

Thank you,

This is my first opportunity to speak at the Meet Alaska, it's a real honor. I'm going to talk about things close to home, to build on the global views we've heard today.

Continuous improvement is very important to BP. It's not a catch phrase or a slogan, but an attitude about how we do our business. It means that we want to be better today than we were yesterday. And better tomorrow than we are today.

In town hall meetings with our Alaska employees, I talk about **BP's 50-year Alaska strategy as a dream – not a promise.**

We've got a lot to do, but there is a lot to play for. The BP resource base in Alaska is greater than 5 billion BOE– but it is challenged.

The barrels are challenged: challenged by markets, challenged by technology and challenged by the cost of doing business.

Our strategy is focused on:

- Safe, Reliable and Efficient Operations
- Building a stable and viable base business at \$50/bbl oil price
- And growing the business through unlocking the vast heavy oil and natural gas resources in our portfolio.

Nothing has changed in our strategy – but the business environment has changed, so our tactics have changed.

Factors like our medium term and long term outlook on oil price, costs and productivity, technology, technical risk, and the federal and state fiscal and policy regimes.

To achieve our 50-year dream we need to:

- continuously improve our performance in safety,
- protect the environment,
- deliver a business that is viable today, fit for tomorrow.

And delivers competitive investment options that sustain the business well into the future.

And when I say we, I don't simply mean BP. "We" includes: the industry, our contractors, the state and all Alaskans.

Together, we are facing more challenges than we did a few years ago. I want to touch on safety first. We have made progress – but we are not finished.

BP can't do it without you – safety starts with the people in this room. Our contractors, employees, and everyone who does business in the Alaska oil patch.

Of the 20 million man-hours worked last year, 80 percent were contractor man-hours. I need your help to ensure all the work on the Slope is conducted safely.

We all need to learn from companies like Little Red Services that had zero recordable incidents last year.

Or, facilities like Endicott that earned a three-year re-certification of its VPP Star status under the US OSHA Voluntary Protection Program. It was the first facility in Alaska to be certified by the OSHA program.

We need to learn from the people who made these success stories happen. That's what continuous improvement is all about.

For the contractors in the room, I think it's clear that the way to earn business with BP is to demonstrate you can work safely and efficiently.

The foundation of our strategy rests on a healthy light oil business. And a healthy light oil business is critical to a sustainable oil business in Alaska.

The light oil business has suffered the last few years due to declining production and rising costs.

Costs have risen through significant inflation and increased government take. Our cash break-even point is significantly higher today than it was 5 years ago – and is a threat to our future.

This is hard for people to understand, we remember when the price of oil was very low – \$10, so what's changed?

Over the last 5 years, oil and gas industry costs have increased at a rate of four times the price of oil. ^[1] Meanwhile, North Slope oil production has declined about 29 percent.

Rising cost, reduced outputs and a lower commodity price; this is not a model for a sustainable business.

Economics and policies will continue to drive our business choices, because investment capital is limited.

The best opportunities attract the investment dollars.

BP is in action to improve the quality of the business and the risk-reward balance. We're focusing on three things.

1. Prioritizing the activity set or scope of work
2. Tackling inflation through competition to drive down costs
3. Improving the efficiency and productivity of every \$ invested

^[1] CERA Capital Cost Index Increased 200% since 2004, 3Q 2009 202%

Regarding the activity set – we are being selective and we are choosing what - and how much - we do.

- risk reduction activities focusing on infrastructure have the first priority
- Growth projects in execution like Liberty are next
- And finally, the base business

Activities that we've slowed or stopped for sustainability are:

- Western Region Development Expansion (WRDX) project as it is not competitive
- Heavy oil project continues, but has slowed by 50%
- Reduced our rig count from 10 to 7 from January last year.¹

In terms of tackling inflation, many of you are aware of the steps we have taken in our “fit for the future” program.

The industry suffered significant inflation with the increased oil prices ... and when the oil prices collapsed, the inflation remained.

¹ 1Q 2009 10 rigs, 1Q 2010 7 rigs, verified by Robinson

As I've said to contractors and to my team, we need to do what's right and fair with the contractor community. We live here too, and I want to ensure that the way we interact with you as contractors has been fair and reasonable.

We want to do business with Alaska contractors -- we just need you to be competitive.

The problem is that a dollar of cost to us is a dollar of revenue to you. No one likes to give up a dollar of revenue. It really hits close to home when you realize 80 percent of BP's spend is with Alaskan companies.

But to be sustainable, we need to ensure we pay market prices for goods and services. Competition is good and we have taken steps to award work to the most competitive suppliers.

For some activities, we've reduced costs by more than 50 percent from a few years ago.

Finally, we are looking to do things more efficiently. We are driving our business to continuously improve – so the next

well we drill will be better than the last ... so that tomorrow's activity is completed more efficiently than today.

We have some stunning examples of great teams making a real difference - teams that are changing the game in terms of safety, productivity and efficiency.

Accuren under the leadership of Dennis Lee, has more than doubled the number of corrosion inspections, improved efficiency and reduced injuries by 90%.

The CH2M Hill Weld Shop under the supervision of Chuck Shaumann and Jay Fillingham increased efficiency by 65%, with less than 1% rejection rate in more than 11,000 welds.

And, the BP Drilling & Wells Workover team and Nabors Rig 4ES, under the leadership of Dave Hebert, improved efficiencies in the installation of electric submersible pumps (ESP) by 33% in less than a year, saving more than \$1MM.

These are just a few examples. What we find is that the most efficient teams are also becoming the safest teams. Our

focus is to have this kind of performance everywhere we work.

I have touched on how we are improving the performance and economics of our business – and now I would like to touch on government policy.

Last week's announcement by Governor Parnell on oil tax credits was a positive signal to the industry that he and his administration recognize that the ACES tax needs change to stimulate activity.

The opportunity for dialog is encouraging and we will participate openly. We believe the proposal is a good start, but it's not enough for sustainability of Alaska's oil and gas industry.

In Alaska, policy decisions around taxes made over the past few years have slowed the pace and scale of some of our North Slope developments.

We put projects on the shelf that didn't make sense in this environment and I mentioned three examples earlier.

It wouldn't be fair for me to assert that our investment decisions are solely based on the tax structure – in reality, there are a host of market factors. However, the tax structure plays a significant part in the decision process.

For a tax and royalty regime, Alaska has the least competitive tax structure of anywhere BP works in the world.

In the USA, the tax and royalty structures in the L48 and GOM are more competitive. The tax and royalty regimes in Australia, the North Sea, and Trinidad are also more competitive.

That means Alaska projects have to be more efficient to compete. This means our projects need to produce more barrels per dollar of investment and lower unit costs.

It's a tough challenge against the backdrop of decline and the Arctic environment where construction costs are significantly higher than the L48.

The two biggest issues with the Alaska tax structure are the overall tax rate, and the progressivity portion of ACES.

Here is a simple example:

In a Gulf of Mexico investment, the government take (taxes & royalties) from an incremental \$1 at a \$90 oil price is about 40 cents. That means the company has the upside potential of nearly 60 cents out of every incremental dollar.

So what is the government take on state lands in Alaska at \$90 oil price? Because of the progressivity of the ACES severance tax, the government keeps between 70-80 cents of that one dollar, and the industry's share ranges from 20-30 cents.

If you had opportunities for new growth – where would you put your money? In a place where you can earn 60 cents on an incremental dollar, or 20-30 cents?

It should come as no surprise that we will need to reduce our capital spending about 15% this year. This year's actual capital spending will be about \$850 million, compared to over \$1 billion in 2009.

However, this 15% top line reduction actually masks the real impact that ACES has had on our base business.

Our 2010 investment consists of roughly one-third infrastructure renewal, one-third for growth and one-third drilling.

The infrastructure investment is not adding production, and the growth projects for BP are primarily our investment in Denali and Liberty.

The investment in our base business is focused on offsetting decline and delivering increased production from in field drilling. This is the activity that delivers more production in the short term.

That activity has been reduced since ACES passed at the end of 2007.

Here is some data that supports that statement:

Our total drilled footage will be more than 50% lower in 2010 vs. 2007. It was nearly 1 million feet in 2007.

Also, our capital investment in the base business has been reduced by 30% when comparing 2007 and 2010 investment.

It was encouraging that the Governor's announcement recognizes that this is an issue. That's a step in the right direction.

The bottom line is it's more difficult to attract capital to Alaska because the risk/reward balance is disadvantaged against investment opportunities in other parts of the world. Alaska has become more of a margin play as there is very little reward for price upside. Alaska needs to do better if it wants to attract investment.

So why then are we investing in Liberty?

Liberty will be the first full federal offshore development in Alaska, and the competitiveness of the project is helped because the high technical risk is balanced with higher

reward under the **federal tax structure – the project is not subject to ACES severance tax.** This is a good example of how policy drives investment.

This year, the first of up to six Liberty ultra-extended reach wells will reach 6-8 miles to a new 100-million barrel field.

First oil production is expected in 2011, peak of 40,000 barrels/day and a capital investment more than \$1 billion.

That said, the state still benefits from Liberty:

- In state income and property taxes;
- a share of the federal royalty;
- 40,000 barrels/day down TAPS;
- and a lot of jobs -- about 40 Alaska companies worked on Liberty's construction.

There are other growth opportunities too. But like everything else, economics and policy will drive investment decisions.

The remaining resources in Alaska are significant – there is a lot to play for ... but they are technically and commercially challenged – and they are harder to reach.

Being more technically challenged means it's harder for projects to be profitable – it takes more investment for less barrels compared with the past.

But the size of the resource base gives us great hope. There are significant opportunities in heavy oil and Alaska gas. But there are equally significant challenges.

You all know the heavy oil story. In a nutshell, it's an exciting opportunity that requires a technological solution. We have a strong belief we will find that solution.

However, our current estimates indicate that even with technological success, heavy oil is not economic under the current tax structure at today's oil prices.

Gas development is also an important part of our Alaska strategy, and it's certainly on the mind of every person in Alaska.

We all read the papers. Producers in the lower 48 have been aggressively looking at ways to access abundant shale gas resources. And they are succeeding. There has been a significant change in the Lower 48 gas market due to a technological breakthrough.

A recent study estimates that by 2020, unconventional gas, such as shale, is forecast to account for over 50% of total US production ... with estimated shale gas supplies that will meet today's US market for 50 to 100 years.^[3]

At the same time, Natural gas demand is forecast to remain relatively flat for the next 30 years.²

The market in the lower 48 is working ... supply is up, demand is flat and Henry Hub prices have reacted.

I believe that demand will have to increase to make Alaska gas commercially viable in the Lower 48.

^[3] Source: EIA Annual Energy Outlook 2009 & Brian Frank Presentation 1/09

² DOE 09 Forecast flat demand 23TCF/yr through 2020.

So gas is challenged. More challenged than it was just a few short years ago. But my team and I are absolutely focused on finding a way to bring Alaska North Slope gas to market. I don't know exactly how the future will play out, but I can promise that we are looking at all options for Alaska gas development.

That takes me back to where I began – our future is about continuous improvement of our business and playing the ball where it lies.

BP's employees are passionate about building a sustainable business in Alaska.

Over 81 percent of our two thousand person workforce call Alaska home. Together BP and our employees support more than 700 education, community organizations and youth teams in 49 different towns and villages across Alaska. Our employees are also the largest contributors to United Way.

Their commitment to Alaska is personal, and so is mine.

For decades BP has been the responsible steward of Alaska resources, delivering revenues to our state.

Our commitment has *not changed*, but our business reality has.

I believe the future will require all the “We” to work together differently – and better, than we have in the past.

I believe by working together with Alaskans, we can make our 50 year dream a promise ... and that’s what get’s me excited about working in Alaska.

Thank you