Tony Hayward’s speech at the 2010 AGM

Speaker: Tony Hayward
Title: group chief executive
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Good morning ladies and gentlemen. It’s great to see so many of you here today and thank you for your support over the past year.

I’d like to start by welcoming Carl-Henric to BP and to his first AGM. As an international business leader, Carl-Henric has brought a fresh perspective and a wealth of experience to the company, and I am very much enjoying working with him.

BP has made a lot of progress over the last three years, but there’s still more to do. We now have a real opportunity to make our asset base work harder for our shareholders and today I’d like to explain how we plan to make that happen.

But first let me begin by looking at the broader environment and how it is shaping our priorities. In the short term, the global downturn has reduced energy demand – although we expect oil demand to grow again in 2010, probably by about a million barrels a day. And over the longer term, driven by industrialisation and rising living standards in the developing economies, global energy consumption will continue to rise.

Of course a number of big challenges lie ahead, especially in the realm of policy, where the question of how to meet rising energy demand in an affordable and sustainable way has risen to the top of the global political agenda.

For a long time now, BP has advocated a proactive approach to climate change and supported action to curb carbon emissions. And we continue to believe that the world needs a diverse energy mix that incorporates all available sources – from oil sands to solar – and leverages investment in technology.

Key to this is a need to promote efficiency to minimise the environmental impact of fossil fuels and to ensure we maximise best use of the world’s energy resources. This will help to provide secure supplies of energy as well as addressing climate change.

We also believe that encouraging free and open energy markets is the best way to induce change. A carbon price, preferably created by capping emissions, would provide a strong incentive to encourage energy efficiency and investment in alternatives to fossil fuels.

BP is supporting the transition to a low-carbon economy in a number of ways: firstly by improving energy efficiency within our own operations, as well as by developing more efficient products such as BP Ultimate and Castrol lubricants.

Secondly, by using an internal cost of carbon when making investment decisions about fossil fuel projects. This encourages investment in technology to reduce carbon emissions.

And thirdly by promoting the lowest-cost energy pathways to reduce emissions – a good example being the use of natural gas to generate power. Gas is easily the cleanest-burning fossil fuel - it’s efficient, versatile and abundantly available.

We also continue to invest in our low-carbon businesses; since 2005 we have invested more than $4 billion in Alternative Energy, and focused our activity in four key areas:

- In Biofuels we're converting sugar cane to ethanol in Brazil. In the UK we're constructing an ethanol manufacturing plant and a technology demonstration plant for biobutanol with DuPont. And in the US we are working on the conversion of ligno-cellulosic material to biofuels.
- In Wind we've focused the business in the US where we already have more than 1.2 gigawatts of gross capacity spinning. We expect this business to become cash flow positive this year.
- In Solar we've focused the business and we're repositioning our manufacturing footprint to lower-cost locations, principally in India and China.
- And in Carbon Capture and Sequestration we're concentrating on two major projects - one in California, the other in Abu Dhabi.

All this is underpinned by our continuing investment in research and technology. BP currently has 20 major technology programmes underway. Around two thirds relate to existing businesses and the remainder to new forms of energy and ways of making today's energy more efficient.

Our priorities – which lie at the heart of all our operations – remain safety, people and performance. This is what we call our 'Forward Agenda'. Our focus on safe and reliable operations is now strongly embedded in all our businesses; we are continuing to build the on the core capabilities of our people; and we have started to see the benefits of improved operational performance flowing through to the bottom line.

Let me address each of these in turn.

Safety remains our number one priority and I'm pleased to report we can see clear progress. There has been a significant reduction in the frequency of recordable injuries and the number of major incidents related to integrity failures has also fallen. At the same time we're reducing containment losses in our operations.

We are continuing to improve our skills and capabilities as we roll out a common Operating Management System across our business. By the end of 2009 we'd fully implemented this at 70 sites - covering around 80 per cent of our operations – and the remainder will be completed this year.

But implementation is just the beginning. Our Operating Management System provides the framework to now drive continuous improvement across all of our operations.

Our people have been fundamental to the company's transformation over the last few years. Not only have we refreshed the highest levels of leadership within BP, but we have also reviewed our whole approach to the organisation. We are focussing on deepening our capability by putting the right people with the right skills in the right places. And we are ensuring they can reinforce their technical and functional expertise through development programmes like our Operations Academies.

We are continuing our drive to create a diverse and inclusive workplace to ensure that we can attract and retain the best talent. And we have linked reward more closely to performance.

These changes have been clearly reflected in improved operational performance.

Over the last two years we have closed the competitive gap that we identified in 2007, and restored momentum in our core businesses. In 2009 we grew production by 4 per cent, building on the track record of momentum relative to our peers since 2000. In refining we have brought our US network back to full operation, and our system is now back to pre-2005 levels of availability.

The drive to increase efficiency and reduce costs remains a key focus for everyone at BP. We started more than two years ago in our effort to counter cost inflation and drive much greater efficiency into our business.

In the upstream we are leading our peer group in driving down production costs, with BP's unit costs in 2009 12 per cent lower than in 2008. We will maintain this momentum through activity choice and in the way we manage the supply chain. In the downstream our efficiency initiatives have reduced cash costs by more than 15 per cent in 2009 and our goal over the next 2 to 3 years is to return costs to 2004 levels. For the group as a whole we reduced our cash costs last year by more than $4 billion.

In 2009, lower oil and gas prices and weak refining margins created a challenging environment for the whole sector. But the operational momentum in our business and our steadfast focus on efficiency has clearly improved our performance relative to our peers.

Despite a challenging year, this performance meant we could distribute $10.5 billion to shareholders and increase our dividend to 56 cents per share. It's also been reflected in our relative share price performance since the beginning of last year; we have outperformed ALL our major competitors.

As well as delivering a good operational performance in 2009, we saw significant strategic progress across the company.

In E&P we achieved major new access to resources and made a series of significant discoveries. We have maintained our strong track record of reserve replacement. This is our 17th consecutive year in which we are able to report a reserves replacement above 100 per cent. Year-on-year production growth was 4 per cent. We started up seven major projects and sanctioned two notable new developments.

In R&M, our refining system has been fully restored. We decapitalised our US convenience retail business and reduced the geographic footprint of our international businesses. At the same time costs have come down by 15 per cent.

Alternative Energy is more focused and disciplined. And we have furthered our corporate simplification agenda, reducing headcount by around 7500.

Let me give you a little more detail on how we strengthened our portfolio of oil and gas reserves in 2009. Our discoveries included the giant Tiber oil field in the Gulf of Mexico – the deepest well ever drilled in the industry. Indeed it lies further below the Earth's surface than the summit of Mount Everest does above it.

A particular highlight was our return to Iraq where we signed a contract to redevelop the supergiant Rumaila field in partnership with the Chinese National Petroleum Company. The project will help Iraqis to develop new skills as well as generate income to assist in rebuilding the country.

In the US we expanded our shale gas portfolio by securing a new position in the Eagle Ford Shale. We established a Coal Bed Methane position in Indonesia. And in Jordan we agreed to join with the National Petroleum Company to exploit the Risha gas field.

And we have continued to add resources in 2010, most notably through the acquisition of $7 billion worth of assets from Devon Energy that we announced last month. These include significant deepwater interests in Brazil and the Gulf of Mexico.

Over the last two years, through exploration, appraisal and access, we have added a total of around 7.5 billion barrels of new resources – that's five years' worth of production replaced in just two - and that excludes Iraq.

Our strong resource base reinforces the prospects for future production growth. Last year I said that we expected to grow production between 1 and 2 per cent a year to 2013. We are now confident that at a $60 per barrel oil price we can sustain average production growth from 2008 at 1 to 2 per cent a year out to 2015.

This production profile is underpinned by 42 new projects, which will start up between now and 2015. Together they will contribute around 1 million barrels a day to total production by 2015. They are concentrated in the Gulf of Mexico, the North Sea, Azerbaijan and Angola, which are all high margin production areas.

The strategic progress that we made in 2009 is part of a longer track record. Over the past decade our strategy has allowed us to build a portfolio of great quality and huge potential: equal in our view to any in our industry in terms of the key measures shown here.

We have a long history as both an efficient and successful explorer. This has given us a reserve replacement track record which is among the best in the industry, and a long-lived asset base with a bias to conventional oil. We have confidence in robust medium term growth and considerable potential to apply new technologies to further improve recovery.

In R&M – despite a difficult environment - we have less overall exposure to refining than our peers. We have high-graded our portfolio over the past decade to end up with, on average, larger and more advantaged refineries than the other super-majors. We believe we also have the best supply optimisation capability and a set of world class international businesses.

However while our portfolio ranks amongst the best in the industry, our financial performance has yet to fully reflect this. There is now a real opportunity to make this portfolio work harder for us and we intend to do just that.

So how do we define the opportunity? There are many ways to view it: from company-wide issues such as the gap in earnings versus our peers, to return on capital employed versus the competition; and from segment-level issues such as improving refining efficiency and closing the gap in fuels value chain performance in the US to improving efficiency in our drilling and in the execution of projects in the upstream.

Whichever way you look at it, there are significant opportunities for improvement and in every case firm plans are in place to close those gaps.

Our goal over the next few years is to realise the latent potential of our asset base by improving the efficiency and effectiveness of everything we do.

We will vigorously drive cost and capital efficiency whilst at the same time maintaining our first priority of safe and reliable operations.

In E&P, we will drive efficiency through a new organisational structure. This will provide clearer accountabilities and a centralised approach to project management. For example, it will ensure that we use standard designs and equipment for similar projects in different parts of the world.

In R&M, we will focus on efficiency, quality and integration as we start to realise the potential of our refinery network and restructured fuel value chains.

All of this will be underpinned by our continuing investment in technology and by the new culture we are establishing at BP.

So to sum up, our strategy remains unchanged – but we are now embarking on a new phase in which we intend to realise the full potential of the portfolio we've built up over the past decade. We have considerable scope to pursue sector leadership, particularly in costs, capital efficiency and margin quality.

Of course the future looks challenging. It always does. But we have emerged from 2009 in great shape and with renewed confidence and determination. We can see the prize and we believe we are well positioned to capture it.

I want to thank the employees of BP for their commitment - and I want to thank each of you as shareholders for your loyalty and support. I hope you will continue to support us on the journey that lies ahead. Thank you.