BP 1Q 2019 Results: Webcast Q&A transcript

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Q&A TRANSCRIPT

Craig Marshall: Okay, thank you everybody for listening. We're going to turn to questions and answers now. The usual reminder to everybody, please just to limit your questions to no more than two per person so that everybody gets a chance to ask.

Let's take the first question please from Oz Clint at Bernstein. Oz?

Oswald Clint (Sanford Bernstein): Good morning both of you. Thank you very much. Brian, I'd like to ask about maintenance please. I think in the first quarter, you mentioned Gulf of Mexico maintenance, but I think there was UK maintenance as well, both high margin areas. But you're also talking about high margin area maintenance in second quarter as well, and I assume there's always some 3Q maintenance. So I'm just curious, is the level of maintenance this year higher than normal or is it front-end loaded this year and the second-half should be free of maintenance? And ultimately, is cash flow this year potentially less than it should be if this maintenance seems to be a little bit higher than normal? That's the first question.

Then secondly just on Lubricants, it's normally your most, let's say predictable, number. It was much weaker in the first quarter. You spoke about some FX and one-off costs. I just wondered if you could quantify those and is that really the delta here to the weaker lubricant result in Q1. Thank you.

Brian Gilvary: Thanks, Oswald. So on maintenance and turnarounds we're now back into sort of a steady state, the routine flow of maintenance. You'll recall, post-2010 we went through a big maintenance programme in the Upstream, something like 48 turnarounds in 2011, 35 in 2012, another 25 in 2013. We're now into a more steady state but as you've already highlighted, in 1Q we did have the big, high-margin Thunder Horse out and after completing the turnaround we successfully came back. In 2Q, we do have turnarounds in the Upstream – there's nothing peculiar about this year in particular. And in the timings of turnarounds and when we're doing those, there's nothing peculiar about that as well. But in the second quarter we will have three turnarounds in the Upstream, all again in high margin areas so that will impact 2Q results. It's in AGT in Azerbaijan, Na Kika in the GOM and PSVM in Angola. So there will clearly be an impact in 2Q.

But of course we've also got the ramp-up of the projects, with three projects coming on stream in the first quarter. Another project to come onstream potentially in the second quarter and then Raven at the backend of the year. So that will – that will compensate for some of the lost volumes by those turnarounds. In refining in the second quarter - we've got turnarounds across five of our refineries of different scales and different sizes, but typically 5-6 weeks in each case. And that's really getting the refinery system ready to ensure that we are operating at full tilt with IMO 2020 coming in next year. So that's basically what's going to happen as we go through the second quarter.

In terms of Lubricants, I think the question came up on the previous call and indeed the previous call before that. There has been a headwind that the Lubricants business has been dealing with around base oil prices. That is starting to level off now. So base oil prices have dropped off actually in 1Q versus the actual average for 2018 and 4Q. But it will take a period of quarters for that to start to come back through the numbers. So I think it's the last of the headwinds that we can see inside lubes and you'll know, the end of last year we announced the big rationalisation programme of up to 800 jobs that will go out of lubes as part of a big efficiency drive. So I think you would start to see and I anticipate a recovery in Lubricants going forward but you're absolutely right to highlight it's been an issue for the last six quarters now. But a lot of that has been driven by the higher oil prices. Notwithstanding where base oil prices go into the future, you will start to see some recovery in those numbers going forward.

Oswald Clint: That's super, thank you.

Craig Marshall: Thanks, Oz. We'll take the next question from Biraj Borkhataria at RBC. Biraj?

Biraj Borkhataria (RBC): Hi, morning to you both. Two questions please. The first one's on Macondo. You guided to $2 billion for the year but Q1 was just about $600 million and then also in Q2 you have the predefined payment of I think $1.2 billion. So putting those two together it suggests very little in terms of BEL payments for the remainder of the year. So just want to get your thoughts on that and whether you feel comfortable with that guidance. And then the second question is on more broadly the market for where asset sales are at the moment. A number of your peers are executing fairly significant asset sales programmes. I was wondering if you could talk about what you're seeing in the market and your confidence in your ability to execute on those. And just related to that in terms of gearing guidance getting to the midpoint by year-end, does that assume any benefit or divestments cashed in? Or is that on an organic basis? Thank you.

Brian Gilvary: Thanks for that, Biraj. On Macondo we've said just over $2 billion for this year. We're on track for that. We're really now into the scheduled payments. We're down to sort of effectively all the claims have now been processed in the BEL system and we're simply now into the appeal stage where we have a series of appeals that will go forward over the quarter for a period of years. And they will get resolved and get taken each quarter, and we took a few this quarter. But that number looks pretty well underpinned and the other payments were scheduled payments from the settlements from 2012 and the settlements of July 2015. So that's pretty much structured now and ordered going forward. And we will live within that and then for next year it gets more like just over $1 billion a year on a point forward basis.

Asset disposals – $600 million of cash came in in the first quarter. We have a suite of packages in Lower 48 that we've talked about. I guess we've been surprised by the level of interest in the packages. There appeared to be a lot of expressions of interest and we already have across three of the package suites a first round of indicative bids in. So actually that market looks pretty well underpinned on the disposals side. And as you say, there's a lot of activity in the market but there was still an awful lot of interest in those assets both from neighbouring companies that you'd expect that are close to proximity of some of those assets. And also from private equity which we've seen across the piece. So they look pretty well underpinned.

On gearing I think what the guidance has given you is that we'll be back towards the middle of the range through 2020. That is what we've said given that we've moved to the BHP cash payments rather than using shares. And as disposals come through now and certainly with the higher oil prices that we're seeing today we'd expect to see that gearing track down. The big payments around BHP have now gone out. And so it's just the Macondo payments that you picked up in the first part of your question to go out next quarter round the schedule payments. And then, with the oil price where we are today and we see disposals coming through certainly in the second half of the year, primarily loaded to second half of the year, you'll see gearing actually track down.

Biraj Borkhataria: That's very helpful. Thank you.

Craig Marshall: Okay, thank you, Biraj. We'll take the next question from Christyan Malek at JP Morgan.

Christyan Malek (JP Morgan): Hi guys, thanks for taking my question. I appreciate it's quite late in Los Angeles, so I'll keep it to one question. Just revisiting the capital frame and just trying to understand better the relationship between the timing of disposals and incremental cash return. Clearly the progress of the disposal programme you've outlined seems to be well underpinned, albeit, you know, sort of the – fairly low in Q1. Can you sort of firm-up if there is a relationship between your disposals and the ability for you to instigate or is there a threshold where you can then instigate increased distributions? I know we understand that the path to deleveraging but it would be great to get some more clarity around that outlook on cash return. Is it sequential? How should we be thinking about it?

Brian Gilvary: That's a great question and the way we think about it is having moved the BHP transaction to a cash-based transaction clearly that means that we need to be able to absorb that through the financial frame out to the end of this month. And as I said, our final payment has now gone. Once that's absorbed and the first suite of disposal proceeds come in that then creates the space for a conversation of the Board around dividend distributions going forward. We also have a significant buyback programme for the second half of the year that we're committed to around offsetting the scrip which would be somewhere just north of $1.5 billion now, $1.5-1.7 billion of scrip that's still to repurchase, which is the outstanding scrip that's been issued since 2017 when we got the company back into balance.

I think one of the sort of things that gives us confidence in that Christyan is actually in the first quarter we cash breakeven even with the big turnarounds, with the weather problems that we saw in Northern Colorado around our Lower 48 business. And the portfolio of disposals that went out last year we were still balanced at just over $50 per barrel which is a very good place to be given where the actual flat price is today. And we had to deal with Refining margins down at – indicator margins down at $6 per barrel at the start of the quarter. So I think, you know, as we look and reflect on this quarter's results it's a very resilient portfolio we have. And, yes, 1Q is helped by supply trading which we will have quarters from time to time where we get a strong result. But I think that's given us confidence in terms of what the financial frame looks like for the second half of the year and there will certainly be a conversation about the distributions later in the year.

Christyan Malek: That's great, thank you very much.

Craig Marshall: Thank you, Christyan. We'll take the next question from Lydia Rainforth at Barclays. Lydia?

Lydia Rainforth (Barclays): Thanks Craig and good morning. Two questions, if I could. The first one I just – on the unit OPEX side that looked like it was down 4% year-on-year but I didn't know if that was just IFRS 16 or if you're still seeing underlying progress on the cost base? And then second, given that you are in LA can you just talk about the – what venture partners you have and what that – in terms of what they are offering the BP business? Thank you.

Brian Gilvary: Thanks Lydia. The unit OPEX is all IFRS 16. So actually we're sort of flat year-on-year which given where oil prices are I think is a good result at this point and the ramp-up that we had that we can see this coming through. But effectively that's IFRS 16 so DD&A has gone up and the operating costs have come down. And it's been quite a noisy quarter trying to get the IFRS 16 numbers through and we've tried to give you a variety of tables to help explain what those movements are.

If you look at the venture piece we're doing this week we've got the Executive team out here. We've got various conferences that different members of the Executive team are meeting and involved with. But then we've got two days with a lot of our venture capitals. The guys are out at the BP Biosciences Center in San Diego. So we've got a team that'll be visiting the BP Biosciences Center. And then for the rest of the week we're meeting with various companies that we've invested small seed investments in and it gives us a sense of how they are progressing. Some are disrupters in terms of the business that we operate in. Some of them are going to help us be able to enhance some of the things that we're doing. There'll be a variety of companies that we'll be talking to, companies like Fulcrum and FreeWire that we've talked about before on these calls. FreeWire around mobile charging into our stations and Fulcrum which basically takes waste to create jet fuel with the first pilot plant that's being commissioned there or has been commissioned out there in California. So it's going to be quite a wide, varied suite of companies that we'll be talking with. And it will give us a little bit of a sense of how things are progressing in a number of different spaces.

Lydia Rainforth: Perfect, thank you.

Craig Marshall: Thanks, Lydia. We'll take the next question from Alistair Syme at Citi. Good morning, Alistair.

Alistair Syme (Citi): Yeah, good morning Craig and Brian. Can I just ask about the gas trading just to get a perspective on where the gain came from? You know, is it sort of you're positioned across the book for the weaker European and US pricing – and Asian pricing? Or is it more to do with the volatility? And is there any way you can help us think about the magnitude of that gain?

Brian Gilvary: Yeah, we wouldn't normally get into a lot of detail but I can give you a sense in terms of the gas trading, a proportion of it came out of a very strong result in North America, which was really positioning on some of the books around the cold weather that we saw that came through, which are out of our base position and allowed us to be able to capture the benefits of that. And also round our LNG book which was really focused out of European gas and some of the LNG prices that we saw as the oil price weakened. It allowed us to play some arbitrate plays that we had across the Atlantic. So it was across the piece but I'd say the big two chunks of the over-performance in 1Q was United States and LNG out of Europe.

Alistair Syme: I guess I'm getting to the point, Brian, about, you know, given there's still a disconnect between spot and oil-linked pricing in Asia and Europe, you know, is the book still set up potentially to benefit from 2Q/3Q, that kind of trend?

Brian Gilvary: Yeah, it's – I can't really call it by quarter. We have a book where we have – which you'd expect – a number of equity positions and we have a book of structural shorts that enabled us to manage the arbitrage of the various prices that we have on those books. And some of those shorts are hub-based. Some of those are Asia oil-related prices and some of those are European prices. And some allow us to optimise across the piece but I couldn't call it quarter by quarter. But I certainly wouldn't reveal now that there's a structure that's sort of sitting there for 2Q but it'll be really around how we can optimise the various shorts that we have and the ability to be able to trade some LNG molecules into those.

Alistair Syme: And finally was there anything you could do to help us with magnitude?

Brian Gilvary: I'm sorry, say that again?

Alistair Syme: Was there anything you could do to help us think about the magnitude of what happened in 1Q, the gain?

Brian Gilvary: Yeah, no, look, we have an average quarter result that we expect for trading. The indication of strong would normally mean that it's certainly over $100 million more than we would have expected in a typical quarter.

Alistair Syme: Okay, brilliant, thank you very much.

Craig Marshall: Thanks, Alistair. We'll take the next question from Jason Gammel at Jefferies. Jason?

Jason Gammel (Jefferies): Thanks very much, guys, a couple on the Downstream if I could, please? Can you first of all talk about the situation at Whiting right now in terms of apportionment on the pipeline system and if you have any scheduled maintenance on Whiting, specifically as we head into 2020.

And then the second one is just on the marketing business. It's clearly been a source of earnings' strength for you recently. I was hoping you could maybe talk about the magnitude of the increase in earnings that you're seeing in the marketing business as a result of expansion.

Brian Gilvary: Yeah, so maybe on that last one, what we saw quarter on quarter versus last year in the Fuels piece, something close to $300–400 million of growth. A chunk of that came from the trading result that we talked about in terms of oil trading in 1Q 2019, but in Fuels Marketing, we're continuing to see growth year-on-year and this is the strategy that Tufan and the team are executing very effectively. One example of that would be Mexico, where we've effectively gone, within 18 months, from a standing start, we're now pumping more volume than we pump as the number-two player in the Netherlands, so just to sort of put it in context. But the build out and growth of the Fuels Marketing strategy, along with the convenience offer, has become a very effective part of the portfolio which is underpinning those targets that we set out there in terms of $9–10 billion by 2021 of EBITDA free cash flow.

And sorry, what was your second question?

Jason Gammel: Just the situation at Whiting related to apportionment and whether there is any maintenance planned at Whiting before IMO 2020 kicks in?

Brian Gilvary: Yeah, I think we've got one small unit at Whiting that will be going through maintenance this year, getting ready for IMO 2020 next year.

And on apportionment, you'll be aware that the Alberta government effectively curtailed production to the tune of about 325,000 barrels a day in late December 2018/early January 2019. We've seen that back off a little bit but I don't think you're going to see the sort of levels of light/heavy differential that we saw last year. There are a number of things exacerbating that issue. There’s the Canadian issues where we think curtailment will start to ease and we've already seen the crude production curtailment alleviated to about 250,000 barrels a day in February 2019 and we'd expect to see gradual reductions to bring that back into where we were before. But equally, you're also seeing Venezuelan heavy production off the market through the sanctions and therefore you're seeing a tightness in general light-heavy diff, which is exacerbated, then, when you look at the WTI-WCS differential and you've seen the opposite with light crudes coming out of the United States, the availability of light crudes. So I think that's going to be a structural thing that we'll certainly see through the next 6–12 months. So I wouldn't expect to see big movements in light-heavy spreads going out for the rest of this year but as the Canadian production starts to alleviate, you'll start to see the spread open up more than what we see today. And we certainly saw it down at, I think, around at $9 per barrel at one point during the first quarter and it's moved back up, I think, to $12–13 per barrel now.

Jason Gammel: Very helpful, thanks gentlemen.

Craig Marshall: Okay, thanks Jason. We'll take the next question from Thomas Adolff at Credit Suisse. Thomas?

Thomas Adolff (Credit Suisse): Morning, two questions for me, please. Firstly, just operationally as you look at the first quarter of this year, or call it almost halfway through your five-year plan, is this so far consistent with your internal assumptions? Are there any areas where things didn't go according to plan or areas that significantly surprised on the upside?

And secondly, just going back to the question on trading, correct me if I'm wrong, gas trading is booked in Upstream and oil trading is booked in Downstream and perhaps you can comment on the oil trading side of things, how that compared on a quarter-on-quarter basis as opposed to year on year? Thank you.

Brian Gilvary: Thanks Thomas. Operationally, I think actually it was a stronger quarter for 1Q in terms of the Upstream than we might have anticipated. I think availability is up around 96.2%, which is a pretty strong – it's a very strong number in the context of a single quarter. To be able to maintain that through the year would be an exceptional result but 96.2% for the first quarter was very strong and certainly higher than we would have expected for our plans. But I think that reflects on the fact that we knew that we also had the Thunder Horse turnaround to deal with. So operationally it was probably a slightly better quarter than we would have expected in the Upstream. On the Downstream, I think it was more like an average quarter for 1Q.

And then on the trading result. You're right, the gas trading result gets reported through Upstream. The oil trading result gets reported through Downstream. And certainly this was a unique quarter, that both divisions generated strong results. And you will have seen some of that flow through to the Downstream result, in a similar order of magnitude that I talked about around gas trading, in terms of being more than an average quarter.

Thomas Adolff: Okay. Thank you very much.

Craig Marshall: Thanks, Thomas. We'll take the next question from Irene Himona at Societe Generale. Irene?

Irene Himona (Société Générale): Yes, good morning. Thank you. Two questions, please. Firstly, BPX, obviously the first full quarter with the BHP assets but I note that the production costs per boe is up both sequentially and year on year by double digits. I wonder why that was and what you anticipate going forward.

And secondly, Brian, you referred briefly to IMO 2020. Have you seen any impact from that in the market and if not, would you expect to see any changes to product and crude differentials in the second half of the year? Thank you.

Brian Gilvary: Yes, so on the BPX the simple answer is BHP is the more oilier side of the portfolio and carries higher unit production costs than the legacy BPX assets. But also we had volume outages with weather, the Arctic polar vortex, that hit northern Colorado with about eight feet of snow. And there's some quite astonishing pictures of the assets being under snow. Therefore some production was curtailed. So I think it's a combination of both but I think primarily it's driven by the fact that the unit production costs of the BHP assets that we acquired are on a higher level than the BPX legacy ones.

In terms of IMO 2020, everything looks pretty well set in terms of compliance and I think you'll start to see in the back end of this year that will help underpin, certainly, margins going forward at that end of the barrel. And we are expecting to see compliance and adoption. There'll be the odd place in the world where, I think, exemptions will be put in place but I don't think they're going to be significance. So I think there will be some upside and underpinning of the numbers going forward in terms of margins by the back end of this year.

Irene Himona: Thank you.

Brian Gilvary: Thanks, Irene.

Craig Marshall: Thanks, Irene. Okay, we'll take the next question from Michele Della Vigna at Goldman Sachs. Michele?

Michele Della Vigna (Goldman Sachs): Thank you Craig. Brian, two quick questions if I may, the first one relates to the production from your new projects. You reiterated the target of 900,000 barrels a day by 2021. I was wondering how much they have contributed to the first quarter production.

And secondly, on BPX, we are seeing costs of completion in the US coming down from the beginning of the year. I was wondering when you would think it will be optimal to start to ramp up the activity in the Permian. Thank you.

Brian Gilvary: Okay, so on that last question, Permian we're already up to three rigs and in fact we've got eight rigs now working, five in Eagle Ford, three in Permian from the new acreage. So things are already starting to ramp up in there. And we'll be able to – I think as the previous question highlighted, we've only got a month's worth of BPX now. I think when we get to the middle point of the year we'll be able to give you a much deeper update on synergies, which look pretty well underpinned from what we can see. In fact, actually, the assumption on synergies now looks more conservative given what we've discovered in terms of the operations and what we've been able to absorb within our existing structure. And we'll be able to give you more of an update on where we are in terms of costs and integration and the absorption of that business. So I think there'll be more to follow on that in middle of the year.

In terms of the ramp-up of major projects, it's up over 500,000 barrels a day from the 22 start-ups that we've had up to the end of 1Q 2019. In fact, between 500,000–600,000 barrels a day is now onstream and online, and the track looks pretty good now in terms of that ramp to the full 900,000 barrels. And of course, BPX sits on top of that 900,000 barrels a day.

So I think things looking pretty well underpinned, all the projects we need onstream are FID'd or in operation now and that's why we feel so confident about the 2021 targets and delivery of those, given a lot of the portfolio has now been de-risked by those projects coming on. And of course we have the three that came on in the first quarter, which de-risks another big piece of the portfolio, with the big two major ones now in the second half of the year at Culzean and Raven in Egypt.

Michele Della Vigna: Thank you.

Craig Marshall: Thanks, Michele. We'll take the next question from Lucas Herrmann at Deutsche Bank. Morning, Lucas.

Lucas Herrmann (Deutsche Bank): Morning gents, a couple if I may. Brian, first, just going back to US profitability – and maybe this comparison is unfair given it's different quarters –but I'm slightly staggered that the reported EBIT in the US can move from $1.4 billion in Q4 to $600 million in Q1, given the modesty, shall we say, of the production down and a relatively limited overall decline in price. That was the first, just some better understanding of that quarterly move.

And the second, there's always a tension between return and resource in the oil industry and I just wondered how you feel, strategically, about your position in Brazil at the present time, the acreage you have and whether the company would like to have a more material position going forward. Obviously that's with reference to the sale of rights that's expected later on this year and how BP might be thinking about that opportunity. Thanks guys.

Brian Gilvary: Thanks, Lucas and yeah, absolutely right about US underlying earnings. There's three areas that have driven that reduction of $1.4 billion down to $600 million, which again you'll find inside the SEA. The first one is the low liquids realisations of $51 per barrel in 1Q 2019 versus $62 per barrel in 4Q 2018, so you've got the actual realisations – and there is some lag effect that comes through in those numbers. There's also lower US natural gas realisation, I think, that came in around $2.60/mmbtu in 1Q 2019 versus $3.10/mmbtu in 4Q 2018. Then, of course, the third large item would be Thunder Horse which shows you, and demonstrates quite clearly, the importance of those high-margin barrels coming through the portfolio. And those three big components make up 85% of what you can see there in terms of quarterly change in underlying RCOP.

In terms of returns and capital frame, Brazil, of course, is very interesting for us. We went into Brazil back in 2009/2010 with the Devon acquisition. That allowed us to find some commercial resources but didn't really play out the way we may have anticipated and there are clearly opportunities for us going forward. I think the key is, similar to what we did around BHP, anything we look at needs to be accretive for our existing business, so to the degree that we get production that's accretive to earnings, cash and returns basis, and can be lived with within our capital frame. Because we've set a capital frame of $15–17 billion and if we have to step outside of that then we need to find other parts of our portfolio that we can liquidate to pay for that potential growth. So it's no different to what we've looked at around the BHP position, where we've come up with a pretty significant suite of disposals that will cover half the investments inside there. But yes, Brazil is of interest; it's going to be of interest to everybody given the attractiveness of those assets but we have to ensure we can do that within our existing financial frame.

Lucas Herrmann: Okay, many thanks and wish you a good night's sleep.

Craig Marshall: Thank you, Lucas.

Brian Gilvary: Thanks.

Craig Marshall: We'll take the next question from Martijn Rats at Morgan Stanley. Martijn?

Martijn Rats (Morgan Stanley): Yeah, good morning, or I should say good night. I only have one left. You mentioned briefly a joint venture you set up with Neste Oil on renewable jet fuel. And when you answered Lydia's questions on private equity and other sorts of technology partners, she also mentioned a partner that is looking at renewable jet fuel. I was wondering, these are fuels, I would imagine, that at the moment BP cannot make itself but where you are seeing a growing market. I was hoping if you could elaborate a little bit on this.

Brian Gilvary: Yeah, Martijn, that's a great question. I think it tells you a lot about how this space will play out into the future as we think about climate change and the desire to try and get less carbon intensity in the portfolio as we meet this dual challenge of reducing carbon emissions and growing energy. There will be a variety of partnerships that will come up. Neste was an interesting one for us that was specific to aviation fuels out of Sweden. And there's no question, the aviation market will grow at a rapid rate of knots going forward. There's a relatively small part of the population that have ever flown on aeroplanes and that's likely to grow into the future. And finally, a solution, a sustainable solution to what that looks like will require the development of more sustainable aviation fuels.

Fulcrum was an example of what we're trying to do around waste, taking basically household waste and creating a bio jet fuel, which would be a solution for the future for the planet. And this was just another example. But I think what you're going to find is in this space of reducing carbon intensity, it will throw up a number of joint ventures and potential collaborations across the piece as we all try to do our piece in terms of trying to manage climate change effectively in terms of carbon intensity going forward.

Martijn Rats: Right. Thanks very much.

Craig Marshall: Thank you, Martijn. We'll take the next question from Chris Kuplent at Bank of America Merrill Lynch. Chris?

Chris Kuplent (BAML): Yeah, thank you very much. I've got two questions left. All of my typical disposal questions have already been answered, so thanks for that Brian. Just on buybacks, you very helpfully showed us or mentioned the scrip amount of issuance you're trying to offset by the end of this year. Can you remind us why you picked Q317 as the starting point and what we might be able to look forward to beyond 2019 in terms of future buybacks linking those to historical scrip dividends up until Q317, which I think still run in the billions of dollars?

And second question, BP is still adhering to a Downstream/Upstream segmental reporting structure. Are you of the view that, as you increase, let's say, earnings contributions from higher multiple businesses, as your lower carbon business grows, are you of the view that it might eventually make sense to split them out separately in your reporting? Thank you.

Brian Gilvary: Thanks Chris. On the first question, 3Q17 was the point at which we declared that we were back into organic cash flow balance at $50 per barrel and therefore we said we'd offset scrip from that point forward and I think the actual figure that's now outstanding is something like 231 million shares that have not been bought back since that point in time, so it's about – I think it's $1.5-1.7 billion, depending on what the share price is, of buybacks required going forward – probably close to $1.7 billion. And that is effectively determined by that point in time. But what we expected to do as of 3Q is to would fully offset scrip on a point forward basis, which is what you should expect it to do. And the $50 a barrel I quoted for 1Q19 included a full cash dividend basis – it would be more like 40 – I think $42 a barrel from the large scrip uptake that we had in 1Q19, but that's been added on to the outstanding number of shares needed to offset dilution going forward.

And then, in terms of segmentation, I think once those businesses become significant, then we will look at maybe further disclosures. We've done that around Fuels, Petrochemicals and Lubricants, which you can see, the sub-segment divisions that we put in place back in, I think, 2010 or 2011; we went to sub-segmentation of those businesses. Maybe even earlier than that. And, of course, we give you a lot of the information around BPX.

I think as our renewable – so some of the alternative energy businesses, like biofuels, wind and solar become significant enough and material enough, we will look at whether we will provide more information around those. But they're still in the build phase over the next five to ten years as we build those businesses out. But they will become a more and more important part of our portfolio going forward.

Chris Kuplent: Okay, thank you, Brian. And just to confirm, whatever then you do from 2020 onwards in terms of a shareholder remuneration, you will not explicitly link to what occurred in terms of scrip issuance before that moment in time 3Q17. Is that right?

Brian Gilvary: Well, no, so we took 3Q17 because it was a point at which we got back – if you recall, at the end of 2014 we were about $2 billion surplus cash. You'll remember from your own research notes, but we were around about $2 billion surplus cash in 2014 off the back of the big Rosneft TNK transaction that we did, we were able to get the balance sheet back in structured order. That put us in a strong position as the oil price corrected through '15, '16, '17 and we set a target of getting back into balance by the end of '17 and that's how we chose that particular point in time. But the Board is minded to look at distributions in the broad sense of buybacks over and beyond scrip and that will continue, which we did, if you recall, around TNK Rosneft, we bought back $10 billion of stock off the back of that transaction. We will look at buybacks as part of the suite of options for us going forward.

And so, I think the key is we commit to offset scrip, which was helpful for us during the oil price correction, but we don't like the dilution; but shareholders generally like the scrip and that's why we saw a large uptake in 3Q of over 30% and so we'll continue to offer scrip, but that will be determined by the Board each quarter.

Chris Kuplent: Okay. Thank you.

Brian Gilvary: Thanks, Chris.

Craig Marshall: Thank you, Chris. We'll take the next question from Peter Low at Redburn. Peter?

Peter Low (Redburn): Hi. Thanks for taking my question. You've been in control of the BHP assets for almost two months now. Can you give us any colour on how your view of those assets have changed, particularly their potential since the deal was struck? And then secondly, you've previously talked about seven potential Upstream FIDs in 2019.

You've done three so far. Can you give us any guide on which other projects you're hoping to sanction this year? Thanks.

Brian Gilvary: Great. Thank you. So in terms of BPX, it is literally two months in and the guys have also been dealing with the issues around the weather around the existing asset portfolio and getting suites of assets ready for sale. So I think what I would say is we've got eight rigs up and running now in the new acreage. We're learning from those. I would say everything we have seen, we would be more positive on now than when we actually did the transactions. So synergies look pretty well underpinned. The price assumptions we had are significantly above what we'd assumed. If you think at the time we had a Midland crude oil differential assumption going from around $7 per barrel to $2 per barrel long term. Today it's almost at parity. It's about a dollar below, given the NGL pipelines and infrastructure that was put in place in the first quarter and there is more pipeline infrastructure to come in.

So we can actually see now Midland crude oil pricing pretty much at WTI. So that's more positive. And certainly the absolutely flat price where we are today makes that more accretive in terms of the front-end value accretion, that is well underpinned now off the back of the environment synergies. And now, of course, we have the assets and I would say everything we see so far is pretty positive, but we'll give you a more fuller update at the 2Q results, where by then we'll have five months' worth of operation and we'll be able to give you summary views on some of the results that we're seeing from the activity.

Peter Low : Great. And just on the potential other FIDs this year?

Brian Gilvary: Yes, sorry. So we've already had Atlantis, Seagull in the North Sea and Azeri Central East FID this year. Areas that we will be looking at, we don't normally go into detail on this, but there'll be things like Thunderhorse Water Injection. There is still KG-D6 in India and potentially around the Herschel Development, which we will be looking at. And there's also Thunderhorse South Expansion that internally sanctioned in March 2019. It's a question of phasing, but that's a suite of options that we're looking at. So there's up to seven FIDs, four of which have gone already now with a potential for three more.

Peter Low: Great. Thank you very much.

Craig Marshall: Okay, Peter. We'll take the last – sorry, third to last question from Colin Smith at Panmure Gordan. Colin?

Colin Smith (Panmure Gordan): Yeah. Hi. Thanks for taking my call. Just to follow up on the scrip again. At the end of 3Q17 you had 19.8 billion shares outstanding and you've now got 20.3 billion shares. That looks like you need to buyback more like 530-odd million shares in order to take yourself back down to the period end number at the end of 3Q 2017. The number you're talking about is considerably less in that time and I just wanted to understand what the difference was?

Brian Gilvary: So the actual scrip issuance is about 231 million outstanding shares. There may be other shares that will have been put into issue around long-term intensive plans for our employee teams, where shares will have been issued against those. Treasury shares will have been used for those. We can come back offline and give you a box balance of what that looks like but in terms of the scrip, which is something we track and I've got a chart which I carry around with me so I can keep track of it myself, it's about 231 million shares now outstanding from when we first announced the buyback.

Colin Smith: Okay, thanks.

Craig Marshall: Thanks, Colin. We'll take the next question from Pavel Molchanov at Raymond James. Pavel?

Pavel Molchanov (Raymond James): Thanks for taking the question. At the beginning of the year in the strategy update, you laid out some pretty hefty exploration prospects in Azerbaijan and I believe they were supposed to culminate in Shafag-Asiman, you know, which is over 10 billion boe in scale. Can you give an update on what the calendar is going to look like in terms of actually deploying the rigs and drilling those prospects?

Brian Gilvary: I think if you look across the whole – I can't give you the specifics on the Azeri position, but if you look across the whole piece we've got somewhere around 25 exploration wells that we're looking at in 2019. Now, whether they all get executed or not will be a matter of choice around the rig selection, but up to 25 potential exploration wells this year, and we've already got one discovery announced so far, from the programme so far, year-to-date. But we will come back to you on more detail offline around the Azeri prospects, which I don't directly have to hand, in terms of where that programme is at the moment.

Pavel Molchanov: Okay. Turning to an issue in Washington that's been coming up, in February there was a bill called DASKA, which would essentially upsize energy sectoral sanctions against Russia, reintroduced in the US Senate. Hasn't been voted on yet, but given that it would effectively ban any US domiciled or US operator from participating in Russian energy projects above $5 million a year, given your relationship with Rosneft, have you estimated or made any analysis of what kind of divestiture or changes in your capital spending would have to be made if this bill were to pass?

Brian Gilvary: Yeah. So, look, we operate around the world and operate within the sanctions framework that sits in place in the places where we operate, and we try and work as closely as we can with nation states that deal with specific issues around specific countries. There is nothing, right now, on the table in terms of enactment of any new policy or laws that would trigger any changes to the way in which we're operating our businesses today, particularly around Rosneft and Russia, but we would work in tandem with whatever the legislator comes through with, in terms of potential sanctions. And in the same way we have been operating within the existing sanction framework, we would look to that on a go-forward basis in those geographies, but there's nothing specific I could lay out for you today that would get into any detail since we have nothing that has actually come from the legislator at this point in time. And we've run various scenarios around potential outcomes and what that could look like, but we wouldn't really go through those on this call.

Pavel Molchanov: Okay. Thank you very much.

Craig Marshall: Thanks, Pavel. We'll take the final question from Bertrand Hodee at Kepler. Bertrand?

Bertrand Hodee (Kepler Cheuvreux): Yes. Hello Brian. I have one question left. You mentioned that you expect, and we may need to expect, that LNG spot pricing in Asia and European gas prices to probably stay low for a couple of quarters. What kind of headwinds do you see on your cash flow or earnings resulting from that prevailing weakness? BP has little exposure upstream to European gas price, but do you believe this will have an impact on your LNG trading business and can you help us quantify that, especially if spreads between basins stay low?

Brian Gilvary: So, I mean, firstly you're right, I think we can see an overcapacity coming through, certainly in the second half of this year and probably into 2020 around LNG projects coming onstream. We've seen prices already correct down to somewhere close to $5/mmBtu in terms of European and Asian pricing right now. I suspect that's going to continue. I think you'll also see more exports coming out of the USA, in terms of Henry Hub exports coming out, will exacerbate it.

From an LNG trading perspective, anything which trades volatility creates opportunities. So I think the way in which our portfolio is set up within LNG, then that may open up some opportunities for us in terms of the way in which we've structured both our longs and shorts, in addition to our equity positions, and the different pricing basis that we have does provide some opportunities for us. So I wouldn't signal, necessarily, a lower absolute LNG price would necessarily impact the value that we can create through our LNG and gas trading businesses because we run them as a portfolio of assets, while some – where we see low volatility more difficult to extract value, but other parts of that portfolio may well see volatility, may – tangential volatility may appear that will allow them to catch some of those values. So I don't – don't take a read through that lower LNG prices necessarily means lower performance out of the gas trading numbers.

Bertrand Hodee: Okay, great. Thank you. And may I have one follow up concerning your US Lower 48 divestment programme? How much do you – how many packages do you believe you will be able to sell before year end and what kind of proceeds are you expecting, in your plan, to be executed in terms of US Lower 48 divestment this year?

Brian Gilvary: When we announced the BHP deal it was a $10.25 billion acquisition in the final price. We said we'd then dispose of $5-6 billion of assets, predominantly Upstream and predominantly Lower 48, so it's not all $5-6 billion. But the packages are all being progressed and marketed. Some are a little bit slower, given the weather issues that we had, which may lead to, sort of, pushing those off. It's a $10 billion programme in total over two years is what we're committed to, $600 million of proceeds have come through in the first quarter. A small proportion of that was actually out of Lower 48; it's a $120 million sales package that we did for a Lower 48 legacy business that we had. I think they are pretty much locked and loaded. There's a lot of interest in the assets. It's $10 billion over two years; you would hope to deliver at least 40% of that in the first year, but certainly in terms of this year a lot of it is back-end loaded and so you'll see that come through. Some of it may slip into next year. But I can easily see $4-5 billion this year, with the potential for some of that flowing into 2020, depending on actual close-out of some of the deals. But things are well underway in the disposal process and it's pretty well underpinned.

Bertrand Hodee: Great, thank you.

Craig Marshall: Thank you, Bertrand. Okay, that's the end of the questions. Let me just hand over to Brian for some closing comments.

Brian Gilvary: It's still morning where we are, here in Los Angeles, and thank you for your patience and time today. As we've laid out, this is the third year of our five-year strategy. I think the quarter was a resilient, I've described as a resilient, set of results, given the backdrop of weak prices coming into the quarter, weather issues, the portfolio disposals from last year and the big turnaround we have at Thunder Horse. I think, with the strong trading result, it actually led to a very resilient, robust result for us this quarter. So I think, as we look at this plan for this year, 1Q was always going to be tough and I think we've come through that with a solid set of results.

We remain on track to deliver our 2021 targets as we've laid out for you today around the projects already onstream and how that's underpinned, with the financial frame unchanged. We've made good progress on our 'reduce, improve, create' framework, in terms of reducing emissions, and we talked about, at the end of last year, that we've now taken out 2.5 million tonnes of CO_2 equivalent from our portfolio since 2016. And you're going to see the balance sheet naturally delever into the second half of this year as disposal proceeds are coming in and the payments from 1Q and 2Q for both BHP and Macondo roll off. And I think, as we look forward, we'll continue to maintain a strong capital discipline frame within our remit of safe and reliable operations.

With that, thank you very much for your patience and we look forward to talking to you at the next call, 2Q, and for those of you that can make the AGM in Aberdeen this year we'll get a chance to catch up with you there on progress up to that date. So thank you very much.

[END OF TRANSCRIPT]