1Q 2017 results: Webcast Q&A transcript

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Q&A TRANSCRIPT

Lydia Rainforth (Barclays): Good morning. Can I come back to the cashflow numbers, and just a couple of questions on that? Brian, there was quite a big working capital build in the quarter, can you just talk through what that is? And when you were talking about a material improvement in cashflow from the second half of the year, can I just check that that is the $4.4 billion of underlying cashflow from this quarter? And do you have a definition of what 'material' means?

Secondly, just on the capex numbers, you were talking back to the range of $15 to $17 billion, whereas at the fourth quarter stage I thought you were talking $16 to $17 billion for this year. Is that just that you are more confident about being able to possibly do it towards the lower end of the capex range now that you have seen the first quarter as well? Thanks.

Brian Gilvary: Thanks Lydia. So, in terms of working capital, it's across the piece. We typically have a working capital build through the first quarter, as we have the product spec change a little in the downstream, so getting the inventories turnaround. Actually, for this quarter, it is about two-thirds upstream, one-third downstream, is where the build was. And it was across the piece. It was not any one specific item. But we typically get a build through the first quarter, and actually it is certainly within the range of historical builds that we have seen in the first quarter, so it is not a big move.

In terms of material cashflows, yes, it is, in terms of the operating cash, it gets driven off the back of the seven major projects coming on stream this year. And so, the way in which the year was set up was that the operating cash flow would grow through the first, second, third, fourth quarter, with the major piece coming through in the fourth quarter. And that's why, by the time we get to the end of the year, you see our break-even economics come down quite significantly.

By 'material', you should assume that that number means bigger than $1 billion delta, versus where we are in the first quarter by the time we get to the end of the year. It would probably be significantly above that, but we will see how the year pans out and how the projects come on stream. But so far, in terms of where we are with the projects, they are on track, below budget, we have one on stream, three more to come on middle of the year, so I think the operating cash flow for this year has been majorly de-risked as those projects have come on, and are in the process of ramping up.

In terms of the capital guidance you have in here, actually, we talked about $15 to $17 billion at the end of February, having absorbed all of the new projects and acquisitions that we did at the end of last year, by the time we got to the end of February and came out with the investor presentation, I think you will actually find that we did talk $15 to

$17 billion there. We did not major on it, but it's actually in there. So, it is no change versus that. And as we continue to optimise the capital within the portfolio, we continue to see further reductions and capacity within the capital frame, that actually we are comfortable to say we can absorb all of the acquisitions for last year, and still manage the capital frame this year within the range of $15 to $17 billion.

Lydia Rainforth: Thanks very much.

Brian Gilvary: Thanks, Lydia.

Thomas Adolff (Credit Suisse): Morning, Brian, Jessica. I have three questions please. One on capex, one on LNG and one on new ventures.

Firstly on capex, if I look at some industry cost indices, let's take the IHS Upstream Capital Cost Index, we have kind of come down to around 2006 levels, and I am wondering what is stopping the industry, as well as BP, to get to the cost levels closer to say 2001 or 1997. I understand reservoirs are a bit more complex, but the technologies have also improved.

Secondly, on LNG, your ambition is to get to 25 million tonnes per annum. Today, you are at around 12 million tonnes per annum, and you have done some third-party gas deals in Mozambique, as well as Freeport, as well as a farm-in into Senegal and Mauritania, and I am wondering based on the portfolio you have today, can we get to this 25 million tonnes per annum, or are you looking for further third-party gas contracts?

And finally on new ventures, some of your peers are looking to gain a bigger position in Brazil. Some already have. And I wondered what your longer-term ambitions are, vis a vis Brazil? Are you interested in doing some bolt-on's, or are you interested to get more via licensing rounds? Thank you.

Brian Gilvary: Thanks, Thomas, and that is quite a diverse set of questions. On capital, 2001/2002 is an awful long time ago, so I think it is not helpful, given where the industry is today, the nature of the portfolios that we now have today, and actually what has happened to the economics over the last 17 years, over that decade, to try and compare costs back to those sort of levels. As you have had natural inflation come through the economies around the globe. So, in terms of the specifics of trying to rebase things back to 2001/2002, I don't think that is particularly helpful as a measure or benchmark. But if you look at recent history, over the last four to eight years, I think we are now getting back down to the sort of levels of cost and capital efficiency that we would have seen before we started to see the oil prices rise through that early part of 2009 and onwards, up to 2014.

In terms of the LNG portfolio, we continue to access supply contracts across the globe. We still have the intent to get to 25 million tonnes per annum by growing both equity and merchant LNG. You have already highlighted that we have some new LNG barrels that have come into the portfolio, with some of the acquisitions from last year. But I think that goal still remains a realistic goal for us going forward, and we will continue to see third-party supply contracts come in.

Then, moving to Brazil. Brazil, you know, we entered back in 2009, with the Devon acquisition. That is yet to prove successful, in terms of what we have found there, but, we did acquire licences at the equatorial margin three or four years after that. Today, we currently have 21 blocks in Brazil, of which four are BP operated. Six of those blocks were acquired through the Devon acquisition back in 2011. And then we also farmed into Petrobras's equatorial position. We have eight blocks we have accessed through the ANP round in 2013, and we also acquired five blocks in 2013 through farm-in to the Petrobras Potiguar Basin. I think what that says is we have a number of significant positions in Brazil, but we have still yet to unlock the potential of Brazil going forward.

Rob West (Redburn): Thank you very much Brian and Jess. I've got two, please. One is on the change of production reporting, and the way you are treating the technical service contracts in Iraq. I was hoping that you could just talk me through what specifically you have changed, and the rationale for that. I meant to check this before the call, but apologies, I have not yet. Does that mean all of the 2016 and 2015 volumes should be restated as well?

And then secondly, on your exploration slide, one thing I noticed that is not on there is the UK North Sea, and I think there are a couple of prospects drilling later in the year which could be quite large, potentially. I think Jock Scott and Craster are two of them. Could you talk a bit about those prospects, and where they fit within your exploration plans for this year? And just give a bit of colour around those, please. Thank you.

Brian Gilvary: Thanks, Rob. On the first one, it is really just a technical change we have made, which effectively affects our oil price movements, and lifting imbalances. It is a very small adjustment, and it was made in the first quarter, but it does not have any impact on financial results. I think it will have some marginal changes to volumes, but that is pretty much it.

And then in terms of the UK North Sea, we have actually been awarded 25 blocks in the North Sea on the 29th offshore licence round. And they are around Magnus Basin, all of which will be BP operated. There are five blocks there. On the East Shetland platform, we have 17 blocks across five licences, which are all Statoil operated. And then on Schiehallion North, we have got three blocks which will be Shell operated. The key here is I think it is a good time for the UK North Sea. We have major projects coming on stream, significant investments going into the UK, and I think things bode well for the North Sea going forward, especially as oil prices have firmed at around \$50 to \$55 / barrel.

Christyan Malek (JP Morgan): Thanks for taking my questions. Two questions. First, can you provide more details on how you have derisked your start-ups this year, and what are the key risks that could not necessarily delay the project, but could result in a lower than expected production ramp up? I understand it is critical to the operating cash flow that the meaningful move higher that you talk about, so it was just to understand how you have qualified that risk.

The second question is around capex guidance of \$15 to 17 billion. What are the things that have to happen to tighten that range over the next six to nine months? You have essentially surprised to the downside of \$15 billion. I am wondering what are the things that we need to look for, positive and negative surprises around that guidance.

Brian Gilvary: Okay, Christyan. If I had Bernard Looney sat next to me, he would tell you, and he has been saying this now for three or four years, as has the organisation, and the transformation we went through in terms of the upstream organisation over the last four to five years, around all of these projects, I think front-end loading is probably one of the sort of key aspects that has been laid in place, that has derisked a number of these projects, which is why they are now tracking significantly below budget at 15% below original budgets. And on track or ahead of time. And I think it is all the work that has gone into that organisation, and the way in which that was restructured, in terms of how we thought about the organisation over the last four to five years.

But I think the front-end loading that has gone into the planning phase of this, and then I think also there is a rhythm and sync in that an organisation which has projects coming on every six or nine months gets into a rhythm, rather than an organisation where you have a project coming on every one, two or three years and you have to re-learn things. But I think it is about front-end loading, it is about learning from all of the things that we have done before in terms of project execution, and it is actually, at the core of everything, about safe and reliable operations. That is what drives the operating efficiency, once you bring these projects on stream.

What we are seeing differently today than we might have seen ten years ago was that, now when the projects come on stream, we do ramp them up, they do operate, and we do not find ourselves having to go back and retro-fix things that we may have had to do about ten years ago. So, I think that organisation has come through a very strong learning phase, and that is why I think you are seeing the reliability around how these projects come on-stream today. At least I think that is what Bernard was saying.

And then on the capital frame, $15 to $17 billion is a good number for this year. We have set the plans up at around the middle of that point. As we bring in some of the projects that we acquired last year, that will require some capital. Equally, we get more efficient in our deployments; as we said, the budgets are only 15% lower on some of these projects for this year, but we will comfortably live within the $15 to $17 billion range this year, and I would not expect a surprise on the upside or downside.

Christyan Malek: And just to be clear, moving from $16 to $15 billion: would that be predominantly deflation, efficiency gains?

Brian Gilvary: Christyan, in terms of running the company it could be project acceleration slippage, it could be moving capital around or across projects, it will be further deflation potentially coming through in terms of the numbers. But we manage within that bound, and actually within a $2 billion frame, I think $15 to $17 billion gives us lots of capacity to be able to manage it.

Christyan Malek: Thank you very much.

Irene Himona (Société Générale): Good morning. I had two questions, please. Firstly, one of clarification. In the first quarter, you paid $2.3 billion on the Gulf of Mexico. Can you say if that was the same amount pre and post-tax? In other words, did the payment attract any tax this quarter?

And then secondly, if you can give us some guidance or a reminder of what your announced acquisition spend is going to be this year, please. Thank you.

Brian Gilvary: Thanks, Irene. In terms of Gulf of Mexico, I would guess the charges associated with these has already been taken, in that they relate to, with the exception of business economics lost claims – although the provision was in place in the middle of last year, so that has probably been taken as well – I would guess most of the tax charges associated with that $2.3 billion have been taken already in previous quarters, because there are no new items that have come through. So I would not anticipate that that would have had any effect this quarter. We will come back on that point, Irene, but I am fairly confident that is the case.

Then, in terms of acquisition spend for this year, from memory the acquisitions that we had this year totalled something close to $500 million to $700 million for this year. That is the capital that will go out this year. Again, Irene, we can come back on the specifics of that, but it is a relatively modest amount of capex going to go out this year in terms of those inorganics.

Jason Gammel (Jefferies): I had two questions on the downstream, if I could, please. First, BP is making a pretty concerted effort to build out its retail marketing business. Brian, I was hoping you could talk about the level of capital that is required to actually build out that business and how we should think about the returns that that capital would attract.

The second question is related to the petrochemical business, just specific to the divestiture that was made during the quarter. I generally think of petrochemicals as being relatively high growth, China being a relatively high-growth market. So can you maybe address the thought process behind the decision to divest that business?

Brian Gilvary: Thank you. So, in terms of the capital frame for downstream, we run it within a range – and we can go quite low below this range – but typically around $2.5 billion to $3 billion per annum is the capital range that we are looking at at the moment. We can go lower than that if we have to, if we found ourselves in a situation where oil prices were low, but that is a good range going forward. A chunk of that capital is allocated towards what we call licence to operate or remediation maintenance capital and so on, in terms of the refining business. And then there is a balance of commercial projects that we look at. The rest of the capital, really anywhere from $800 million to $1 billion, would go in terms of retail and retail marketing, say something like around about $800 million per annum. That amount allows us to invest in a series of growth options for us in terms of the downstream, particularly around the convenience partnerships that we now have operating across six countries, with the addition of Woolworths next year, which have been incredibly successful for us. We are expecting another thousand new stores across our German network out to 2021, and another hundred new M&S stores. So, I think what Tufan and the team have demonstrated is a very efficient growth investment model for us in the retail fuels business linked with convenience, and this quarter we have seen volumes grow by something like over 2% in terms of our retail fuels.

On chemicals, we did announce the sale of SECCO and that would have accounted for something like $300 million of contribution from chemicals last year. So what we have in balance now left in terms of our chemical business is a business where we are targeting double-digit returns over the next couple of years, with demand growth of about 4% to 6% per annum, and having had a series of leading proprietary technologies across PTA PX and acetic acid. I think the core of the business that is left, in terms of chemicals, has growth prospects of 4% to 6% going forward. We do have the leading proprietary technologies, and we are targeting double-digit returns over the next couple of years.

Jason Gammel: Any comments on the returns of the marketing business, Brian? Return on capital employed.

Brian Gilvary: Oh, double digits. In fact, actually, if I think about the amount of capital we have in refining, the pre-tax returns of the fuels – what we would call the retail marketing business – is probably in excess of 15%. It is a very attractive business inside the portfolio.

Theepan Jothilingam (Exane): Hi Brian. Morning, Jess. One question just on gearing. I think you have highlighted the target of 20% to 30%, and it appears the profile for the group sort of rises in H1 before potentially falling back a bit in H2, but could you just talk about, theoretically, if gearing does move to the top end of that range, or actually beyond that, is there any material impact in terms of the way the group can operate? Any impact on rating or other stakeholders? Thank you.

Brian Gilvary: Thanks Theepan, and actually the measure we really look at with rating agencies is more about the amount of cash we are generating over the extended debt, which is the sort of salient measure that we look at across the suite of measures. So, gearing per se, if it was to track above 30%, that would not cause any concern in terms of financial frame, provided, we have the long-term destination point, which we have laid out for you at the end of February in terms of the significant sustainable free cash flow growth we have.

You have already flagged up, with the $4.5 billion to $5.5 billion of Deep Water Horizon payments, the majority of those would go out in the first half of the year; the disposal proceeds that would cover the costs of those arrive in the second half of the year, so net debt and gearing will track up through the first and second quarter, and then drop back down third and fourth quarter. And of course, the disposal proceeds have been significantly de-risked in terms of that cash coming in with the announcement of SECCO last week. And we now have over $2 billion of announced divestments, with the anticipation that cash will come in as those transactions close this year.

So, even if gearing were to track up to 30%, or even over 30%, that is not a bust in terms of financial frame. The gearing is simply a framework, a guidance that we operate to. We would really be looking out two or three years to look at where that is likely to track. And as you look at the free cash flows that we talked about at the end of February, you will see that will naturally decline and will come back down towards the bottom end of that range, as we see those cash flows come in off the back of the new projects. So, net debt and gearing is not an issue for us at the moment.

Theepan Jothilingam: Okay, and then just a point of clarity on the $1 billion you talked about for Q4 versus Q1 underlying: is that on the $4.4 billion with the working cap or without the working cap?

Brian Gilvary: Yes, Theepan, just to be clear, hopefully what I said was the number that we use as material – Lydia's question was how do you define 'material' – $1 billion is what we would call material. 4Q versus 1Q, I would expect to certainly above that number on a flat oil price basis. The question she asked was, how do you define the second half of the year being material versus the first half? $1 billion is what we use as materiality threshold. But, in terms of operating cash, it will be significantly above the $1 billion by the time you get to the end of the year.

Theepan Jothilingam: Is that on the $4.4 billion?

Brian Gilvary: Correct, that $4.4 billion operating cash, yes. Actually Theepan, it is logical if you think about the projects coming on stream and ramping up in the second half of the year, that the operating cash flow will be heavily weighted towards the second half of the year versus the first half.

Theepan Jothilingam: Okay, thank you.

Jon Rigby (UBS): Thanks Jess, hi Brian, two picky questions, I am afraid. The first is just to go back on the Macondo outflows. I think it is right that the pre- and post-tax numbers are the same in terms of cash. With a big tax receivable that is being built up, I am trying to understand when you start to be able to recoup that. Is it reliant on the US Upstream business returning to profit? I know it actually did this quarter but is that the main driver of recouping tax or can you go back and access historic profits?

When you made the announcement on SECCO, it surprised me just how big a component part of your petrochemicals business's profitability SECCO was. Are you able to give me some kind of indication of its contribution to the first quarter chemicals number, which is obviously an improvement over historic levels we have seen? Thanks.

Brian Gilvary: I will come back to that second one, Jon. We would not normally give you a specific asset contribution for the first quarter. On chemicals, what I would say is that, first of all, the price that was announced last week was based on a very high earnings number, so it was the top of the cycle. If you look at it on a through-cycle basis, the actual multiple we got was actually probably above 7x in terms of multiples. The number that was out there for last year of $400million was a pre-tax number which is equity accounted and therefore through the results we saw last year you would actually need to take 100 off that. The actual number would be $300 million post-tax which is what was reported last year in the Downstream segment for SECCO. There was an underlying profit from the rest of the chemicals segment. We would not normally give you the SECCO number the first quarter. I reiterate what I said earlier about the prospects of the remaining assets within the chemicals portfolio with 4% to 6% growth prospects. The proprietary technology that we have in place around PTA PX and acetic acid, and the target to get that to double-digit returns over the next couple of years.

On the recouping of tax, we have been recouping tax in terms of the credit that we built up from 2010 to date. I think if I went back and looked at the forward profile in terms of Macondo, I think we will end up being back in a tax paying position in the US over the next one to two years.

Jon Rigby: Okay. Thanks.

Alastair Syme (Citi): Thanks Jess, hi Brian. Can I just ask one question - where are you on driving the cash balancing point to $35 to $40 by 2021? I note you are not the only ones in the industry reducing costs aggressively. And then I look back at the Annual Report: you are still using $75/bbl real from 2021 for your fair value analysis, so almost twice that balancing point. Can you help square the circle on those two numbers, how do you think about that?

Brian Gilvary: The numbers we laid out for you in terms of the $35 to $40 breakeven was at $55/barrel real going forward. That was for laying out the growth prospects of the company at what effectively is today's prices, if you look at where we are averaging at the moment. At least, back at the end of February that is where we were. That is why we laid out the target in the way that we did, and a lot of that is not so much driven by cost, it is driven by revenues in terms of the new projects coming on stream, the underlying performance improvement that Tufan talked about in terms of Downstream, growing those retail markets, actually with some growth in chemicals as well over the piece. It was really more revenue growth-driven. It was a very growth-driven strategy, maintaining costs where they are today and getting more efficient in our use of costs on a unitary basis as we bring on new costs, with new projects. That was the background to that.

In terms of the impairment test we use a number of prices that we look at. $75/barrel is a long-run number out to 2021 and beyond, that we use for projects. However, we also run those projects at $50/barrel. Today we have a $50/barrel case and a $75/barrel case. The $75/barrel is simply consistent with what we have used beyond 2021 for impairment testing.

Alastair Syme: $75/barrel is still the long-term planning assumption of the company, is that right?

Brian Gilvary: It is the long-term planning assumption beyond 2021. That gets reviewed every year, and all of our projects that we currently commission and FID at the moment tested them at $50/barrel.

Alastair Syme: Okay. Thank you very much Brian.

Brian Gilvary: Thanks Alastair.

Anish Kapadia (TPH): First of all, I was hoping you could talk about reducing your discount rate for impairment testing. I think that has gone to 6% now from 8% a few years ago. How does that factor into your required rate of return when you are thinking about sanctioning projects and acquisitions?

The second one is looking at your cash flow versus earnings. If I look back at 2016, according to the Annual Report, I think last year you exceeded your operating cash flow target by 5% but you missed your earnings target for last year by 10%. I was wondering if you could explain that difference, and, in terms of 2017, talk about the impacts that we should expect in terms of cash tax versus P&L tax and any other cash impacts such as provisions and pensions on the cash flow. Thank you.

Brian Gilvary: The simple answer in terms of operating cash versus earnings would have been DD&A and exploration write-offs, if you actually go and look at what happened through the year. I suspect the DD&A was running slightly higher and we certainly would have had higher exploration right-offs than we would have anticipated. Of course, both of those are non-cash items. That would normally be the source of what the difference is between the two.

In terms of discount rates, actually it went from 7% pre-Macondo, to 8% for a period of time, and then was reassessed down at 6%.

In terms of long-term investments, we still expect to be in the double-digit teens in terms of IRR of projects we expect, in some cases at the very high end. It is all the nature of what that project is, whether it be long-term and strategic, or an in-fill development around an existing field or the retail marketing investment that we were talking about before, which would be at the high end of the returns. There may be some lower end teen's ones that we would look at, but that would really be from a portfolio effect. We are looking for a portfolio of options from a risk perspective that give us a range of outcomes in terms of IRRs. The ultimate measure would be, which you will also see in the Annual Report & Accounts, ROACE, which has reappeared as a long-term metric and is really about how we rebuild the company having come through this period of high oil prices. - the correction down to low oil prices and now how we work that capital going forward. It all comes back to this $15 to $17 billion frame, getting more efficient in our use of capital and driving returns. But, making sure that we make the right choices as to how we do that.

Anish Kapadia: Thanks. Anything on the cash impacts for 2017 that we should bear in mind?

Brian Gilvary: I am sorry, Anish. What sort of cash impacts were you thinking for 2017 versus 2016?

Anish Kapadia: The main things I was thinking was in terms of the cash flow, anything significant in terms of cash tax versus P&L tax and then provisions, pensions and anything on those to bear in mind this year?

Brian Gilvary: No, not from a cash perspective. I think all the guidance we gave you at the start of the year is probably still good in terms of cash requirements. Things can still move around, around tax legislation but cash tax rate is still running about 8 percentage points below where the effective underlying tax rate is. You will continue to see that effect going forward.

Biraj Borkhataria (RBC): Hi, thanks for taking my questions, a couple on the US onshore business. Could you just talk about your activity levels at the moment and what your plans are for the course of this year? It looks like your capital budget continues to trend lower, which is positive. At the same time, your production costs appear to have stabilised over the last few quarters, so I was wondering if you are seeing any signs of cost inflation in the US onshore business.

And then secondly, just a quick clarification on Zohr, the acquisition: is that effectively paid now? I know there was an element of reimbursing past capex: is that phased through the year or is that all done in Q1? Thanks.

Brian Gilvary: Thanks. In terms of US onshore, today we are now back up to about 12 rigs in the first quarter of 2017, versus five in the fourth quarter. You will see that ramp up as the team experiments within each of the basins but we are now running 12 rigs. Cash break even on a full free cash basis has now come down, almost halved from the full year 2015 to where we are in the first quarter of 2017, down around $2.60 or that sort of level, in terms of cash break even. We are not seeing any inflation at this point, in terms of Lower 48, although you can see, in terms of Lower 48 last time I looked, I think the total rigs back in action were about 660, 670, versus the peak of about 1,680, I think. So, we are still way, way off where the peak was but there is certainly more activity coming through, but we are not seeing a huge amount in the way of inflation.

We are continuing to reduce operating costs and improve our capital efficiency and 2017 is really a development programme that pivots on the focus on robust projects and growth and trying to take out any underperformance that we see in the activities. And we continue to target the resource base to make sure that it is economic below $3.00 Henry Hub on an earnings basis and as I say, on a cash basis, below that.

So, Biraj, that was the US onshore; what was the second question?

Biraj Borkhataria: The second question was on Zohr; has that effectively been paid for now, as of Q1, or is there some reimbursement of past capex to come through later?

Brian Gilvary: No, the capex has been taken care of but we do not talk about the actual cash that we have outlaid for Zohr in terms of the commercial deals that we actually agreed with Eni, so we would not normally give you any specifics on that.

Biraj Borkhataria: Okay, thank you.

Chris Kuplent (Bank of America): Hello, thanks for taking my questions. Just two quick ones, a follow-up, I think to what Irene asked about 2017. What kind of inorganic capex do you already have visibility on for 2018, with Woolworths and some follow-ups, I guess, we are looking at $1.5 billion. Would that be a decent number?

And on Q1, just a quick catch-up: if you look at Rosneft and the other segments, would it be fair to say that FX has contributed to about $200 million, there or thereabouts, in terms of extra costs? Thank you.

Brian Gilvary: It is not so much extra costs, Chris, it is just simply a Forex transaction effect and it is just over $200 million, so you are right, that is the right sort of order of magnitude across the two pieces.

In terms of inorganics, no, the inorganics are mostly done. The only thing that is left to come through is really Woolworths next year, which we will self-fund with our disposal activity that we have set up for next year. Do you remember we said disposals around $2 to 3 billion per annum; next year Macondo payments are closer to two and then ramping down to one, so we will manage the Woolworths acquisition through self-funding within the company in terms of other potential disposals that we have slated. So that will not see a bump in terms of draw on cash for 2018.

Chris Kuplent: Okay, so the £1.3 billion Woolworths is not included in your $15 to $17 billion?

Brian Gilvary: Correct. That will be inorganic capital that will be funded through disposals.

Chris Kuplent: Thank you.

Brendan Warn (BMO): Thanks for taking the question. Just a follow-up on capex and the comments you made on your expectations on rebalancing it before the end of this year, and I guess that was caveated by, obviously, an extension of the OPEC cut. Can you just talk about that, call it the floor on your organic capex expenditure range from 2018, just call it how low could your $15 billion go before you start cutting into the bone? And then also on the flipside, I think I remember you referred to $17 billion being a hard ceiling but could there be any pressures on that in the next couple of years?

Brian Gilvary: Brendan, actually I think you have answered your own question: $17 billion is a hard ceiling, $15 billion is not a floor. In terms of oil price, we have a number of factors: OPEC rolling its cuts is one factor, demand is another. By the time we get down to 2018, if you see growth this year in demand of about 1.4 million barrels a day, something similar or even less next year, things will naturally start to come back into balance. But in the event that they did not, for whatever reason, that oil price remained under pressures back below $50/bbl, say down at $45 or $40/bbl, then we can certainly take the capital lower.

Brendan Warn: What sort of level, Brian?

Brian Gilvary: We are not going to give you a level, Brendan, in terms of what that number looks like but we could certainly take another $1 billion out, if we had to, in that scenario but all options are open to us at that point, in terms of flexibility within the financial frame and what else we would need to look at. But I think it is an unlikely scenario from where we are today. As you see demand grow, we expect crude stocks to come back into line. Actually, crude stocks will probably still be at the top end of the historic range by the end of this year, so I think something around $50 to $55/bbl seems a reasonable assumption on a point forward basis. If it drops below $50/bbl, we have further flexibility in terms of how we manage that.

Brendan Warn: Okay, thanks Brian.

Lucas Herrmann (Deutsche Bank): Brian, the question on Macondo is very simply, where are we in terms of outstanding claims, guidance $4.5 to $5.5 billion for the year after $2.3 billion in the first quarter, is pretty encouraging in terms of the decline one is going to see.

And second quick question, how much capital employed is there in the chemicals business post the sale of SECCO, broadly $3 or $3.5 billion?

Brian Gilvary: Capital employed?

Lucas Herrmann: Yes.

Brian Gilvary: I will come back to that because it is not something I have looked at recently. Claims, in terms of business economic loss claims, which is the sort of thing that was moving around most, of the149,000, we are down to about 4,000, of which 3,000 are recycled claims that, at one point or another, have been rejected and have come back into the system through the process that is allowed. So, I think we are down to less than 1,000 claims now in terms of closing that process out, going forward, in terms of less than 1,000 claims that we have not yet had line of sight of. So, I think we are now finally into the tail around business economic loss claims in terms of Macondo, and therefore we are now much closer to being able to quantify and price up what that looks like on a quarterly basis.

In terms of the capital that is left inside chemicals, I am guessing it has to be somewhere around $3 billion. Lucas, firstly, I am surprised you are the last question; you were never going to make that 30 seconds that Jess gave you to get that question in. We will have to come back to you on what is left in chemicals but I am guessing something around $3 billion.

Lucas Herrmann: Alright, in the interests of time, thank you very much.

Brian Gilvary: Thanks, Lucas.

So, just to conclude, thanks for your time,. Just to reiterate, I think this has been a good quarter, robust earnings and cash flow. We continue to see strong operating performance in both upstream and downstream and that is a real key for us in terms of going forward, the projects are on track and below budget, and we are seeing downstream marketing growth come through this quarter. But just to put all of this in context, it is simply one quarter in the 20 quarters that we laid out for you back at the end of February but nevertheless a very good strong start, and the company will of course continue to focus on safe and reliable operations because that will actually help drive growth over the next five years.

So, with that, thank you very much for your time.

[END OF TRANSCRIPT]