



## **CONFIRMED: Even before Deep Water Horizon, BP lost more shareholder value due to operational failures than any other oil major**

London, Wednesday 30<sup>th</sup>. June 2010

This report focuses on BP plc and the impact of news about unexpected operational shutdowns on the company's shareholder value over a period of seven years.

In the case of the current massive oil spill in the Gulf of Mexico, BP's defence has been based on the claim that this was a very rare event and its industry safety record is as good as other companies.

This report aims to determine whether the Gulf spill and subsequent shutdown of BP's oil rig Deepwater Horizon in the Gulf of Mexico was indeed an unforeseeable mischance or alternatively, a fresh example of systemic operational failure resulting from the company's proclivity to repeatedly disregard safety and environmental rules, thereby risking a serious accident that could have been otherwise avoided.

### **Summary:**

- BP has had more high profile operational failures than any other major company in the sector.
- Investor confidence has been eroded by these failures, taking one of its hardest hits in 2006 with the shutdown of the Prudhoe Oil Field.
- After that event in 2006, news about unexpected shutdowns of facilities has been associated with an average stock price loss of 0.30% per day, indicating that investors recognized systemic problems within the company. This share price impact has been significantly amplified compared to the other oil majors.
- A \$100 investment in BP shares on days with coverage of operational disruptions would have generated a cumulative loss of more than \$87 between 2004 and 2010.
- This is nearly 10-times more than the loss on a \$100 investment in ExxonMobil, the worst performer of the other four oil majors (on days with coverage of unexpected operational shutdowns over the same period)

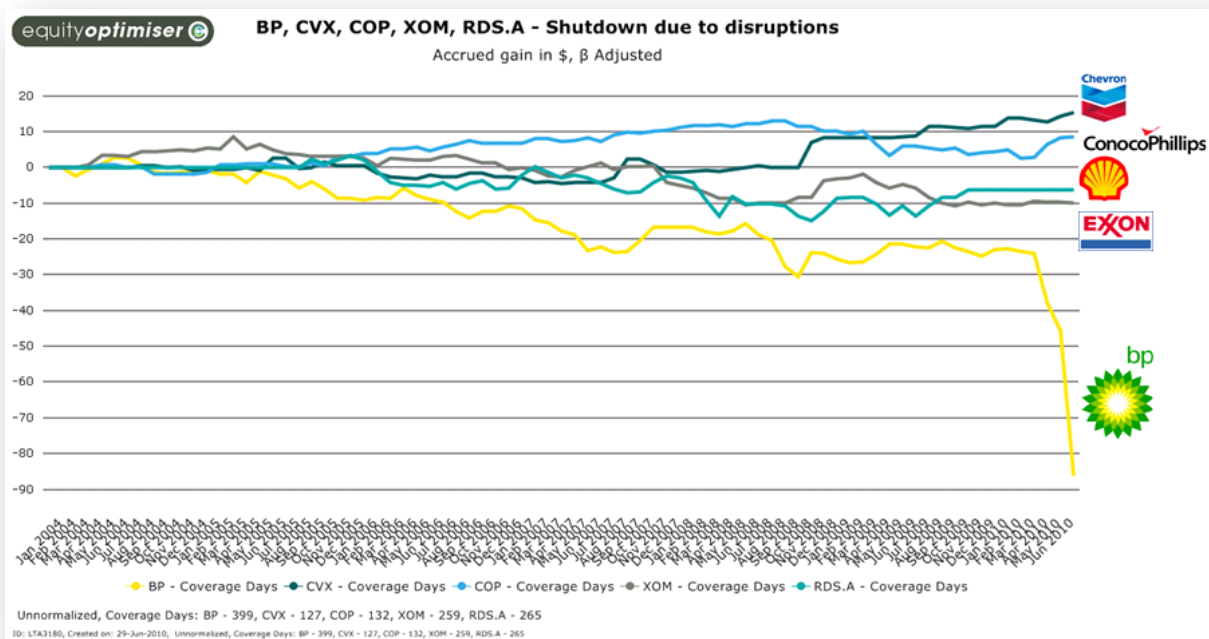
### **Long Term Share Price Impact: BP versus Oil Majors**

#### Notes on Chart:

The chart below shows the cumulative share price impact associated with news stories on operational disruptions. The data is fully sector-adjusted and is sufficient to power a successful hedge fund.

From 2004, if \$100 had been invested in BP exclusively on days when there was news of the company's operational disruptions/failures, the investor would have experienced a loss of \$25 before the Deep Water disaster. If the identical sum had been invested in Exxon — the next worst performer — the loss would have been \$10.

Contrast a \$100 investment in Chevron over the same period, which would have yielded a \$15 profit.



### BP background:

In recent years, like many multinational oil companies, BP has been shut out of the easy-access oil fields owing to the decline of old reserves on the one hand and the rise of state-owned oil companies on the other. As a result, BP has had to explore fields that tend to be more challenging and technically complex.

Seemingly as a consequence of this, BP has had more high-profile accidents than any other oil company in recent years, and the media coverage on shutdowns due to disruptions has also been higher than that of any other major player in the industry (see table).

Moreover, for BP news about unexpected operational shutdowns has been associated with the highest negative share price change among the analyzed set of companies (see table).

And now, with the disaster in the Gulf, independent experts are noting that the pervasiveness of the company's problems, in multiple locales and different types of facilities, is striking.

### Negative share price impact

Our analysis on the share price of BP indicates that until 2006, news about facility shutdowns due to disruptions did not result in abnormal share price fluctuations. This suggests that up until that period investors most probably perceived such announcements as a normal part of operations and did not react adversely upon such news – an attitude apparently shared by the stockholders of the other four key industry players.

From 2006 up to the present however, the trend has shifted. BP has had several cases of disruptions, caused by oil spill, leaks, explosions, fires and other mischances. The media coverage suggests that

many of these accidents were caused by the neglect of aging equipment, pressuring or intimidating employees not to report problems, or cutting short and/or delaying inspections to reduce production costs.

Our data indicates that investor sentiment in this area changed around the time when BP was forced to shut down the Prudhoe Oil Field in Alaska owing to an oil leak in August 2006. Before August 2006, BP's stock was losing on average 0.08% daily, relative to the sector, over 152 days where there was coverage of shutdowns due to operational failures. This compares to an average daily sector-adjusted loss of 0.01% on days without such news. After August 2006, the average daily loss on days with coverage of operational failures jumps to 0.30% over 246 coverage days. This compares to a daily average sector-adjusted gain of 0.01% on the days without such news.

The BP data suggests that since mid-2006 such accidents start a trend where investors gradually recognize that the shutdowns due to disruptions are not just unforeseen and rare events, but rather examples of systemic problems in the company and thus coverage of this issue has tended to trigger significant damage to both the valuation and reputation of the company. At the same time, the level of coverage of this issue for the other four key players has not been as high and has not resulted in any major volatility or share price impact. The long-term trend charts for the other four oil majors show that media coverage of shutdowns due to operational failures was not associated with distinct negative stock price performance nor was it even associated with positive sector-adjusted price movement at the relevant times.

<b>Frequency and share price change associated with news about unexpected facility shutdowns Jan 2004 - Jun 2010*</b>		
<b>Company</b>	<b>Days with coverage</b>	<b>Avg price change on days with coverage, sector-adjusted</b>
BP plc	398	-0.22%
Exxon Mobil Corp.	258	-0.04%
Royal Dutch Shell plc	226	-0.03%
ConocoPhillips	132	0.07%
Chevron Corp.	126	0.13%

\*Data for Shell covers the period Jul 2005-Jun 2010

### **BP Chronology of operational failures:**

**March 31, 2004:** Explosion rocked a BP Texas City refinery and chemical plant complex, the third largest in the US. Gasoline prices were pushed to an all-time high amid supply concerns.

**March 23, 2005:** An explosion in BP's Texas City refinery killed 14 workers and resulted in widespread criticism regarding the safety procedures of the company. Worldwide oil prices rose as the facility processed 30% of BP's North American oil.

**March 2, 2006:** A leak from a feeder line in Prudhoe Bay, Alaska, caused a massive spill in the Arctic Ocean, caused by corrosion of the pipeline.

**August 7, 2006:** Another leak from the pipeline forced BP to close the Prudhoe Oil Field.

**August 6, 2008:** Fire in the Baku-Tbilisi-Ceyhan (BTC) pipeline halted oil flow in its Turkish stretch. The pipeline is operated by a consortium led by BP.

**April 21, 2010:** An explosion on a drilling rig in the Gulf of Mexico causes the largest oil spill in US history. BP has not succeeded in tackling the spill at this point.

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