

## BP Investor Briefing: 4 June 2010

### Fergus MacLeod, Head of Investor Relations

Hello and welcome. I'm Fergus MacLeod, BP's Head of Investor Relations.

Before we start, I'd just like to say that during our briefing today we may make reference to estimates, plans and expectations that are forward-looking statements. As usual, actual results could differ materially due to factors noted in our UK and SEC filings. Please refer to our Annual Report and Accounts and Stock Exchange Announcements for more details. They are all available on our website, bp.com.

Thank you, and now over to Carl-Henric.

### Carl-Henric Svanberg, Chairman

Good afternoon and good morning to those in the US.

Thank you for joining us today. I am Carl-Henric Svanberg, Tony Hayward our CEO is here with me as well as Byron Grote and Fergus Macleod.

We have not had the opportunity to speak to you as a group since the events of 20<sup>th</sup> April and we wanted to bring you up to date with what we have been doing in the Gulf of Mexico. The Board is keenly aware of the serious concerns that investors feel at the gravity of the issues facing the company. Tony and I are pleased to be here today to talk to you and to hear your thoughts.

The accident on April 20th cost 11 lives and led to an oil spill which has profoundly affected the people and the communities in the Gulf of Mexico. These events have shocked us all. We deeply regret and we are sorry for this tragic accident and its aftermath.

The Board of BP has been clear from the outset that all resources available to the company should be applied to meeting BP's responsibilities in addressing these events. The task is by no means complete and we have a long way to go. This is a tough job and Tony and the team continue to work relentlessly. And they have the board's full support.

In conjunction with the US authorities, a massive response has been mobilised which is focussed immediately on containing and stopping the flow of oil. We will also continue to apply all of the necessary resources to the aftermath, both in the clean-up operations and remediation and payment of legitimate claims. These are our most critical and immediate tasks.

This is an inherently difficult business. The world needs energy and it trusted us to produce that in a safe and sustainable manner. We must regain that trust.

It will be our responsibility once the immediate crisis is over to examine what went wrong and what lessons must be learned for us and for the industry. All these lessons must be incorporated into BP's future strategy. This strategy will set an appropriate course for the business. Accountability and adaptability remain at the heart of BP's business principles.

We must be good citizens in all the countries in which we operate in terms of safety and compliance of our operations.

And let me be clear, our first priority today is making things right in the Gulf region: in terms of stopping the leak, cleaning the beaches, addressing longer term environmental issues and helping communities to get back on their feet.

We will meet our obligations both as a responsible company and also as a necessary step to rebuilding trust in BP as a long term member of the business communities in the United States and around the world. This is in the interest of all our stakeholders.

Financially, for our shareholders, we aim, as always, to strike the right balance between current returns through the dividend, sustained investments for the long term growth and maintaining a prudent gearing level. We will do all we can to protect and to grow the value of the company in which you have invested.

The events in the Gulf of Mexico clearly raise questions over the size and timing of the costs we will have to bear and the impact that the consequences of the incident will have on our future plans.

Future decisions on the quarterly dividend will be made as they have always been on the basis of all the circumstances at the time. All factors will be considered and decisions taken in the long term interests of our shareholders. And we are aware of the importance of the dividend for you, the shareholders.

We should remember that we are addressing these issues from the perspective of a strong operation, strong cash flow, robust asset base, and low gearing.

I have already spoken to a number of you in recent weeks and I look forward to a wider engagement in the near future.

So with that I would like to hand over to you, Tony.

## Tony Hayward, Chief Executive Officer

Thanks very much, Carl-Henric. Good morning to those of you listening in the US and good afternoon to those of you in the UK and Europe.

As you are probably aware, over the last 24 hours we have installed the LMRP cap and are now producing oil and gas at the surface. It will be at least a further 48 hours before the system is optimised and we can assess exactly how much of the oil and gas is being captured.

Today's call is not a technical update. I want to stand back from the detail and talk with you about my reflections on the incident so far, the lessons we are learning from it, and the impact this is likely to have on BP moving forward.

First, though, let me be clear on a number of points:

- I'd like to repeat what Carl-Henric has said and stress that everyone at BP is heart broken by this event, by the loss of life, by the damage to the environment and the impact on the livelihoods of the people of the Gulf Coast.
- It should not have happened and we are bound and determined to learn every lesson to try and ensure it never happens again.
- We will stand by our obligations. We will halt this spill and put right the damage that has been done, and we will work tirelessly to rebuild the confidence of the American people and of the world in BP.
- We will also meet our obligations to our employees, and to our other stakeholders, including hundreds of thousands of shareholders, and millions more in mutual and pension funds, who rely on their investment in BP as part of their financial security and in many cases their retirement income.
- The financial consequences of this will undoubtedly be severe, but BP faces its financial responsibilities as a strong company. Outside this tragic incident, the company is performing well, as we saw with our first quarter results, and our asset base and balance sheet remain amongst the very best.

Let me turn first to the response beginning with our philosophy.

From the beginning, we have of course accepted that we are a responsible party, as defined under US legislation. This means, that as operator of the block, we will do all we can to:

- Isolate the oil at the source
- Control the spill and clean up the environment
- And pay all legitimate claims

We are working hand in hand with many government agencies to manage through this process

We are being, and will be, transparent with the government – in our response, in our investigation and in our learnings.

I believe that acting responsibly and being transparent are key to rebuilding trust in BP. Ultimately doing the right thing will prevail.

The scale of the response required is unprecedented and we have responded in like fashion.

Offshore, we have mobilised an armada of sub-sea intervention vessels to stop and contain the flow of oil.

In order to control the spill, we have deployed over 1,800 vessels, 60 aircraft, and over 18,000 employees and contractors. We also have over 15,000 volunteers working across four states to help minimise the environmental impact

We deeply regret the fact that oil has reached the shore and are standing ready to respond powerfully to any further landfalls.

Turning to the forward timeline, we see this in two parts.

Our first goal is to minimise the impact of the spill. To achieve this we have three containment operations underway:

- The first is the LMRP Cap, which we hope will capture the majority of oil from the well.
- Second, is an enhanced production system that will run in parallel with the LMRP Cap. This should be in place by mid-June.
- Last, by early July we expect to have a more permanent system in place which should be more robust in the event of hurricanes.

The ultimate resolution lies in the relief wells, which are targeted for completion in August. These are expected to completely stop the flow of oil and gas from the well.

That's the response. Let me now turn to what we have found out about how this tragedy occurred.

The initial perspectives from our internal investigation have been provided to the government, which is important both for transparency and in helping the industry learn the lessons from BP's experience as quickly as possible.

The investigation team's work thus far shows that this accident was brought about by the failure of a number of processes, systems and equipment. There were multiple control mechanisms, procedures, and equipment in place that should have prevented this accident or reduced the impact of the spill:

1. The cement that seals the reservoir from the well;
2. The casing system, which seals the well bore;
3. The pressure tests to confirm the well is sealed;

4. The execution of procedures to detect and control hydrocarbons in the well, including the use of the BOP;
5. The BOP Emergency Disconnect System, which can be activated by pushing a button at multiple locations on the rig;
6. The automatic closure of the BOP after its connection is lost with the rig; and
7. Features in the BOP to allow Remotely Operated Vehicles (ROV) to close the BOP and thereby seal the well at the seabed after a blow out.

I understand people want a simple answer about why this happened and who is to blame. The honest truth is that this is a complex accident, caused by an unprecedented combination of failures.

In due course, independent investigation will examine and conclude on accountability – it is simply too early and not up to us to say where fault lies. A lot remains unknown.

This was a tragic accident and we absolutely need to understand the causes of it to try to ensure that nothing like it ever happens again.

The next issue I'd like to cover is how we begin the process of rebuilding the trust of all of our stakeholders, and in particular the trust of the American people.

We all wish the incident had not happened, but we cannot rewrite history.

In large part I believe that our reputation, rests on how we respond to the incident itself, and on this we are following four key principles:

- One, we will be transparent with the government and the American people in what we do and what we say.
- Two, we will meet our responsibilities to overcome the socio-economic impact of the incident.
- Three, we will remediate, in full, the environmental impact of what has occurred.
- Four, we will invest in creating an acceptable and sustainable Deepwater Gulf of Mexico business, through changes in the way the industry operates and through initiatives such as the major \$500m investment in scientific and environmental knowledge of the Gulf.

Over and above that, what are the lessons that will ensure such an incident never happens again?

- For many years, safe and compliant operations and environmental responsibility have been central to what BP stands for, and these have been expressed strongly in the stated values and priorities of the company and its leadership.
- Since I took over as Chief Executive, we have further strengthened BP's systems for safety, operational integrity and environmental management.
- Against that backdrop, it is very painful for BP, and indeed for myself, to find ourselves in the current situation.
- So the question has to be – what does this mean?

There are likely to be many ramifications but let me mention a few of my initial reflections:

- Overall, the paradigm in which BP, and the wider industry, operates needs to change.
- We need better safety technology. An example of this is the “fail safe” BOP, which this incident has clearly demonstrated is not failsafe. BP needs to, and will, take existing standards to a completely new level – we must.
- We need to significantly enhance sub-sea intervention capability in the deepwater. BP intends to play a key role in creating this, and we believe that our partners in the industry will join us.
- It is likely the industry will carefully evaluate its business model, to determine how we can work better with our contractors to reduce the various risks associated with drilling operations.

Let me move onto the financial impact of this incident on BP.

We are still at an early stage in assessing this, but here is what we know so far:

- To date we have spent well over \$1billion in gross direct costs for the response, clean up and relief wells. Spending at this rate will continue until the flow of oil stops and for some time thereafter.
- Fines and penalties will be in addition to this.
- At this stage, it is impossible to predict the longer term costs of environmental remediation, claims and litigation, but they will be sizeable.
- In terms of timing, and assuming the relief well is completed in August, we believe it likely that we would pay the substantial majority of the remaining containment, removal and clean up costs by the end of the year.
- Other elements are likely to be spread over many years in cash terms, including fines and penalties and longer term remediation, restitution, claims and litigation costs.
- It is too soon for us to gauge the potential overall scale of all of these elements.

Some have asked how our responsibilities to other stakeholders fits in with our obligations to the citizens of the Gulf Coast.

We are mindful of our responsibilities to all of our stakeholders whose long term interests depend on how we deal with this incident:

- These include our 80,000 employees, of whom 30% are in the US; and
- The many investors in BP who depend on us in part for their financial security. Around 40% of BP’s shareholders are in the US.

As I have said BP faces this situation as a strong company. We will do the right thing and stand behind all of our commitments.

Carl-Henric earlier reinforced our financial framework, which is as we outlined in our Strategy Presentation in March. It is aimed at striking a balance between shareholder

distribution - the dividend - and investing for future growth, whilst maintaining a strong balance sheet. Clearly the response to this incident is our top priority.

In March, we indicated that these cash flows were breakeven at an oil price of around \$60/barrel. This was, of course, before the costs of the incident.

Under the current trading environment, we are generating significant additional cash flow.

In addition, our gearing is currently below the bottom of our targeted range

And our asset base is strong and valuable, with more than 18bn barrels of proven reserves and 63bn barrels of resources at the end of 2009.

All of the above gives us significant flexibility in dealing with the cost of the incident.

The last major point to highlight is that we are mindful that our response does not distract us from our ongoing business

For this reason, we are going to create a separate, stand alone organisation to manage the ongoing and long-term business response.

The new organisation will be focused on the response, while the rest of the Company focuses on delivering our strategy.

I've asked Bob Dudley to take over the new organisation. His job will be to complete the task at hand, help manage the reputational impact, the financial obligations and restore trust and confidence of BP in America; I don't believe we could have a better person to lead this organisation.

And of course, it goes without saying this will remain my number one priority for as long as necessary.

To conclude, let me say the following:

This is an extraordinary situation, and one which has deeply affected so many – from the families and friends of those who died on the 20th of April, to the people of the Gulf Coast, to the Federal Government and the States of the United States, to our employees, to our industry partners and to you, our investors.

I deeply regret the impacts the event and its aftermath have had and continue to have. And I wish to apologize both personally and on behalf of the whole of BP for what has happened.

Let me stress again what I see as the most important points:

- We will stop the leak and clean up the spill and pay all legitimate claims
- We will work to rebuild the trust of the American people and all our stakeholders
- We are bound and determined to learn from the event and to try and ensure it never happens again. What has taken place is an issue which will impact the global oil and gas industry, and will necessarily have a very broad impact not only in the United States but around the world.
- The world's demand for energy is continuing to grow, and so is that of the United States. The world needs the contribution of oil from the deepwater, and America can benefit hugely from the resources of the Gulf of Mexico. But we need to prevent anything like this spill from ever happening again, anywhere in the world.
- BP believes it has an important role to play in continuing to meet the world's energy needs, in paying taxes, providing employment and in supporting the savings and retirement plans of millions of people.
- In the United States BP and its heritage companies have been in business for over 100 years, and we intend to be around for the long run. We are the number one oil and gas producer in the US helping to contribute to America's energy security. We are a leading supplier of fuels and a leading investor in Alternative Energy, and in technology research and development.
- The financial costs of this incident will be severe, but we are a strong company committed to meeting all of our responsibilities.
- My number one priority is to steer us through this crisis – and that is what I intend to do.

Thank you very much for listening, ladies and gentleman. We would now be delighted to take your questions.