4Q 2016 results:
Webcast Q&A transcript

Tuesday 7 February 2017

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Q&A Transcript

Alastair Syme (Citi): Good morning everyone. Brian, could you just clarify on the fourth quarter on the cash flow statement around the timing of dividends received from associates? It seems to be quite a big swing from previous quarters.

And I have a follow-up question on Egypt as well, please.

Brian Gilvary: Thanks, Alastair. Sorry, specifically in terms of related company income?

Alastair Syme: Exactly.

Brian Gilvary: I think there will have been a cash inflow off of the back of a bond in Argentina which would have come through in the fourth quarter. I cannot remember the exact amount, but that would have been part of the delta.

Alastair Syme: Okay, so there is not an unusual mismatch on dividends received this quarter from associates?

Brian Gilvary: No.

Alastair Syme: My follow-up question is on Egypt. Strategically can you talk around the overall exposure to Egypt on a risk-adjusted basis? And are there any synergies on being in Zohr versus your existing West Nile Delta business?

Brian Gilvary: I will let Bob talk about the activity in terms of Zohr and how it sits within the portfolio.

In terms of risk exposure, if anything, with Egypt, I think the risk is significantly reduced from where we were four or five years ago in terms of both the portfolio we have, because now being part of Zohr, of course, balances out some of that risk. It also enables us to deploy – and we have deployed over the last three or four years – Egyptian pounds paid locally into local contracts. Therefore, if you think about our long, long history of being in Egypt over 50 years, the receivable that was coming under some stress post the various changes three years ago after the Arab Spring, that is now vastly reduced from where we are. So from a risk perspective, Egypt is actually now, in terms of our radar screen, much reduced from where were.

Of course, as you pointed out, Zohr helps in terms of further investment across our portfolio, but from a risk perspective financially, Egypt is reduced from where we were.

Bob Dudley: Regarding the Zohr purchase for BP, of course BP and Eni worked together all across Egypt in many places, and we have our own very large projects in Egypt. A very large one, the West Nile Delta Project, is expected to come on towards the summer here. For us, Egypt is very strategic. As Brian said, we worked there for 50 years without an interruption at all. We think it has great potential as a gas market, and as the West Nile Delta and Zohr come on this year, we think Egypt's position as a country, potentially moving to a gas exporting country, is in very good shape. So I know it is overlooked by a lot of people, but we are very pleased with that project, and as well with the other ones that we have. We have other discoveries there that we are moving towards development there as well.

Thomas Adolff (Credit Suisse): Good morning. I have two questions around the CapEx, please. The easy one, I guess, is I wonder what the share of CapEx is today that can generate cash flow within the next two years. I just wanted to better understand the cash flow cycle and financial risk associated with your CapEx.

The other question on CapEx I have is the longer-term sustaining CapEx. Last year in Baku when you hosted the field trip, you talked about the portfolio quality and that you were happy with what you had, and that the sustaining CapEx would be at around $15-17 billion for the company as a whole. Obviously since then you have made a number of acquisitions, presumably to strengthen your portfolio as you have highlighted, and that is also leading to a slightly higher CapEx range in the near-term to $16-17 billion per annum. But I wondered whether this enhanced portfolio also now allows you to sell more in 2017. The question I really have around that is: can the longer-term CapEx range in a world of, say, $60-65 per barrelrevert back to the $15-17 billion range, or is the disposal plan merely a function of matching Macondo liabilities? Thank you.

Brian Gilvary: So Thomas, let me just pick up the first part of the question, which I think is about capital in service and capital not in service. I do not have the precise figures for you, but obviously given the number of big projects we have coming on stream this year, a significant amount of the upstream capital will be in projects, so I am guessing somewhere close to 40-45%. And the CapEx we are spending in the upstream this year will be in the major project wedge for 2017. We can come back to you with the specifics around that. But we do not normally give guidance on what is in service and what is not in service in terms of build.

In terms of the disposal programme, we have said many times, we have sold off over $55 billion of upstream assets over the last two or three years at $100 a barrel.. The next phase of divestments, if you look at the divestments that we slated through 2016, the majority of those are midstream and downstream, and actually quite a few corporate assets we had around the place have been sold off. The target we have set for next year has some upstream in there, but none that is going to have a significant impact in terms of the future capital programme.

So I think we gave you guidance in the third quarter around $15-17 billion in capital for this year. We have closed those extra transactions that Bob talked about in terms of creating optionality for the future, and therefore we have moved the capital frame up to $16-17 billion, which we think is good for this year and will see us through into 2018, and then we will see whether other opportunities arise this year. Those that we talked about all came together at the same time. You would not normally have that many converge in that short a space of time, but there may be other opportunities for us this year as well.

I think the key is everything has to come back to the balance of the financial frame, and making sure that we can cover organic CapEx and the full dividend with the operating cash flow. That gets more sustainable from here as we start to see the ramp up in projects and new builds coming on.

Thomas Adolff: Can I just follow up on the last point you made? You said that there may be more opportunities this year and next. Presumably you are referring to further acquisitions. Obviously, the focus also has to be on balance sheet. So would you fund further acquisition via the balance sheet or further equity issuance, or more disposals? Thank you.

Brian Gilvary: I think what we will continue to stay focused on for our shareholders is deals which are accretive. Anything which is accretive we will look at, but please do not let me send the signal out that we are out there on a shopping spree right now, because we are not. But if opportunities arise – take Aker BP as an example for last year, which is a great example of a late-life asset that now has a huge growth opportunity through a creative, innovative structure that we put in place. I could argue the same thing about Abu Dhabi, about Mauritania, Senegal. Each time you see us step into the marketplace, it is really about creating optionality for the future, but everything comes back to what are we trying to do for our shareholders. So I think if accretive opportunities arise, then they are ones that we will look at, but of course it will all be bound up within the financial frame.

Martijn Rats (Morgan Stanley): Good morning. I wanted to ask you two questions. The CapEx has, of course, come down a fair amount during the course of this year, but the CapEx commitments you have entered into are quite significant and stand out relative to some of your peers. I guess that reflects how you see the cycle unfolding, as it suggests you think this is the right time to do projects. I was wondering if that is indeed the right interpretation of that observation.

The second thing I wanted to ask you about is the following: on the third quarter conference call there was a comment, and I will read it out. It said, 'In upstream, growth is imminent and visible until the end of the next decade.' And on this call, we are talking about the large number of transactions you have done over the last two months, and the comment in the press release, is that, 'We have laid the foundations for BP to be back to growth.' And I have to say, I struggle a little bit to make these things consistent with each other. Can you talk about that?

Bob Dudley: Well Martijn, a couple of things. One, I do not think our CapEx has ramped up very much. We said in 2016 $17-19 billion. This year we came in at $16 billion. We are probably looking at $1 billion more, roughly, this year. I do not see that as a massive boost.

In terms of the growth going out, we have six big projects coming on in 2017, in addition to the six that came on in 2016, those in Algeria, Thunder Horse, Water Injection, Point Thomson, Angola LNG and Thunder Horse South expansion – came on in 2016. We have the big Quad 204 project coming on in the North Sea, we have Trinidad Onshore compression project, we have Juniper in Trinidad, we have the giant Oman Khazzan Phase 1, Persephone coming on in Australia, and West Nile Delta, a very large project coming on in 2017. You keep going on in 2018, you see the big Clair Ridge projects in the UK, the big Shah Deniz project coming on out of Azerbaijan and Atoll in Egypt. The list goes on and on. We have guidance out there, with some other FIDs this year as well, for that 800,000 barrels a day additional production from new projects. And I have not mentioned them all; Mad Dog Phase 2 is another.

So I think if you lay out the major upstream projects summary, those that we brought on, those that will come on this year, those planned in 2018 and 2019, and the FIDs you will see, that is what is meant by the future growth.

Martijn Rats: Okay, thank you.

Oswald Clint (Bernstein Research): Yes, good morning. And sorry to labour a point, but I actually have a similar question to the last few. It is really going back to the Baku trip when we hear about the 45 billion barrel resource base and 8 billion barrels that would have to be extracted over the next 13, 14, 15 years to continue growth. Is there anything in that 8 billion barrel number that was supposed to be in the development hopper, that just is not looking so attractive today, which is why you had to make these deals in the last two months of last year? Or are these deals just so attractive that you had to move on them? That is the first question.

Then maybe one: Brian, I just want to look at the cash flow numbers again, the $18 billion last year, and we have to step up to $24-25 billion this year to cover that CapEx and dividend. I can see getting half of that $6 billion delta uplift from the commodity price, but is the other half coming from upstream volumes or is there a decent contribution from Whiting or the acquisition in Australian retail in December? Thank you.

Brian Gilvary: Oswald, I am actually going to pick up the first part of the question first then Bob might want to sweep on it. From the financial frame perspective, I think Bob has just laid out a list of projects that I think underpins Martin's question that says, 'Call me old-fashioned, but with that level of projects coming through and the nature of the gas and oil mix, that gives us significant growth.' Actually, we did not need to do any of the deals in terms of the future health of the company last year.

And one of the things that actually really gave us confidence to execute on those were two things. One was being able to bind the liabilities around Macondo, in terms of understanding now that we are in the final stages of that process around liabilities and understanding what the future commitments are. However, the second piece was also around recognising that by the end of last year we had managed to get the portfolio back at balance at around $55 a barrel in terms of the portfolio we had at the end of last year. We have given ourselves eight quarters to do that. If you remember back in February 2015, someone reminded me on a call this morning about the 'Lower for Longer' tag that we had. At the time people pushed back and said, 'No, no. Oil prices will come back.' We were very bearish and ensured that we got after a series of things around costs and capital to get the portfolio back to balance of $55 a barrel.

The great thing about being able to do that is that creates optionality, and these deals were deals that my dear friend to my left, Bob, had been working for over a long period of time, and they came together at the right time. I will come back to the cash flow number, but I don't know, Bob, if you want to add anything around the deal structure we have put through again in the fourth quarter?

Bob Dudley: I think, as you said, those deals were not essential for us. We had been working on them for a while. They had to be accretive. Some obvious ones in Abu Dhabi, where the terms there came together and they were very attractive, and lengthens it out to 2055. Azerbaijan, another natural one that you see us doing, is looking for an extension there on the ACG concession which goes out to 2050. The Zohr project strategically just works really well for us and with our partnerships there with Eni. The little bolt-on acquisition in Tangguh, no additional overhead whatsoever, accelerates that project, helped get it approved. These were things that were not essential, as Brian said, but just strategically made sense for us.

Even the Australian one, which does require the regulator's approval, will probably get done some time next year in 2018. You will know in the UK we have got a great model with Marks & Spencer in our retail growth and revenue growth, and we have got a chance to replicate that very successful strategy in Australia. These were things that are all going to help build where we are going. That along with the very, very solid organic set of projects that we have got in the pipeline. We will go through this in more detail with you on 28th February when we will have a strategy update. In fact, we are looking forward to that.

Brian Gilvary: Then Oswald, in terms of operating cash I am going to try and help you a little bit in terms of what we can see coming through this year that gives us confidence around the balance point. We exit 2016 at around $17.8 billion. Back out the working capital release that came through the results through the back-end of last year, so take another $3 billion out of that. If the oil prices stay where they are today and, of course, there is a lot of environmental movements that you cannot see beyond the rule of thumb around, for example, on Henry Hub gas and what is happening with local refining margins, let us just assume the environment helps, where today's oil prices are, around $4 billion, so that sort of positive $4 billion, maybe more than that if we get up towards $60 which we are not anticipating at the moment. I think something around $50-55 is a good planning assumption for this year.

You have then got the Abu Dhabi piece that comes in and that is cash accretive for this year. We also have rationalisation expenditure of $0.5 billion to $1 billion of cash that went out last year that will not go out this year. There will be some going out this year but the delta is somewhere from $0.5 billion to $1 billion. We have got volume and margin improvements coming through in both upstream and downstream. It is about 50/50 of about $1.5 billion to $2 billion, and then some other movements, all of which gets you to a cash figure this year of somewhere around $21 billion to $22 billion at today's price set, which means that the CapEx and cash dividend is covered with an imbalance of about $1 billion.

Now of course we actually want to cover the full scrip part of the dividend which we will be able to do as we go into 2018, delayed only by a year because of course we have now got the new options around the new transactions which will require an extra $1 billion of CapEx or thereabouts for this year, as Bob said. Actually, everything box balances for this year and then we have got the momentum through into 2018, and with the ramp-up of the projects, we start to see free cash flow growth from there.

It is nice to have the scrip. We would like to offset that scrip, or we will offset the scrip at the first opportunity we get. However, in terms of cash balancing, that is how you get from 2016 to 2017. Also of course there may be some upside on the oil price.

Bob Dudley: And a footnote, Oswald, you mentioned are there any Hubs that are not coming through that we felt like we needed to fill. The answer is no on that. You might be thinking of India, but those are coming forward. The economics look very attractive given the new gas price in India as well. Maybe that is the one you were thinking of, but we do not have any gaps really.

Brian Gilvary: Oswald, just to be really clear, in my balancing I have done here, I am assuming CapEx at around about $16 billion.

Oswald Clint: Excellent. Thank you very much.

Jessica Mitchell: Oswald, it is probably also worth noting that the $16 billion to $17 billion CapEx guidance this year, although it is a little bit higher in terms of specific guidance for 2017, that is still within that overall $15 billion to $17 billion frame we showed you in Baku.

Gordon Gray (HSBC): Thanks, and hello everyone. Two quick ones, if I can. Firstly, on the M&A side of things, I think it is fairly obvious that this could be a good point in the cycle to be building the upstream positions, but to some people the downstream acquisition, the Woolworth acquisition, is a little bit less obvious. Maybe you can just give a little bit more rationale around that one?

Secondly, if you could give us a little bit of insight into the reserve replacement outlook or position, excluding the Abu Dhabi acquisition? Thanks.

Brian Gilvary: On the latter one, we will come back on reserves replacement ratiowhen we file our annual report and accounts and 20-F. We will come back to the split of that. You will also see what the Rosneft piece looks like underneath all of that in terms of reserves replacement.

Bob Dudley: Gordon, on Woolworths, this is really very consistent with strategy. Our UK retailing has done extremely well. We do not lay out all the details of that, but by acquiring and rebranding the operating Woolworths stations in Australia, a brand that, unless you are familiar with Australia, you will not realise how strong the Woolworths brand is in Australia, we would acquire 527 fuel and convenience sites. Again, subject to the approvals there, we expect to probably complete it in early 2018. It is accretive to earnings. It is operating cash flow with returns that are competitive with the rest of our downstream portfolio. It is very consistent with the strategy we have in the downstream which is to develop these high quality differentiated fuels and convenience offers in the downstream. It works really well here with Marks & Spencer in the UK, and RWE in Germany also is another model for us. This one we feel is very attractive for us.

Our reserve replacement of 109%, Brian said we will break those out later, but it is really a renewal of the concession that we had before. We have had healthy reserve replacements across the rest of the company as well.

Gordon Gray: Great, thank you.

Anish Kapadia (Tudor, Pickering, Holt & Co.): A couple of questions from me. First one was on your net working capital position. If I look back to the end of 2013 your net working capital position was over $20 billion; obviously in a much higher oil price environment. Now at the end of 2016 it was close to zero. I am guessing oil prices are a big proportion of that, but if you could explain if there is any other impacts in there, and how you would expect that to trend especially in a rising oil price scenario?

The second one was related to your planned disposal programme for this year of about $5 billion. What is your estimate in terms of the cash flow that you will be selling alongside that $5 billion and any kind of idea of the split upstream versus the downstream? Thanks.

Brian Gilvary: On the net working capital piece, you are absolutely right, as the oil prices go higher working capital builds. Therefore, we have assumed some working capital build into 2018 and at $55 a barrel we are assuming it is neutral. Actually, it will be neutral for this year.

Obviously, as you go through the big correction around the oil price, costs, working capital, capital, all sources of cash are worked through. We have been systematically reducing our working capital uses in both the downstream but also in the upstream around inventory management. It is part and parcel of everything we have been doing around costs and CapEx, hence why you have seen the working capital balances come down so significantly. For 2015 we are assuming it is neutral, so there is not any assumption that there is any working capital release, nor build. However, if prices move up in 2018 we would expect a modest increase in working capital, and that is built into our forward cash flow projections.

In terms of disposal proceeds for 2017, the bulk of what we are looking at in terms of the cash flow impacts have already been built into our projections for this year. They sit inside of all of our portfolio adjustments. The big cash accretive pieces were really sold off in the last big series of transactions we did over 2013/14 and 2012. They will not have anything like the same impact. A lot of the assets are actually more in the utility-type returns if you look at midstream and some of the terminals that we are looking at. Some of the examples I could give you for this year were some of the offices that we sold off that we hold. Obviously, there is no cash associated with those. There is a small increase in costs in terms of the lease, but from an IRR perspective they are very good returns for us. You would have seen some of the transactions we got away. Nothing that causes any concern in terms of being cash accretive or dilutive. If anything, they tend to be on the lower end of the cash return.

Anish Kapadia: Thank you.

Guy Baber (Piper Jaffray): You guys reached the $7 billion cash target for cash cost reductions early. Can you just talk about that a little bit, and now what the expectations are from a cash cost perspective going forward? Are there opportunities for continued reductions and where may you see those, and are you beginning to see any inflation anywhere in your business that you operate? If you could just help us understand that, that would be great, and then I will add one follow-up.

Bob Dudley: Guy, a very good early morning to you. Some colour here on our cash cost reductions. We did hit the $7 billion reduction in cash cost versus 2014 a year earlier than planned; we took them down from $27.2billion to $20.2billion. The split on that: $3.7 billion has been in the upstream, $3 billion in the downstream and about another third of a billion on other corporate businesses.

Two-thirds of that is roughly from self-help driving cost reductions, simplification and efficiency; a third of that is from deflation of costs. That self-help really is how we work more efficiently with the activity optimisation, simplifying how we do things. The organisational size has come down, so staffing costs have come down. Getting into more of the details, the kinds of things that we drive: BP headcount and reductions of expatriates; agency staff has come down quite a bit, headcount and rates for agency staff. We have had a lot of third party spend come down just through more competitive bidding. We have a real drive to eliminate waste: 'common sense at scale' we call it. Inventory control that is operated by others; we are working on those where we are not the operator, to push them as well. For BP, we are pushing, as our partners do with us, improved cost recovery over time. Brian, do you want to add anything?

Brian Gilvary: I think it is across the piece. The only other comment I would add is that of course we started in 2012 in the corporate space, in terms of trying to take out significant cost. We have stripped out about 40% of those corporate and functional costs since that date; the high-water mark was around 2012, if you think about all the redundancy we built into the system after the incident in 2010.

Then in terms of upstream, as Bob said, going forward, 75% of the reductions that we have driven through here we believe are sustainable; 25% will be exposed to inflation, but I do not think we see any of that coming any time soon.

Guy Baber: That is very helpful. My follow-up was I was hoping you all could touch on the Lower 48 onshore business a bit; can you discuss the appetite now to increase spending there in light of the strategy you have made operationally, and maybe what the implicit range of spending is for that business within the overall CapEx range? Where does the Lower 48 fit in terms of your appetite for perhaps some incremental acquisitions? If you could just discuss maybe what you might be looking to add there, that would be helpful.

Bob Dudley: Well, I think really the capability of our team there now in driving the rigs and the rig work and getting results has really come through. Production in the quarter was over 300,000 barrels a day, which is the highest fourth quarter that we have had since 2011, so Dave Lawler and that team have been doing a great job. We have our highest quarterly operating cash flow from there as well.

So we like what the team is doing. We will look at ways to incrementally see how we can take that capability and expand it; we will do it creatively. There are a lot of targets that are out there on offer. They seem highly priced to us, so we are going to use a lot of discipline here before we take it on. You will remember, a few years ago we had about two rigs running. Now we have reduced our rigs down. We have five rigs running in the fourth quarter; we had 13 in the fourth quarter in 2015. What we are getting out of those rigs is quite outstanding, and of course there are some weather issues right now. Brian do you want to make any comment?

Brian Gilvary: The only thing I would say is what the team have done, which I think is really important, is get the cash breakeven of that business right down to therefore justify the capital spend going forward. Bernard and the team will look at opportunities, with Dave Lawler, in terms of where we take that business going forward. You will know from the external data we publish, it is a markedly better business than it was when Dave and the team came in, and our cash breakeven number has come down significantly from where we were by the time we got to the fourth quarter.

Bob Dudley: And our liquids production is up to about 15% of that total as well: 1.5 BCF a day but we have about 15% liquids, so that is giving it a boost as well.

Theepan Jothilingam (Exane BNP Paribas): Good morning all. A couple of questions actually. Firstly, just on Macondo, could you talk about particularly the BEL payments and how you see that phasing in 2017? Will that also be front-end loaded? Perhaps just give a little bit of colour in terms of the process and what is remaining in terms of the claims that BP needs to run through.

Second question just in terms of major turnarounds. We saw one in Q4 with Whiting. I just wanted to ask if there were major turnarounds in the BP portfolio, either in the upstream or the downstream for 2017. Thank you.

Brian Gilvary: Theepan, on the first piece, the BEL payments have been significantly accelerated through the back half of last year, through a various process we did under court supervision. But effectively now we are left with the final piece of the claims facility.

I will give you some data. We started with about 149,000 total claims in the BEL process. Half of those were closed with no payment, and 65,000 of them have now been finalised, with 15,000 being resolved in the fourth quarter; hence why you have seen the reassessment now in terms of provision. We have been able to work through a big number of claims through a process aligned with the court-supervised settlement programme, which leaves about 9,000 claims now to be resolved. We will expect to see the majority of those get worked out through here.

There will be some appeals. So actually in today's provision anything which is of a significant nature, where we believe that actually the payment is not a representation of the actual loss, we will appeal those through to the fifth circuit, so you will see some of those come through and they will take some time to get resolved. But generally we would expect, as we have said in our press release today, to get a major resolution of what is left in terms of the overall claims, not just business economic loss claims, but the big chunk of business economic loss claims have now effectively been resolved through the fourth quarter, with 9,000 left to be processed this year.

Bob Dudley: Thanks Brian. On turnarounds, we did complete 11 of them in 2016, ahead of schedule,that is in the upstream, and we had a Whiting turnaround right near the end of the year. There will be turnarounds in 2017. I do not have the exact schedule in front of me, but the refining industry itself is slated in North America for a heavy set of turnarounds later in the spring, and we will have some of ours there as well. There are not an overly burdensome set of upstream turnarounds in 2017, and you can check in with our IR team at another time.

Theepan Jothilingam: Thank you. Brian, I was just wondering on the actual payment for the BEL claims through 2017, if we are trying to model the quarter on BP's gearing, is that going to be front-end loaded?

Brian Gilvary: It will absolutely be front-end loaded. Theepan, maybe just to decode some of this. One of the reasons why we are front-end loading and accelerating is so that the administration comes down, and that facility under Patrick Juneau's excellent supervision, we will start to wind down as we get to the end of this year, of course all under the supervision of the court.

Jon Rigby (UBS): I have two questions. The first is on trading. This fourth quarter pattern of reduced or negligible contribution from trading seems to recur, and I just wondered whether you could talk about what drives that? Is it risk, is it opportunity? I am conscious that your upstream business runs 24 hours a day, 365 days a year, and I am curious why your trading business only runs for three quarters.

The second question, just on your tax guidance. Obviously, you are taking the ADCO tax below the line as corporate tax, so I just wondered whether you were able to give us some indication of what an apples to apples tax rate would be, i.e. what the underlying tax rate would be without the ADCO impact taking it to 40%?

Brian Gilvary: Jon, on the first question, I can tell you from personal experience, but I asked the same question of the Chief Executive of IST, Paul Reed, who has done a great job over the last six years and is stepping down this year.

Actually, every fourth quarter is different, but generally what happened this fourth quarter: it is oil trading; it is not gas trading. Gas trading actually had a good result in the fourth quarter. In terms of the oil books, I think generally coming into the fourth quarter, given all the uncertainty around what OPEC was going to do, and just the sensitivities around supply and demand balances, this was not a quarter to try and take big positions. Therefore, I think there was a natural inclination to flatten up all of the books. There was also an adverse court ruling against us, which was actually a $70 million hit, that was in the public domain, that made the actual fourth quarter a loss; otherwise it would have been just been breakeven.

I think this fourth quarter is different to the last time we had a fourth quarter where there was either a breakeven or a small loss. I have actually looked out the last 20 quarters, and something like 12 or 13 of those, or at least close to 50%, of those are above average. There is about 25% significantly above average, and then there is about four or five quarters where it is breakeven or just a slight loss or just on plan. Just to caveat this, the oil trading books actually were above plan for 2016, as they were in 2015, but the fourth quarter is really not a quarter where you would want to be taking significant risk, given all of the uncertainties around what was happening around supply and demand balances, so that explains fourth quarter oil.

Then on the tax rate, I apologise, it is a messy quarter in terms of trying to give guidance around effective tax rate. The adjusted effective tax rate for last year is about 23%. If you add Abu Dhabi, it moves it up significantly. There is also a change in the mix of profits around gas and oil and where those profits sit, so that also has an impact to take the effective tax rate up to around 40%.

If you look at 2017 without Abu Dhabi, the effective tax rate would be somewhere around 30%, and a cash tax rate of 23%. I think its just an important point, Jon, just in terms of using our rules of thumb because of course we have gone through all the various back of envelope calculations – and our new pre-tax rule of thumb will be about $340 million for every dollar a barrel, if you include Abu Dhabi – the marginal cash tax rate you should use on that piece is somewhere between 10–20%, so 15% is probably a good marginal cash tax rate to use as you start to think about deltas year on year.

Lydia Rainforth (Barclays): Thanks Jess, and good morning everybody. Two questions, if I could. The first one, just to come back to the acquisitions, and perhaps if you could just give us the average return on those, when you talk about them adding value, that we could have a look at. But just within that, I am just thinking about something that Brian said, that once the rebalancing is achieved, then you will look to offset the dilution from the scrip, I think at the first opportunity. What confidence can you give us that, in a years' time, we will not be sat here thinking that it is going to be delayed for another year, because there have been other attractive options that have come into the portfolio that you want to take advantage of?

And then the second one was just back on the cost question that Guy asked. Are you actually looking at whether you can do more into 2017 on the cost targets than you have given, or is it just a case of given the oil price increase, that we will basically look at locking that in for the year? Thanks.

Bob Dudley: Well, Lydia, on the acquisitions, they have obviously been competitive in our capital ranking process. On Abu Dhabi, I should not actually say the terms are different than they were, but Abu Dhabi themselves and ADNOC are still negotiating with potential people to join the partnership, so I should not comment on that. Certainly, with Tangguh, it is just a straight bolt on to a project which we know is healthy and economic. It is the same with Zohr. The economics of that project we think are good with lots of optionality. And there is lots of optionality in all three of these projects that I mentioned. And again, the Woolworths deal, if approved, will be accretive as well. And the extension which the commercial terms were worked out before the holidays in Azerbaijan are certainly very economic and healthy with our returns. And again, they are just an addition onto what we are already doing. So I think that is probably all I should say about the specific economics of the projects.

Brian Gilvary: On the cost front, Lydia, actually, if you go back to the high water mark, we talked about 2012, our cash cost base has reduced by about 50%, which is quite significant from where we were back at 2012. So that is kind of an important data point.

I think what you will now start to see going forward is our unit efficiency operating costs start to improve. So we will look to hold cost flat here; notwithstanding the earlier comment about the upstream, 75% of the costs we believe are sustainable, 25% will be exposed to inflation. So we will look to hold the absolute costs flat where they are, even though we have a huge amount of projects coming on with investment both in upstream and downstream. There is a natural increase in cost pressure in the system and inflation, but we will look to hold flat. And what you will start to see is our unit operating costs, and those unit metrics, in terms of the operations, in terms of upstream, around operating costs and production costs. And in terms of downstream, it will be the amount of costs that are going in to generating margin, which is the way the marketing business would look at this, in terms of cost over a gross margin measure.

Robert West (Redburn): First question I would like to ask is on CapEx. Brian, Bob, to the extent that you have a breakdown at a more project level than the headline level you have given us, are there any projects you know about within your split where there has been a significant change, versus how you see it now versus how you would have seen it may be six months ago, or when we were all in Baku?

Within that, I would like to ask about Oman, specifically. I think Guy asked you about the drilling productivity improvement in the US. And I know Oman is another area of unconventional drilling activity. I was just wondering if those recent wells that have come in over the last three to six months, how are they comparing on a drilling productivity basis versus where you would have seen them?

And then the final one I wanted to ask you is just on the downstream business, and contango impact there. So a year ago, it was maybe $10 a barrel per year, looking at the contango, and I think I remember back in 2015, you talked about filling your boots in that contango environment. Is there any change in that business now that we are in a more flattened, forward curve? Either in terms of inventories coming out, or in terms of profitability booked on the contango that we should be aware of maybe not recurring? If you could talk about that a little bit, that would be interesting to me. Thanks.

Bob Dudley: Good questions. I will take the first one and then Brian on the contango and he can explain the technical term 'filling your boots' for all of us.

On the CapEx, we have continued to see with midstream projects now, costs coming down. The Shah Deniz project, the one that is working its way on the pipelines across Turkey, the steel costs have come down significantly in that. The Mad Dog sanctioning, the one that went from 20 down to nine (billion dollars), it gives you some idea of the reduction both in scope – we re-engineer these things, take a fresh look at it, and look at how we would do it, and that took a lot out of the scope – and then, of course, drilling costs have come down significantly.

The Thunder Horse South expansion that just came on stream near the end of December, again, 10% under budget, probably $150 million savings and 11 months earlier. So things are happening faster; they are happening at lower cost.

So, there is not a project out there that I would say we are worried about. The ones that will come on stream this year have been moving along. The West Nile Delta, the big, big project in Egypt, we have 83% of the drilling is much reduced cost and much faster. So that project hopefully will come on early, rather than the summer or the fall which we had originally planned on.

On Oman, we have got a number of breakthroughs there. In the southern part of Oman, we have signed an agreement that would expand the acreage there by another 50%. We are getting better well rates there, even straight wells, that we had not expected, that I think are going to lead us to be able to do the original project and the 50% expansion for around the same price as the original FID for the first phase. We are using new techniques and new data so that every time a well is drilled we automatically rework the entire development plan to optimise where the next well moves to; things that were never actually seen in our history before, in terms of being able to use new technology. We have got 45 development wells drilled to date, and they are completed, and definitely potential production levels above plan, and the liquid production levels that we are testing are higher than planned. So we like that project a lot. So keep an eye on that. That will be on stream before the end of the year. I do not know if that helps, Rob?

Robert West: Yes, that does. Thanks.

Brian Gilvary: And then Rob, on the question on contango, I am fairly confident 'fill your boots' never came off this call, but it may be some other company you have been dealing with. Unless it was a very private session; it has been a long time since I last used that phrase. Probably about 20 years ago when I was on the trading floor.

No, actually – and our trading floor would let you know this – we actually keep quite a discipline on the amount of oil that we would use in contango plays when those opportunities arise. And I will give you another phrase, which is 'flat as a pancake', which is exactly where the Brent market is right now. So I do not think that there is much carry that we see in Brent, certainly not on the carry basis, if you look at the forward curve right now.

There is some carry in gasoline, and I think we will always allow our traders to take advantage of that when that arises, in terms of using the storage facilities that we have, and the working capital that we can deploy towards that activity. But we do actually limit it, and we do have a very strict resource allocation group within trading that looks to allocate the scarce working capital we allow in terms of that activity to make sure we are getting the highest returns in the ones that we look at. There are some people that are comfortable investing in cost of capital; we would look to want to get significant returns way above cost to capital before we would look to deploy our working capital into that sort of space. So, we will do contango when it arises. Right now, the only opportunity you would see are in gasoline, and we have some of those positions on for this year. But right now, in crude, there is really nothing left.

Robert West: All right, and sorry for the false attribution of that comment.

Brian Gilvary: No, no. I know where it came from, but you need to talk to somebody else.

Christyan Malek (JP Morgan): Hi. Thanks Jess, and thanks for taking my questions. Good morning.

Just two questions, starting with oil prices. You were justifiably bearish early last year, and that sort of reflected itself in terms of discipline around CapEx. What is your view at this point? I mean, OPEC has done a deal, and therefore you are more constructive, but I cannot help associating that move higher in oil prices with how you have done more deals. And so the first question is, if oil prices were still in the 40s, would you have done those deals?

The second question links back to strategy around CapEx versus cashflow. Can you just remind us of what exactly is the priority around cash flow breakeven? If that was the true priority, as much as it is tempting to do deals that are accretive and deliver long-term production, would you not have resisted to get that cash flow breakeven lower, particularly given that oil is so volatile? Just two questions please.

Brian Gilvary: Can I just pick up the front end of the question? If the oil price had stayed at $40, would we looked to have done this? I think if you go back to one of the earlier questions, it was the confidence that we had was that we could get back to breakeven at $55. And while we said lower for longer two years ago, I think my partner said lower for longer but not forever a year ago. And I think that, structurally, we can start to see the overhang in the crude supplies start to work their way through this year. It has taken longer than anticipated, because I think actually some of the supply last year was not anticipated and came on, particularly Libya coming back in terms of production there.

So, I think if the oil price had stayed at $40, you have to remember that a lot of the transactions we looked at are either low-cost oil, and therefore good for the long term in terms of strategy, or gas, in terms of those transactions that you saw in the back end of last year. So even at $40 a barrel, they would definitely be within the suite of options that we might have looked at.

Bob Dudley: Yes, let me just add to that. That is exactly right. Tangguh, gas price is generally fixed. Zohr, gas prices are fixed. Mauritania is just such a large, low-cost gas source there.

Low-cost oil, Abu Dhabi. That one, I am not sure. But it was the flexibility of ADNOC and the government of Abu Dhabi to take our shares, that made that one different. I think as I have said to them, we would not have done that deal even last year if it had required the cash, so I think that had some characteristics of flexibility and some creativity around it. But we certainly would have been, you are right Christyan, nervous at $40. We would have continued to think very, very carefully about all of these deals here.

On what our view is on OPEC, all of us in the company travel a lot, and we spend time in various countries. We do talk to the views of various ministers. Obviously, we operate in Russia and Azerbaijan, which are part of the non-OPEC producers of these agreements. And I have to say that the confidence and the sort of steely resolve that they speak about is sort of reflected in country after country after country. So, we will see. There is risk to it, but it does feel like this is holding with resolve by these many countries.

Christyan Malek: If I could just follow up, not to wish low oil prices on anybody, but if we do go back to the mid-40s, is it safe to say that you would be willing to lower your CapEx, or is $16 billion a hard floor?

Bob Dudley: No, we would absolutely lower the CapEx, and we would probably re-pace things. Some of the economics of projects would change, the big ones that were halfway across the finish line, we would obviously continue to go forward with. We would look at all of the discretionary base and wedge drilling activities. You have to make sure that the returns, which are generally very high on those, happen. But you would see us slow down some of the FIDs, I am sure.

Christyan Malek: Thank you very much.

Chris Kuplent (Bank of America): Thank you Jess. Good morning everyone. Just two questions. The first one on CapEx. Could you comment a little bit about your new CapEx commitments on the back of acquisitions, whether it is Zohr or whether it is ADCO, etc.? Should we think about that as displacing previously unsanctioned projects in your resources base, or is that one reason why you have gone to the higher end and slightly upgraded your 2017 CapEx number?

And the second question is really asking you for a little bit more detail about your cash flow outlook. You previously gave us more or less the same CapEx guidance, the same Henry Hub guidance, refining margin guidance, and guided us to a 2017 breakeven of $50-55; now it is $60. So just wondered whether you could let us know a little bit more in detail where those $1.5-2 billion have gone. Thank you.

Brian Gilvary: Actually, Chris, it is the same answer to both questions. If you remember at the end of the third quarter, we talked about CapEx on the Q&A session. We talked about CapEx in the range of $15-17 billion, but for next year, this year, at $50-55, we were guiding that CapEx at the lower end of that range, so somewhere around $15-15.5 billion. The new acquisitions and projects have brought with them an additional $1 billion, hence why I say to assume CapEx of around $16 billion, or just north of $16 billion for this year. That is the $1 billion. And that $1 billion actually bridges you from $55-$60 a barrel on a post-tax basis in terms of group balancing. So, it is $1 billion out in terms of organic balancing for this year, hence $55-$60.

Irene Himona (Société Générale): Thank you. Good morning. I had two questions, and apologies if they have been discussed before. Firstly, on the downstream, where for the full year, your Lubricants profit is up 10%, Chemicals is up 2.5 times and together those two subdivisions generated about three times more than your upstream. But a lot of the cash cost reduction has been delivered in the downstream businesses. So I wonder how we should be thinking about further upside on these businesses from here on, if there is any guidance.

Secondly, on the upstream and the 500,000 barrel a day start-ups by year and your own organic growth. Obviously, these do not ramp up immediately to plateau, and initially costs will be higher to start with. And there is a risk of initially perhaps over estimating the cash contribution of the organic growth. Is there any guidance you can give us on how we should think about the cash contribution of those 500,000 barrels in the first year of production in 2018? Thank you.

Brian Gilvary: Hello Irene. If I just take the downstream question. I think it is also worth pointing out that just on the straight rules of thumb, the environmental impact that the team had to deal with last year was around $2 billion, around the refining margin. And actually bigger than that, if you build in the local margin differences. So actually, it is quite significant. And hence why it was important that extra value was generated elsewhere inside the business, both in terms of actually Fuels as well as Lubricants, as well as Chemicals.

I think the outlook for Lubricants, it was a record year last year for them. Whether they can repeat that this year, but I think you should assume flat to growth going forward for Lubricants. On Chemicals, we have come out of, and we are still not fully out of, a three to four year very suppressed period for our Chemicals margins, in terms of low activity. You may see some recovery this year, but we are not assuming that there is any major uptick in Chemicals through this year. And I think what you will see in terms of downstream is a continuing focus on efficiency – it is where the costs go, in terms of generating margins – and fuels growth, where we have seen significant fuels growth across the space.

Bob Dudley: Irene, I think on the upstream projects, the biggest indicators, I think you have got to see us bring these projects on for us to be able to prove what we have been saying. We do have six more; seven if you count the one that started in December at Thunder Horse. I would gauge whether they are on time or ahead of schedule or on budget or under budget. The Thunder Horse South one certainly has come on like that. I think keep on your radar screens over the next three to four months the West Nile Delta project and Taurus/Libra coming on. And Quad 204. These are probably the first two that will come on. Large projects. All of these, you are right, are a ramp-up to 500,000 barrels a day. And so it does not happen overnight. It is 500,000 barrels of capacity that will be put in place, and of course then we will continue to drill and drill out some of these wells into 2018. But I think it is, we bringing projects on time and under budget. And I just ask you to wait and we will go into a little bit more detail on this on 28th February.

Biraj Borkhataria (RBC Capital Markets): Hi. Thanks for taking my question. Going back to Macondo you mentioned that the drivers for the increase in guidance was more to do with the phasing, but the 2016 number was higher than – or the top end of guidance – the 2017 number has increased, and 2018 and 2019 are unchanged. So I was wondering is this really a phasing issue or are the payments just higher than you were expecting six months ago?

And the second question is, just could you clarify the scrip uptake assumption in that $60 per barrel breakeven target? It looks like the 2016 uptake was a bit higher than it has been over the previous few years, so just clarity on that would be good.

Brian Gilvary: They are both pretty straightforward, but on the last question, we have assumed 20% is the long run average on the scrip uptake. Last year was significantly higher above that, but in terms of our cash balancing, we are assuming about a 20% uptake on scrip.

In terms of Macondo, you are right to point out that actually the payments are higher in the fourth quarter and anticipated for this year. What has happened is each quarter we look at the overall provision. At the second quarter we had about 34,000 BEL claims still to be processed. We are now down to 9,000. So, you have got two quarters worth of BEL claims that have now been processed. Some of those have come through at higher rates. Hence why we have re-evaluated the provision. But, we are now in a more confident position than we would have been, and given that we are down to 9,000 claims left, hence why the provision has come up. So, it is a combination of both. One, the provisions moved up, and it is about $625 million around the claims piece for this quarter. And then we have the forward view. As of now, we are down to the last 9,000, having accelerated 15,000 claims through the fourth quarter. It puts us in a better position in terms of what the assessment provision looks like going forward.

Brendan Warn (BMO): In terms of any expectations for FIDs or sanctions this year, just referring to your Baku trip, you talked about approximately 40 projects in the works. Any thoughts on what we may see this year, or is it another year of hiatus for FIDs from BP?

Bob Dudley: We generally do not lay out the FIDs directly, because we have to do it sometimes with our partners. We have had five FIDs in 2016. Those are: the Atoll Phase 1 project in Egypt, which is an early production scheme. It is 100% BP; the Tangguh expansion project, which we are now up to 40% in and has been FID'd; the Trinidad Onshore compression, we have FID'd and which will drive higher production in Trinidad into the LNG plants; the Mad Dog Phase 2, which we have FID'd. We have partners, Chevron and BHP, who are looking at it now; another operated by others in the Gulf of Mexico, which was previously called Hopkins and is now Constellation. We have got 67% of that. And so those are done.

We have deferred a couple of FIDs. We have deferred one in Australia, a big LNG project, and another one in Canada. We think that is the right thing to do for both strategy and where the estimates are.

Keep an eye on us with some other things that we may do in Trinidad. Oman, as I mentioned earlier, there is more potential there. In India, with the new gas price there, we have some very, very good looking prospects there as well. And there are a couple operated by others, so I would rather wait before I mention those. But those are some, and we have a pipeline of things out there as well. There are some other lower probability ones on the list as well, but not worth mentioning yet.

Brendan Warn: And just in follow-up, can you talk about the base declines? You were talking that you were keeping that better than your target rate of 3-5%. When can we start to see the impact of lower maintenance CapEx coming through on the base decline?

Bob Dudley: We have a base decline of around 3% now. We have held that out for some time versus a historical average 3-5%. So you will see that coming through in the reliability numbers in the plant in the upstream, which are now up to 95%. You will see that in lower turnarounds. We had 11 turnarounds in the upstream last year. I think we will probably have about five this year. So you should see it all around in small pieces everywhere.

Jason Gammel (Jefferies): I actually have two questions. First, coming back to Abu Dhabi, I was hoping you might be able to address your desire to use equity in that particular transaction. I recognize the long-dated nature of the asset, but your equity is relatively expensive right now given the dividend yield. Also, Brian mentioned that it was a cash flow accretive project. Can you confirm that that is the case on a per share basis, and also that it covers the incremental dividend payment?

Then the second question I had was on the potential for a US border tax adjustment. Do you have any preliminary comments on what that could mean for your refining business given the heavy slate of Canadian crude that you used at Whiting?

Brian Gilvary: I will take the first part of that question while Bob thinks about imports to the US. Abu Dhabi was really straightforward. I think most, the majority of our investors, if not all of them, came back to us very positive about it. It is immediately cash accretive. The cash that comes from it covers the dividend for the shares that were in issue, and it is earnings accretive. So I think this is a good use of equity and was unique and, of course, the sovereign country wanted access to BP shares. Part of this whole transaction was their desire to actually own them. And we have been talking to them over a number of years about the potential for them stepping into a position in BP. This was just the perfect opportunity that came together in a relatively small window to allow us to actually go forward on the renewal of that license.

Bob Dudley: Jason, I am really happy about that transaction with the supply there working with Abu Dhabi in crude supplies and the implications it has on our trading organization out to 2055. Those do not happen very often.

On the border tax, you asked about Canada specifically, but there are also issues around Mexico and imports and exports in general. I am going to take the position of the Canadian government, which last night more or less said we are going to scratch our heads and we are going to think about what this means, and not comment. I think I should probably do the same thing.

Lucas Herrmann (Deutsche Bank): Just some points of clarity if I could. Firstly, Brian, just going back to the answer I think was to Theepan around balance or Oswald around balance, and you mentioned price driving an improvement in cash flow of an estimated $4 billion this year. I assume that is the movement in refining marker back to your average level, gas prices to your average level, as well as oil prices to your average level.

Brian Gilvary: Lucas, let me pick that one up straight away. Actually, the hit in 2016 versus 2015 was close to $8 billion of environmental impacts across the two. You can get about $5.5 billion of that through the rules of thumb. There is also about $2.5 billion from non-rule of thumb type of activities, like non-Henry Hub gas. So, in terms of the assumptions for this year, it is a modest improvement to refining margins, certainly not back to the long run average that we had been assuming previously. It is some modest improvement in the Henry-Hub gas price, and it is oil prices close to $55 barrel.

Lucas Herrmann: And Brian, can we just go back to the sensitivity comment you made as well. The same thing really: a $3.4 billion move, you said, for a $10 move in the price. Then you talked about a marginal rate of tax of 10 to 20 percent, which seems remarkably low on incremental price-driven cash flow.

Brian Gilvary: Well, actually, if you go back and look at the size of our portfolio and the mix of upstream and downstream on the corporate tax rate, actually it is not that low. If you look at the sort of cash tax rate for those upstream barrels, it is lower than the corporate tax rate.

Lucas Herrmann: And a final point of clarity, just to be absolutely clear: ADCO, the operating cash contribution that you expect in 2017 from that concession will outweigh the capital spend. And the reason I ask simply is that I appreciate that CapEx goes up as you take things on. ADCO looks as though it should be a decent contributor though. So it is hard to see quite where the negative $1 billion overall is coming from.

Brian Gilvary: You have the CapEx that needs to go into Zohr this year. You have the CapEx that will go into Mauritania and Senegal. You have got some CapEx going into Abu Dhabi. The cash coming out of Abu Dhabi more than covers the dividend associated with the shares that were put into issue.

Lucas Herrmann: And the CapEx, Brian?

Brian Gilvary: I would need to come back and look at the free cash flow figure. I have not actually got the CapEx to hand, but we are pretty close, if not accretive.

Jessica Mitchell: We have a question on the web from Jason Kenney. Jason is asking about returns to the end of the decade. Jason, we are going to talk at some length to returns on 28th February, so if you do not mind, I think we will hold that question until then. But Brian is indicating he really wants to comment.

Brian Gilvary: Jason has raised this point about where do you see ROACE? It is on the web. But for BP for end of 2017 and also at the end of the decade, can you get ROACE ahead of your weighted average cost of capital in the next two years? I will pick up the latter part of that question. You all know the history. You know that we sold off $55 billion of assets. The average returns of those assets was in excess of 50%, post-tax. And we have gone through the massive period of oil price adjustments, and we have a lot of capital that was laid in at $100 per barrel now needs to work its way through the system. And our returns are down below weighted average cost of capital.

We would be disappointed if we cannot get our returns in the next 12 months to two years back up above the weighted average cost of capital for the corporation. And this is also a big focus to the board in terms of the long-term plans. And so I will just segway what Jess will lay out for us at the end of February to say we would be disappointed not to get there in the next 12 months to two years. We would expect to be above the weighted average cost of capital by this time next year, and then we will be able to show you the trajectory of what returns look like going forward in terms of getting us back to where we should be in terms of where we were historically over the last 50 or 60 years.

Jessica Mitchell: Thank you everybody. Bob, do you have any closing remarks?

Bob Dudley: I will keep it very brief. First, I extend a big thank you very much to everyone and for your very good questions, as always. You are going to see us focusing on safety and reliability that makes our assets run more reliably, which creates the reliable cash flows from the company. A big focus right there. And as Brian laid out, rebasing out capital and cash spending going forward, rebalancing the company; we have a good sense of confidence about doing that, not only from our existing assets, but the new things that are coming on. Keep an eye on these projects that are coming on. And remember for the long term, it really is our primary objective to remain to grow our sustainable free cash flow distributions to our shareholders. We look forward to seeing you on 28th February. Thank you very much.

[END OF TRANSCRIPT]