



2011 Annual General Meeting – CEO's speech

Speaker: **Bob Dudley**
Title: **group chief executive**
Speech date: **14 April 2011**
Venue: **ExCeL, London**

Good morning everyone and may I also welcome you all here today. In my new capacity as BP's CEO, let me also express my gratitude to Carl-Henric and the members of the Board for their wisdom and support over the past year.

The Board have been extremely active and engaged. They have provided advice and challenge. And that has been valued by the executive management team.

Can I also thank you – our shareholders – for continuing to support BP over the past year.

In my remarks today, I want to build on what the Chairman has said by doing three things

- First, to explain how we responded to the accident last year
- Second, to give you details of the measures we are now taking to create a safer and stronger BP
- And third, to set out our program to build long term value for shareholders.

1. Responding to the accident

As Carl-Henric has said, this has been an extraordinarily challenging year for our company.

We were devastated by the loss of life last April and we regret the incident deeply. I grew up on the Gulf Coast of the United States and so it was - and is - very personal for me.

I was saddened by the impacts that the event had on the beaches and bayous and the communities that I know so well.

But at the same time I was heartened by the response of BP's people. I worked down on the Gulf for many weeks and I saw people turn up from all over the world – living out of suitcases and working long hours under huge pressure.

They worked in partnership with the US Coast Guard, with the federal government, the Gulf States and a host of federal and state agencies. Local citizens volunteered to help and many BP retirees came from many parts of the US to take part in the response.

We had some very tough days but I looked at what our people were doing and I knew that BP could recover. Our people have the commitment and they have the capability.

In the Gulf of Mexico for example, with the eyes of the world upon them, our engineers worked around the clock to create and deploy new technologies 5,000 feet below sea level.

On the shoreline, our people worked with federal and state agencies and local citizens to weave together a complex response operation from several diverse elements – including BP people, local



volunteers, ships, aircraft, boom and the new technologies. At its peak the response involved over 48,000 people, over 6,500 vessels and 2,500 miles of boom.

Active cleaning was required and undertaken along some 400 miles of the Gulf Coast islands, sandbars and beaches – or around 10% of the shoreline. All of the affected public amenity beaches were prioritized for cleanup, and they were open for the traditional spring break this year when the hotel occupancy rates were reported to be around historic averages.

Over 99% of the Gulf is also open for fishing. And government testing has consistently found Gulf seafood safe to eat.

And as the Chairman has said, we continue to meet our obligations. We have now paid out over \$5 billion to individuals, businesses and government entities and for environmental restoration. We also made \$138 million of grants to the Gulf Coast states last year and we have provided \$500 million for the Gulf of Mexico Research Initiative, which is funding independent research to investigate impacts on ecosystems.

Several investigations have been conducted, some of which have already published reports. These include our own BP investigation – in which external experts participated – the report of the President's National Commission and a specific report for the US government on the blow out preventer.

Both the Presidential Commission and our own internal investigation concluded that the accident was the result of multiple causes, involving multiple parties. Our own investigation made 26 recommendations covering issues including BOPs, pressure tests and cement testing.

And the Presidential Commission made wide ranging recommendations for government and industry on areas ranging from risk management to planning for oil spill responses.

We are now systematically implementing the lessons we have learned from the incident.

As well as meeting our commitments in the US, we are taking the lessons learned from the Deepwater Horizon accident deeply into the fabric of our organization everywhere.

And we have shared what we have learned from the accident with industry, governments and regulators in 20 countries around the world.

2. Creating a safer BP

And so over the last few months we have put in place a comprehensive program of activity to strengthen safety and risk management in BP.

To begin with, we have created a powerful, safety and operational risk organization headed by Mark Bly, who led our investigation of the accident. Mark reports directly to me and sits on the executive team.

His organization has the resources and the mandate to drive safe, reliable, and compliant operations in BP's operations anywhere in the world.

The new organization is now in action across BP in four main areas:

First, it is strengthening and clarifying requirements for safe, compliant and reliable operations.

Second, it will have more than 500 specialist personnel attached to our businesses to guide, advise, and if necessary, intervene.



Third, it is providing deep technical expertise to our operating businesses.

And fourth, it is intervening where needed to stop operations and bring about corrective actions.

We are already seeing results.

For example, in one case we shut in a production platform to repair the fire water pumps. In another, a producing field was shut down to enable pipeline integrity work to be carried out.

We have also decided we will not accept rigs that do not conform to our standards and there are a number of cases where we have either turned away rigs or are negotiating for modifications to bring them fully up to our standards.

Furthermore, we have also made changes in our management structure, introducing three divisions in the upstream: exploration, developments and production, each of which reports directly to me. This creates greater clarity and accountability. It also brings specialist staff together in teams where they can share knowledge and build capability.

Within the developments division, we now have a single Global Wells Organization, which is responsible for drilling all of our wells and doing so to high and consistent standards globally.

Over the last four months, we have been reviewing the risk management plans for every one of BP's wells in order to assess their compliance with existing standards.

In addition, we are establishing new standards as to compliance, risk management, capability, contractor management, performance indicators, and technology.

We are conducting a major review of our risk management system. The intention here is to bring greater clarity and consistency to the way we manage risk, applying best practice risk identification and mitigation standards in a disciplined way across BP.

And in support of all of this, we are linking our performance management and reward system directly to safety and risk management - as well as to the behaviours that we want to see.

What does this mean in practice? It means that last month tens of thousands of employees - from Azerbaijan to Alaska - were each required to state explicitly in their performance contracts how they personally will contribute to safety, to teamwork, to capability-building.

And they were also asked to state explicitly how they will contribute to our company's long-term goals as well as setting priorities for the year ahead.

In all of this we are drawing not only on the experiences and best practices of our own industry, but also lessons from other industries that are role models for safety and risk management.

One of these is the US nuclear navy, which was identified by the Presidential Commission on the Deepwater Horizon accident as a role model in safety. And I am very pleased that we now have as a board member Admiral Skip Bowman, who served as director of the US naval nuclear propulsion program.

I have met with hundreds of our investors over the past few months and I have been encouraged by the support they have shown for the course we are taking.

Many of our investors recognize the need for BP to have the time and space to make the necessary changes to make our operations safer and more sustainable. Not every company gets such an opportunity and we do not intend to squander it.



3. Building long-term value

We have three strategic priorities in BP and they build on one another.

- First and foremost, as I have indicated, we are introducing a series of new measures on safety and risk management
- Second – we are working to earn back trust – through our actions and not just our words
- And third, with safety and trust as foundations, we are setting out to build value for our shareholders over the long term

In other words, strengthening safety and earning trust are the essential foundations on which we can build a new value proposition for BP, designed to create value, in a manner that is both safe and sustainable.

As well as focusing on outputs in the form of barrels of oil and dollars of revenue, we will focus very strongly on the critical inputs that drive delivery, such as safety, capability, technology and relationships. If we get these right, then I have no doubt that good business results will follow.

In the near term, we have taken steps to ensure BP is financially sound. The \$20 billion trust fund has provided resources to meet individual, business, government, local and state claims, and natural resource damages.. We have announced the sale of up to \$30 billion in assets and we have now agreed to over \$24 billion of disposals. These divestment proceeds significantly exceeded book value on those sales.

We are resuming payment of a quarterly dividend and our intention is to grow the dividend level in line with the improving circumstances of the company. Like the Chairman, I know the suspension of the dividend in 2010 was difficult for many of our shareholders.

We intend to build on our strengths. In the interests of perspective, it is also important to understand that beyond the Gulf of Mexico accident, BP's global operations performed well last year.

Beyond the impact of the Gulf of Mexico tragedy, which led to a reported loss of \$4.9 billion last year, our underlying replacement cost profit – which excludes the costs associated with the Gulf of Mexico oil spill, as well as other non-operating items and fair value accounting effects – was \$20.5 billion and operating cash flow was \$29.6 billion.

We reported reserve replacement of 106%, the 18th consecutive year above 100%, and we replaced 470% of resources. It was a very good year for new access, with many new opportunities added to the portfolio. In Refining & Marketing we delivered around \$900m of underlying performance improvement.

Now we are looking to the future. And we are planning for the future by looking at the trends in the industry and ways that we can use our strengths to play a part in meeting demand.

As the Chairman has said, we know that energy demand is set to grow significantly. Our best estimate, given current trends and policy directions, suggests that demand for energy will grow by as much as 1.7% per year.

And our BP Energy Outlook 2030 projects that 93% of the growth will come from the emerging, non-OECD, economies.



The environmental implications of this are challenging and I want to state for the record that this is not what we want to happen. It is a projection, not a proposition. In fact it is a wake up call.

Let me remind you that in BP we advocate stronger policies on climate change including a widely applied carbon price and transitional incentives to help low-carbon technologies compete at scale.

However, whatever course policy takes, and even if climate change is robustly addressed, fossil fuels are projected to provide most of our energy in 2030.

In the 2030 energy mix, there will likely be a greater share of gas – the cleanest hydrocarbon – and a much greater share of renewables - but the world will still need a large volume of oil – and given the maturity of many existing fields much of that oil will need to come from newer sources.

Today, for example, around 7% of the world's oil supplies come from deep water, and we expect this will rise to nearly 10% by 2020.

So we have made some strategic decisions as to how BP intends to participate in this future.

We will continue to hold and invest in positions where BP can create and sustain material and profitable businesses that support long-term energy security. This is good for BP, for shareholders and for consumers.

For transport fuel, this means oil and sustainable biofuels; and for heat and power, this chiefly means natural gas and wind. All of these have a significant role to play in our long-term energy future.

Let me now run through some highlights of each of these areas of investment.

In the upstream, we are investing in strategic projects. Our upstream portfolio is rich in growth opportunities with 32 project start ups planned by the end of 2016. These have the potential to contribute around one million barrels a day to total production which should more than offset natural declines in the portfolio.

We're investing in exploration, particularly in deepwater. Exploration is one of our distinctive strengths and the means by which we turn prospects into value. So we are doubling our investment in exploration over the next few years. We will continue to explore in well-established locations such as Angola, Egypt, Azerbaijan and, indeed, the Gulf of Mexico. But we also expect to test new provinces in Jordan, Brazil, the South China Sea and Australia.

Incidentally much of our exploration and production will be in deep water. Before April 2010, BP had drilled safely in the deep waters of the Gulf of Mexico for 20 years.

Indeed, the governments of Egypt, China, Azerbaijan and the UK have shown confidence in our ability to operate safely at depths, as they have signed new deepwater agreements with us recently.

We're creating new alliances. For example we have signed a landmark agreement with Reliance Industries of India to explore and produce in deepwater basins that already provide a third of India's gas supply as well as forming a joint venture to market gas.

In Russia, we own half of a very successful joint venture called TNK-BP. This is our primary business vehicle in the country. We are absolutely committed to its strategy and investment program – and it has been hugely successful - by any measure - since its inception in 2003.

However we have also been hoping to conclude further agreements with Russia's largest oil company, Rosneft, including an exchange of shares and involvement in Arctic exploration. This was the transaction that was announced on January 14 this year.



That process has been subject to an injunction granted by a tribunal convened to resolve some issues raised regarding the interpretation of the shareholder agreement that we have with our partners in TNK-BP.

The original deadline for completing the agreements with Rosneft was today – but we and Rosneft have agreed to extend the deadline and so we will be continuing with the arbitration process and working to bring about a resolution of these issues.

Russia is one of the world's most important sources of oil and gas, as well as a massive market. BP needs to be there. It is part of our strategy. We already have a very strong position in the country and we will continue to pursue all further opportunities there where we can build value for our shareholders,

BP is also partnering with Husky Energy and others, to develop a further important resource of energy – Canada's oil sands. These represent the second largest reserves in the world after the oilfields of Saudi Arabia.

Heavy oil means different things to different people. As shareholders, it is important for you to know that our approach should not be confused with opencast mining – we will not engage in mining. I believe mining is what many people visualise when they hear the words 'heavy oil'.

We will work with this resource in a way that fits with our long-term responsibilities and objectives, using a method called steam assisted gravity drainage – or SAGD - to extract the oil, and an efficient, integrated system to transport it. This means we have no tailing ponds. These operations will therefore have a relatively small footprint – as you see here - and the land will be reclaimed. We will follow all regulatory requirements and consult with local communities including First Nations and Metis groups.

On a well-to-wheels basis, greenhouse gas emissions from Canadian oil produced this way are marginally higher than those from conventional crudes imported to North America. BP is joining industry peers in research to deploy new technologies aimed at reducing the emissions even further. At least 90% of the produced water needed for generating steam will be continuously recycled.

In the downstream, we're reshaping our portfolio in order to drive higher quality returns. This follows the changing patterns of demand and supply and that means acknowledging that there is flat-to-declining demand for fuel in the US and Europe.

As a consequence, we have taken the difficult but necessary decision to halve our US refining capacity. We are retaining the positions with the greatest competitive advantage and we are planning to divest those which offer more value to others, including the Texas City and Carson refineries.

We plan to upgrade our Fuels Value Chains in other geographies; explore opportunities in high-growth markets such as Asia; and continue to grow our high-quality lubricants and petrochemicals businesses.

And as well as providing the hydrocarbons required over coming years, we are also making serious investments in a focused set of low-carbon energy businesses - more than \$5 billion in the last five years. We invest where we can grow long term value – just as in our fossil fuel businesses.

In biofuels, we have a growing, commercial scale business in Brazilian sugarcane ethanol. Just last month we announced a new \$680 million investment there which includes two more operating mills. We have an exciting business in the US with technology designed to make ligno-cellulosic fuel commercial at scale.

We now have 10 operating wind farms of scale in the US, with a gross capacity of 1.3 gigawatts. This business is now cash positive and other wind farms will follow.



As to the immediate future, 2011 will be a year of consolidation as we focus on completing our \$30bn divestment program, meeting our commitments in the US and bringing new rigour to the way we manage risk.

Looking back over the year, our thoughts return to the men who lost their lives, to those who were injured and to the communities hit by the spill.

Often the response to a tragedy defines the character of an organization. And the entire management team is determined that we will emerge from this accident as a company that is safer, stronger, more sustainable and, in time, more valuable.

We need to earn back your trust, and I realize this requires action, not words. But whoever you are here today – supporter or sceptic – I can promise one thing. BP is changing. And BP will act with integrity, honor and respect. Whatever you think about our business, those are the qualities you should expect to see.

It is customary to thank shareholders for their support at these occasions. This year I can promise you that the gratitude is even more genuinely and deeply felt. I am grateful to you and to all our shareholders, individuals and institutions, for staying with us and giving us the opportunity to build for the future.

I promise we will do everything in our power to reward your loyalty and earn back your trust by creating value safely and sustainably over the years ahead.