels of dividends we are guided by several considerations, including:

— the prevailing circumstances of the Group;

— the future investment patterns and sustainability of the Group;

— the future trading environment. It does seem that oil prices may have a support level of at least $40/bbl in the medium term. We continue to use our planning assumption of $25/bbl for testing the downside in the balance between investment and total distributions to shareholders.

We remain committed to returning the excess of net cash provided by operating activities less net cash used in investing activities to our investors where this is in excess of investment and dividend needs.

We plan to continue our programme of share buybacks, subject to market conditions and constraints. Since the inception of the share repurchase programme in 2000 until the end of 2005 we have repurchased some 2,662 million shares at a cost of $25.2 billion, reducing the number of shares in issue (after accounting for the issuance of shares under employee stock programmes and to AAR in respect of TNK) by 9%. During the first quarter of 2006, we bought back 349 million shares, at a cost of $4 billion.

Our financial framework includes a gearing band of 20-30% which is intended to provide an efficient capital structure and the appropriate level of financial flexibility. Our aim is to return gearing, which was 17% at December 31, 2005, to the lower half of the band.

**The discussion above and following contains forward-looking statements with regard to future cash flows, future levels of capital expenditure and divestments, future production volumes, working capital, the renewal of borrowing facilities, shareholder distributions and share buybacks and expected payments under contractual and commercial commitments. These forward-looking statements are based on assumptions which management believes to be reasonable in the light of the Group's operational and financial experience, however, no assurance can be given that the forward-looking statements will be realized. You are urged to**