3Q 2016 results: webcast 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. Please refer to the cautionary statement included in the 3Q16 webcast slides.

Q&A transcript

Oswald Clint (Bernstein Research): Good morning. Maybe the first question, Brian, just on the US onshore gas business, with gas prices closer to the $3 level in the third quarter, can you talk about the underlying profitability of that business, given such a large natural gas business there, please?

Secondly, maybe just following up on your comments on the restructuring continuing through 2017, perhaps you could explain why that has to continue for another 12 months, please?

Brian Gilvary: Thanks, Oswald. In terms of Lower 48 we are now running about five rigs the last time I looked in terms of where the activity is. We are continuing to reduce costs in that business which is bringing the breakeven prices down. The key is really about what we learn about technology and how we run the business. We run it with a different financial frame to the rest of the group. It is continuing, as you will see from the various quarterly numbers that we release, to become more and more profitable going forward, and of course helped somewhat this quarter by the prices that have come up. Lower 48 really is about testing new zones, looking at innovative well designs. It is really experimenting with that business, getting more comfortable with how we run the Lower 48, reducing costs over time and the amount of capital that is going in. However, today it is running about five rigs. I think the peak last year was around 11 or 12 we had at one point.

In terms of restructuring we have extended it out to next year, mostly because of the activity as we have got more and more underneath simplification and how we are driving efficiencies into the business. We can now see that actually there is likely to be more restructuring into next year. We are very confident now around the $7 billion cash cost reduction target. We have talked about $6.1 billion achieved at the end of this quarter. I think we will see further significant progress in the fourth quarter. Very confident we will hit the $7 billion for next year. We will probably hit that early and then it may well be that the costs go beyond that as we look at this next phase of restructuring programmes.

Irene Himona (Société Générale): Good morning, Brian. I have two questions please. Firstly, in Q3 your natural gas realisations outside the US appear somewhat weaker than anticipated perhaps. Can you give us any sort of guidance on how the portfolio outside the US is linked to oil versus henry hub prices?

My second question, just if you can remind us on the Gulf of Mexico cash payment? It was $2.3 billion in Q3. What can we expect going forwards as the annual or quarterly run rate going into 2017, please? Thank you.

Brian Gilvary: Maybe just picking up that last question first, we have got a schedule we have put out there from all the various settlements. From last year's 2015 civil settlement and from the criminal settlements back in 2012. There are specific payments in certain quarters going forward and I am pretty confident that we have put that out on the website before. If we have not got that to hand we will make sure that gets to you, Irene. However, that is out there publicly-available in terms of I think we did it in the last quarter's results and the one before that. The only uncertainty will really be around how the payments that go out associated with the class action lawsuits settlements, the PSC settlements, particularly business economics loss claims. We are accelerating in a number of those at the moment. You will have seen quite a few go out recently. We also resolved a lot of private claims through the second and third quarter of this year which you will have seen come out in the payment schedules. They are likely to run down over the next couple of years so they are the only things where there is any uncertainty. Now we are into the final stages of that fund.

From the peak on business economic loss claims, I think we had 144,000 claims at the peak, of which now we are down to 25,000 or 35,000 including the daughter claims, i.e. claims linked to the original claim. They are being processed at a fairly rapid rate right now in terms of facilities. There are a series of scheduled payments around settlements. They are available. They should be on the website or we will certainly get those to you. Then the only uncertainty is really around what the phasing looks like around the class action lawsuits settlements and how that payment schedule goes down.

What I would say is, in terms of how we are running the financial frame, they are being covered by our disposal proceeds going forward. This year we are already close to $3 billion of disposal proceeds, along with the proceeds of next year. They will cover the bulk of the claims. In terms of the forward-trajectory on Macondo liabilities, the lumpy years are this year and next year. Then we get into one billion dollars a year, which is those future schedules, which will be more like a dividend to the Gulf States out to 2030 or so.

On gas prices, a lot of our non-Henry Hub gas impacts come from Trinidad and Asia Pacific so it is really from the Tangguh development and the Trinidad development. That is really where those realisations are coming from. A lot of our new gas projects that you will know that start up in 2017, 2018 and 2019 are linked to domestic markets so they will not be as exposed to the softness that we have seen in the LNG pricing outside the United States.

Brendan Warn (BMO): Good morning. A question that, I think, relates to slide 16: you made comments about share buybacks, or balancing your scrip. If you assume prevailing prices, can you just clarify that if, by 2020, we are still in prevailing prices, just in your mind, what would be the trigger for share buyback? Would you be comfortable to be able to move to mop up the extra scrip that has been issued? And in terms of how that ranks ahead of any further growth acquisitions, please?

Brian Gilvary: Once we get through 2017, we are now confident, in terms of our plans, that we will be balancing at the prevailing oil price next year. Let's assume around $50 to $55 a barrel, but we are now confident that we will get operating cash balanced up with capex and dividends for next year. That looks pretty much within sight now. So, in terms of what we laid out for you earlier this year and at the backend of last year, we are confident we will get there. Once we get back into balance, then I think, within the financial frame, we have got full flexibility to look at other options, whether they be of an inorganic nature, in the capital space, but certainly buy-backs would come on to the radar screen.

The degree that we have been issuing scrip, of course we would like to offset that; we do not like to dilute our shareholders. So, when that opportunity arises, that is something we would look at. And it would really depend on where we are, where the prevailing market is. You will recall, when we did the transactions around TNK and Rosneft, we bought back $12 billion of stock. Actually, it was 10, two tranches, 10 and then two. So, buybacks are definitely in the armoury. Obviously, as we have gone through 2015 and 2016 it has been really focused about rebalancing, with the big drop in oil price from $110 down to $28 at the low point. So, once we have got things back into balance next year then buybacks will definitely come back inside the frame. And it will be the broader frame of options around long-term sustainable dividend growth; buybacks; and other potential inorganic opportunities that may arise.

Anish Kapadia (Tudor, Pickering, Holt & Co.): Morning, Brian. A couple of questions, please. The first one is on your cashflow. I am just trying to bridge where you are at the moment to the guidance for 2017. So, if I look at your Q3 cashflow, you are stripping out working capital and I suppose normalising the Rosneft dividend in this quarter, it is about just under $4 billion I think for the quarter, so probably about $16 billion on an annualised basis in a $45 oil price environment. Based on your breakeven guidance for next year, it suggests about $22 billion plus the cashflow in a $50 to $55 oil price environment. So, I was just wondering if you could bridge the gap between that $16 billion to the $22 billion plus. Obviously, there is some oil price in there, but what are the other elements that take you up to that level?

And then the second one that in a kind of sustained $55 plus environment next year, I know you have your capex range, but what is the short-cycle capex opportunity that you have? How much capital could you put to work in a kind of $55 plus and, say, a strong gas price environment if the opportunity arises?

Brian Gilvary: Okay. So, on the first point, as I have always said before, even when we had the $32 billion target, never take a quarter times four; especially this quarter. So, broadly you would look at the operating cash for this year. You would take our further costs that we would expect to come through at the back end of 4Q along with what else is to come out next year. You would have the restructuring cash payments around ratex that goes out this year that you would not have to repeat next year. So if you like, cashflow this year has a weight of payments associated with that ratex, that $2 billion restructuring charge that we talked about. And you have also got growth in margins and volumes to come through. Along with, as you have pointed out, the environment.

So, if you look at the average oil price this year, I think it has been tracking around $42, $43 a barrel so far in the year to date, which is actually roughly in line with what we set our plans at for this year. So actually, we have been sort of tracking, not exactly each quarter but year-to-date f around where we expected to be in terms of the plan. We expected some firmness around the fourth quarter; we will see what happens at OPEC at the end of this month. But I think $50 to $55 looks a reasonable assumption coming into next year, and we are confident that we can balance with those, which means that yes, you are right: the operating cash clearly would need to be north of $20 billion given the capex range we have given you and given where the dividend is. But we are confident that we will get there. In addition to the ratex, the costs, additional volume and margin coming through, we have got the big chunk of new projects coming onstream next year. We have got some more growth in our downstream and our fuels marketing businesses. And we have not assumed a particularly strong refining margin for next year. So, I think, on balance, we have a pretty conservative set of assumptions for 2017 in terms of balancing.

And then, coming back to your second part of the question, we have set a range on capex for next year. We are now down at $16 billion for this year. We are going to be probably below that in setting our plans for next year in the 15 to 17 range, and then we will know that, at $50 to $55, we will get back into balance. So, that means we have got about $1.5 billion of capex flex, which we will be able deploy as opportunities arise. And those opportunities could be in terms of getting back to work on some of the onshores. So, the obvious place you would look at would be the Lower 48, as you have flagged up, in terms of where the gas price is. But that would be completely commercially driven.

And then of course there may be other opportunities for us, where we can access existing positions that we have where we can deepen, maybe go into new areas. So, we have got some flex within the capital frame to allow us to do that, which will of course help with future growth beyond 2022, 2023.

Lydia Rainforth (Barclays): Good morning. Two questions, if I could. Brian, in answering to Anish about the 2017 cashflow numbers, and just from the commentary it does sound like you are very confident around the $50 to $55 number. Can you just talk about are there any operational aspects in terms of the risks that you are seeing around that? So, where are the sort of challenges in terms of getting to that number next year from the operational standpoint?

And then secondly, just quickly on Rosneft and the deals they have done with Essar Oil and Bashneft. How does that fit with BP's strategy within Russia? Thanks.

Brian Gilvary: I will come onto that second question shortly, but in terms of assumptions for next year, of course we might need to make sure that all the kit is running as well as it has run this year. The reliability figures for next year may actually be slightly below where we are this year because we had a very strong year this year in terms of reliability and availability in downstream. So, we will have relatively conservative assumptions for that for next year. We will need to make sure the projects come on time, on budget. They are all proceeding incredibly well right now. If I look at the oversight that Bernard and his team has on those projects, they are looking on track in terms of what we are expecting for next year so of course they would have to come onstream.

We would have to continue to see the performance improvements that we have seen in downstream this year continue into next year. And with the relatively conservative refining margin assumptions. I am not concerned that the plan feels overly stretched to get back into balance for next year. We set ourselves a target back in the fourth quarter of 2014 to give ourselves two years to get back into balance and we're confident that we will do that now, around the assumptions that we have laid out for next year. And it will assume the oil price is around $50-$55 next year.

In terms of Russia, yes, you will have seen the announcements around Bashneft, which is an acquisition of one of the state companies in Russia, where Rosneft acquires 50.1%. We will of course consolidate that into our results as that transactions gets closed. From BP's perspective, it will increase earnings, it will increase production, it will increase reserves, and ultimately given the dividend policy that we have with Rosneft, it will increase our dividend going forward, depending on where the earnings are off the back of Bashneft. And then of course you have the strategic deal that Rosneft has done, Russia-India deal with Essar around their refinery which I think give Russia and Rosneft access to a very good market, which we like ourselves, India, in terms of a growing market on the retail side. It helps Rosneft's trading arm going forward. And then I think there are some synergies for Rosneft around there with that Venezuelan crude and moving that crude into the Indian refineries. I think it is a deeply strategic deal for Rosneft. It is one that I know Bob was back and forth to Russia certainly in the last couple of months on numerous occasions with the Rosneft board. And I think it helps underpin Rosneft's global expansion into other markets around the world. I think in that respect it is good.

Our focus with Rosneft is really on the onshore, where you will have seen we have announced recently the two new AMIs around Yermak, which are conventional exploration opportunities for us around new AMIs in Northwest and Northeast Siberia. So, that we are really interested in, which is a 49% position that we have. Along with the Volga-Urals position and then the TAAS position, we are now starting to solidify our own position in Russia with Rosneft as BP with boots on the ground.

Jason Gammel (Jefferies): Good morning everyone. Two questions from me, please. First of all, and I apologise if you made this explicit, but I missed it if you have. On the $50 to $55 breakeven price, does that assume that the entire dividend is paid in cash, or is there a scrip component of that?

Then the second question is on the fuels business on the quarter. The flat results sequentially struck me as quite resilient, just given that refining margins declined in the quarter, and availability ticked down slightly. So, can you help to reconcile what the offsetting factors were there? Is that simply because of stronger marketing operations, and was there a contribution from the trading business in that result?

Brian Gilvary: On the first question, we set out that we will get things back into balance, including the full dividend. The scrip uptake since we introduced the it ihas been around about 18%. It has been higher this year, which of course has helped our cash position, hence why we would be keen to offset that dilution going forward as we get back into balance. The new financial frame we have is that operating cash needs to cover the full dividend, along with organic capex. So, next year, it is likely that we will need some help from the scrip uptake, as we get through this transition of having a full year of all the costs and restructure charges out, which will be 2018. But we are confident for the next year on a cash basis we will certainly get back into balance.

In terms of the downstream result, I think it just reflects all the work that Tufan and his team have been doing, and we have talked about this in previous quarters, in terms of how do we equate resilience? And there is a slide that Tufan has used on previous quarters that will show you how the refining margins declined and yet how our earnings have increased over a period of time, in what has been structured inside the businesses that, through the fuels marketing business, and growing that business going forward, they are being able to create a balance within the overall portfolio. Of course, coupled also with the lubricants and, to a lesser degree, the chemicals business. So, half of the earnings coming out of the downstream now are not as exposed to that refining margin, which is what we laid out in our presentation. I think what you are seeing this quarter in downstream is the strength coming through that fuels marketing result, in what was a relatively solid trading result for the quarter, but certainly nothing out of the ordinary. Actually, it really is coming through from the fuels business.

Jon Rigby (UBS): Hi, Brian. I have two questions. The first is, on the $6.1 billion cash cost performance, are you able to break that down a little bit and characterise where it is coming from? I think from memory the downstream was ahead of the upstream in terms of contribution, when we last revisited it, so are you able to give a little bit on the analysis on that?

The second is, I know it is somewhat frustrating for you as everybody else is when you take big non-cash exploration charges, which hurt your earnings. I know there is no economic impact. But if you wind down or normalise your exploration activity, and go through the backlog of stuff that is still under appraisal, is there very much more to come in that, or will we start to see the exploration charge in the quarters begin to level out, closer to the sort of level of activity that you are actually now running at on a cash basis?

Brian Gilvary: On the cost question, it is actually neck and neck now, Jon. They are exactly the same. So, in the $6.1 billion, just over 40%, actually about 45%, has come out of the upstream, 45% of the downstream, and a balance out of corporate. Now, some of the corporate costs already sit in the two segments, but they are exactly the same in terms of the delta on the 6.1. There is still a big chunk to come through in the fourth quarter and into next year, which is really around the final upstream plans. But equally, downstream we have still got further restructuring plans in place. They are about the same in terms of sources. And I think that is just symptomatic of how we have driven efficiency and reorganisation across the whole corporation. It is no surprise that they are about the same. But you are right, previously, it was more driven by the upstream than the downstream, but it is more 50/50 now.

In terms of the exploration piece, of course, as we have gone through with the reset of the company in the last couple of years, there is a big inventory of exploration intangibles that we are working our way through, and you are seeing that come through. If anything, it Is actually reduced compared to the run rate we were seeing only a couple of years ago. There are still more decisions to be taken, we will continue to do that on a point forward basis. We will try and give you more information around what that looks like around the fourth quarter results. I cannot at this point say we have reached a sort of stable, steady state. Ultimately, everything gets back to strategy. It is really about how we have reviewed what we do with our exploration strategy, we are doing a lot less wildcats; there is a lot more focus now on the in-field developments. As a consequence of that, you will see some of the decisions we have taken.

The Great Australian Bight is a good example of. if we stacked it up in the portfolio of options that Bernard and his team were looking at, it simply did not work, and on that basis, we stepped away. We are still absolutely committed to Australia; it is not about that location, and indeed, we actually announced a licence around a new access position we have taken in the Northwest Shelf. It is really about how we now sift and sort the portfolio of options we have, and as a direct consequence of that, some things will be viewed as not being commercial going forward and of course, they get taken through to underlying earnings in terms of exploration write-offs. But I cannot at this point, Jon, say where we are in the cycle, given the size of the intangible asset that we still have.

Robert West (Redburn): I would like to ask a first question about volume. You already alluded to this in your comments, but it was not a particularly normal quarter. I was wondering, could you quantify, is there any disruption in the volumes year on year that you expect to come back as we look to future quarters?

And I note from the release that it might not come back in 4Q. You allude to higher turnaround activity compared with the third quarter. I just want to confirm, is that right? It sounded in your comments as if you said nine turnarounds had been completed, so I just wanted to confirm: are there more still to come?

And finally, has anything changed in your mind about Alaska and the LNG project there, based on looking at it in the last quarter and some of your partners' comments?

Brian Gilvary: On volumes, that is a really good point. Actually, if you look at this quarter, there were a lot of moving parts on volume, so underlying was down 2%. Actually, if you take the Pascagoula outage that we had, which was over 20,000 barrels a day, weather impacts, we are just shy of

20,000 barrels a day, and then we have PSA impacts, primarily around Iraq. If you add up all those effects, they come to just under 130,000 barrels a day, which actually explains that delta. You would certainly not expect to see the Pascagoula outage and weather repeat itself going into the fourth quarter, notwithstanding that I think we are now getting towards the end of the hurricane season, or pretty close to it. So, you are right, most of those effects will not repeat through future quarters. That is why you will start to see, and in the turnaround delta quarter on quarter, a little bit of impact of that.

On Alaska, there is still 30 TCF of resources up there in terms of gas. Yes, I understand the most recent comments that some of our partners have made. I think gas is a great opportunity for Alaska going forward, and for those of us that have lived around and seen this project over many, many years, I am sure it will have more machinations going forward. But there is nothing firm at this point in terms of where the point forward is, in terms of that state in the resource space. But it is a great resource base discovered, we know it is there, it is being reinjected today. I think the short-term economics make it difficult, but in terms of long term resource, it may well be a great opportunity to bring to market. But right now, nothing is happening.

Theepan Jothilingam (Exane BNP Paribas): Good morning, Brian. Two questions, please. I think you talk about offsetting the Macondo cash outflows with disposals next year. Could you just give us a little bit more confidence that can be achieved, and essentially a bit of flavour in terms of where you see disposals or disposal potential in the BP portfolio going forward?

Secondly, just in terms of forward-looking growth, if you could give us a quick update on the two UK projects, please. Thank you.

Brian Gilvary: Thanks, Theepan. In terms of disposal proceeds, we have set a target this year of three to five billion dollars. We are already close to three billion at the end of the third quarter. We have a number of projects in train that will comfortably get you to the five billion over an 18-month period. So, some of those will flow into the first quarter of next year. That will underpin two to three billion next year. A lot of the projects we are looking at are midstream assets. Some of our properties that we own globally, you will have seen that we announced the sale of our property assets down in Sunbury, recently, which brought in significant proceeds. The proceeds side of this is well underpinned in terms of three to five this year, two to three next year, and, actually, in terms of Macondo liabilities, the big lumpy years are this year, with the settlements from last year that were originally transacted this year and the private settlements that we have managed to resolve, along with the payments next year, and then we get into a steady state of $1 billion a year. So actually, you only need about $1 billion, $1.5 billion of disposal proceeds beyond 2018 to cover it, although we will probably continue to churn a two to three. And a lot of that churn comes out of looking at the portfolio as we take options to move certain commercial projects forward, other projects in the portfolio may have lower returns, and therefore we will look to move out of those assets. There will always be a natural churn in our business, though it has been a two to three. So absolutely confident that in terms of the three to five this year, two to three next year, that is pretty well underpinned. And indeed, we are certainly going to hit the three to five this year, and there will be some of those proceeds that will flow into next year that will be towards the end of five in the first half of next year. So, no problems on that side.

In terms of major projects, Quad 204: we are now 96% compete, with the latest estimates start up in the first half of next year. Glen Lyon, you will, I think, a photograph of it, actually, on the presentation. The Glen Lyon is now in place. It has 14 new wells, 15 flow lines, 21 risers on it, and it is designed to produce 130,000 barrels a day. That is all on track. Clair Ridge facilities are 87% complete, and we have still our latest estimate, back end of next year or 2018. We will see where we end up with that sort of range. And we have new production facilities that come with Clair Ridge, and these are great investments for the UK in the North Sea, and I think it is really important about how we extend the life of the North Sea going forward. I think these are major investments. They are major commitments, certainly from BP, in terms of the North Sea. It is a great opportunity for us into the future that brings jobs, it brings work and it brings production and value to both the communities and to BP. Both projects are tracking really well.

Thomas Adolff (Credit Suisse): Morning, guys. I have a couple of questions, please. Firstly, we are now just over two years into the downturn, and we have not really seen BP do many bolt-ons, unlike your partner, Rosneft. Brian, are you surprised by that? Particularly when we think about the comment that you made at the end of 2014, I would have thought that BP would be a bit more active on bolt-ons.

Second question, I guess, on franchise assets, and I am referring to assets that define the company, so for Chevron it would be non-royalty paying acreage in the Permian, for Shell it might be the Santos base in Brazil. What would it be for BP?

And maybe a final one, a very short one, what sort of reserve replacement ratio, excluding Russia, do you expect for 2016? Thank you.

Brian Gilvary: Okay. Well, let me take that last one first, because it will be too early to say that. It really will be a function of the FIDs that we put through this year. We have three FIDs that have gone through already. We have two more, one of which you will all be aware of, Mad Dog Phase Two, which is coming up in the fourth quarter. Where we end up in terms of the underlying reserve replacement, excluding Russia and our other entities, it is too early to say at this point, so I cannot really give you any indication around that, but that really is a function of FIDs, and what will we end up with reserves at the end of the year.

In terms of value options and bolt-ons, actually we have looked at a lot of activity. We actually have bolted on one or two small things around the portfolio. We have actually deepened in some positions. But I think the thing that we have looked at as we have gone through last year and the second half of 2015 in particular, the valuation against some of the assets that we were looking at was simply too high, and in some respects – if we come back to the previous question from Theepan – this really is not a seller's market for upstream. And I think people's perception of the value they should be achieving or what we would see as being economic or would be accretive to the company.

I think we have always been clear, if a transaction is accretive, and it is accretive to our shareholders, or it is BP-strategic and adds value to the long-term for the company, then absolutely you will see us doing things. And let us see what happens over the next 12 months. But I think there will be opportunities that we are looking at today, opportunities that will come up as people try and get their own balance sheets into order going forward, and we will look to pursue those. But really, it has to be one a basis that is accretive for shareholders, or we can see long-term value in terms of the portfolio – or it is deeply strategic and links into long-term value. And frankly, some of the valuations we have seen are off market, which is why, coming back to that disposal question, a lot of our disposals have been coming from the downstream and the midstream, not the upstream. If you recall, we sold off the best part of $55 billion, if you exclude Russia, at around $100–$110 a barrel, way back in the period 2011–2014. So, we do not have much left in the inventory in terms of disposals. A lot of what we are doing now is really more in the midstream space, and downstream space. But no, the opportunities arise, we will certainly look for those.

And then in terms of how would you characterise BP, I think a lot nimbler than we were back in 2010, 2009; a very focused portfolio. We have had the chance over 2010 to 2014 to completely rebuild the portfolio, which is what we did. It was specific choices to get out of certain things, and specific choices and decisions to go into certain bits of portfolio. But if you look at the benefits that you are seeing coming through the last couple of years, I think the characteristic would be an integrated oil and gas company, focused on providing energy. And we will continue to make sure that we build on the two things that we think are distinctive for us, which is around relationships and technology. And you will continue to see us do things where we believe the relationships that we develop are unique – certainly in a couple of places, and Russia will be one of those – or where we can bring technology to bear, differentiated from other people. And I think if we can continue to focus on those two things, opportunities will come off of the back of it.

Jags Walia (APG): Given the deflation you have seen, is it time to step up FIDs?

Brian Gilvary: We have done three FIDs already this year. We had Atoll Phase One, which is an early production scheme that we accelerated. There was the Tangguh Expansion and Trinidad Onshore Compression. And we have two further ones, which I have just alluded to, that we are looking at in the fourth quarter. I think it is natural, given where we have just come from. If you think, as I just said in the previous question, we rebuilt the company over 2011 to 2014. The period 2015 and 2016 was really about restoring balance and getting things back into balance as a primacy in terms of supporting the dividends, and that was one of our prima facie focus that we had. As we now look going forward, we are now starting to work our way through some of that inventory of projects, and I think you will start to see more FIDs come through next year.

And of course, we have also the big series of new projects that come on stream next year to generate significant cash flow growth into the future. So I think you will start to see the FIDs start to ramp up next year, with potentially five being completed this year.

Martijn Rats (Morgan Stanley): Good morning. I have got two, if I may? In the past, BP has said that the headcount in the upstream was on a trajectory of falling from about 30,000 to 18,000, and I was wondering if you could quantify broadly where we are? Are we already approaching that 18,000 figure or are we still some way off?

And secondly, I wanted pick you up on this comment about high availability of your upstream assets. I think you mentioned a figure of 95% availability and I was wondering how that compares to 2015 and 2014, and specifically, if there was any way of quantifying how much incremental oil you have been able to produce purely by higher availability, higher utilisations of assets that you already have? Essentially, extra oil production without any capex, is there a figure for that?

Brian Gilvary: Okay, Martin. On reliability, I do not have the numbers to hand, but I recall, back in 2014, I am guessing for the portfolio, it was somewhere north of 85% but south of 90%, just from memory as I recall. If I think about some of the things Lamar and Bernard, at the time, were focused on in terms of reliability, it was one of the key metrics we were looking at and particularly in places like the North Sea. I think they have made huge progress in terms of where we have got to so far,

In terms of headcount, you will see when we actually produce the headcount numbers in the annual report and accounts for next year, but the last I looked at we were, if you exclude contractors– was your question excluding contractors or including? Sorry Martijn.

Martijn Rats: I remember Mr Dudley saying, at some point, from 30,000 to 18,000, and actually, frankly, I am not quite sure whether at that point he was talking about excluding contractors or including contractors; I think he is including contractors.

Brian Gilvary: If you include contractors, that would be the 30,000 figure, – and at the end of 3Q we are down to the low 20,000s. And in terms of our own workforce, we are down at nearly 18,000 at the end of the third quarter. So quite significant progress already and that is why you are seeing some of those cost benefits come through. Of course, there are Ratex payments associated with our own employees over that piece, so that will take some time to work its way through the system into next year.

Iain Reid (Macquarie): Hi guys. Brian, just couple of questions. On Brazil, I see you have taken a write-down of the Devon acreage; I presume this is just the exploration part of it? I am just wondering what your appetite for Brazil activity is? We have got a license round coming up next year, which has got some off-block extensions of existing fields. I am just interested in your appetite for that?

And secondly, on the rig cancellation number, can you just tell us what that was? And how are you in terms of your rig fleet at the moment; is there more of this coming or are you happy with the quantum of rigs you have actually got under contract right now?

Brian Gilvary: Okay. On Brazil, yes you are right, it was around the Devon acquisition, it was the South Campos; it was one of the specific blocks where we had a non-commercial option , so that is effectively what that write off is about. And we have written off other assets associated with that acquisition as well. I think it is fair to say we have not yet unlocked the value that we were anticipating, or certainly around the original investment we did into Devon for that piece. There were other things that came with the Devon acquisition in other regions, like Gulf of Mexico, where we have seen better progress. So no, we have not seen anything come out of that, really, yet, out of Devon, although we still have a couple of commercial prospects associated with that acquisition that we are still sizing up.

In terms of next licence round, it would have to stack up commercially against everything else that we are looking at, so we are still in Brazil. I think if the options are sufficiently attractive compared to our alternatives then they will rank in that space. But no, Brazil, we are still there, we are still on the ground, and it really will be a question where, commercially, the options stack up versus everything else.

And then, sorry Iain, your second question was around…?

Iain Reid: The rig cancellations: exactly how much was that in a quarter, and what about your fleet going forward?

Brian Gilvary: So, for the quarter it was $90 million higher than the previous quarter, so delta between the two, and the actual cost was north of $150 million for the quarter. We have worked our way through, now, the whole fleet. I think, in total, we have had four rigs we have cancelled so far, with a small number we have put on standby. But again, it is really as the team work their way through the inventory of activity we have going forward, we will continue to optimise. I cannot say, at this point, that we are finished with rig cancellations, but as activity ramps up next year that team optimises the rig fleet globally and will determine whether commercially the right thing to do is run with the rig, or in this case we chose not to and that was the right commercial, economic decision to take, and we will continue to do that on a point forward basis.

Lucas Herrmann (Deutsche Bank): Brian, morning. Just two or three, if I may. Just going back to a question Anish asked you around annualising quarters: you sensibly said you would not, but you also said 'especially this quarter'. I wondered why especially this quarter? What are the things that we are perhaps not seeing in cash that you can see?

Secondly, just going back to Macondo and the costs this year, I know you have provided schedules, but the schedules detail annual payments and we are stuck with quarterly reporting. I just wondered whether the $1 billion or so that was supposed to go out to the States, and the short $600 million that was going out to wildlife and others, has actually flowed already, or whether that is due to flow the rest of the year? So really, I guess it is a break between how much of the outflow is business economic loss claims and how much of the outflow is 'other'.

Finally, post-Aker BP, how much operating income did you forego in Norway effectively this quarter, relative to last?

Brian Gilvary: That last question will definitely test my memory, so I may well have to come back to you on the last one. Norway would have a sub-segment even deeper below what I would look at; I would have caught it through the whole North Sea. We may have to come back to you on that one, Lucas.

Lucas Herrmann: No worries.

Brian Gilvary: Let me take the Deepwater Horizon payment schedule. We will probably put a schedule up on the website, as it will be easier for everyone to see the actual degree that things are settled. We know when payments are going out, like the state claims, like the civil penalties, like the criminal penalties; all of those things are locked in, and with dates of when those cash payments go, so we will come back to you with that.

There were significant payments that went out in the second and third quarter, a raft of settlements around a big chunk of private claims that we took outside of the settlement, and they were taken care of through the court and through a specific process that we had. Then other costs such as, for example, MDL 2185, that we do not talk a lot about but which we also settled in the second quarter, with the payment of that going out due this year. So, we will come back to you with that if that is okay, Lucas, in terms of specific payments.

Then in terms of annualised quarters: no, the only reason why I said this quarter is that, if you took $4.8 billion, you could back out the working capital, or you may well find that sustainable going forward. You know that the answer needs to be somewhere around $22 billion, so four times four does not work for you. So, I would not use this quarter; if you are going to do a simple four times, you need one with $5.5 billion in it.

Lucas Herrmann: Also, just to get clarity on guidance on cash flow. You do not include working capital moves in your assumptions on operating cash and coverage on capex and dividends going forward, do you?

Brian Gilvary: No, unless it is sustainable. There is a programme that was ramped up, actually, over the last eight quarters, to get sustainable working capital out of the system. One of the biggest areas we have where we have flow movements is around our trading barrels, which logically you could say were actually cash and inventory, because you could liquidate those at any point in time. That is not something we have gone to at this point, but it is one of the things that we will be looking at going forward. However, only to the degree that it is sustainable would we then build that into our cash flow projections. For example, if you sell out a refining system, that working capital is gone forever.

Biraj Borkhataria (RBC Capital Markets): Hi, thanks for taking my questions. I had a couple on the US onshore business. The capex in that business seems to be quite volatile from quarter to quarter, and this quarter was particularly low. I was wondering if you could give a bit more colour around what is driving that, and also what a sustainable capex number is, to hold production over the next year or two on an annual basis?

Following on from that, can you talk about any service pricing pressure you are seeing in the US onshore business, or whether or not you are seeing it? Thanks.

Brian Gilvary: I will be seeing Dave Lawler later this week, so I will find out more then about what he has seen; I do not have that to hand here in terms of what he has seen in terms of services costs. There is some ramp-up in the rigs, particularly for the industry around the Permian; the prices have come back up around some of the horizontals, so you are seeing some rig activity come up. However, I am not sure that we are seeing anything on the service side other than what we have already driven through.

On capex, it is down 63% year on year, which is completely driven by the planned investment schedule. So, they went through a period where they did a series of experiments around particular types of activity, around multi-laterals that they ran; that has taught them a lot about some of the reservoirs, and in actual fact they are going to start revamping up and restarting investment in the third quarter. So, you will start to see some of that capex ramp up.

In terms of a point-forward capital for that business, we will have to come back to you with a figure around that. However, I would think something around $0.5 billion, or north of that, is what you would expect going forward. I think when we first put the frame in place, we had up to $1 billion of capital allocated.

However, again it is really a function of what the options are for us; that is a great short-term option if we can ramp up activity quickly, say because of prices or because we have discretionary capital. That would be an obvious place where you would start to do it. So, it can become the float in terms of options for us, depending on what is happening in the short term; it is a great way in terms of getting short-term paybacks and higher returns. The more and more we learn about that business and the way in which it is run, I think the more value we are going to bring.

Biraj Borkhataria: If I could ask a follow-up on Macondo as well, just to clarify some of the earlier questions. If I add up all the moving parts for 2018, I am getting to a figure of about $2 billion cash outflow. I know this will probably be on your website later, but I was wondering if that is a sensible number to assume for 2018?

Brian Gilvary: That is pretty much spot on with what I have in the forward plans, notwithstanding any other assumptions we have around any other de minimis-type claims that might be out there. In terms of materiality, something around $2 billion is a good number.

Actually, since this questions keeps coming up: for this year, the total cash out payments will be anywhere from $6–7 billion; for 2017, anywhere from $3.4–4.5 billion, and there are ranges around these. Then once you get into 2018, it goes into $2 billion, then 2019 onwards it is around $1–1.3 billion, dropping down to $1 billion at the end of the piece. We will get a schedule out for you though; all those settlements feel like an awfully long time ago now, but we will get those schedules on the website so you can see them.

Alastair Syme (Citi): You have on the notes that you have lowered some of your long-term oil and gas price assumptions as you have re-done your reviews this year, and I think also the discount rate. Can you talk a little about what is going on, and also the drivers of the impairment reversals?

And secondly, you have mentioned a couple of times the Mad Dog 2 FID. What exactly are you seeing in terms of accelerating or deepening inflation, or deflation in the offshore?

Brian Gilvary: Mad Dog Phase 2 is sort of imminent.. We are right in the fourth quarter now. We are most of the way to FID. I think our partners are likely to do that in the first quarter next year, so maybe slightly out of sync. I think the projects is pretty much there now. It is certainly below the $10 billion we talked about, and now it is drifting below that as well. So, I think that is ready to go, and now the key is that it gets delivered at the new cost set that we have..

On price assumptions, you will have seen from the Energy Outlook that we put out, our new set of long-term price assumptions have effectively moved to $75 real for oil in the long term. In terms of impairments, we take the current price today and then smooth it up to that level at 2022. And gas we moved down to $4 real, in terms of those impairment tests. We also looked at the whole range of our discount factors, and other metrics that we reviewed, as we do annually in this quarter, and that has reduced the discount rate down by a factor. Along with running that, that then creates a trigger for all of our consolidated units in the upstream, and that is when you see these impairment write-backs come back this quarter, but that is just purely a function of running those models.

Alastair Syme: Any particular reason why Angola and North Sea would feature more prominently in those impairment reversals?

Brian Gilvary: No, not specifically, other than the size of the asset, what the reserves positions look like, but it really is a function of, once you have had the trigger to look at them, and we have looked at them a number of times over the last couple of years, we have had a couple of triggers on Angola and North Sea before, if you now run the new set of price assumptions, that is where those carrying values come out. It is a pretty rigorous process; it is very transparent. We run it very year, and it has led to those write-backs this quarter.

I should also say there are a lot of moving parts in that number, since we went through all of the consolidated units. There were some positives and negatives right across the piece. The net position is what you saw.

Chris Kuplent (Bank of America): Just two quick ones. Of your exploration expense, which came in for the quarter around $800 million, can you just confirm how much of that is in your non-operating income, and how much is actually flowing through your reported underlying upstream? I think you specified the Brazilian write-off, but I just wanted to see the total number, and any comments you want to give us on a sort of run-rate, as far as underlying exploration expenses are concerned.

Lastly, I wanted to check how you are feeling about your Indian options in terms of future FIDs, not necessarily in the next six months, but any latest developments that you can report from there?

Brian Gilvary: So I assume you are talking exploration write-offs when you say exploration expenses?

Chris Kuplent (Bank of America): Yes, correct.

Brian Gilvary: The biggest thing that you saw coming through in that quarter was actually the delta off the Brazilian asset that we talked about earlier, then lots of small pieces, but we are getting to a stable, steady-state number going forward. You had a figure you mentioned, $800 million?

Chris Kuplent (Bank of America): Yes, that is for the third quarter, what you call exploration expense, of which there are $687 exploration expenditure write-offs, but I wondered whether you have to hand a break-down of how much of that has gone through your non-operating, and how much is reflected in underlying?

Brian Gilvary: I'm sorry. Yes, we would need to come back on the specifics, but there is over $300 million of NOIs in that number as well, which also relates back to the Devon acquisition. So, from memory, it is somewhere around $330 million to $340 million of that is NOI.

Chris Kuplent (Bank of America): Right, so if I take that off the 800 mark, then we are still left with more than 500 reflected in your underlying upstream earnings, yes?

Brian Gilvary: That is correct.

And then, in terms of India, we still have current production under the existing formula, which today equates to around $2.50 MMBTU. We now have the new gas pricing policy that will come up with a price north of $6.00; I think it was $6.50 last time I looked. And we are working with our partners to progress what those development options look like. I think we have seen good opportunities, aligned with what the government of India wants, in terms of its desire to bring on its own domestic gas. So, I think there are some great opportunities for us. And we still have the issue around arbitration, which will resolve itself as that progresses through the legal process going forward.

Chris Kuplent (Bank of America): Okay, so should we have that on our list for 2017 FIDs?

Brian Gilvary: It is a possible FID that we will look at for next year, but, again, it will have to rank against all the other options that we have.

[End of transcript]