BP Strategy Update 2017 Q&A transcript

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This transcript contains minor modifications from the original for accuracy or clarification, none of which change the substance of the original.

Q&A TRANSCRIPT

Bob Dudley: Thank you for coming back and joining us. What we will do now is open it up to any questions you want. I would say you can ask us about anything but I would suggest we keep it to the oil and gas industry.

Theepan Jothilingam (Exane BNP Paribas): Thank you. Two questions please on the Upstream. Firstly, you talked about the flat $13 billion to $14 billion of capex. I just wanted to understand if you could break that down between base integrity, exploration and growth. Just trying to understand that piece, and what assumptions you have made in terms of cost deflation or reflation please.

Secondly, in terms of the improvement in free cash flow primarily driven in part in the Upstream, I wanted to try to bridge the gap from essentially flat or slightly negative free cash flow in 2016 to the $13 billion to $14 billion. Clearly there is a big volume driver and price but I was interested in terms of the assumptions on improved productivity, any assumption on the decline rate and also that $1 billion improvement today versus Baku.

Bernard Looney: Thank you, Theepan. Let me take the second question first, if I may? From 2016, as you say, we are planning by 2021 to generate about an extra $14 billion of pre-tax free cash flow in the Upstream. That is made up roughly as follows. Obviously the price in 2016 was $44. We are saying $55 real in 2021, so that is about $59 [nominal]. Our portfolio has price leverage so we will see a response to that price. That is very clear. If I could combine price then with the extension of the Abu Dhabi onshore concession in a pre-tax sense, that is a material source of growth in our free cash flow. The combination of price and Abu Dhabi would make up about 60% give or take of the $14 billion.

The remainder of the $14 billion is underlying improvement in the business and that comes, Theepan, across a number of dimensions which you are well familiar with. We will expand the volume through this period of time. We are saying we will grow volume by 5%. We say that we will continue to drive unit costs down through this period of time. We say that we will hold our capital frame constant through this time fighting off any inflationary measures that we see. We say that the new production, the new project production has margins which are 35% accretive. That is what gets you to the other 40% of the $14 billion of free cash flow.

With regard to your question around the make-up of our capital programme in the Upstream where again we have said, to reiterate, that we will maintain capital constant at $13 billion to $14 billion including the recent acquisitions through this time period. Around 60% of our capital continues to go into our major projects. Less than 10% of our capital goes into exploration. Less than 10% of our capital goes into licence to operate /integrity, and the remaining capital goes into very profitable in-fill drilling in the wedge to manage that decline. That is a rough split of where the money continues to go. The hurdle rates remain as we outlined in the pack, no changes to those.

You mentioned base decline. We have said that in history we have guided people to 3% to 5%. That guidance remains unchanged today but instead of you having 3% to 5% and adding on new production we try to just make it simple and say that on average we expect 5% volume growth through to 2021. Does that help?

Martijn Rats (Morgan Stanley): Hello, I wanted to ask you about tax because I know all the guidance is pre-tax. However, of course ,we are mostly interested in post-tax free cash flow. In terms of the free cash flow improvement can you talk a bit about what the impact on tax will be, and specifically how much of this will be in the United States where you still have significant deferred tax assets to be utilised if the earnings improve?

The second thing I wanted to ask you about is the following. I think we all know that cost and prices in the industry are related so of course 2014 oil prices fall a lot, we see a lot of cost savings. However, I have to say I am positively surprised by the cost savings achieved so far. The guidance suggested this is going to last for an awful lot further and will deliver an awful lot more. I was wondering if, in your experience, there is a historical precedent for cost savings and improvements which have been so significant for so long. I am wondering whether this starts to fall under the 'never been done before' category. That will be all.

Brian Gilvary: Let me pick up tax. Abu Dhabi has a big impact. It is a very high tax regime versus pre-tax versus post-tax. We talked at 4Q about assuming an effective tax rate this year charge of around 40%. That number will come down to around 37% as the new portfolio kicks in. If you look at what has been laid out today to 2021, think about something around 35% to 37% charge and think about a cash tax rate on that portfolio, which is skewed a little bit by Abu Dhabi in the early years and then gets balanced out as the rest of the portfolio comes through, of around 30% on a cash tax basis. As you look at all these numbers and I know you will want to do this, you will add up the Upstream, you will add up the Downstream and you will hopefully take something off for things like pensions, corporate and other pieces, and you will get yourself to a free cash flow number. If you apply a 30% tax rate, that will give you an order of magnitude of the sort of free cash that the company should be generating after tax.

Bob Dudley: On productivity, I think the world is changing. I think productivity technology is driving sustainable reductions, and, if you can get your business processes organised right, there is something here that may be 'never been done before' in our industry. Of course, it is a cyclical industry. To do it you have got to maintain the discipline. You cannot go back to the same mindset. If you instil that discipline and you keep driving in some of the new technologies, I think this is a different world in terms of productivity and efficiency. It is not all going to be that way because some of the rates will come back up but the kinds of changes that our teams have been driving into the businesses I think will stick.

Bernard Looney: As we look at it inside the Upstream, Martin, there are two things that we feel are different. One is a sort of a belief around competitiveness. You could argue that the Upstream has been isolated from true competition like the Downstream has to face every day of every month of every year for the last several decades. One could argue that the Upstream as a sector has been somewhat insulated from that over time. Our belief is that is changing and that we are beginning to face competition from alternative sources of energy so we have to respond. That is one thing that is different this time.

Then, as Bob said, digitisation and technology. There is no question that they are game-changers. We are talking about running hundreds of thousands of full-field simulations on one of our reservoirs in the Gulf of Mexico. Before, that would have taken 12 months to execute that number of simulations to progress and visualise a subsea development there. It was done in less than two months. That is productivity at scale. That cycle time on a project which is probably the greatest source of value on a project that is very, very different.

I think we are just beginning to imagine what is possible with digital. I do not think we fully understand the spectrum but I think we are just scratching the surface. Digital and technology in that space are definitely new tools in the toolkit that have not been around in the past.

Christian Malek (JP Morgan): Good afternoon, gentlemen, two questions. First on your financial framework, coming back to the capex guidance of $15 billion to $17 billion. To what extent is it elastic to oil prices? Just to be clear, so if you have got an oil price range of $55 to $60 but to what extent is there upside risk if oil prices are at $65 and downside risk? I just want to understand, what is the standard deviation on that guidance?

The second question is on your portfolio. It sounds to me in this presentation that you are very comfortable in your own skin now in terms of what you deem as the organic outlook. However, you have obviously given organic guidance of $15 billion to $17 billion of capex, so does that imply that there is additional capex you could put in if you find the right deal, coming back to the Q4 conference call? Or are you being disciplined around there being both a hard floor and a hard cap? I.e., even if there is a very tempting deal, you are happy with your portfolio, you are happy with your production growth and you are not going to move.

Bernard Looney: I think we will be extremely cautious, Christian, before thinking of changing that framework. We believe that, with what we have got to do ahead of us for the next five years, that framework will serve us well. The key thing for us is that it drives the discipline that is necessary, so we have options that are beyond that $13 billion to $14 billion, but when we test the projects against the hurdle rates that we have and when we test whether the projects are as good as they can be, this framework creates that discipline to continually test the effectiveness of them. As Brian pushes us on, having that framework also causes the discipline to continually sort. We have sorted projects since Baku. Some have left, which did not compete; some have entered. That is the rigour that the framework brings for us in the Upstream.

Bob Dudley: We are not on the hunt for big acquisitions at all but, if there are really good things to do, such as we have just done, we can do them and then we can defer some of the other things or divest some things

Jon Rigby (UBS): My first question is for Brian. Could you maybe talk about the disposal programmes that you have? I just want to understand exactly what it is you are intending on selling, the nature of it, so that we can understand exactly what the aims and cash flow impacts of those are, and maybe how you are reshaping the portfolio from that angle.

Secondly, could you just talk on the Downstream? Tufan, could you perhaps do something like Bernard did for the Upstream and just do a bit more detailed bridging of what you are suggesting? Because it seems to me that, particularly for what I would have thought of as two very mature businesses that have been around for a long time, namely lubricants and retail, you suddenly have big steps up in earnings expectations from both those elements, which, if I were to divide them into your oil price sensitivity, are very significant in the way that you expect your break-even to move over the next four or five years. Perhaps if you could help me with that, that would be great. Thank you.

Brian Gilvary: Jon, on disposals, for last year it was a balanced suite of midstream, Downstream, quite a sizeable property portfolio, and you may have seen some of the announcements around those, in terms of selling some of the offices that we have sold on a sale and lease back basis. I think going forward it will be similar. It will be more midstream, downstream, infrastructure.

We have line of sight and we are deep into negotiations on a number of deals that give us a fairly high confidence around the low end of that range in terms of what will get delivered through this year, and then we have a whole suite of options that we are looking at and pursuing. Obviously, I cannot get into the specifics, because some of them are commercially sensitive right now, but what I would say is we have a high level of confidence around the low end of that range, the $4.5 billion, in terms of this year, and we are working a suite of options above that. But typically, it is terminals, it is pipelines, it is other options that we are looking at.

You will recall that we sold over $60 billion or close to $50 billion if you take out TNK-BP of mostly Upstream assets, after 2010 so this is really about how we high grade the portfolio. Coming back to how Bernard talked about the capital frame, it is across the whole portfolio. We are looking to high grade all the time and ensuring that, if something is strategic, it stays within the portfolio, or other things that are not likely to get investment over the next two or three years, and therefore became candidates for disposal.

Bob Dudley: And I think behind your question is how much operating cash flow really did go out? And the assets we got tend to be annuity-type assets. We can measure, but we are not talking about large operating cash flows getting subtracted.

Tufan Erginbilgic: I think John, on Downstream, so first of all just to frame it, we talk about more than $3 billion underlying earnings to come from downstream. So, you should take and the combination breakdown of it is that more than $2 billion is marketing, which I will come back to your question, and a little bit more than $1 billion is petrochemicals and refining. And then any refining margin upside you need to add to that, obviously, because I am talking about underlying earnings here.

Let's go to your question on retail and lubricants. Where is it coming from? First of all, look at the track record over the last two years. From those businesses, in two years, we delivered $1 billion underlying earnings. And where is that coming from, just to give you a little bit of colour? If you actually project the next five years, take this $1 billion, look at next five years, another more than $2 billion will not look enormous, I would suggest. However, I will give you a little bit of colour. On lubricants, yes, it is globally a 1% growing market, but actually growth markets are growing much more than that and now 60% of our earnings are coming from growth markets and more to come. Actually, premium lubricants is growing 3% or 4% in the world. There you have much higher margins.

On fuels marketing, even in mature markets, we are going to have exposure to growth markets and new markets. You should put that as one block. Even in mature markets, because of our differentiated strategy, one thing I do not believe has landed yet: our retail strategy and our retail is very differentiated. Convenience partnerships: I just showed you a UK example. It is a mature market. We have been growing our earnings in the UK for the last three or four years double-digit every year, driven by a different knowhow and different offer, and that will continue and that creates another brick there.

And the third and fourth one is that the Woolworths deal will add something obviously – it in the numbers – and then on aviation, Air BP is probably the best air business right now. That is growing, that has been growing and we expect that to grow further. I hope I gave you some colour at least.

Bob Dudley: We have people coming to our stations that are not buying petrol now. They come for the convenience offer.

Blake Fernandez (Howard Weil): I think the first question is probably for Brian. I believe Bernard mentioned new projects having about a 20% lower development cost, yet on the guidance I noticed DD&A was missing where historically we have had that guidance. Can you comment on how we should think about that moving forward? I presume that is a big driver of the 10% ROACE target?

The second question is basically on the base decline. It is not just BP, but industry we have really seen come down toward the lower end of historical levels. I presume that is a function of short cycle or infill type drilling. I am just trying to get a sense of how confident you are that we are going to remain at that low level for the next five years which I presume underpins that 5% guidance? Thank you.

Brian Gilvary: On DD&A, Blake, we can come back to you. I am pretty confident it is pretty flat going forward from where we are today, given that we have got the limits on the amount of capital going in and we have all the new projects coming onstream this year. So, you should not expect a bump in DD&A going forward. Of course, DD&A has been trending up over the last four or five years as we have rebuilt the portfolio.

Bernard Looney: On the base decline number, I think for us, in BP, there have been a number of dimensions that have given rise to our performance exceeding our guidance and our historical track record. Yes, it has been improved productivity of the wedge, but it is more than that as well. It is also that we have taken the reliability of the facilities over the last four years from 84% to 95%. That has been a material improvement. We are putting about a million barrels a day extra of water in the ground in our reservoirs over the last couple of years compared to what we used to be.

But there is more that we see that we have to do. So, plant reliability now at 95% is probably up there amongst the best. We are now looking to broaden the metric and look at operating efficiency, and it is a measure across four separate chokes with the plant being just one. Today, if we look at that metric we are about 80%. We want to drive that number in excess of 85% over the next three to four years. So, we think there is running room there. We are going to continue to push the productivity of the drilling wedge. It is clear that we have made improvement there, but we have internal targets to make that more efficient and, in doing so, make more of those barrels economic. So, I think our guidance would remain at the 3% to 5% range. We will be fighting very hard to make sure that the track record of 2.5% over the last five years continues. I hope that is helpful.

Jason Kenney (Santander): Good afternoon. Thanks for taking the question. So, I am going back a bit to Blake's question. I just wondered where you think capital employed might move over the next four to five years. I suppose being a little bit more explicit on that. I think you were looking at around $135 billion to $140 billion last year. Do you think capital employed could go below $100 billion in the next four or five years?

And maybe associated with that, just looking at the target for 10% ROACE, is there a reason for oil companies to be more aggressive with return on capital employed. I am thinking back to 2002 or 2003, before oil prices really began to fly, you were still getting 12% to 15% return on capital employed. Obviously, I can understand 15% to 20% of return on capital employed when the oil price is rising and some costs on three, four years prior. However, 10% to me just seems pretty average or pretty normal, it's not an exciting number. I was hoping to see 12% or 14% return on capital employed targets within the next four or five years. Is that a possibility?

Brian Gilvary: First of all, on the capital employed question, you are right. It is around about $140 billion. It is about roughly 60:40 or 66:33 upstream/downstream. Given where DD&A is and the amount of capital that is going in between $15 to $17 billion, you would expect the capital employed to start to grow at a relatively steady rate, but not at a sort of rapid rate. So, you would expect some increase in capital employed as you are laying the capital in.

On the returns question, you have to remember the base from where you are coming from over the next five years. Longer term, there is no question of course we would aspire to a higher return. And actually, the number we have shown here is above 10%. If you look at the IRRs on a post-tax basis, that Bernard and Tufan both talked about, in terms of the nature of the new projects they continue to be in the mid-teens some towards the high-teens, some higher than that. And then there is the question of whether a particular project is strategic or whether it is off the back of the incumbent positions that we have. So, of course, we would aspire to get a lot higher than 10%. Nevertheless, we are only talking about a five-year timeframe from where we start today where you have the combination of the capital that has gone in over the last five years at relatively high prices if you look at the 2010 to 2014 period, and the disposals of assets that were returning 50% post-tax. If you look at the $50 billion, there were significantly higher returning assets that were sold off.

So, we are in a rebuild phase, if you like, the next rebuild phase after the ten-point plan. Of course, we aspire for higher returns, but if you also look at where the markets are today, I think something above 10% in the sector five years from now is still a strong competitive result.

Bob Dudley: Just to stress the math on that, $50 billion of divestments, many of which had over 50% returns, highly depreciated assets we sold. It puts us I think in a slightly different sort of special set of circumstances for us to get to 10, which is a tough target.

Lydia Rainforth (Barclays): Thanks. This is Lydia from Barclays. Can I ask three questions, if I could? The first one, it was clear you made a choice in terms of the acquisitions that you did, sacrificing the short term to break even. Can you just talk to a little bit more about that decision and at what point and what might trigger you stopping the scrip and offsetting that dilution?

The second one was to come back to Rosneft. I appreciate all the advantages that it does give you, but in terms of financial returns the yield is relatively low. And when I look at the growth that Tufan and Bernard and the returns that they are offering, do you ever see that as an opportunity cost in terms of those in the assets?

And the third one is probably a little bit more on to Lamar as well. In terms of the carbon pricing side, how are you looking at how you do the gas projects given the uncertainty on the carbon regulation that actually exists at the moment?

Bob Dudley: Well on the acquisitions, we could see the balance point in sight that gave us the confidence to be able to move forward with those. The OPEC agreement on 30th November was a factor because we did about three of those after that during the month of December. Abu Dhabi is one we have been working on a long time. We should not really talk about the terms there, but the terms are different than what we were offered in 2014. So, they became something that became attracted to us. We were very clear we were not going to be in a position to pay the $2.2 billion in cash. And so, that deal was accretive. I think we have a strategic shareholder now and I think that one really makes sense for us, which is an agreement that will go out to 2055.

The Zohr addition: we have been working in Egypt for a long time. We have a massive gas position there. We believe that it was important for us to be part of that. And there are all kinds of things that will come on the back of that, working with our partners Eni and other things as well. Tangguh Train 3: easy bolt-on decision for us, not a dollar of extra overhead for 3%, that opportunistically came along.

So I think it was the confidence. Had we not been able to reach the settlement in 2015 with the US government, it all traces back to that. That began to make us confident that we could plan the future of BP because we knew what those cash flows were going to be like. And then the pace of cost reductions out of the system gave us the confidence on those. We feel really good about that set of acquisitions and they are accretive; that was the other criteria. Anything you want to add?

Brian Gilvary: I think to the second part of that first question, and of course the first thing we will do is offset the scrip. This whole question of balance point was maybe a little bit overblown at 4Q because actually we had laid plans in place without the portfolio that Bernard described as not to be missed, because there is no regrets around the portfolio that we acquired. Absolutely no regrets across the team. This is a great set of assets that I am sure a lot of companies would like to have been able to find themselves in those positions, so that was important. The fact that we had actually managed to get all our plans into balance within eight quarters – we had set ourselves an internal target of doing that – basically gave us the confidence to say that, if we have to, we may not need to, flex the financial frame this year i.e. the balance sheet, and we are talking about hundreds of millions of dollars- we are not talking billions in terms of this in terms of 2017. So, it was actually not that too difficult decision to make. And then as we get into 2018 and the end of this year, we will see how this year pans out, but we would look to offset the scrip at the first opportunity we can when we are back to surplus cash.

Bob Dudley: In terms of Rosneft, this is an amazing long-term option for the company. They have moved the dividend policy up now starting next year to 35% of IFRS earnings will be paid out in dividends. The company we know from, in a way, transforming TNK-BP how much efficiency is yet to be driven in the Rosneft, and we have been working with them now closely and they are really interested, so we have people working with them in all kinds of different areas. I think that company has enormous potential to become more efficient. They are a good company. It is a real oil and gas company made up of real oil and gas professionals.

We also do not want to be just a financial investor in Rosneft or in Russia. We think that is not wise. So, we are investing in a series of projects, some that are producing properties today in East Siberia, areas of exploration in the heartlands of West Siberia with acreage the size of Britain, some with the existing discoveries. We have a lot of potential there in Russia. We have to pace our capital. We are going to do it within the discipline of the framework that we talked about. But I remain very optimistic about that as an option.

Lamar McKay: Carbon pricing: for new projects, we are approaching it from several different dimensions. First, we do like a lot of people do: we run carbon pricing per tonne in our project economics. We normally run, for a gas project that is going to have any touch to an international market, $40 a tonne. We will bracket scenarios above that to things that we think are at the upper end of the timeframe that we are evaluating.

The other dimension is we try to design these new projects to minimise, number one flaring; number two, methane emissions, so you come at it from the project itself standpoint.

The third thing is we are continuing to look for integrated solutions in certain areas where you can provide something for a host government, that might be an integrated solution. It might have some renewables. It might have gas. It might be offsetting coal. So, you can come at it from not only the project itself's viewpoint, but also what you are trying to do holistically with the host government. So, we try to think about those things in each and every project.

Oswald Clint (Bernstein): I just wanted to come back to the 10% return on capital again please if I could and more on the gas component to getting to that number. I understand Egypt, Oman, Trinidad, Tangguh etc. high returns there. But in the US, I think it is easy to portray a picture where gas could stay very low and get much lower and go into the twos and stay there. So, if that was happening, would you look at this number one US gas position that you mentioned and think maybe that is too much? It is risking this 10% of return in capital by 2020. I am just curious to see how you think about that.

And then also, with Bernard's point on another chunky asset up in Prudhoe Bay, you talked about not drilling very much but still detecting, identifying advantage barrels and pulling them out and keeping that asset flatter. I am just curious to see what exactly is happening there and what is the upside from the particular asset?

Brian Gilvary: Just on the first part, there are two parts to that question. When Bob talks about being the number one gas marketer, do not assume that means capital employed. Actually, in the renewable space, we trade 40% of the carbon credits in the United States. We have a significant position. On the gas marketing side, there is very little capital other than capital employed around tanks and storing the gas actually inside the calculations. So that is quite distinct from our Lower 48 position, whose capital employed is not small, but nothing like as large as it was back in 2010. I don't know if you want to add anything on the Lower 48 position, Bernard?

Bernard Looney: On the Lower 48, just to put a few things in perspective, the performance of that business has been transformed over the last couple of years under David Lawler's leadership. Costs are down by one third, headcount is down 53%, and the cost of the amount of dollars it takes to create a flowing thousand barrels a day of production has improved by 63% over this time period. This is a business that is fundamentally in different competitive shape to what it was a couple of years ago.

Now, if you look to your question at the competitiveness of it in a sub-$3 Henry Hub environment, the team is driving that performance each and every day. If you look into San Juan, our breakeven operating cash there is $0.90. That is what the team is working on: 90 cents an MMBtu. So, this is a business that has had its performance transformed; they are chasing new zones, they are chasing new fields. We have got five rigs working in the Haynesville; we have just acquired acreage there. You are talking rates of return which are extremely competitive, well in excess of our 20% at current prices, and obviously robust to a lower price environment, and operating costs which are now below the peer average for the first time in our history.

So, as long as we continue to drive the performance – and digitisation, by the way, is taking hold in this team in a way that we in the rest of the Upstream can learn – as long as we can continue to upgrade the portfolio in a very, very cheap way (we have accessed 850 million barrels for 30 or 40 cents a barrel), this is a business that can absolutely be robust in a low price environment, and we are not betting on prices being $3 to make the business successful.

Bob Dudley: It is a myth that it is all dry gas, as well.

Bernard Looney: The recent acquisitions that we have done in the North and Wamsutter are chasing liquids, in the SCOOP (South Central Oklahoma Oil Province) we are chasing liquids, so it is not a completely dry gas business. We are definitely not betting on a $3 Henry Hub environment; we recognise that it has to be competitive and the returns have got to meet those hurdles.

On Prudhoe Bay, Prudhoe Bay is about to celebrate its 40th year. We will be up there later in the year in June, in summer, a good time to visit. Forty years: it was supposed to have a 25-year life, so the team on the ground has done an extraordinary job. We have driven the breakeven down by 40% and we think there is more to come; Janet Weiss and the team believe there is more to come. It is right across the spectrum. We think there is more operating efficiency we can get; the tie-ins are being tied in faster, the cost base there is continuing to improve and needs to improve further, the team has just been down into the Lower 48 with Dave Lawler looking at that basin and what they can take home from them, they are looking at local competition in Prudhoe and Alaska.

We believe that there are decades ahead of us in Prudhoe, but it is going to continue to drive that breakeven price in the right direction. And, again, as we look at technology, I think this is an area where the modernisation and transformation agenda has got massive, massive leverage. So, there is lots to do in Prudhoe yet.

Irene Himona (Société Générale): Thank you. I wanted to focus on natural gas, if I may, which is growing from 50% of your production, I think you mentioned, towards 60%. My first question is how much of your current gas output is oil priced linked and how does that change by 2021.

Secondly, about five or six years ago, you made a fairly sizable acquisition in Indian gas; I wonder if you can update us on that part of the portfolio and how it fits in in your plans.

My final question is, Bob you mentioned that there is a lot more to do on simplifying BP, I wonder what is your timeframe to reach a point where you are satisfied you have done most of it. How long does that take? Thank you.

Bob Dudley: A lot of our natural gas in Oman and Egypt, for example, are fixed contract prices. We like operating and developing advantage gas where a country is short of gas, and the rates of return of the projects have been fixed with the gas price contracts, so we are very happy with that. Our LNG pricing still, our contracts out of Tangguh and out of Trinidad generally are still oil price linked, with different slopes there. So, we are very selective about these investments in natural gas, because you can get into a spot where you have got a volume that you can't get away at a reasonable price.

Bernard Looney: The only other one I would add, Bob, is Mauritania and Senegal where we have accessed what we believe is a giant competitive gas position in Mauritania and Senegal through the Tortue discovery.

To Oswald's point, we believe that that gas will have to compete with US Henry Hub pricing; we believe that it can compete with US Henry Hub and we believe that it will compete. We also believe that project, when it comes to be sanctioned, will meet the thresholds that we have laid out here today. It is modular, it is flexible, and we can grow it over time so we don't have to put a massive, massive project on the ground on day one. I would add that is it not FLNG as in the big FLNG that you have seen, it is a very different concept; it is very near shore, in shallow water and modules sitting on barges basically. So, that is an example of a piece of access that will be very competitive, we believe, and offers real upside to us.

Exploration. There will be four exploration wells drilled in Mauritania and Senegal over the next 18 months and who knows what we will find. We are drilling some of the largest prospects in that basin that the entire industry will drill worldwide this year, so more to come on that hopefully.

Bob Dudley: On India, there is a new pricing model in India that came in in January of this year. We have just retooled all the satellite development plans that we have, and the deeper fields under D6, and they are very competitive for the capital in the frame. We are not going to go forward with that unless there are really clear written procedures on cost recovery out of those contracts, and that the pricing mechanism is actually really clear, but we have loaded a pipeline of very competitive projects there.

It still astounds me a little bit that a country would pay so much for imported LNG and not develop its own gas. I think that message is now hotly debated and it is probably going to happen this year, but we are not going to guarantee those FIDs will get done yet.

Brendan Warn (BMO): Two questions. I guess the first question, circling back to the Lower 48, I noticed you've got it producing about 15% of your production by 2020 and you include it in your managed base. Can you just talk around, by 2021, what sort of percentage is it of your free cash flow, or is this a business segment that is still in outspend and has demands from the parent.

Then, just going back on Irene's question on LNG and Mauritania and Senegal, are you going to be a seller of LNG and a buyer of LNG, or a seller on behalf of your partner, - these are volumes post 2021? Will these volumes beoil price-linked, even though they are likely to be supplied into Europe? In terms of your financial framework, to keep your capex development down, are you looking at project financing of that project? Plus, before FID, which I believe you are saying would be ready by 2018, will contracting the gas be a requirement.

Bernard Looney: Let me take the Lower 48 and percentage of free cash flow and so on. I think, Brendan, what I would say is, what the Lower 48 gives us is a very, very flexible investment option. What we are very clear on, and the team is very clear on, is that when we invest, the investment has to be competitive on a rate of return basis. So, we are looking for 20% rate of return at prevailing gas prices in the Lower 48. That is what the team has enabled now and that is what they have, and we are increasing our investment into the business. So, last year the business will produce a little over 300,000 barrels a day; by the end of this year, production will be about 300 thousand barrels a day and we will have 12 rigs working.

We see investment rising over time in the Lower 48, we see production growing on the back of it, and we see returns being maintained to meet that 20% threshold. There is always a debate about the cash out of the business versus the investment quality and the growth potential, and that is a very healthy debate that we are continually having inside the business. But what we have got is an option that is flexible that we didn't have before because we didn't have the performance to enable the conversation even to be had. We have created that within the frame; it does grow, it grows production, there is growing investment, it meets the returns threshold, and it is a business that has the potential to throw off material free cash flow if indeed, as you said, that is what the parent decides over time that it wants to do.

Brian Gilvary: In terms of Mauritania, obviously it would be too soon to say what sort of price we would be looking for, but we have a significant trading LNG business that has both shorts and lengths, and we have a whole suite of potential pricing options; we have prices which are oil linked, we have Henry Hub link deals in the Far East, so we will look to optimise within the overall portfolio in terms of where the lengths and shorts are at the time. But it would be too soon, and this probably wouldn't be a place to be sharing what the contractual pricing may look like for those particular barrels.

Bob Dudley: There is also a need for power there, as well, so it would be a combination of LNG and local power, in Senegal in particular.

Irene, I missed one of your questions about simplification, I am sorry. I don't think there is a destination time on simplifying BP. The things that we are learning, what it means to digitise our business, the mining of big data and what it means for all kinds of processes across the company, still amazes us all, every day. Standardisation of what we are doing, the new functional model; we put a functional model in place after the accident to standardise BP, and that has created the platform now to make sure we can quickly share expertise and learnings. But I think the world of technology is going to simplify many things that we all do, actually, beyond even our imagination now, so we just need to keep driving it.

Robert West (Redburn): So, you said 3% to 5% decline rate, 5% total growth, 800,000 barrels a day of project growth – I have probably already lost you all with numbers, but if I look at that, I think that there are maybe 200-300,000 barrels a day of growth by 2021 not explained by that 800,000 you already have coming through. Could you talk a bit about where that is going to come from and is it maybe tight gas contributing to that in the US or – and this is my second question – elsewhere.

One thing you did not talk much about today is something I have been wondering about for a while, which is whether BP has an advantage in tight gas. I mean that not just looking at the US business but, by the way I reckon it, Oman Khazzan is about the first big, successful, high cash margin tight gas project that you or any competitors have done internationally; do you see yourself following that up with further international tight gas? Is that an area where you could grow?

The final one I wanted to ask, Lamar, you mentioned in your presentation about $200 million of spend on renewables, and I guess that is maybe about 1.5% of the total capex of the group. I think some of your peers are closer to 5% to 7%. In a world where oil and gas capex is maybe $700 billion a year, and renewables capex already is about $300 billion a year, why is it still so low? Why the reluctance to go into that space a bit more fully, especially starting to look into some of these technologies on a cent/kWh basis?

Bob Dudley: Let me take the first one. The 800,000 barrels a day was before Abu Dhabi and Zohr transactions; these contribute probably more than 200,000 barrels a day. That is one gap. We talk about the Upstream and then we talk about Russia as well. Today, a combined total of 3.3 million barrels a day; Rosneft is about 1 million barrels a day in that total for us, and I would expect Rosneft itself would be 1.5 million barrels a day for us, heading out to 2021. There is a lot of, I think, cushion in that number.

Tight gas, I absolutely think we do have capability in this. That is, a quite distinctive capability applying it at scale, taking what we learned in the Lower 48 to Oman, tying that with the digitisation of the field development plan early enough to be able to change it and optimise it as we go. It is quite exciting, the Oman field. We signed an agreement last year to expand it by another 50%. There is more there. I think we are proving we do have that capability and we can use that capability in places as well like Argentina in the shales there with our Pan-American joint venture which may be more liquids. However, trying to use what you learn in the Lower 48 and taking it around the world is definitely an objective of ours.

Lamar McKay: 1%, yes, so I think the simplest answer is, $200 million is what we are saying we will spend for this year and it is based on a sort of wide aperture venturing approach in those five lanes. We do not think that money going in is how you should measure your investments, because I think money coming out would be something we have to look at as well. The quality of the value pools that we need to access is still something of a fair amount of uncertainty.What we are doing is laying out options to try to see when we would press the accelerator in some of these lanes. I do not think money going in is the measure right now.

Bob Dudley: We know the world is going to change and we invested probably $8 billion to $10 billion in renewables early, I think, an early adopter and probably too early. As you all know, about $8 billion of that was written off in the last decade.

What we want to do this time is screen the world, scan, look at all kinds of things, step in with small interests in technologies and partnerships so that we really know where to invest heavily when the time comes. I think that is best for our strategy, but the amount of work that is going on in screening and scanning partners is quite large. Our job right now is participation and engagement in the right areas and to try to understand where value may be created.

Chris Kuplent (BofAML): Two questions, first one for you Bernard, sorry, I am asking for another bridge. As you said, it has only been eight months and you gave us a free cash flow number in Baku of $7 billion to $8 billion in 2020, and maybe there is another way of getting at it and I have not used a calculator so maybe that is dangerous. Where do you find the additional $6 billion? I understand you have used a slightly higher oil price assumption and make that $1.5 billion, an additional $1 billion of cost cutting, there is probably Mad Dog Phase 2 in there in 2021, and ADCO transaction which we did not have in Baku. If you can just help us bridge those two years or one year, frankly.

The second question, maybe for you, Bob or Tufan, how are you positioning yourself ahead of what could be quite significant political changes in the US? How concerned are you about profitability/value at risk at Whiting refinery, for example, from Border Tax Adjustments? Where is BP in lobbying the US government from here on out?

Bernard Looney: There are four parts to it, Chris, and you have alluded to them, but the four points are: 1) price compared to Baku, so we are going from 50 real to 55 real; 2) the acquisitions, in particular Abu Dhabi; 3) we have added a year, so we have extended the guidance from 2020 to 2021; and 4) underlying performance improvement. The breakdown is roughly as follows: 1) price, as you said, is a little under $2 billion, so we have price leverage; 2) the acquisitions are a little over $2 billion; 3) the extra year is a little under $1 billion; and 4) underlying performance improvement is $1 billion. That is how you get to the bridge from Baku. What we are simply trying to point out is that that is $1 billion of performance improvement in six to eight months. The underlying business from 2016 is generating in excess of $5 billion of underlying improvement through that time period. That is hopefully the bridge from the period in Baku.

Bob Dudley: On the political front in the US, I was just in Washington this week. BP is active in the Business Council and Business Roundtable. I will say this: the White House is wide open for people coming in and talking to them and giving their views now and they are seeking them out, more so than any day in the last eight years, really. They are very interested in what we think as a company, as BP, and collectively as an industry. I think there is a huge debate about the border tax that I think is a political issue between the White House and the Congress, actually. I think there is a negotiation going on and I do not actually see that happening, myself. I think our businesses there are very robust. The oil and gas industry has certainly gotten a boost in the US generally, so I do not see it as a threat. I actually think we are very well-positioned there. Tufan, with the Whiting refinery, not going into what a border tax would do or not, but I think that is well-positioned.

Tufan Erginbilgic: Bob said it all, actually. It is still early days. Obviously, we will be closely watching that.

Bob Dudley: It is a remarkably open administration to business. I came away last week shocked, actually, from meeting specifically cabinet officials one on one who were asking, 'What do you think? Where are your problems?' I will give you one example. We talked about how the United States is probably the only country in the world, with Gulf of Mexico leases, where you have to keep spending every 18 months to hold onto a lease. In the deep water, that does not make sense today, so effectively we were heading down the path where for a lot of companies, their leases were going to expire. The administration today says, 'Well, why would we do that?' We say, 'Well, you should not do that. No country in the world would do that.' I think things like that have the potential anyway to help businesses – high capital-intensive businesses and manufacturing businesses. That is probably enough on politics.

Jason Gammel (Jefferies): Yeah thanks, this is Jason Gammel with Jefferies. I had two questions please. The first, we have talked about gas becoming a bigger component of the Upstream business, about marketing and lubricants becoming a bigger component of the Downstream business. So, the question is, do you really think that the volatility of your underlying earnings is going to be decreasing over the next several years? And if so, how does that affect how you manage the financial risk to the company? I am really thinking more in terms of are you comfortable allowing the debt level to move up towards the top end of the gearing range, or perhaps above it so you can prioritise returns/cash to shareholders, and perhaps whether that is through buyback or dividend.

Second question, we have not had any incremental acquisition questions yet. So Bernard, I would just like to ask you if the taxable position that you have in the US has any effect about how you think about perhaps picking out more shale acreage in the US in general, whether liquid shale is too expensive on a full cycle basis, and whether something like the San Juan where you already have a dominant position would be somewhere that you would add to preferentially?

Brian Gilvary: So, on financial frame in terms of the balance sheet and gearing, we run stress tests routinely as part of our Group Financial Risk Oversight Board that we have within the company and that gets reviewed with the Audit Committee, and we are well within all the stress tests, in terms of liquidity stress tests, that you look at in terms of the gearing. Within today's financial frame, we have up to $7 billion of capacity even within the range that we set today around 20% to 30%. So, I think that gives you some confidence that actually we can deal with most volatile situations. But I think more importantly the acid test is, we did deal with a very volatile situation back in 2010 and came through that and re-leveraged the whole balance sheet with a provision of $62.6 billion, so that says actually there are not many companies who could have come through that, and a lot of the things we deployed then we still have in place today that we could use and do use.

The second piece is around the future cash flows that you can see coming through. In terms of looking at the balance sheet, what that says if you look at the forward trajectory of what we have laid out for you today, the balance sheet simply gets stronger as we go forward. So, I think there is a lot of capacity within it.

In terms of volatility of earnings, we are in a volatile business, and there will always be volatility of earnings inside the business, that's the nature of a commodity cycle.

Bob Dudley: You are right, Jason. As the portfolio goes to gas, the volatility overall should come down somewhat. Whether that is a good thing or not, I think we need to continue to debate that as a management team. We do not want to be completely unexposed to oil for example as a company, but we recognise what you are saying, which gives us more stability actually in the balance sheet.

Bernard Looney: On the acquisitions, Jason, I think the starting point is we do not need to do anything. Again, we like the portfolio that we had. We said that in Baku by the way. We said we like the portfolio that we have. We just happen to like the portfolio that we have today even better. But we are not in a position today where we are out there desperate to do something.

Your points are well made. Anything that we have to do here, Brian will be the first to remind us, that it has to be accretive. Accretive to earnings, and we have to generate value, were we to look at any acquisition. And with the oil plays in the United States, you've got to have a pretty bullish expectation on price to figure out how you make money out of them and even on gas acreage in the area that you alluded to, I would say that the prices that are being looked for there are also way out of the money.

So, we will continue to test and to look for "bolt-ons", as we have done, where we can deepen, where we can apply Dave and his team's competitive edge, but we will look to do it in a very focused way and only do something larger where it is truly accretive and truly strategic, and right now, as we said today, it's very difficult to see that.

Colin Smith (Panmure Gordon): Thank you. It is Colin Smith from Panmure Gordon. I've got two questions. First of all, the Abu Dhabi offshore concession, I think, expires next year. It is about a 100,000 barrels a day net to you. I just wondered if you could confirm that it is assumed to continue or be renewed in the guidance that you have given, and whether you think that would be done using stock, as the ADCO onshore deal was done, or what the status is on that?

Bob Dudley: It is not in our projections. It does not mean we are not interested in doing that but it is not in the numbers.

Colin Smith: Well perhaps then you can comment about whether you think it is likely that you would renew it or not?

Bob Dudley: Well we just do not want to be presumptuous with our friends in Abu Dhabi.

Colin Smith: Fair enough. And the second one was on the Gulf of Mexico. Obviously, I appreciate you take the charges out when you are looking at underlying earnings. But you took a pretty big provision last summer and you were still running with a $700 million charge in 4Q. And I just wondered if prospectively that charge sort of completely disappears or if we should still be expecting it to be a noticeable number, small hundreds of millions, or something like that rolling forward?

Brian Gilvary: What we did at the middle of last year was actually come out with an estimate around the business economic loss claims. If you look at Macondo and Deepwater Horizon, there are about eight or nine different components, eight of which are locked down in the payment schedule. The one that was uncertain that we could not provide for, we provided for. That was the sizable $5 billion that we took in the middle of last year because we could actually come up with an actuarial calculation.

The simple answer is, back then, there was 34,000 claims to be processed. 150,000 claims in the system at the middle of last year, 34,000 still to be processed. The estimates were revised again at 4Q 2016 based on a higher payment rate that went out in the fourth quarter, and that was the extra $625 million we took at 4Q. We will re-estimate at every quarter going forward. All I can say in terms of giving you some confidence around where that number may or may not go to in terms of that uncertain piece is, we are down to now less than 5% of claims still to be processed, and we would expect those claims to be all processed through this year. We are down to the last 5% of those claims, so I think that gives you something in terms of a boundary around how that may move. We will make a best estimate every quarter based on the claims that have been processed through that quarter. We are in the final strokes of that particular claims facility and those claims.

Lucas Herman (Deutsche Bank): I'll try not to hold you up too long, but unfortunately there are three questions, albeit that they are relatively brief.

First, I am delighted to hear you talking about constraining capex and living within a $15 to $17 billion band. In terms of the opportunity set going forward, and the 15% to 20% returns you are looking at, how deep is the portfolio such that you have the opportunity to invest at that rate of return, into the medium term? The industry's tendency over the last ten years has been to take down on return, hardly for the benefit of shareholders.

Secondly, just out of interest, in Baku the oil price you used was $50/bbl. I am intrigued, not least given Spencer Dale's comments, but also your conservative nature on oil prices, why you have decided to move to $55/bbl in terms of planning. What was the thinking behind that?

And finally, because I have to ask this of Tufan anyway, within the 20% return on capital that you are looking for in the Downstream by 2021, is Chemicals expected to attain that level of return?

Brian Gilvary: Let me take the second question around planning assumptions. We revise them every year. $55/bbl seems like a good number, certainly for this year and next year. We could go into the whole coverage of the demand of 1.3% this year, another demand of 1.3% next year. I think $55/bbl is well underpinned, so that sort of explains why we have the different planning assumption, and what we have tried to do with this is keep it flat going forward at $55/bbl. In a year's time, we may revise up or down, based on the knowledge that we have at that point in time.

Bob Dudley: We planned last year at $45/bbl.

Brian Gilvary: Correct.

Bob Dudley: Drifting up to $50/bbl by the end of the year.

Tufan Erginbilgic: Should I pick up Petrochemicals? On Petrochemicals, in a similar environment to today, which is actually the bottom of the cycle if you think about it, we will achieve double-digit returns. Because we make that progress, I can actually see in the next couple of years we will get there, not 2021. So, that is all underlying, but if you look at Petrochemicals, actually demand is still growing and we do not actually see much capacity coming in the next couple of years. So, we expect utilisations in the industry to go up, which should normally result in margins going up. And therefore, actually, what Petrochemicals does to you is, effectively, even if the environment does not improve, it gives you double-digit returns; when the environment improves, it actually gives much better returns, but also optionality to grow in a growing market, because actually fuel efficiency, electrification, all the things we talk about, none of which actually affect Petrochemicals. It is always good optionality in the portfolio.

Bob Dudley: And looking at your question on $15 to $17 billion, I think it was about the portfolio depth and do we have it, and is that why we are not raising it. Is that it?

Lucas Herman: No, I do not want you to raise it, Bob. I am delighted that you should have put that ceiling and wrapper around yourself. It is more that, if I think about all of you, you have been recycling, recycling, recycling capital, or recycling, recycling, recycling projects, trying to get to a point where the return is acceptable and you take decision. We are seeing that the best are clearly coming through now, the Mad Dogs, etc. of this world. I presume they are the best options for your capital in the portfolio. So, the question is much more about look, moving to subsequent years, do you feel that there is sufficient opportunity within the resource base to continue to recycle at that level?

Bob Dudley: Absolutely. We see continuing expansion in Oman, for example. We have things yet to do in Azerbaijan. The India projects are examples, so just a few.

Bernard Looney: I would just add that we have been through our resource base again since Baku as part of our area development plan updates, and the short answer is, as Bob said, absolutely yes. There is absolutely the depth in the portfolio to meet that growth capacity that we outlined through to 2030 without having to dilute returns. We have been through all the barrels. As Bob said, there is more coming through in Oman. We have got the third train now; there will be another expansion of what is happening in Oman. There is the next phase of Atlantis, potentially, in the Gulf of Mexico.

The list goes on and on but, rest assured, we know it in pretty good detail. We have got the track record now of what we can do. We know what these things should cost. And the hopper depth is there, without question, and we have been through it, so we know it pretty intimately now.

Lucas Herman: Thank you.

Bob Dudley: Ladies and gentlemen, I think we do have to call a halt. Those of you who are still on the lines – and I see there are 598 lines open on the webcast – thank you very much for your resilience, persistence and patience. Everyone who is here in London, thank you very much for joining us.

Brian Gilvary: Thank you.

[END OF TRANSCRIPT]