



# IOCs: a strategy for growth

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Good afternoon everyone and thank you for the invitation to join you today. I'm delighted to be in New Orleans which is a special city for BP.

Although our major base in this region is Houston, we have many links with New Orleans. BP employees were involved, as volunteers, with the relief efforts following Hurricane Katrina and we have kept in touch in a variety of ways.

One recent cause for celebration was that the son of one of our employees – Thomas Morstead, whose mother Isobel works for BP in Houston – played in the Saints team that won the Superbowl a few weeks ago.

That team has shown great loyalty to the city and has now become a symbol of its resurgence.

That example of staying the course and coming out a winner is a great model to follow and it's certainly what we intend to do in BP as an international oil company.

Now I appreciate you've had a full morning of presentations, many of which have focused on what's happening right now in the energy world.

So I want to take this opportunity to step back a little and look at one of the big underlying questions for our industry.

And that is the question of whether large international oil companies can deliver growth.

It's a valid question and one that is inevitably being asked after a period which has been amongst the most volatile the market has ever seen.

As well as roller-coaster oil prices, we've battled with cost inflation, low gas prices and tight refining margins.

Such issues have led to much soul-searching about role of the IOCs: about the challenge of accessing new resources; about competition with NOCs; about whether our companies are too big to grow, and if not, what are those sources of growth

To answer that question, I think we need to see today's situation against the backdrop of the industry's history.

Of course some would question whether we can learn anything from history. George Bernard Shaw, for example, famously said: 'We learn from history that we learn nothing from history.'

On the other hand, Edward Gibbon said "I know no way of judging the future but by the past". But then he was the author of *The Decline and Fall of the Roman Empire* – so he had a book to sell!



Winston Churchill had a different take on it. He said “History will be kind to me. For I intend to write it.”

My own view is that history has a huge amount to teach us. We learn what our strengths are – why certain things work and others don’t.

Innovation is a good example. We can see clearly from history that IOCs prosper when we offer something new, when we do what others cannot do.

The new things that we deliver change from year to year. But the value of innovation itself is a constant.

That takes us to the core proposition of the IOCs, which is that we operate at the frontiers of geography, geology, environment and geopolitics.

We have learned how to find and produce oil and gas in challenging surroundings from the Arctic to the Sahara, from the Gulf of Mexico to western Siberia.

And at those frontiers we have learned how to integrate physical assets, human capability, technology, financial resources and a range of partners in multi-billion dollar, multi-decade operations.

These capabilities will be critical in the future. Energy consumption is projected to rise by as much as 45 per cent by 2030 and the world needs all the help it can get to meet that demand.

As IOCs we are ready for that challenge. We have used our frontier skills to constantly build our portfolios and now the challenge is to deliver profitable growth.

And this is very much the situation in BP right now. We have built a very strong portfolio, particularly over recent years. In the last 2 years, through exploration, appraisal and access, we have added a total of around 7.5 billion barrels of new resources – that’s 5 years of production replaced in 2 years, and it excludes our operations in Iraq. Over the longer term we’ve achieved 17 years of reserve replacement of over 100%, with a bias to conventional hydrocarbons.

This record shows the result of learning from experience – identifying and building our core strengths which lie in deepwater, gas – in particular unconventional gas, and getting the most out of the world’s giant oil fields. Let me say a little about each.

Firstly Deepwater. Among the majors, we are now the leading deepwater producer and a lot of our deepwater experience has, of course, been gained in the Gulf of Mexico.

This is where we have pioneered the advanced seismic imaging techniques that have enabled us to see below the salt and go ever deeper into the tertiary layer.

A particular highlight was last year’s Tiber discovery – drilled in 4 thousand feet of water to a depth of 35 thousand feet below sea level – the deepest oil and gas discovery well drilled by the industry.

And this is the latest chapter in an ongoing story of learning how to find and produce oil at unprecedented depths, temperatures and pressures, with advanced floating production facilities, complex riser systems and leading edge subsea equipment.



Also last year, we successfully started up three Gulf of Mexico projects ahead of schedule – Dorado, King South and the second phase of Atlantis. These projects, along with strong performance from Thunder Horse, enabled our Gulf of Mexico installed capacity to reach 500 thousand barrels per day.

And what we have learned here is being applied around the world. Off Angola, we have made 19 deepwater discoveries in Block 31. In Egyptian waters, we have made major new gas discoveries in the Western Nile Delta. And off the coast of Libya, we hold an acreage position of eleven and a half thousand square miles (that's bigger than Massachusetts) and we plan to drill our first well there later this year, after our largest offshore 3D survey.

The second area of BP's capability that I want to highlight is Gas – in particular unconventional gas. We have been quietly building our North American position, and now have 42 tcf of resources in the Lower 48 and Canada, of which more than 80% is unconventional, and we produce over 2 billion cubic feet per day.

The important metric here is not the number of acres we hold – but the quality of the resource accessed and the ability to apply our technology to make an economic difference. To give one example, within a year of purchase, we increased well rates at the Woodford by 60%; and the latest well initial production rate was 10 million cubic feet per day; that's three times the pre-BP rate. We are drilling longer laterals and staying in the pay through improved geosteering.

Again we're transferring the know-how that we've gained here to places such as the Middle East and North Africa where we have accessed strong resources in Oman, Algeria and Libya because of what we bring.

The last example of leveraging capability is enhancing oil recovery from the world's giant reservoirs.

For 100 years we have lived with the fact that we only typically recover around a third of the oil from any given reservoir. As IOCs we have to be restless for improvement in that area because increased recovery represents a huge potential prize.

For BP, Alaska has been a key test-bed for EOR. One breakthrough came about, for example, because we challenged the conventional wisdom that using water with low salt levels to sweep reservoirs would damage the formation and impede recovery. Our trial at the Endicott field proved the opposite was the case as low salinity waterflooding increased recovery by 20%.

Again we are transferring what we have learned; for example to our colleagues in TNK-BP as they work on Russian assets such as Samotlor. At Samotlor, advanced waterflooding is increasing recovery from mature parts of the field and advanced seismic has revealed seven new satellite structures.

We are also extending our recovery capabilities to Iraq where we are working with our partners CNPC and the South Oil Company to increase production rates at the supergiant Rumaila field. By 2015, Rumaila has the potential to be the second largest producing oil field in the world.

Technology underpins all of these strengths. And that is why we have a dynamic and evolving technology program with 10 flagships. Our technology programs are commercially focused – designed to find new solutions to business problems.

A good example of how our model delivers is in advanced seismic imaging; where we reinvented how onshore 3D seismic is acquired with the independent simultaneous sweeping acquisition technique. We recently deployed this in Libya, where we were able to capture up to 10 times more shot points



per day than with traditional seismic. This has allowed us to acquire three thousand square kilometers of high quality seismic in just over a year, which in the past would have taken 5 years.

A slightly different type of capability – but certainly a driver for profitable growth – is the ability to forge lasting and constructive partnerships, often in challenging geopolitical situations.

By their nature, IOCs are global organisations. We have learned to overcome geopolitical challenges and work in many different locations and cultures.

Our experience in this area has paid off in several contexts recently. Look for example at the way we have continued to grow production in TNK-BP, developing an improved governance system and a strong business. Or look at the way we have handled the environmental and social sensitivities at our Tangguh LNG project in a remote part of Papua in Indonesia.

And look at the way IOCs such as BP are forming new and deeper relationships with NOCs and governments as our frontier capabilities are called upon. This is very much the story of the moment for us.

Iraq is the latest example, where we are working not only with the South Oil Company but with China's CNPC. Other examples of new relationships include our activities in Libya, Oman and most recently Jordan where we agreed to join with the National Petroleum Company to exploit the Risha gas field.

So, as a result of deploying capabilities and forming relationships, BP now has a strong and diversified portfolio. It's a 4 million barrel a day business with material positions in the world's best oil and gas basins and a total resource base of 64 billion barrels of oil equivalent.

This portfolio provides us with a world-class foundation from which to deliver profitable growth. And we are determined to prove that IOCs do not face a choice between growth and profitability. We believe we can achieve both for many years to come.

In 2009, we grew production at 4%, ahead of expectations. And I am confident that at a \$60 oil price we can sustain average production growth from 2008 at 1 to 2% per annum out to 2015, and see increasing potential to sustain growth to 2020.

This is partly because we expect to make continuing improvements in the distinctive strengths I have outlined. But it's also because we can see a number of ways in which we can make our portfolio work harder for our shareholders.

Firstly, the scale of our resources enables us to execute quality through choice. We don't have to do everything – we establish projects only when the resource is fully appraised. We progress projects only when they are fully optimized, which drives F&D lower. In 2009, our F&D was \$11.90 per boe, the lowest since 2004.

We are currently planning to make final investment decisions for 24 new major projects in the next two years. Each project has been high-graded through our project selection and progression process. They are concentrated in the Gulf of Mexico, the North Sea, Azerbaijan and Angola – high margin production areas that improve the portfolio and enable profitable growth.

We are progressing projects not only in new fields, for instance Tubular Bells in the Gulf of Mexico and West Nile Delta in Egypt, but also expanding our existing producing fields.



Big fields keep getting bigger, and the extension of known resources also means lower execution risk. This has been proven many times. For example, the next phase of the Chirag Oil field in Azerbaijan and further development of Atlantis. The second phase of Atlantis started last year, and had immediate success in the first well in the northern segment. This has given us confidence to continue to expand this phase in 2010.

We also see significant scope for increased efficiency. We have already made real progress on this front. In 2009 we reduced unit production costs by 12%, equivalent to 400 million dollars pre-tax replacement cost profit.

But while we have demonstrated improving efficiency over the past 2 years, we can do more and we have several initiatives underway to capture that opportunity.

To start with, we're fundamentally changing the way we work. We have established a new Central Developments Organization, with accountability for managing all major projects across the upstream to drive capital efficiency. This will enable us to fully leverage the scale of our projects portfolio in a way we have never done before.

For example, we have 15 major projects with subsea infrastructure being FID'ed in the North Sea, Angola, GoM, Egypt and Trinidad. We can make significant efficiency gains by using standardized designs and equipment.

We are also transitioning to a functional regional organization model. All seventeen Strategic Performance Units in the Upstream – we have just created a new one for Brazil – will have the same functional design. This is a significant transformation from the asset model which characterised BP's past approach, which in hindsight, drove inconsistent delivery and inefficiency. For example when we centralized drilling and completions in the North Sea, drilling performance improved to first quartile through accelerating the pace of learning and deployment of technology.

Bringing greater rigor to how we are organised and the work practices we use, also creates a significant opportunity to improve our performance in the way we procure goods and services and manage suppliers.

The key point of access is category management – this is about the consistency of the strategies we use to approach the market place; the rigor with which we put contracts in place, and the way we proactively manage them to stop value leakage, which is our major challenge. Today BP has just 30% of its spend under category management – the leading Major has 80%. So we have considerable opportunity to improve.

Such changes depend on disseminating best practice and building a more highly skilled work force. So we are creating a roadmap for developing every professional and we have just opened a new global learning centre in Houston – which you should come and see. The distinctive thing about the centre is that it includes a multi-media broadcast facility so that it can act as a hub from which we build capability and share best practice all around the world. The BP experts teaching the BP way.

Safety and operational integrity underpins everything we do, and we are now in the final phase of rolling out our operating management system that provides a single, consistent framework for our operations, covering all areas from personal and process safety to environmental performance. And I am pleased to say that in 2009 we saw continuing improvement in all aspects.

So to conclude, my exam question today was 'Can an IOC deliver profitable growth?' It's a valid question but my unequivocal answer for BP is 'yes we can'.



We have distinctive strengths – such as deepwater, unconventional gas and EOR. We have built a strong portfolio for the long term on the back of that capability. And we have a distinctive set of projects from high margin areas to drive growth in the medium term. We understand the levers we now need to pull in order to manage the portfolio for sustained growth, including operating at a new level of efficiency.

And in all of these areas we're taking steps to bring the good to the level of the best, whether with our new approach to standardisation, our technology flagship programs or our new learning facilities. Our strength lies in operating at the frontiers of geography and technology, and carrying out projects at a scale few can match. That has been our history for one hundred years. It is also our future.

At root, my experience tells me we that what is required for the industry of tomorrow is not only the physical, intellectual, technological and strategic qualities needed to work at the frontiers – but also the right mind-set. A restless mind-set that wants to win, wants to lead and doesn't give up.

That's the spirit of New Orleans – and that's the spirit of BP.

Thank you.