

BP: Up or Down? Investors Speak!

Financial Community Survey Conducted by The IGB Group

June 24, 2010

Introduction

The explosion of the Deepwater Horizon drilling rig on April 20, 2010 triggered the largest offshore oil spill in U.S. history, claimed 11 lives, and sparked an international crisis with complex environmental, political and economic dimensions. Much of this disaster's media coverage focused on issues of culpability and the intractability of the spill. BP, the British energy giant, emerged as the central culprit in this tragedy, at least according to the prevailing narrative in the media.

The IGB Group, an independent New York-based financial communications firm, conducted this survey to gauge the global financial community's perceptions of this crisis, its genesis and repercussions. We conducted an online survey of institutional investors and brokerage analysts. The survey launched on June 11 and closed on June 16, 2010. We received 92 responses: 89 from investors and 3 from sell-side analysts. 74% of the respondents were based in North America, 23% were based in Europe and 3% were based elsewhere. In aggregate, the institutions represented by the respondents own an aggregate of \$690 billion of energy-related stocks. Approximately 50% of the institutions are BP holders (source: ThomsonOne data).

The IGB Group has no relationship with BP, and this survey was not commissioned by any company or organization. Periodically, we conduct surveys to bring added clarity to the dominant issues of the day and to amplify the voice of the institutional investor.

Key Findings

Culpability: Respondents overwhelmingly see BP as the primary culprit in this disaster, and a large majority of them (60%) agree that the company has sacrificed standards of safety in pursuit of profit. Respondents urged the company to accept responsibility and not to try to blame contractors.

Does the oil spill reflect a lapse of leadership at BP? Respondents disagreed on this question. Thirty percent agreed with the statement that "This is an isolated event, and it does not reflect BP management's competence. Accidents happen." However, 42% disagreed with this statement.

The Future of BP: The overwhelming majority of respondents (79%) expects BP to avoid bankruptcy. The survey revealed a somewhat weaker consensus (69%) that BP will need to reduce or eliminate its dividend. In fact, several respondents said they would want the company to cut its dividend if the move helps ease tensions. In written comments, a few respondents argued that the company should base decisions about the dividend on financial, not political, considerations. (Today – after the survey closed – BP decided to suspend its dividend)

Although 49% believe that the precipitous decline in BP shares is overdone, several respondents noted that they hold this opinion tentatively, given the intractability of the spill and the uncertainty about the final cost of cleanup and compensation. Forty percent of the respondents were reluctant to speculate

about the prospect about BP's acquisition by another party, and 47% said they did not see this as a likely outcome.

One respondent said: "I think one year from now, this will be a distant memory. The US needs oil, and drilling in the GoM will continue." Another respondent provided specific suggestions for mitigating the impact of this crisis on BP shareholders: "Suspending half of the dividend as a good faith effort with the intention of paying a lump-sum dividends-in-arrears payment, probably sometime in 2011, might be a strategy. [Also consider] encapsulating the N.A. upstream operations as a stand-alone strategic Ch. 11 unit until this mess blows over."

Communications: Many respondents (44%) faulted BP for poor communications in the aftermath of the Deepwater Horizon explosion, but 34% agreed with the statement that the company "communicated credibly and consistently during this oil spill."

In contrast with the criticisms leveled at BP, notably by the Obama Administration, a majority of the respondents believes that it is appropriate for BP to spend money on corporate advertising highlighting the company's efforts to fix the spill.

Respondents' PR suggestions to BP management ran the gamut including:

- Stronger expressions of empathy with the people and communities affected by the spill.
- Bolder defiance of political pressure.
- Philanthropic investments in the affected communities.

Media Coverage: Respondents generally hold unfavorable or agnostic views of the media coverage of this oil spill. Only 16% agreed with the statement that "the media has generally covered this crisis fairly and accurately". Forty-one percent disagreed with this statement. Forty-three percent provided neutral responses.

Negative assessments of media coverage often stem from the perception that the media exaggerates or sensationalizes the impact of events. This was not the case in this survey. Most respondents (69%) either disagreed with the statement that "the media has exaggerated the potential damage from the oil spill" or they withheld judgment on the matter.

Regulations: Fifty-four percent of the respondents agreed that "this oil spill demonstrates the need for tighter regulation of energy companies", with 30% expressing disagreement.

Reflections and Observations

In a culture increasingly accustomed to pitting Wall Street against Main Street and profit against the environment, we were heartened to find that the responses to our survey, when considered in their totality, present a balanced view that blends empathy and pragmatism. Respondents conveyed deep empathy for the communities affected by the spill; they voiced outrage at the negligence that, some believe, led to this disaster, and they recognized that BP should or will face financial consequences, whether they come in the form dividend cuts or compensation to victims' families and the expanding span of affected communities. Notably, 54% of the respondents said they would favor tighter regulation of energy companies.

At the same time, respondents believe that BP should be guided by the principle of fairness, not by the desire to appease political elites. In fact, they say, BP should stand defiant against groundless claims for compensation and fiery political rhetoric fueled by populist motives rather than the need for justice. Although they overwhelmingly see BP as the primary culprit and believe that the company should accept responsibility, they also believe it is reasonable for others to examine the complicity or responsibility of other parties including Transocean, MMS and the Department of the Interior.

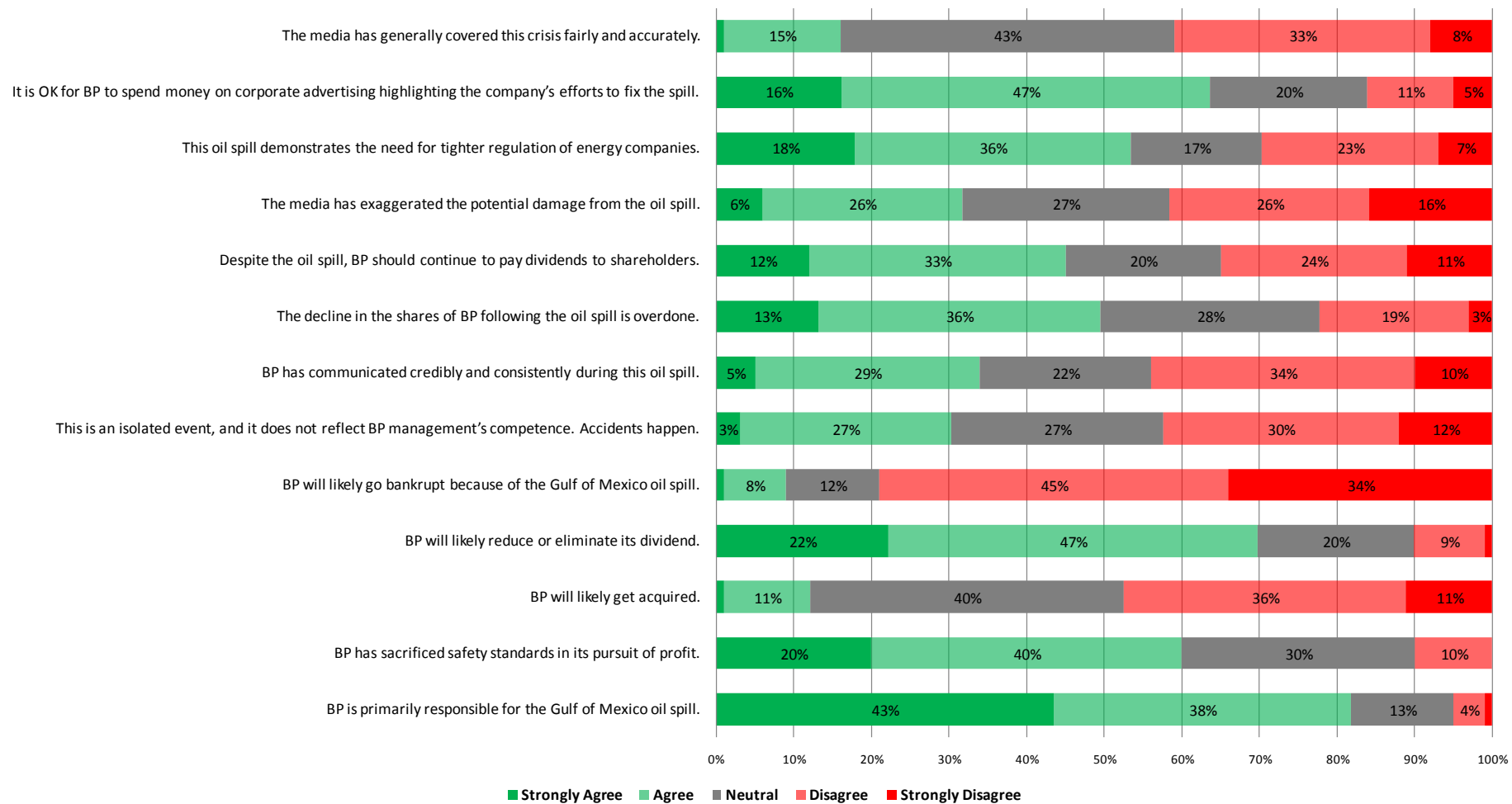
Nonetheless, considering the gravity of this crisis, respondents' view of BP's future seems optimistic. Many respondents believe that the post-explosion drop in BP shares is overdone, and the prospect of a dividend cut may already be factored into the company's valuation. One respondent expects that, only a year from now, we may look back at this spill as a distant memory. But, as long oil and gas continue to gush into the Gulf of Mexico, this kind of bold optimism seems premature at best.

Disclaimer

Because of the size and composition of the respondent sample, we consider the findings of this survey suggestive, but not conclusive. Although the survey reflects the views of some of the top energy-focused and generalist investors and analysts, the sample is too narrow to warrant definitive conclusions about the global investment community's perceptions of the GoM oil spill.

By the Numbers

Please indicate your agreement or disagreement with the following statements.



What message would you like to convey to BP management and board of directors?

- *I think it should have done a better job of communicating the extent of the spill. In this case, it has underpromised and overdelivered in the wrong direction. I think this has contributed to the hysteria around the stock. Despite communications to the contrary, BP has still not cleaned up its operations from a safety perspective. New management that is not part of the company's current and historical culture needs to be brought in with the goal of cleaning up the company's image, reputation and safety record. Sometimes you can be penny wise and pound foolish. Spending some extra money to improve safety could yield tangible, long-term benefits.*
- *Not having a failsafe engineered design for deep sea oil wells is selfish and totally irresponsible. I hope your company adopts a "fully and solely responsible" stance providing full remediation to all harmed parties.*
- *More TV and less print discussion. Show the team of experts assembled for the job.*
- *I am sympathetic to your problem but you need to find out who authorized going forward with the drilling when there was an obvious problem, and hold that person responsible. You also need to have plans and procedures in place for such an event --which you clearly did not have other than a boilerplate document not specific to this well.*

I'm personally sickened by the consequences of the accident and disappointed in BP. A great company has been forever tarnished and great harm has been done to a precious natural resource and all who care for it and all who depend on it. I wish I could simply blame this on an "accident" but BP clearly allowed it to happen despite the warnings of those present. Lives were lost, families were destroyed, environmental damage has been done, financial harm has come to many and I don't know how BP can possibly make it right. I hope you can find a way and I wish you luck in doing so.

- *As an investor, I don't believe that the spill was a result of a companywide culture of negligence. The extraordinary damage done by the spill, both in monetary terms and to BP's reputation, highlights the disincentive to cut corners on safety. Rather, I believe that the spill was likely the result of bad luck and very poor decisions by a handful of BP and Transocean managers. I think that the company should try to convey that decisions made leading to the spill were an aberration without shirking responsibility for what has happened.*
- *If BP wishes to be a great company in the longer term, Tony Hayward and the Board Chairman should resign once the Gulf recovery is underway. Poor incremental decision-making under current leadership led to this incident. It is hard to see how the Company can restore credibility with investors and other constituents otherwise.*
- *BP should have been better prepared for this and similar problems. BP knew the risk involved in the operation but appears to be ineffective in dealing with the problem. There have been too many serious operating problems in the past that cast doubt on BP's abilities to avert this kind of problem.*
- *Contrition is important to express to American people. Set up scholarships for the families of the 11 dead workers. Ignore demagoguing national politicians. Expedite payments to fishermen (it will be a small part of your total cost). Reward governors and state politicians: it costs relatively little and may gain an advocate. Manage the rest of the company, you'll need the cashflow. Make Wall Street understand actual day-to-day cash generation ability.*

- *You need to mention the vast investment you have made in The U.S. and that you are vital to jobs and energy needs in this country. You can learn from Exxon not to yield when it is not necessary, and you may consider displacing some of the blame from yourselves onto the government. I actually think MMS and Interior have more moral culpability.*
- *Reject idiotic payment requests such as paying salaries of those out of work due to drilling moratorium.*
- *Do not let the media or politicians determine whether or not you continue the dividend. If it is financially feasible, continue to pay the dividend. Ditto with firing the CEO.*
- *I am glad to see BP management and the UK government beginning to stand up against Obama's extortion attempt. Do not be steamrolled by this socialist.*
- *While it is understandable that BP's management team is highly influenced by the risk of legal liabilities and therefore the guidance from its legal counsel, the Company's ability to show more empathy, sincerity, disclosure and transparency in its communication will be much better received and tolerated by the American public - which should bring about a more prudent and reasoned response from U.S. politicians as everyone tries to resolve and clean up after this accident.*
- *Cut the dividend. I think it is generally expected that the dividend will be cut.*
- *Think longer term and quit worrying about quarterly earnings results.*
- *Shareholders should only benefit once the company has met its obligations to other stakeholders affected by the disaster.*
- *Don't sacrifice safety for profits!*
- *This is a very poor example of corporate disaster management and I expect that senior executives will be gone.*
- *I think investors will be looking for more clarity on what actually caused the disaster - was it bad luck, poor workmanship, badly thought out management, ineffective communication, or a combination of various factors? Of particular importance will be any witness accounts/radio transcripts of the immediate lead-up to the blow-out. Was everything going along as normal? Or were there signs that were ignored, or corners cut that may have caused or exacerbated a flaw in the operation?*

Any other comments?

- *I am confident that the company is applying all available technology to end the leak. Unfortunately, these resources should have been applied before the leak. The cat is out of the bag.*
- *Take the company private at \$50 per share.*
- *This will be a \$20 billion problem with a small fraction of that going to actual clean-up. Exxon Valdez offers a helpful playbook. Not your fault, but certainly your problem. Best of luck to you all.*
- *Were it not for ridiculous US federal government and EPA policies, they [BP] would not have to drill in these dangerous conditions in the first place. The Feds are at least 50% responsible for this disaster.*
- *The answer is effective regulations, not more. Competence and integrity in government is needed. Obama has embarrassed an ally with a special relationship.*

- *While it is pretty clear that a string of bad decisions led to the explosion, it is not clear why they were made. As careless as the decisions appear, I doubt the engineers were thinking about the profit impact as the cost savings would have been inconsequential. While I do think the share price sell off is probably over done, no one has a clue what the ultimate cost will be.*
- *I think one year from now, this will be a distant memory. The US needs oil - drilling in the GoM will continue.*
- *Comments from workers on the rig before the explosion suggest that BP officials were putting pressure on the drill team to accelerate the well's completion.*

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