BP Acquisition of BHP US Onshore Assets - Investor Call

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Q&A TRANSCRIPT

Craig Marshall: Okay, thank you everybody for listening. We'll now turn over to questions. A bit of housekeeping first: just a reminder, please, if everybody can stick to the two-question limit, it just gives everybody a chance to ask their question. Let's take the first question then, please from Christyan Malek at JP Morgan. Christian, good morning.

Christyan Malek (JP Morgan): Hi, thank you, and congratulations on this deal. Just two questions from me. First of all, on CAPEX phasing in 2018-2020 in the context of your base spend, and the incremental investments you drive the additional resource potential, when you tie it back to the capital frame of $15-$17 billion, what are you – what are the projects that you're not sanctioning in order to accommodate this additional CAPEX?

And beyond 2020, can you give us a view in terms of how you think the normalised spend on this acquisition would look like?

The second question regarding thinking about f where your value add is on this acquisition, when you think about the technology, the economies of scale, and the other things that you've mentioned in your appendix around how you think about driving extra production and resource potential, where are the key risks? Or where are you most concerned about not being able to deliver or fulfil within the operational piece, that you think about as you risk out the cash flows? What I'm thinking about it more from the industrial level and operational level, what are the key risks around it?

Bernard Looney: Very good, Christyan, thank you. It's Bernard. And just a couple of things. I'll ask Dave to talk a little bit about some of the risks that he sees in a moment. In terms of the capital frame, so we said $13-$14 billion in 2017, we reduced that for this year to $12-$13 billion. We now think we are at the lower end of $12 billion. That's really a productivity story. It is about capital efficiency.

We are seeing the projects come in on average 15-20% below budget. We are seeing Shah Deniz that we announced commercial deliveries of gas, it's about 20-25% under budget. So that is a trend that continues. In the Gulf of Mexico, we are on track to halve our well costs in the Gulf of Mexico. So, the space that has been created, obviously we are making very clear choices, but the space that has been created for this transaction is a productivity story. So today, we invest there or thereabouts about $1 billion a year in the Lower 48.

To your question, I think we'll see that rise over the next few years to a range of $2-$3 billion per year in the Lower 48 to be able to generate the value that we believe we can through these assets. And we'll comfortably accommodate that with in the $13-$14 billion without having to, as you suggest, take a project out of the portfolio. It is all about productivity and efficiency.

In terms of risk, Dave may talk about some of the risks that he sees. I think it's a large-scale integration effort, and I think the thing that I would remind people of is it's not just an acquisition that we're announcing here today, but we're also saying that it's a high grading. Because while we are buying, we are also announcing the intention to dispose of assets, assets that we believe will be more valuable to other players. So, when you put all of that together, it's a lot to do, but I think given the track record that we have, we are confident that we'll do it. Dave, any risks that you would like to highlight?

Dave Lawler: Thank you Bernard. Good question, Christyan. As we went through the evaluation process, we did take into account the risks that would impact each of the different assets that we acquired. Clearly, the most well-known risk, I think, is in the Permian in terms of takeaway capacity, and the way we modelled that into our acquisition was that we would perform a slow ramp and let pipes that are coming into the basin get installed, and that's largely going to happen over the next one to two years. So during that timeframe, we're planning to stack up the rigs and the other portions of the asset on a disproportionate basis, primarily in the Eagle Ford. So we feel like there's a solution coming, and we've been measured about our approach to growth in the Permian.

I think that's probably the biggest issue. I think in terms of inflation, this is one aspect where I think BP will have a significant influence in helping us out. Obviously we will ramp up investment and use BP's buying power to get the best prices and help contain costs. And so we are looking forward to effectuating our model.

Bernard Looney: Dave talked about the Permian and the bottlenecks. We've also been very – we built that into the model. We've built in differentials for WTI, so we've got the conservativism in that; we're not assuming that they're not there. We assume they are there. The capital profile will be ramped accordingly. We've got BP's trading organisation in the United States, which is one of the largest trading houses and will help us as we build out that infrastructure how to do it, and, as Dave said, we'll manage the capital ramp there.

Returns in the Eagle Ford that we've got today are probably higher than they are in the Permian, and that's where we will direct a lot of the capital on day one.

Christyan Malek: And just sort of a follow up on the point around technology in terms of high growth through that where is the biggest delta on what BP's IP is versus the BHP assets? Which asset particularly would you say is the largest Delta, or the scope to improve? If you overlaid BP's expertise, Dave.

Dave Lawler: No, sure. You know, from our perspective, BHP has come a long way, it's done a great job with the assets. We think we bring a particular focus on the subsurface side. We have a pre-eminent subsurface staff, we've got a world-class technology team within the BP organisation, and I would just point to the Haynesville example that Bernard showed, where we went in and custom created stimulation designs for the deep Haynesville. Those are some of the most prolific wells in the United States at this point. And so we really just think we have a technological advantage that's in-house, and we think we'll be able to deploy that across this asset base.

Bernard Looney: And I would just add that we have chosen to organise differently to some of our peers, and BHP is no exception. We have created an independent model here which is separate from the business. It's not a traditional IOC model or an offshore model; it is an independent model that fits within our company, but allows Dave and his management team the ability to do some of the extraordinary things that they've done. So, that is also a point of distinction.

Christyan Malek: Brilliant. Thank you very much.

Craig Marshall: Okay, thank you, Christyan. We'll move next to Thomas Adolff at Credit Suisse. Thomas.

Thomas Adolff (Credit Suisse): Morning. Two questions from me as well, please. Firstly on your plan to sell assets. Are we talking here about discovered resources or also mature, producing assets? And presumably, this cash flow leakage is incorporated in your estimate overall pre-tax free cash flow will move up by $1 billion by 2021?

And then secondly, perhaps more strategically in terms of unlocking the value in the Lower 48 business, which you probably think is undervalued in BP's shares, would you be at some point in the future be open to list the stake of the Lower 48 business? Thank you.

Brian Gilvary: So, Thomas, on the latter question when we stepped into the Lower 48 four years ago, we had a deep look at our portfolio. That led us to the conclusion that we were clearly not running these assets anything like as competitively as the independents, hence the whole push to bring Dave and his team in.

And they are a world-class team any way you want to cut this. And so, from our perspective today, this is one of the most prolific resource basins in the world, and has demonstrated that over the last 5 to 10 years. So right now, we're very comfortable having 100% ownership of this, and it's something which we will continue to share our progress in this area now as we go forward with this major significant step today.

On the first – your first question was around the disposals. we wouldn't normally talk about the specific assets. Yes, we've built in our assumptions on any dilution associated with the cash flow that goes with those assets, but we wouldn't talk about the specifics. You know that we've got a pretty strong track record, having sold somewhere close to $75 billion of assets. We are on track this year with the disposal programme we have; we're very confident that in the current market we will comfortably get away the $5-$6 billion over time going forward. But we wouldn't normally go into the specifics, but to your specific question on cash flow, yes, that's built into the forecasts we've given.

Thomas Adolff: Thank you, sir. Thank you.

Craig Marshall: Okay. Thanks, Thomas. We'll take the next question from Oswald Clint at Bernstein.

Oswald Clint (Sanford Bernstein): Hi. Good morning, yes, thank you. I guess I just wanted to think simply about the headline numbers, the $1 billion extra cash flow step up on a $10 billion deal here, or a kind of 10% return number. I know there's probably 50, 60 years of resource here, so that some type of perpetuity, but how does that numbers stack up versus the 15% greenfield hurdle rate that you have? Or, is it implying really that this cash flow really starts to step up more materially from 2022 onwards and through the next decade? That's the first question.

And then, just more simply on the synergy number, the $350 million, it is under UK listing rules, so is that one of these numbers that has to be I guess 90% audited and therefore there is a chance of that number increasing over, let's say over the next 12 months or so? Thank you.

Brian Gilvary: So Oswald, on that last piece, it's a very conservative number. And other than that, I won't go any further than to say I think it's the number we put into the valuation. As you saw in the presentation, we see lots of upside to that valuation. We're very comfortable with the number that we've been able to achieve these assets for. But it is effectively a conservative number that we've assumed inside this.

I'll let Bernard talk about where this ranks in terms of the order, but just so we're clear, the extra $1 billion Bernard has outlined for you is for a net $5 billion investment, not $10 billion, because there is $5-$6 billion asset sale off the back of this.

Bernard Looney: Thanks, Oswald, and I'll just say on the back of Brian, so Dave is firmly on the hook for delivering the $350 million, and that at a minimum I think is how we think about it. In terms of the free cash flow, I think you're right. First of all, the quality of the investment here is, that we will make, this will fit in our 20% greater return category, so we'll expect those resources, and we clearly see in excess of 4 billion barrels meeting those thresholds. If you look at the business today, Oswald, in the two separate parts, each of them generate roughly $1 billion of operating cash, so putting them together, there's about $2 billion there.

We are talking about $1 billion incremental free cash flow in 2021, the majority of which will come from the Lower 48. We've talked about putting in $2-$3 billion [of organic capital spend per year], therefore can you see that operating cash profile rise in that time period? Absolutely. We will direct more investment, and we can – we've gone through this in a lot of detail, as you would expect, well by well, location by location, and we believe we can build to that operating cash flow profile.

And then thereafter, your point is 100% correct. We see about overall in the Upstream $1 billion of incremental, which, as I say, the majority comes from the Lower 48, but we expect it to build over time out into the mid-2020s. We expect to see that number double at a minimum in terms of free cash flow generation. So, there's a sort of a near-term aspiration that we have there, and then it is a cash and a returns deal going forward, and we expect those free cash flows to grow materially in this business.

Oswald Clint: Super. Thank you. Thank you.

Craig Marshall: Okay, great. Thanks, Oz. I'm going to take the next question actually from the web, so it's a question from Mark Hume at BlackRock. Mark's asking, why have you elected to issue stock to pay for half of the transaction and then buyback to offset the aforementioned equity issuance, instead of simply using short-term debt for instance to bridge towards the announced future asset sales? Brian.

Brian Gilvary: Yeah, thanks, Mark, and it's a really good question. The way in which we've constructed the deal, it's effectively a net $5 billion investment. And therefore, the link of the buybacks to the disposal programme will therefore fund that. And we've chosen to use it through equity. As of today, the way in which the deal is constructed, we have a huge amount of flexibility as to how we choose to execute.

So, as of today, the intent is absolutely $5.25 billion of cash, and then $5.25 billion over a six-month payment schedule, which today we intend to use shares for, but as I say, depending on the circumstances as we get in that window, once we've close the deal, which is currently planned for end October, we will have flexibility as to how we execute that. One of the examples could be, we have [1.5] billion Treasury shares, we could choose to put those into the marketplace. We may choose other ways to fund this once we get out into the end of October, but for now, the intent is to use equity.

Craig Marshall: Okay, thanks, Mark, for the question. We'll go next to Rob West at Redburn.

Robert West (Redburn): Thank you very much. I really appreciate the detail you've given us on the modelling assumptions that go into the deal and the way you looked at it. I'm sitting with my basin-by-basin NAV in front of me, and my OPEX is pretty much where you've got it, well, I put in your commodity prices, and I'm almost pretty much the full way towards where you've put the valuation. But I guess where I think I might be coming up a bit short in my own modelling is the growth.

So, I was wondering if you could spell out a bit more the growth that you've put into your valuation here. I think you've got, is it 13 rigs running at the moment across the portfolio? I think the BHP portfolio has four or five, so that gets you to 17, 18. But what sort of spending rig level do you have running through? How fast are you going to ramp that up? That's the first question, and if you throw in any modelling extras that might help me, that would be great.

The second one, just on the geology. I mean, can you give us a sense of how much work went into looking at the geology of particularly the Permian piece before you completed it? Just you know, man-hours, and, you know, what particularly excited you about the position in Reeves there? Thank you.

Bernard Looney: Very good. Thank you very much, Rob. I will let Dave talk in a moment a little bit about what excites him about this and as you might imagine, he is very excited. So we'll wait for that. In terms of the growth profile, if you think about it as we think about it in three dimensions, obviously, as you say, activity levels, we will be investing into this growth set of assets. We look at capital efficiency and what we believe is possible, and we also look at additional resource potential.

In terms of the first thing around activity level, we can see us getting to between 20 and 30 rigs running in these three basins as we move forward. That's a level of activity that's very much within our capability, the team has run as high as 17 rigs actually earlier in the year, so, between 20 and 30 rigs, $2 -$3 billion as we said of capital going into the business. Then we load on top of that the track record of performance that I think Dave has brought. We are now one of the top 10 operators in the United States in terms of our cost structure. So, we will apply the technology, and expect to improve capital efficiency, which you can see on our value bridge.

And then finally, I wouldn't want you to think that we've thrown every zone possible into our valuation model here. We have not. There are many additional ventures, such as in the Avalon, in the Permian, such as Wolfcamp C and D, that we have not put in our model. The Austin Chalk in the Eagle Ford, where other operators have been very, very successful. So, over time, as we build track record, those basins will open up, or those ventures will open up, and provide additional recovery.

So, it's activity levels, investing into it, it's about capital efficiency, where I think some of the slides in the deck show you what we've been able to do, and there's probably no prizes for guessing who the offset operator is in the Eagle Ford chart. And then it is about the additional benches that are just conservatively not in our base case valuation, but that we expect to develop over time. So Dave, where do you see the excitement, particularly in the Permian?

Dave Lawler: Thanks, Bernard, and I think you've done a good job laying out the case. But as everyone knows, I think there's 72 rigs running in Reeves County, and that's directly where our acreage is located. Again, it's a 3,000-foot hydrocarbon column. You know, we see dozens of well bores per section. We'll be looking to core up, try to drill as many 10,000-foot wells as we can, and I just think as we bring the efficiencies that the Lower 48's developed over the last two years with the strength of the integrated company, we think we can make a real difference in our free cash flow to the company going forward.

Bernard Looney: Yeah, I mean, I think that, maybe it's because I'm from County Kerry, but I think the county point is an interesting one. A thousand rigs operating in the United States today, Rob, as you know. Five hundred in the Permian. There are 27 counties covering the Permian, and one county, called Reeves County, has 72 of those 500 rigs. And that's where our acreage is. So we are absolutely in the core of the core here. And there's no doubt we're excited about it.

Robert West: Fantastic. Thank you.

Craig Marshall: Rob, thanks. We'll move next to Lydia Rainforth at Barclays. Lydia, good morning.

Lydia Rainforth (Barclays): Thank you and good morning. Two questions from me as well, please. Can you talk about the integration process and what that looks like in terms of how quickly you can actually start to make a difference to the assets you've bought? And then secondly, one for Brian I think, just around the share buyback and the $5-$6 billion, it does look like it's being linked to that disposals number. Given that you're actually upgrading the free cash flow numbers on the underlying basis today, so can you just talk about what you think about whether or not that will justify a further share buyback beyond that? Or in terms of cash returns to shareholders? Thanks.

Bernard Looney: In terms of the integration process, we will begin immediately. We will begin as soon as we close, here by the end of the year, Dave already has support on board. We have brought in resources to help us. So we're well ahead of the game here. He will be supported by resources from BP where appropriate and he will develop his own resources. Synergies will be begin immediately. They will ramp over time to that $350 million minimum per annum that we expect to see from these assets. So, integration is in our minds and in our planning already underway and we'll be able to hit the ground running once we take over operatorship of these assets. Brian.

Brian Gilvary: Yeah, and then, Lydia, on your question, yes, the $5-6 billion of disposals are committed to, so we will proceed with those. The $5 billion to $6 billion buyback is also committed to so we'll proceed with that. Buybacks over and above that in terms of free cash flow but I think, you know, the signal today or late last night was also post the board session we had, we did have a conversation on distributions.

And that was, you know, the board understand how important that is for our shareholders and that's why we signalled the dividend increase last night given that effectively that decision was taken at the board yesterday. And the board will continue to look at what we do with surplus free cash flow of which now there will be more as a result of this deal given the strongly accretive nature of it even at very low oil prices. The board will continue to consider that and we will look as I've said before, we'll look at net debt reduction which we said would come down as the year progresses. We'll look at dividends which we increased yesterday for the first time in 15 quarters and we may look at further buybacks but all of those things are available to us as we see surplus cash come into the system.

Lydia Rainforth: Thank you.

Craig Marshall: Okay, thank you, Lydia. We'll go next to Biraj Borkhataria at RCB. Biraj, good morning.

Biraj Borkhataria (RBC Capital Markets): Hi, morning. Thanks for taking my question. I have two please. The first one is in terms of what you've acquired. It looks like you received some mid-stream assets as part of the deal. I was wondering if that would be something that would form part of the divestment programme of the MLP drop-down candidates, just some colour around that. And secondly, you give a lot of your guidance on a pre-tax basis but I guess, another key positive is you've built up a fair amount of deferred tax assets over the last over the last few years. So, I was wondering if you see this as a way to accelerate those deferred tax assets and is there any way you can quantify that, that would be helpful. Thank you.

Bernard Looney: Biraj, thank you. I'll take the first question around the mid-stream. I think it is a part of the story that may not have been captured externally as we see it. There is a thousand miles of oil and gas and water gathering systems that we're buying as part of this system as well as five gas facilities. The majority of it is in the Eagle Ford joint venture with Kinder Morgan and also some gas and water lines in the Permian. These are in our minds, extremely valuable pieces of infrastructure. You can see in our valuation brick.

So, this forms part of the base case so to speak. We're wide open, I think, in terms of how we move forward on the disposal programme as Brian said earlier. We won't comment specifically but all I would say is that where we see that assets, and they could be these infrastructure assets, are more valuable in someone else's hands and they're the assets that we will line up for this type of disposal, so it's a very valuable mid-stream piece of infrastructure that we have here in the Eagle Ford and in the Permian forms and it forms part of the valuation case and we will see with time as to what to do with them.

Brian Gilvary: And then in terms of the question on deferred taxes, there's nothing specific that comes through this deal. What I would say though is with the changes in the United States around taxation that we've seen over the last 12 months it continues to make United States a very attractive investment proposition, especially, this location. And therefore, you know, we will continue to invest in the US, especially given where the tax changes went to. And we continue to be the largest [energy] investor in the United States so from a tax perspective, there's nothing specific that comes through this part of this transaction so that's not built into the valuation, other than the fact that it's a very attractive market to invest in.

Biraj Borkhataria Great, that's very helpful. Thanks.

Craig Marshall: Okay, thank you, Biraj. We'll turn next to Alastair Syme at Citi. Good morning, Alastair.

Alastair Syme (Citi): Hi, thanks, Craig. Can you talk a little bit about the independent dynamic around which Dave has given to run his business since this is one of the sort of the key pillars of the business model, you know, it's a £2 billion to 3 billion dollar business, you know, Brian, do you give them complete discretion to spend, you know, are there any sort of directors on when and how much money needs to be returned back to corporate?

And the second question. You've touched on the high level growth but can you just talk around the comparative growth between the three basins and I think, specifically do you see the Eagle Food and Haynesville as growing assets? Thank you.

Bernard Looney: Thank you and I'll ask Dave to take the second part of the question around the relative growth in the basins. Your question around independent operating model is a good question. Independence, of course, has its limits.

So first of all, Dave reports to me. He's on my management team. He is a fully bought-up member of the values, behaviours, code of conduct, compliance, ethics, all of those issues that we comply with inside BP. He has a separate operating management system that we monitor and in terms of capital allocation, he has to fight for every dollar of capital just like every other piece of the business has to compete and all I would say is that if anything that level of scrutiny on capital allocation will only increase with time given the materiality of it inside the business.

The good news is he's got some very high quality assets with which to compete for that capital but I would not want anybody to be under any illusions as to the amount of rigour and control that we have over capital allocation including to this part of this business. The independent model does allow him to manage the business in a way which is commensurate with how independents run that business in the United States.

The pace of movement of wells and so on is at a different level to a traditional offshore structure. People can compete for licences on the internet. It is a very, very different model and that is why he requires a degree of separation, but when it comes to the things that matter, values, safety, capital allocation, he is lock step in tune with BP. I hope that helps. Dave, on the relative growth?

Dave Lawler: Yeah, just on the growth side, it's a great question. I think, from the Lower 48 perspective what we're really excited about is we spent the last four years retooling our business getting ready for this opportunity. We really have a trifecta that we've arrived at, at the moment. So we are free cash flow positive in Lower 48 at moment. We've seen a production ramp concurrent with that and we are at our lowest production cost in many years. And so we'll take that model that Bernard just described, put that to work on these assets and I think, dramatically improve production and performance near term.

I think the thought is, you know, we'll allocate the capital into Eagle Ford somewhat into the Permian and as we wait on some of those pipelines to come in, and you will see free cash flow growth. And I think that's the guidance that's been given to me by Bernard. We do need to be a material part of the company's cash generation profile in the future and we're committed to make that happen and we really think that these assets are strong and can do that. The rates of return with our operating model are significant and we think when we put the rigs to work, that that cash flow will come in and will be achieved.

Craig Marshall: Okay, great, thanks Alastair. We'll turn next to Irene Himona at Société Générale. Irene.

Irene Himona (Société Générale): Thank you, good morning. My first question is for Bernard. You mentioned, Bernard, upside to the 5% group targeted production growth to 2021. Can you give us a sense of the level of that upside?

And then two quick questions for Brian. Firstly, can you talk about the timeframe for disposing the $5 billion or $6 billion assets and buying back shares to be issued? And given that the deal closes in October but I believe you take the assets on from July, is the price already adjusted for the economic value between July and October? Thank you.

Bernard Looney: Thanks very much, Irene. In terms of production growth I guess we'll come back to what Bob said first, I think, many, many years ago and we are, obviously, in a value over volume mind-set here. And I would just remind people that the production growth that we put out there, we always said was an outcome of our investment plans rather than a target in itself. I think, what the investors want to see is returns in free cash flows generation which we're doing but our existing plans did indeed result in, and we're ahead of that plan today, 5% per annum production growth through to 2021.

What we've announced today will be accretive to that. I don't want to put out another number because quite frankly, it is not what we're trying to achieve here. All I can tell you is it will be more than 5% but we are focused purely on value growth and that's what we believe we can do.

We'll probably have an upstream investor day in December and we may be able to provide a little more granularity but we are a little reluctant to put out big production numbers when we've learned in the past that they can have unintended consequences. So, the real focus here is on maximising the value from the assets and we believe we can do that. Brian.

Brian Gilvary: Yeah, and then on the disposals timeframe, what I would say is we have an M&A team that on a gross basis, if you think about acquisitions and divestments, have executed in excess of $100 billion worth of transactions now over the last eight or nine years. We'll be having the data rooms locked and loaded. We're starting to load those up next week so we are confident that we'll get the $5 billion to $6 billion dollars away. It may take time but we're hearing a market where there's a lot of interest in assets right now so we're pretty comfortable with that and we'll give more guidance about the timeframe of that with each set of quarterly results but they will be executed over time as will the buybacks as those disposal proceeds come in

Craig Marshall: Okay, Irene, thanks very much. We'll turn next to Theepan Jothilingham, at Exane BNP. Theepan.

Theepan Jothilingham (Exane BNP Paribas): Yeah, hi, thanks, Craig. I had couple of questions, actually. Can you just talk about people retention in terms of how many people you're obtaining with the BHP transaction? And then secondly, also, maybe a little bit of colour in terms of the rig contracts you have in the Lower 48, where there's opportunities there to also optimise. Thank you.

Dave Lawler: Thanks, Theepan. I think on the people side, we're going to try to get to know the BHP organisation as quickly as we can. You know, clearly there's some areas where we don't operate so we will absorb a large percentage of those employees. And then we'll, obviously, staff the organisation on the professional side as quickly as we can, so we see an integration process that will probably go on here over the next 90 to 120 days. There's a lot of talented individuals there and so we're just looking forward to getting to know them and as we finalise our plans, I think, that will drive a lot the staffing model as well.

In terms of the rig contracts, that's something that I'm really excited about. This is where the buying power, coming in and potentially bidding large blocks of rig work. Really, all the oil field services should greatly benefit BP in this transaction and I think will drive significant value during the process of transitioning that work over to BP.

Brian Gilvary: And, sorry, Irene, I just realised from the previous question we didn't answer your question about the valuation vis-à-vis end of June and October close. Yes, that's built into the price that you saw today.

Craig Marshall: Good, thank you, Theepan. Right, we'll next to Chris Kuplent of Bank of America. Morning, Chris.

Christopher Kuplent (Bank of America Merrill Lynch): Good morning. Hope you can hear me okay. Just two last questions from me. Firstly, I wonder Dave, I think, it was back in Baku you gave us a very helpful break even Henry Hub price. I wonder whether you can do the same here for this transaction for both the WTI and Henry Hub if possible, and ideally for free cash flow so that we can put that $1 billion accretion into context.

And, secondly, perhaps, a question combined for Bernard and Brian. $10 billion plus is a big number, I suppose this transaction must have been competing with quite a few others. How do you now put the Lower 48 into the BP context? Where do you see your heartlands? I think, Bernard, you were quoted some time ago saying Brazil is, perhaps, more attractive than the Gulf of Mexico which is I suppose one of your heartlands. So, I wonder whether you want to discuss a little bit how your view of BP's heartlands have changed, perhaps, with this transaction relative to other opportunities that you decided not to pursue? Thanks.

Brian Gilvary: Okay, Chris, I'll just pick up the first part in terms of valuation on this because the accretion economics are incredibly attractive at very low prices. If you can see on the slide in terms of the purchase price $10.5 billion and you read across, you can see this thing works at $45 WTI in $2.25 Henry Hub. So, it is incredibly accretive for us on a fully integrated basis. And, of course, midland prices, which we assumed to be heavily discounted in the front end of this valuation, today, you can trade fourth quarter 2020 midland. The liquidity is not huge but about minus $1.50 compared to the minus $13 that we see today and that's a function of all the logistics and infrastructure the market's anticipating will come in. So, this is a very robust transaction at the price that we talked about here. Dave?

Bernard Looney: Chris, thank you. On where the Lower 48 sits, I think, we were proud of the business that we have but the reality of it was that it was an 86% gas business producing about 10,000 barrels a day of oil and therefore in a commodity sense, was quite challenged. What we're buying today is a 50/50 gas liquids business in its current format but it has the potential to transform the Lower 48 business and if we think about growing to the potential of a 200,000 barrel per day oil business in the mid-2020s from basically, 10,000 barrels of oil today. So, the Lower 48 becomes a heartland in many ways of the business now going forward.

And in terms of the rest of business, you'll have to forward me the quote where I said that Brazil was more attractive or valuable than the Gulf of Mexico. I think my Gulf of Mexico team might challenge that. The GoM is an amazing part of business for us and in fact, recently, we said that production from the GoM and the North Sea would be higher in 2025 than it is today and I think with time, even this year, that view has only strengthened and the recent transaction that we did in swapping out of Kuparuk and into Clair on the North Sea is another example.

So, I think, the Lower 48 is added as a heartland business now to the company and we're delighted with that. Our existing businesses remain very strong. Brazil, you see us active in terms of access. In Brazil, obviously, the quality of your resources are fantastic and many of the steps that the country are taking to create a more attractive economic investment climate are very strong but at the end of the day, those dollars have to compete too. So, I think, in terms of the overall portfolio description as Craig said, we'll probably come back to that at the end of the year when we do our upstream investor day. So, I should leave it at that. I hope that's okay, Chris.

Chris Kuplent: Okay, thank you.

Craig Marshall: Okay, thanks, Chris. We'll turn next to Lucas Herrmann at Deutsche Bank. Lucas?

Lucas Herrmann (Deutsche Bank): Craig, thanks, very much. Gentlemen, morning. Two question, if I might? The first is just to what extent, Bernard, you've outlined he performance improvements that you've seen or that Dave's driven, in the US onshore business. To what extent are you assuming, you now, performance improvement itself, you know, better EURs, better IPs in driving your own evaluation, or are the numbers based predominantly on everything that you've seen from BHP to date.

And, secondly, I just wanted to come to Thomas's question around, you know, trapped value and maybe more around, perhaps, disclosure on the business. I mean, my impression is the organisation has as Thomas alluded to felt that the US onshore business was undervalued within BP. My sense is you're probably paying a premium for this asset relative to, you know, what others might have been willing to pay at this time. There has to be a danger as a consequence that more value becomes trapped in these assets. So, how are you going to, you know, better allow the market to assess the value and the potential of these assets relative to the disclosures that we've seen to date? Should we, can we, expect more?

Bernard Looney: Brian will address the second question and I'll have a go at the first one. Lucas, so thanks for the questions. In terms of valuation, I think, it is just an important slide to keep coming back to in the deck which is that value creation potential slide, it's slide seven.

And I think, to your question in terms of what is in that base case brick on the left-hand side, you can see the midstream and we've spoken about that already but what we have done is gone through methodical, absolutely well by well, location by location in the Permian, in the Eagle Ford and in the Haynesville and built up from industry average type curves benchmarked drilling performance and to that, we have simply left BHP's operating cost structure in place.

So, I would argue in that base case brick called upstream a very straight down the line, straight down the middle assessment of what people are doing today in an average sense, coupled with BHP's operating cost structure at the oil and gas prices that we believe are conservative and appropriately so. We then build these synergies on top of that. We've talked about that, $350 million per year minimum, the majority of that coming from operating cost and G&A, but also some fiscal and trading synergies.

And then we get into what we see beyond that. Dave has shown in one of the charts what we've been able to do to those assets already, so we can get further capital efficiency, which we believe we will. And that's either through drilling cost reductions or improvement in the EUR, and you can see the 225% in the Eagle Ford as one example, then that will add value to the assets. And then, there is the additional resources. The benches that we have not put in that base valuation case, that other companies are exploiting today. So, Dave, in the Permian, I think, companies like Matador are drilling in the Avalon, we haven't put that in our base case in the Permian, and we believe that over time they have the potential to add to the resource picture.

So, I hope you're able to see from that, Lucas, that we haven't stretched all of the assumptions. We've taken it straight down the middle, and where we have track record, we see that we're able to do that. So, $10.5 billion, $1 billion to $2 billion for the mid-stream, $2 billion to $3 billion of synergies – you get to see why we think this is an attractive value proposition. Brain?

Brian Gilvary: Yeah. Maybe just to sort of build on that, Lucas because I don't actually think, I mean, you will have to judge this, and the market will judge it, I don't believe we have paid a premium at all. I'll explain that for two reasons.

Firstly, this thing is accreted down at very low oil prices, below $40 a barrel [WTI] realised, when we fully-integrate everything. It's accretive in the first year of operation, which I think is important. And in terms of valuations that you can see laid out on this slide, remember that we are going to hit the front-end of a valuation curve where the oil and gas prices, certainly the oil prices, are going to be significantly above where we use our assumptions for this. We don't know what oil prices will do, we'll continue to plan on $50 to $65, we think is a good run long-term assumption. But there is no question as we hit the front-end of this curve of this transaction, we're likely to be able to achieve much higher values.

And so therefore on that basis, sometimes you get fortunate around timing, we think we have got fortunate around the timing of this particular transaction. These are premium assets, they were one of our number one targets as we scoured the portfolio over the last two or three years. And as you can sense from what you're hearing from the team today, we're very excited about the fact we've been able to get this transaction away. And now we need to focus on the closure of it, the integration, as Dave has said, and then moving forward. But I actually don't believe that we've paid a premium for this business today.

Lucas Herrmann: And on, you know, on enhancing the value, I guess which is really a disclosure question, Brian – I mean, you've been very good in terms of disclosing the performance of the US onshore – but I don't think it has attracted the value that you perhaps hoped it would on that business. So, how do you help the market?

Brian Gilvary: You know, Lucas, I think in terms of our existing business, we've taken it to the limit of what we can do, and what Dave has been able to achieve over the last four years has been quite extraordinary, you've got the numbers, we've disclosed that information.

Lucas Herrmann: Sure.

Brian Gilvary: We will now be letting that team loose on a set of assets which are very different in nature given the locations of where they are. And we'll continue to provide you with the disclosure, and you will now see how this business will improve over time as these assets come onboard at the end of October, and Dave and his team get to work with the new team that he'll be acquired from BHP in generating even further value for us going forward.

Bernard Looney: Yeah. I mean, I think, if I may, Brian. I was at a conference recently and somebody said to me, they said that it seems like you have a superior management team operating on a somewhat inferior set of assets. And I think, quite frankly, there is some truth to that. We're able to change that today through this transaction. We've got some of the best assets now in the United States, and the best acreage, and the best basin. And now, we can put that superior management team to work on a set of assets that we believe the combination of that is going to be fantastic. So, as you say, let's watch the quarterly disclosure from Dave, and we'll be watching his performance closely. But, we're confident in delivery.

Lucas Herrmann: Thanks very much.

Craig Marshall: Okay. Thank you, Lucas. We'll turn next to Colin Smith at Panmure Gordon. Colin, good morning.

Colin Smith (Panmure Gordon): Yeah hi, thanks for taking my question. I think you mentioned earlier that each of the businesses is currently generating about $1 billion in operating cash flow. Could you tell us what the capital expenditure rate has been running at against split between the two, because I would imagine BHP has not been spending so much since they're a seller.

And then, the second question I had was can you give us a split in the purchase price across the three basins, so how much you're allocating to the Permian, and so on? Thank you.

Bernard Looney:. So, you're absolutely right, it's about $1 billion each roughly, and that was I think 2017 numbers for our business and for BHP's business. I think our business, Dave said, is a little bit cash positive. And, as you say, theirs was – probably had less investment in it and probably had a little bit more cash in it, but relatively small numbers in comparison to the numbers that we're expecting to deliver here in time.

In terms of splitting valuation between the assets, there's no intent to disclose that. I think it is a package deal, we bought the assets in totality. And as Brian and Dave and myself have said, hopefully you can see where we see the value in that transaction.

Colin Smith: Thank you.

Craig Marshall: Thanks, Colin. Okay, we've got two callers left. So, Jason Gammel, Jefferies, good morning, Jason.

Jason Gammel (Jefferies): Thanks Craig. Morning everyone, congratulations on the transaction. I think what Bernard said makes sense, a good operator moving into good assets. Just a couple of specific questions for me. First of all, the ramp-up in the Eagle Ford activity in the near-term. Dave, have you spoken with your new partner about ramping activity in the oil or Blackhawk area? Or do you think you're going to be directing more activity towards the gassier Hawkville area? And I guess, would you actually be interested in further consolidating the Blackhawk acreage?

Then the second question, are you inheriting any firm takeaway capacity out of the Permian Basin from BHP or are you basically just taking whatever differentials you get? And strategically, will you be planning on taking any firm takeaway capacity on the new ones that are being constructed, or do you see enough excess capacity being built that you'll continue to just take what the basin differential gives you?

Dave Lawler: Great questions. So, we have a great relationship in place with Devon. We'll be working with BHP, Devon other key stakeholders as we step into the play. I think it's still early days, embryonic, to say exactly how it will go yet. But definitely, the opportunities are there, it's very significant.

In terms of just the Permian and the FT, this is where we'll be working with BP's Trading Team, Flow Assurance Team to try and lock-down the best opportunities for those volumes. It's still, again, a little bit early for us to comment on that. But, we hope in the near future we can circle back with the group.

Brian Gilvary: Yeah. Maybe just on that last point, we do have significant volumes that we do trade in that region. So, there will be a whole integration play around this which will be upside for us.

Craig Marshall: Okay. We're going to take the final question from Michele Della Vigna, at Goldman Sachs. Michele, sorry to leave you to last.

Michele Della Vigna (Goldman Sachs): No worries. I'll be brief, two quick things. On the premium assets, do you feel like you had the right scale and contiguous acreage there, or do you need to start looking at some of that acreage and thinking about how you can increase the contiguity? And on the Eagle Ford, the concern has always been from the BHP side on the longevity of the Blackhawk asset. How long do you think you can keep it at plateau?

Bernard Looney: Michele, thank you. I will take the first one, and I'll ask Dave to speak to the Eagle Ford question. In terms of Permian, I think there's no doubt there's optimisation to be done over time there. I think if you'll allow us a little bit of time to consummate this first transaction and get that under our belt, and then I'm sure the men and women of the Lower 48 Team will be busy at work trying to figure out how to optimise the various positions that we have. And I think that will be a natural evolution with time. But, first things first, and getting this bigger transaction under our belt.

And, Dave, the concerns about Blackhawk and BHP and it running out?

Dave Lawler: So, as you know, there has been a fair amount of development there. We do still see significant opportunity. So, we're very excited about it, and there are portions along that trend that are still very exciting and underdeveloped. So, we don't see limitations in that particular area. We think there's a lot of exciting things, there's new benches. And certainly, we'll go in and apply the things we've learned over the years to see if we can't even improve the opportunities that are there in terms of in-filling, and things like that. So still very excited about that.

Just in terms of the Permian skills, I think it's a great question. You know, we need to certainly endorse and support the BHP team that's got us off and running there, we're hearing some very good things about them. But we also have a composite of different backgrounds in the Lower 48 that we've attracted over the last few years. And several of our geoscience leaders have spent a significant amount of their career in the Permian, a lot of our execution team has been there, and, you know, several people on the Operations side used to run a fair number of rigs and operate wells out there. So, we have a lot of intrinsic capabilities, even though we're not there today within the team itself. And then, clearly, I think lots of running room across the entire portfolio, so just kind of circling back to the Eagle Ford. There's, you know, huge opportunities at Hawkville. I think we have the talent in place to really make the assets work. And again, there's a whole host of talented people that we're planning on getting to know within the BHP structure.

Michele Della Vigna: Thank you.

Craig Marshall: Okay, Michele, thank you. So, that finishes the questions. Obviously, Investor Relations are around to take any follow-up questions over the next few days or weeks. I'm going to now hand over to Brian for some closing remarks.

Brian Gilvary: Great. Thanks, Craig. And thank you all for taking the time this morning. I think we've covered quite a broad remit in terms of the assets that we've acquired. This is a significant moment for the company today, and we believe an important moment for our shareholders, where we've been able to make a major move into what is a prolific basin, transforming our Lower 48 business going forward, with significant upside value for our shareholders. And a transaction that's accretive both on earnings and cash flow, when we fully-integrate these assets. As we've laid out that these will be the only sort of transactions we will progress at very low oil prices

With that, we will now focus on getting ourselves ready for 2Q results next week. And the team are very much looking forward to getting out and meeting our shareholders, where not only will we talk about 2Q, but we'll be able to go into this deal in a little bit more detail. But thank you for taking the time this morning.

[END OF TRANSCRIPT]