Q4 Results: Analysts Call Q&A

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Q&A

Oswald Clint (Sanford Bernstein): I was looking at the US RCOP per barrel and how it has stepped up the past two quarters into the mid-teens per barrel. Obviously it is a business that has had quite a range of RCOP per barrel, so I wanted to get some thoughts on where you think that number might actually get to over the next 12 months and obviously the next couple of years please?

Secondly, I was interested in your comments on the most successful exploration year in a decade. Is there anything you can point to that may have helped deliver that success, and is it possible to give any sense of materiality or some buoyance around the discoveries you had last year? Thank you.

Bob Dudley: I will come in on the US RCOP per barrel numbers and then Brian can add a little bit more to it, and then some comments on exploration. Clearly, it is getting back to work in the Gulf of Mexico for us with ten rigs running; we are not giving the exact figures, but we did produce more than 200,000 barrels a day during the quarter and an exit rate as well at 200,000 in the fourth quarter. So, we have that, and we have improved natural gas prices as well that have affected the industry; both would be a mix.

Brian Gilvary: I think that is the big part of it, and it is actually around the balance of Gulf of Mexico barrels coming in, with the Atlantis major project coming online and turnaround round Thunderhorse. In addition, it is actually lower oil realisations versus high gas realisations. So, they were the big drivers, and as more GoM barrels come on with the lower production taxes, hence you will start to see that number [inaudible].

Bob Dudley: Yeah, we expect that out of these four big hubs out into the decade. On exploration success, I think it has been a really good year. The three wells there just at the very end of the year – the Lontra well in Angola did a drill stem test in December – we cannot really comment on materiality or size because we have partners and governments and regulators that we need to work through, but I am very encouraged about Angola and we are drilling another well in the block which, in fact, is going down now.

India is a country that needs every molecule of gas it can get; one of the discoveries was underneath the D6 field down deep. That looks sizeable, facilities there, so that is good. In Brazil, I think the most significant thing in the P2 well is that it has proved up the equatorial margin, a whole new basin and area, so that has some really good significance. The Gila discovery in the Gulf of Mexico is another one in the Palaeogene formation that looks very, very promising; it's in 4,900 feet of water and drilled at 29,000 feet, one of our deepest wells. Egypt as well, as a country who has been exporting gas, needs all the gas it can get, and the Salamat well which is 100% BP is one that looks promising. We are drilling another one now with BG that also looks promising. So, I cannot give you the numbers – I know you like the figures – but there is just some colour around that.

Alejandro Demichelis (Exane): A couple of questions from my side. In terms of the new start-up for 2014 plus the Whiting Refinery, how much cash flow do you think you can generate from those new projects in order to get each of the $30 billion to $31 billion target on cash flow?

Secondly, you mentioned the Gulf of Mexico having a very good exit rate for this year; what do you think you can get over the next couple of years in the Gulf of Mexico?

Bob Dudley: I will start with the last one first. Over time, we expect to get over 300,000 barrels a day in the Gulf of Mexico, and where it is going to be next year depends on the state of turnarounds. We do have some turnarounds coming up – we have three of them in the Gulf – however, I am very optimistic about where we are heading in the Gulf with those four big hubs. Roughly 80% of our reserve base that we have and the resource base surrounding the Gulf is around those four big hubs, so it is obviously a great area of focus for us.

On the amount of cash flow contributed by the four start-ups in 2014, we are not going to give you a number on that, but the confidence should come with the fact that we have started out [up] four [should have been 3] major projects in 2013. So we will get the run rights through into 2014 on that, and we have two projects that started up this week with the Chirag Oil platform and the Mars B oil project in the Gulf of Mexico. Oil really is the high-margin commodity here that we have more and more of coming on.

Brian Gilvary: I think that is the bulk of it, and then as they obviously mix the barrels, as we view more high-margin barrels in the base come through, that will also help support the $30 billion to $31 billion this year.

Alejandro Demichelis: Okay, and in terms of Whiting?

Brian Gilvary: All the units are commissioned and we are ramping up, so we will continue to ramp up. It's a lot; if you think at its peak it can run up to 380,000 [should be 350,000] barrels a day of heavy crude, it is going to take some time to ramp up as we bring all of those units on. So we will give you more updates on that as the year progresses.

Blake Fernandez (Howard Weil): I have two questions for you. For one, on the downstream, the results were a little below what we would have thought; I know you mentioned higher DD&A and you gave us guidance of an incremental billion dollars of DD&A into 2014, but I was hoping maybe you could give us some colour around how much of that is associated with the upstream and the downstream?

Then the second question is back on Lontra. I know the fiscal terms do not accommodate for gas sales, and from what I understand, there is a gas component to that discovery. I was hoping you could maybe give us an update of negotiations with the government to renegotiate the terms there?

Brian Gilvary: We do not normally give details on DD&A by the segments. Whiting will be a modest increase in DD&A as we must appreciate that asset over time now it has been commissioned. I think the depreciation schedule of something like 30 years is what we have agreed so it will not have a huge impact, but nevertheless it does impact 4Q as we have commissioned the asset. Some of the costs that came through in 4Q were around some restructuring charges such as RATEX, which comes through as a normal charge specifically in the lubricants businesses more broadly, and also we had a weak supply and trading quarter. Although we had a good supply and trading year both in oil and gas for 2013, it was actually a weak 4Q for the oil trading and supply business, so they were the biggest components there.

Bob Dudley: In the upstream, DD&A is also due to the new projects that are coming on-stream. We had a number of the big ones come on in 2013.

On Lontra, our partners there are Cobalt so really they are discussing and negotiating with the country. I will give you colour rather than specifics on this: you are right, the contracts in Angola are property of the government, however this is a very promising oil gas condensate field that is not too far from the shore. In addition, Angola needs electric power, and there are discussions about what we need for this field to be economically viable. The government, I believe, wants this done and the discussions are related to increasing power, because a lot of the power in Angola is, I think, burnt more by fuel oil. So this is quite significant for the country, and though I think you would be best asking Cobalt about it, I am encouraged.

Thomas Adolff (CSFB): I have two questions, one on India and one on US downstream. Firstly, on India, the price hike looks to be a given now from April; how shall we think about production and development in the near to medium term of your asset base there?

Secondly, on the US downstream, I believe you are still net long RINs, so I was wondering if you can quantify the net benefits from RINs during 2013 and how we should think about it going into 2014?

Bob Dudley: I will comment on India and we will test Brian on RINs. So, you are right: the government confirmed that after the first quarter in April the gas price would go up on a formula. It is a positive step; the estimated new gas price is around $8 in MCF, and it will be adjusted quarterly depending on benchmark prices. This is very good; this is what we have always said that we expected to happen. It has taken longer over the past two years to get certain approvals on some of the other things, but the R-Series field development plan has been submitted for approval. We think that the gross resource base recoverable there is about 1.3tcf, likely to start up in 2017. The D6 satellites in something called NEC25 developing plans for that; that is about a 1.5–2tcf resource potential. Managing the declines out of the D1D4 base until new compression comes online in early 2015 will be a challenge. Then this discovery we have had – the MJ1, which is a Jurassic reservoir below the D6 fields that I believe has been given a name of D55 – we think is significant, and so that will take some time to develop, but it is right underneath the facility so that is great news. Then in exploration further out in the Carvery Basin down towards Sri Lanka we have had another discovery; I think it is called D56.

So, in terms of specifics and production, we are not going to lay that out just yet, but I think all the pieces are finally coming together. There was a delay there in getting decisions made and I think everybody knows it, not just for us, but India; I can sort of feel that logjam breaking in energy.

Brian Gilvary: On the RINs question, you are right that we are long RINs since our marketing volumes now exceed our refinery throughput with the repositioning in the US of our two refineries. What that means in terms of overall results for last year is pretty modest. It is not a huge number in terms of the financials that came through; while it gives an apparent expansion in our refining marker margin, you lose a lot around the cost of compliance with the standards. So, it does not have a huge impact on the overall financials and is somewhat modest, but we do not normally give that number out to the market.

John Rigby (UBS): On Whiting, can you just tell me how much, if any, heavy crude you were processing in the fourth quarter? I am just trying to get an idea about where it was operational versus where the potential is as it ramps up through the first half of this year.

Secondly, on the Macondo, what does the cash within the PSC unpaid relate to? I think you referenced $6 billion or so. It is obviously allocated but not yet paid; can you just sort of run through what that is?

Lastly, on the gearing range, I guess you see it as appropriate; given the uncertainties around Macondo, what is your attitude to that? Is that 10–20% something that is probably suitable for the long-term when you go out of it to extinguish the liabilities, or would you, as that risk falls away, look to see gearing for the corporate start to rise somewhat higher than that range that you have now?

Bob Dudley: On Whiting, I think we are probably not going to give those figures out as it is sort of trading sensitive information, but we were running some heavy crude during the end of the year there, minimal amounts as we were commissioning them, and now we are working through the post start-up vessel testing set of activities that are going on now.

John Rigby: So, would it be fair to say that there is very little benefit in the fourth quarter for the work that has been done?

Brian Gilvary: If anything there is probably a minor detriment as we were operationally bringing the unit on. There was certainly no upside coming through in 4Q.

Bob Dudley: Yeah and there was some of that really severe cold weather which slows it down as well, but that ramp-up and vessel testing activity and switching over is occurring now on Macondo.

Brian Gilvary: On the specific Macondo question of the $20 billion fund, we have $13.3 billion in cash that has been paid out so the balance is $6.7 billion. There is $1.2 billion frozen at the moment around the fisheries fund; if you recall, the fisheries was a capped number of $2.3 billion of which, from memory, $1.1 billion was paid out. There is $1.2 billion sitting in the fund, but given the issues that we have now written and the litigation we have initiated on the civil side around the Watt's claims on the fisheries' side, that is now, as I understand it, suspended in terms of payment on the balance. Right now, there is still $6.7 billion within the fund that can be distributed for various things like natural resource damages, plaintiff steering settlements, state economic claims and so on.

Bob Dudley: On the gearing levels, if you recall it was March this year when we completed the Rosneft transaction; the gearing levels dropped from over 20% down to 11%. The board has discussed what is the right gearing band; for now, we are doing the share buyback programme which has lifted it up to 15–16% now. For the moment, the time being, we like a gearing band and think it is prudent at 10–20%. The board continues to review it and discuss it, but I think for the foreseeable future we like being right in the middle and around this. We have plenty of capacity to go up to 20%, so no real change.

Robert Kessler (Tudor, Pickering, Holt & Co.): I am hoping you can help me bridge your cash flows from the actual in the fourth quarter to your outlook for 2014? Of course there are a number of moving parts that you have talked about in bits and pieces; Whiting is a big one, working capital swinging the other way is a big one and the extra margins from the upstream is another one. Now that you have a bigger asset sale programme, I am wondering if some of that kind of carves out of the cash flow for next year and if you can just provide some kind of waterfall or some bigger numbers we can think through to go from 4Q to next year?

Brian Gilvary: I think you have highlighted all the big moving parts. The underlying improvements we are seeing come through in a mix of the upstream barrels, and we saw underlying growth year on year of about 3.7% for 4Q. So that is the first dynamic, and you will see that continue to come through and the higher margin barrels coming through. You have the new projects in Whiting that Bob talked about. You also have a working capital bill that we saw through the end of 3Q, and we said that we expected two thirds of that to reverse out; we did see a chunk of it reverse out in the last quarter, but you did not see it come through the numbers because at the end of each year we have this around $2 billion of working capital going out the door for the German fisc. It is called mineral oil tax; that comes back in and has started to come back in already through the first six weeks of the year.

So, if you look at the $5.4 billion and you take account of that $2 billion that goes out, it gets you to something looking more like a run rate that you can start to see a bridge through to $30 billion. So maybe that will help a little bit, with some working capital that we built last year across various pieces around some operational components. As all those things get smoothed out through this year then I think we are still comfortable that the $30 billion to $31 billion is achievable.

Robert Kessler: As far as the incremental cash flow from the upstream, you of course gave us some outlook for production and for Gulf of Mexico margins and US margins, but what about total upstream unit cash flow? Can you give us some kind of guidance for rate of improvement relative to current prices?

Brian Gilvary: What we have shared with you before, if you remember, way back in October 2011, we talked about all the new barrels coming on-stream having double the margin of the average portfolio, and we are seeing those barrels come through actually on an EBITDA basis. You can see those in 3Q; you start to see those ratios on the portfolio come through. So we have never given a specific trajectory, but you can build various models into your full projections that would see those big margin barrels kicking in. You saw that in the fourth quarter with the Gulf of Mexico now getting back above 200,000 barrels a day, and you see that the margin of those barrels significantly impacts the overall portfolio. So you will see more of those things ramp up with the projects.

Robert Kessler: You mentioned in the upstream the benefit of lower production taxes with the recovery of past cost, and then the stronger gas market and trading referenced in the results.

Brian Gilvary: That is correct; both of those things came through in 4Q, production taxes in the US and a good quarter for the gas trading and the gas realisations both inside and outside the United States.

Robert Kessler: Any quantification of those two factors?

Brian Gilvary: No, I'm sorry. We do not give guidance on the specific numbers.

Alastair Syme (Citi): I have three quick questions. Just picking up on Robert's point about the cash flow target, can you confirm that the pre-working capital cash flow is also going to be up within that range? I was slightly confused about the point you were making on working capital moves.

Secondly, since we last spoke you have sanctioned Shah Deniz and Khazzan; I wondered if you could just talk about the relative economics of those projects within the portfolio?

Lastly, you have had ramp-ups from Atlantis North and North Rankin 2 this year. I am just a bit confused about whether you would class those as projects within the base; in other words, do we still consider there is a 3% base decline ex-those projects or including those projects?

Brian Gilvary: On underlying operating cash flow, through the portfolio mix and through the new projects, for example PSVM, which is now on full plateau, you will start to see the underlying operating cash flow, effectively from the earnings of those assets, coming through in 2014. Obviously that is all part of bridging the $30 billion to $31 billion of operating cash, excluding all working capital effects.

Bob Dudley: On the two big projects that you mentioned, the second phase of Shah Deniz is the largest gas-condensate field that BP has found. It has the highest-rate wells in our portfolio today from a second stage expansion at 16 BCMA, taking it into Turkey and then later on up into Europe, over to Italy, with 125,000 barrels a day of condensate with it. We are not going to give out the exact production agreements; six BCMA will be sold to Turkey. The economics on this project are long-life and they are attractive. We who manage what I think is the largest single offshore complex in the world, with ACG and then the Shah Deniz projects, you really do need to look at it as a system for us. The economics are attractive.

On Khazzan, this is one of the longest-life projects I have ever seen; we are going to drill 300 wells over time to produce gas in Oman, which is becoming a gas-short region. The economics on that are attractive for us; we do not give you the exact numbers on here, but the gas price – which is often not a public number – may not be as high as what people might look at and draw a conclusion from, but I will note that in that project the gas-gathering facilities and the central processing plants are being built by the government itself. We have a 60% stake in that and Oman Oil has a 40% stake in that. I am very enthusiastic about that.

We have signed a memorandum of understanding to use our SaaBre technology; they can use the gas and potentially get to acetic acid in what could be a revolutionary process there as well. Of course, we did not include that in the economics of the decision on Khazzan. I think it has got additional phases for development down the road, and it has also got some condensate. So, 300 wells over the first 15 years and many more years after that, I believe.

Alastair Syme: There is just the one remaining question on Atlantis North and North Rankin, about whether this is growth or base?

Bob Dudley: Brian and I are looking at each other quizzically because it is a fair question. I am not sure; let's see if Jess can find something. I tell you what, Alastair, let's come back and we will see if we can find the data for that because it is a fairly detailed question. They are both growth from 2013 into 2014.

Jessica Mitchell: Yes, we do not give the specific numbers by project as you know, Alastair, but I would say they are both in the growth category.

Bob Dudley: Yes, definitely, looking at the numbers.

Irene Himona (Societe Generale): I have two questions, please. Firstly, you indicated the current $9.2 billion provision for the claims is at least $1 billion too low and probably more, given unsettled claims going through the system. There used to be a deadline for filing such claims for economic losses, which I believe was April 2014; is that deadline still legally valid?

My second question goes back to Whiting. When do you actually expect the unit to be fully up and running? Is it at that point that the $1 billion cash flow contribution becomes relevant, and that likely to happen this year?

Brian Gilvary: On the claims, basically where we started with the PSC settlement was that we originally did various calculations of what we believed the cost would be and provision for those costs. That was $7.8 billion. You will probably recall that that number then went to $9.6 billion around the fourth quarter of last year and then we reversed that out down to $9.2 billion, so there are lots of moving parts.

I think what we have said is that there are two substantive issues that we raised a year ago around the way in which the agreement was being interpreted by the court. We appealed those decisions, one of which we received a favourable ruling on from the Fifth Circuit Court of Appeal on the matching of revenues and expenses. So that one was resolved and now the court is looking to how that gets applied around that matching of revenues and expenses.

There is still a separate issue which is sitting with the Fifth Circuit around causation; that is to say that we put the agreement in place to ensure those people damaged by the spill were compensated. However, it appeared that there had been a delinking of causation in the interpretation of the agreement. That one is still out there, so until that issue gets resolved and we have a framework for matching of revenues and expenses, we cannot determine what the future provision might be around business economic loss claims. I certainly cannot say at this point that we are underprovided by $1 billion, as you have just suggested. I think there is $1 billion of determination sitting inside the fund, the majority of which may well need to be re-determined through either the matching process or depending on what happens around causation.

Bob Dudley: And the April deadline?

Brian Gilvary: The deadline would have been 14th April, which is the sunset clause; it is actually 12 months [note: should have said 6-months] after the date at which the fairness appeal has ruled on the fairness of the settlement agreement. That was the ruling that we had a couple of weeks ago. We are still working through what that actually means, but typically it will be 12 months after that for all the final claims to come in.

Bob Dudley: On Whiting, we are ramping it up now, and yes, we are projecting the $1 billion as incremental cash flow for this year. Obviously there are some environmental assumptions around that, but the current environment supports that $1 billion forecast. We are going to progressively ramp it up; we cannot be specific on the pace because we are going to fine tune as we go, and of course it is a trading sensitive number so we are not going to comment on the pace of fine tuning the ramp-up.

Brian Gilvary: I think Bob makes a really important point: to the degree the light/heavy spread stays out where it is today, which is $19, there is clearly upside in those numbers as you get to a full-year ramp. To the degree it ramps up early, the light/heavy spread is low; it compensates for taking a little bit longer, but we do not know, and a light/heavy spread which is bigger. So, right now the $1 billion is comfortably underpinned at a $19 spread.

Doug Terreson (ISI): Returns on capital were under pressure for the super majors during the past few years, and on this point both yours and Brian's comments underscored the company's commitment to capital discipline today. I have a few questions. My first question is, given the more challenging environment for returns but also the desire for growth, how does BP ensure that it sustains its discipline through its corporate planning process, given the recent replenishment of the portfolio that you talked about but also the more challenging environment for returns?

Secondly, some of your competitors are increasing emphasis on returns on capital, so I wanted to know whether we can get an update on the measures that you guys deem most important, whether they are changing, and specifically how ROCE plays into the thinking?

Bob Dudley: I think this is kind of the heart of the sector which is out of favour, to a degree. In my experience – and your experience too, I am sure – when it suits companies to talk about return on capital employed, they do, and then when it does not suit them, then sometimes they do not. I am going to fall back a little bit on BP in the sense that we divested $40 billion of assets which had more than 50% return on their capital employed, so by definition our overall capital employed is going to take a notch down. We think that was absolutely the right thing to do.

On 4th March we are going to go in and talk about this quite a bit more. However, I believe the fundamentals are: we have $24 billion to $27 billion to the rest of the decade. We are going to have that discipline. We are going to invest carefully in what we think are good-margin projects. We will pace those in time so that we can make sure we can generate sufficient operating cash flow to have some distributions back to shareholders and make sure we can have a sustainable dividend policy through the decade.

There are differences in the portfolios of different companies. You have heard us say many times that we have a bias to oil – we like oil, it's a higher margin product – and then selectively in gas. That is it, in a nutshell. However, remember that $40 billion out at 50% return has shaped some of the fundamentals for the company.

Theepan Jothilingam (Nomura): You mentioned Russia in your remarks. I was just wondering whether there are any specific milestones that we should look for over the next 12 months? In particular, how much more can BP contribute on the integration steps?

Secondly, Brian, coming back to modelling in the upstream, I think you have talked about the margin mix at length but I just wanted to clarify: on unit Opex on the base portfolio for this year, do you see it going up, flat or down, the latter being that you are benefitting from more barrels off the fixed cost?

Lastly, on Paleogene and Gila, how much further prospectivity do you see there in the Paleogene and what are the next steps in terms of appraisal and drilling? Thank you.

Bob Dudley: On Russia, we have taken these two large oil companies, Rosneft and TNK-BP, and merged them together, and I would say that integration moved pretty fast. About 800 of the top 1,100 TNK-BP people came across into Rosneft, and you really do have a mixture of business processes; I can see it in the pace at which many things are happening there. Both companies have got a lot of professionals.

The milestones I would expect you to see from BP, in addition to the kind of things that we push at the board – processes in terms of governance, annual planning processes and capital allocation – I would expect you to see and hear about expertise and experts from BP going and working with Rosneft on specific issues, problems and projects, such as water flooding, artificial lifts, seismic interpretation, corrosion expertise, pipelines and environmental work. That would be one thing that we think is important, so I would look for that.

I believe a lot of the really good Arctic acreage is taken. That's fine, because we effectively own 20% of it in carried exploration, so we like that. We look at the exploration results coming forward as milestones of the success of the company itself. For us, I know we have expertise and we are looking for carefully selected opportunities onshore; it might be unconventionals in oil, it might be some of the heavier, tougher oils development that we can work together in joint ventures. There is no rush. This is going to be a multi-decade relationship but those are the sorts of things I would look at in the next year.

On the Palaeogene, we are going to continue the appraisals of Tiber, Kaskida, and the Chevron-operated Moccasin projects which we are in together. We know there are further opportunities out there; we have a large acreage position and so we are going to selectively look at what we want to drill for exploration. It is a large province. We might do things with other companies as well, and then of course in December the big Gila discovery just further reinforced the importance. It is a longer-term province. We will look for technology that can keep up. We are not going to rush and get out in front of the technology; the 20K technology we are working on with Kaskida right now is going to be a big play. I do not know what the potential is for it to go down into Mexico as well, but there are other things in the Gulf, in Mexico, that the industry will certainly be interested in. This is a play for the next decade. That I think is a fair comment.

Brian Gilvary: On the cost question, the internal performance metric we look at around cash costs in the upstream decreased 2013 versus 2012, primarily due to divestments as we have taken some assets out. On a unit production cost basis it increased by about 5%, and that reflects the volumes that we have divested, so it is pretty hard to see through to what is going on on an underlying basis. If you look at the last five years, unit production costs for the sector have grown about 6–15% over that time period, and we are kind of in the pack of that. We did see some increase on a unit basis, but going forward we would expect to remain competitive within the sector and of course we are also ramping up exploration activity in all the new projects that are coming on-stream as well. So you will start to see this smooth out over time, but it is something you have to look at on a long run of quarters, not in any specific one quarter or year.

Theepan Jothilingam: So there is no particular sort of leverage to the GoM barrels, for example, coming back this year against a fixed cost just on a unit basis?

Brian Gilvary: It will be hard for you to see it, because you will see all the new GoM barrels and new projects come on-stream, but equally you will see the Abu Dhabi concession volumes come out. So it is going to be hard for you to see through that, but we will try to give you as much guidance as we can as the year progresses.

Lydia Rainforth (Barclays): You have made a considerable effort over the past few years to improve the efficiency and the availability of assets in the upstream. I was just wondering if you could give some indication of where we stand now on reliability and availability index compared to where we were two years ago, how much you would want to see that improve going forward and what the optimal level would be?

Bob Dudley: Good question, and a really important one. We have got our upstream availability running at 88% reliability. This has continually improved over time. Each 1% reliability is worth between $150 million to $200 million a year. This has been a very good year; the number of turnarounds are down, and if we can keep this reliability up, that is how the operating cash flow stays up and there is this virtuous circle of safe, reliable operations. It is good business because the assets stay running. Having made a considerable investment in turnarounds now, this is part of the story of why we have seen improvements this year and we will see more improvements next year. We have had those increased operating efficiencies this year in the Gulf of Mexico, most certainly Alaska's new well work, and the North Sea still has some improvements that are yet to be, but they are coming as well. This is a really important point, and that is why we have highlighted that 88% operational efficiency this time in our numbers.

Martijn Rats (Morgan Stanley): First of all, as a matter of detail, in the $30 billion to $31 billion for next year in terms of operating cash flow, what is the assumption embedded in there for Gulf of Mexico oil spill-related payments?

Secondly, I wanted to ask you about this point that you just made about the bias towards oil. When Christof Rühl presented your Energy Outlook 2035 I thought he made a very strong case for the opportunities that consist in gas, and also looking at some of the biggest project announcements you have made last year, the Khazzan project and Shah Deniz, they have a gas bias. It looks lately, and I was wondering, whether this bias towards oil might be softening a little?

Brian Gilvary: On the Gulf of Mexico, the only things we can let you know about are the things which are in the public domain. That would be what we call the criminal settlements that we had last year around actually late 2012 around the DoJ and the SEC, so there will be payments going out associated with those this year; that was a schedule that was set up over five years in the case of the DoJ criminal settlement and three years for the SEC settlement. They will go out this year; they are part of the plan. Then there are ongoing litigation costs which were built into the plan and then the ongoing cost of what is now a much smaller organisation associated around the Gulf Coast Restoration Organisation. We can see what we think those costs are going to look like; they are laid in already.

Bob Dudley: A really interesting point about gas and oil, and for those of you who have not had a chance to look at the Energy Outlook 2035 I think you might find it really interesting. You can download it off our website. Gas is a growing share of the market going forward, but all of them are growing, so while the share of coal may come down, natural gas will go up. We think by 2035 about 27% of the market share of energy will be oil, 27% natural gas and 27% coal. But to get to that, you are going to need, if this forecast turns out to be right, another 19 million barrels of oil per day even though its market share is lower, because the demand for energy just keeps growing. This is the equivalent of another United States and another Saudi Arabia all coming out there in terms of being able to supply that.

So, oil we think is going to be continually valuable. 95% of transport fuel in 2035 will be oil-based or liquids-based. Gas is different. It is regional, so you have got a price of gas in North America which is three times that much in Europe and it is five times that much in Asia. So we want to be very selective about where we develop gas, and there is good economics throughout all three of those; those two projects you mentioned are very economic, but they are not in North America.

Stephen Simko (Morningstar): I have two quick questions. The first one would be highlighting this regional gas comment you just made. In terms of North American dry gas, is there anything in here that can be done in the portfolio beyond divestments in terms of getting costs down or improving the performance? I know Q1 is obviously going to be the best quarter in some time, but just some commentary on what can be done to improve the results would be helpful.

Then – I do not think this has been touched on – in terms of Gulf of Mexico price teeing, any idea of just the light crude glut in the Gulf Coast that might develop in the near-term? As far as Gulf of Mexico production, what is BP's exposure to light versus medium output from the Gulf of Mexico? That is it from me. Thanks.

Bob Dudley: Okay, Stephen. Both good questions. We are running our gas business in the US to try to make it break even around $4/mcf. Right now of course, with the cold weather, prices are up closer to $5, but dry gas is very challenged in the US and so we are not running any rigs in dry gas. We just hold all of our production resources there. So we are focussing on liquid-rich gas as much as possible, and that I think is what you would find most people's strategy to be. I think for BP going into things like gas liquids, if you are thinking that far out, that requires a lot of capital, a lot of infrastructure. I do not think we are focussing on that; we want to run a tight efficient gas business in North America and we have got a lot of work going on to further improve that efficiency. In a way, the Gulf of Mexico, and that extra-crude that we do see in the Gulf of Mexico, in some way is a natural hedge between that and Whiting for us.

Brian Gilvary: I do not have to hand the actual mix of the light versus the medium in terms of the Gulf of Mexico, but you will have seen that grades like Mars have been discounted quite heavily to

Brent, and actually they have delinked from the Brent price now as you have seen the domestic crude rebalance in the United States. There is some impact on realisations, and you will see that come through in future quarters, but the market will ultimately determine what those price at. I think the last time I looked, Mars was discounted at around about $14 to Brent, which follows the pattern that we have seen with WTI given the oversupply of crude oil as the oil shale has grown in the United States.

Bob Dudley: I think with these lower realisations it is worth noting the cash impact for us on 2014 is positive, because the increase in production is more than offsetting that lower realisation.

Colin Smith (VTB Capital): Just to follow up on the realisations one, as you noted, Brian, the realisations or rather market prices fell quite a lot for Gulf of Mexico crude, but that was not really visible in your realisations, which held up very well for the US. I just wondered if you could comment about that?

The second thing was you noted the trading performance and density had been pretty weak, and I just wondered if that had in any way been connected with anything to do with MIFID or EMIR or what you think those issues might mean for you in terms of the ongoing profit from that?

Brian Gilvary: Specifically the question around supply and trading is a 4Q issue in terms of being weak in the fourth quarter. The actual year result for supply and trading both in oil and gas was a good year. We did have a very good start to the year, certainly in the first half of the year, but 4Q was a weak quarter for the supply and trading business for the oil side. It was actually driven by some positions that actually do link back to some domestic positions in the United States, but frankly we do not normally typically go into the specifics of those.

In terms of realisations, a lot of our barrels do price off Brent. They are Brent-related prices that come through. To the Gulf of Mexico barrels, they disconnected and delinked from Brent. That may have some impact on realisations going forward, but as Bob said we are seeing production growth in the Gulf of Mexico which is more than offsetting that.

Colin Smith: Quite a bit of the US realisation is actually linked to Brent, is that right?

Brian Gilvary: Typically, Gulf of Mexico barrels are priced off Brent. What you have seen in the last quarter and last six months is a delinking of that link back to Brent, so actually those barrels are now pricing off local prices which are more linked to WTI.

Colin Smith: Right, but you did not really see that in the 4Q to 3Q change in realisations for your US barrels. That was really my question.

Brian Gilvary: I think you have a whole mix of things going on, with the gas realisations being stronger than liquids realisations coming through in the fourth quarter as well, so I think you will see some of these things clean out as the year progresses.

Colin Smith: And MIFID and EMIR?

Brian Gilvary: We have done absolutely everything we need to have in place around the new MIFID regulations and indeed the Dodd-Frank regulations. So we have structured things as we need them to be able to continue to participate in the market, but none of those had any impact on 4Q.

Fred Lucas (JP Morgan): Firstly, which upstream projects do you think as an operator you will sanction in 2014?

Secondly, it was a great year for exploration but it was also a burden for the year for exploration expenses. I wonder, going forward, do the two go hand-in-hand?

My third question is around portfolio positioning in the Middle East North Africa region. BP has clearly had a breakthrough in Oman, and it looks like you have had some exploration success in Egypt, but you have also lost the concession in Abu Dhabi and you have exited Jordan; the unconventional play there has not worked. There has got to be a question mark over what happens going forward in Libya. I just wondered if you could share some comments about BP's portfolio positioning in the MENA region and perhaps where next? Is Iran on your radar screen?

Bob Dudley: First, on 2014, right now we are expecting around five FIDs to occur in a variety of different geographies in the US and Africa and South Asia. So we have got a list of five. We are not going to lay those out just yet. We have got partners that we need to get approvals with.

Brian Gilvary: You are right, we ramped up the exploration spend; assuming you have the similar success rate that you had previously, clearly the more dry holes lead to more write-downs. So the two things do go hand-in-hand, but as Bob said, it was our most successful year in quite a long time, certainly over a decade in terms of the exploration and the commercial viability of some of the finds. Last year we did get a lot of exploration write-offs come through in 4Q, yes. That is linked to the higher exploration spend.

Bob Dudley: I think that exploration write-off is not steady; it is lumpy depending on individual wells. 4Q seemed a lot higher than what I would expect going forward.

MENA is interesting because it is an important area of the world for us. You are right; in Jordan, we tried the unconventional gas. It was not there. We gave a good effort at it. It is unfortunate, because Jordan is a country that has no energy really and needs it. That one, we will step away from. Iraq, where we manage a 1.4 million-barrel-a-day oilfield called Rumaila, the second largest field now operating in the world providing probably half the money from energy into the treasury of the country of Iraq, I think is going extremely well. In Algeria we continue to work and operate in the In Amenas and Salah concessions, and we are back to work now in Algeria, particularly in Salah. There is more work on both of those projects for expansion; it is probably 2015 now.

We do have large exploration areas in Libya. I would describe it as being in hibernation, and I am glad we do not have production today, but the prospects still remain there both offshore and onshore Libya and offshore is of course most prospective for us. In Abu Dhabi, the concession was not renewed for anyone. We still operate there on the marine concession which is still a very significant concession, but we and I think Total, Shell and Exxon each stepped down 140,000 barrels a day on the offshore along with a Portuguese company, and they will make a decision at some point down the road here. We still have offices in the Emirates where we manage a number of our Middle East activities, and of course Oman is a very big action. In terms of Egypt, we have been operating in Egypt since the 1960s; we have had no disruptions from the oil production in the Gulf of Suez or the gas production. Minimal maybe, but primarily the gas production has continued in the north. We remain committed to working in Egypt.

So, I think we have actually a fairly sizeable MENA position, with the potential to grow.

Fred Lucas: What are you thinking about Iran, Bob?

Bob Dudley: We have not had meetings on Iran with government. Somebody said I had a meeting with the government of Iran; well, the Iranian president came to Davos and spoke to a lot of people, so that is the only meeting we have had, which I would not count as a meeting. Until laws are clear and sanctions are clear we are not going to drift out of anything around those laws until we have a clear signal that that is an appropriate thing to do.

Thank you very much, everyone; really good questions, every one of them. As we head towards 2014 and beyond, we look forward to seeing you on 4th March. We will do that as a webcast. It will be Brian, myself, head of the upstream, head of the downstream and then we will have some teams that travel after that. It will be live, it will not be a recorded webcast, so you will be able to participate. Again, if I could just say the kinds of things you are going to hear are about the capital discipline we put in place. We realise we work for our shareholders and so we want to be shareholder-friendly. We do not want to fall into the trap of generating a lot of cash and then putting it back into projects and not returning some of those distributions to shareholders. We treat our portfolio as it is something to manage. We have lost some of the emotional hold on assets through these difficult three years and we look forward to telling you more about it in early March.

With that, again, happy Chinese New Year to everyone on the line and we look forward to being in touch. Thank you.

[END OF TRANSCRIPT]