Q2 2017 results:
Webcast Q&A transcript

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Q&A TRANSCRIPT

Irene Himona (Société Générale): Good morning. I had two questions, please. Firstly, on asset disposals. Brian, you reiterate the $4.5 billion to $5.5 billion by year end. I wonder if that refers to sales to be announced or actual cash receipts? Have you announced some disposals that have yet to close this year?

Secondly, just very quickly on DD&A, it is up about 11% in the first half. I wonder if the $8.6 billion is representative of the annualised charge. Thank you.

Brian Gilvary: Hi Irene. So, on disposals, it is proceeds. So, it will be cash in this year. We have already announced over $2 billion, if you take into account SECCO, probably about $2.5 billion in terms of announced deals. Then there is a whole suite of other small-medium size transactions that will close in the second half of the year. So, the actual range I have laid out there of $4.5 billion to $5.5 billion is still well underpinned.

On DD&A, I will have to come back to you on that specific question, but in terms of what we have got coming through so far this year, the new projects coming on stream start to activate DD&A around those assets. It will pretty much flatline from where we are, if you look on a DD&A per barrel basis, for this year. It will probably flatline over the next two or three years as we look at the growth projects coming on stream, and assets coming off the books as we go through some disposals. But we will come back to you on the specifics of DD&A and what the trend looks like for the rest of the year with IR later.

Christyan Malek (JP Morgan): Thank you, Jessica, and good morning, Brian and Bob. Two questions just very quickly. First, you previously mentioned that, if oil remains low, sort of in the low $40s, that your capex can be as low as $14 billion. In light of your cautious view that oil is likely to trade within a range of $45 to $55 / barrel next year, your continued efficiency drives and improved cash margins on new projects, do you think there is more scope to reduce group capex without necessarily sacrificing sustained growth beyond 2020?

And the second question, coming back to oil prices, to Bob: you have outlined an oil price range for next year. Is it fair saying that is your view in the long term too, or do you see things reverting higher? Just interested to know how you think the trend continues through the back end of the decade.

Brian Gilvary: Maybe just on capital frame. What we have laid out is the $15 to $17 billion range. I think for next year, Bob will come onto the oil prices, but I think we will probably see oil prices firming through this quarter as we see demand continuing to grow. That will probably taper off in the back end of this year, so I think a range for next year around $45 to $55 / barrel seems like a reasonable assumption today, but a lot could change between now and the end of the year around the supply and demand side of the equation. But in terms of capital, assuming we are around $60 / barrel for next year, then we would be at the low end of our capital range. And if we saw a long period down at $45 / barrel, we could go below that $15 billion, which is what we have laid out in today’s
results, and we continue to believe that. We are seeing more capital efficiency come through, you have seen a strong set of cash flows in the first half of the year. If you take out oil, then basically it is pretty neutral working capital for the first half of the year if you add the two quarters together. That gives you a pretty good indication of the strength of the cash coming through, and therefore more flexibility as we go forward. We will continue to see capital efficiency and focus on costs and productivity throughout the organisation.

**Bob Dudley:** And Christyan, when you look at the supply and demand and the projections out there, I think Brian used the term $45 to $55 / barrel for next year. In our thinking, that is a pretty good, fairway for us going forward, thinking about $50 oil for the next five years is the number we are going to use right now and keep the discipline around it. That will bring down the cost structure even further in the industry. The US shales are a swing producer. There are always geopolitical events that could create spikes in the other direction, but in terms of our thinking, getting our break-evens well into the $30s, and at $50 / barrel over the next five years is, right now, our thinking.

**Christyan Malek:** Thank you very much.

**Lydia Rainforth (Barclays):** Good morning everyone. Two questions if I could. Just going back to the chart on slide 17, around the free cash flow cover of the dividend. If I remember rightly, at the 1Q stage that was shown at $55 real, and it is now shown at $50 to $55 real. Is the interpretation of that chart, just so I am clear, that the business will be breakeven sub-$50 / barrel, next year?

Then the second one was just in terms of the confidence in the numbers and the projections going forward. When I add up all the projects and things like that, it does look like the numbers are very much risked, and that there is potential upside within that. Can you just comment on how much confidence or how much risking there is actually in that process? Thank you.

**Brian Gilvary:** Lydia, so, the second part of the question. We risk all of those projects, and I think, as Bernard laid out at the strategy update in February, it implies 5% growth, and of course those projects are risked across the piece, similarly with the downstream, as you saw from the downstream investor day. And they are risked for a reason. So, if you take the middle fairway that Bob described, then that is what we think the outcome will be, and lots of things can move up and down around that range.

On the move from $55 /barrel real to $50 to $55 / barrel real, well spotted, and you saw that, in the first half of the year, cash breakeven was actually below $50 / barrel. We have to offset the scrip going forward, so that is still important for us in terms of next year. In terms of where we are targeting cash breakeven next year, it will be a choice as to where we set the capital. We will continue to see more come through in the way of cost and capital efficiency that Bob laid out, and as we land our plans for next year, at the end of this year, and we will set things up to ensure we are balanced next year, and also cover the scrip going forward, and ensure we can offset that on a go-forward basis.

However, there are a lot of moving parts between now and the end of the year. You are right to pick up, directionally, our breakeven prices moving down quicker than we may
have anticipated at the start of the year. The first half year was good progress, but there is still a lot more to do in the second half.

Lydia Rainforth: Perfect, thank you very much.

Anish Kapadia (Tudor, Pickering, Holt & Co.): Good morning, first question is on Macondo. When you look at the balance sheet, you have got a current liability on the balance sheet of about $3 billion. So, I just wanted to check, does that mean you will have around $3 billion of cash out over the next 12 months on Macondo, or are there other offsets or further charges to think about? And I suppose just how the PSC settlement works into that.

The second question is relating to your US midstream. I know you are limited in terms of what you can say on that, but I just wanted to think about the bigger picture strategy on examining a potential IPO. Why are you looking at going down that route rather than outright asset sale, as I believe the majority of your assets are non-operated? Thank you.

Brian Gilvary: Okay, Anish, on Macondo liabilities, that would be the current liabilities which would be typically 12 to 18 months out. So, you are right to say that that is the right order of magnitude which we have laid out for you already, which actually you can also imply from the ranges we have given you, $4.5 billion to $5.5 billion for this year. We continue to expect to stay in that range, and around $2 billion for next year. So, I think that also box balances. And we took a small increase in provision as we start to see the wind-down now in terms of the final suite of claims in the facility. We expect the bulk of those claims to be dealt with, in terms of determinations, through the end of this year and into next year, and the final payments to go through the end of 2018, leaving a suite of things on appeal.

In terms of the Midstream MLP, Bob, do you want to just pick up where we are on the MLP?

Bob Dudley: Yes, Anish, like you say, we cannot say very much about it, but I think fundamentally, with respect to a sale versus an MLP, these are assets that are important to BP, to optimise our operations around the US, e.g. the pipelines, refining, and so by maintaining management interest in it, it is a lot better than just an outright sale, which could damage optimisation.

Theepan Jothilingam (Exane): Good morning gents. Two questions on Upstream hubs. Can you talk about Khazzan and what is on the critical path in terms of commissioning and then ramp-up. What is the speed of the production increase we should expect from Oman please?

Second question, just on the US Lower 48 gas business, could you perhaps talk about where you are in terms of cash generation. Are you cash flow neutral at these positions? And the progress you are making there in terms of taking out costs. Thank you.

Bob Dudley: Theepan, the Khazzan project is moving along very well. You will know we have got a 60% working interest there with the Oman Oil Company. Our latest estimate for start-up should be by October, overall progress on the project is up around 99.8%. We have gas that is filling the plant now. It should be about 7 Tcf of unconventional gas. We have got another agreement to expand it by 50% taking it up another 3.5 Tcf.
As for first gas, we cannot really give the date today, but we have notified the government that we expect it to be in the third quarter. Our forecasts for production this year are up around 17,000 barrels a day this year, and will be up well over 100,000 barrels a day next year. Plateau production will be 1Bcf a day gross. So, we are feeling very good about the progress of the project, and just stay tuned on that.

Brian Gilvary: Theepan, on Lower 48, for last year we were at cash breakeven below $3, and for the first half of this year we are at cash break even below $3. So, therefore at $3/mmbtu we would be generating cash.

Theepan Jothilingam: Great, thank you.

Alastair Syme (Citi): Brian, you have historically shied away from talking around divisional tax rates, and we get some disclosure on the upstream from your anglo filings, but can you talk around what the portfolio activity will do to that upstream tax rate when we see the full year accounts for this year?

And secondly, you have highlighted the WTI–WCS spread in the quarter. Can you give us some sort of ballpark sensitivity on how that spread impacts on your downstream earnings? Thank you.

Brian Gilvary: So, on tax rates, there is a whole suite of inputs that come into that, depending on where the oil price is, depending on whether it is PSA/PSC, particularly from a corporate perspective in terms of deferred tax losses that we carry forward, and what is happening with foreign exchange rates. So, therefore it is actually not that easy or straightforward to try to give you an indication of what is happening in terms of overall rate.

But I think guidance for the corporation this year is probably tracking now above 40%, and remember that the range previously was around 25% to 35%. With the ADNOC concession transaction, we moved the effective rate up to 40%, because of the high tax barrels that come through with that. On that basis for this year, we are now tracking above 40%, given the exploration write-offs did not attract any tax relief this year. Cash tax rate, Alastair, would typically track around 6% to 10% below that historically, and actually for the first half it is about 8% below. But other than that, I am afraid I cannot give you much more information.

In terms of WTI–WCS, as you would expect, as prices come down that differential narrows in. Also, with some of the disruptions up in Canada and producer outages, we have seen that effectively that spread has come in. We have talked historically about wanting something around the mid-teens, as that is where the big Whiting investment around the upgraders came. If the level gets too low, you start to run WTI rather than heavy, but I think you will start to see this spread open up a little bit, which we have seen recently, but we are not expecting a major recovery as we come through this year. It will really be driven by pure supply and demand economics coming out of Canada in terms of heavy crude. We do not actually give an indication in terms of what that means on a rule of thumb basis, so that is really all I can say about WTI–WCS.

Alastair Syme (Citi): Thank you.
Jason Gammel (Jefferies): I wanted to ask first of all about how you think about leverage relative to the relief of the scrip dividend, just recognising that we are now getting pretty close to your 30% ceiling at the end of the quarter but recognising that divestiture proceeds will pull that down? However, is there any level of leverage that you would want to reach before the relief of the scrip dividend, once you get into a position where you are generating significant free cash flow?

My second question is a fairly quick one, I hope. I have lost my decoder ring, Brian. I was hoping you could tell me the absolute magnitude that is associated with a ‘significantly’ lower supply and trading contribution?

Brian Gilvary: Jason, thank you. I am sure if somebody can do an algorithm with machine learning, you will probably be able to work out these results from all of the various things we have said over the last ten years. On the first piece, gearing net debt, that does not really cause us any issues in terms of us saving scrip, so that would not be a determining factor in our decision to offset scrip. At today’s levels, offsetting scrip is around $1 billion to $1.5 billion, so it is not a huge amount in the overall scheme of things, and certainly the balance sheet could more than absorb that. So, the balance sheet will not perform any determining step in offsetting scrip; being back into cash surplus on an organic basis will be the biggest driver of that. So, that is not a cause for concern and certainly would not come into the equation. Even at 30% there is still quite a lot of flexibility in the balance sheet, and 30% is not the ceiling for that range. It is more about long-term financial frame and guidance, so it is always possible to go through it, although I do not anticipate that will happen given the strong cash flows you have seen in the first half of the year.

Supply and trading overall, gas and oil, is tracking to plan so far this year. Oil trading had a stronger first quarter than second quarter, but actually we add up the first half, and it is tracking just around plan, and is bang on the historical five-year average, so there are no major issues with 2Q other than the fact that it was weaker than 1Q, and it was weaker than what was a strong 2Q last year in comparison. So, that is the decoding for you, and other than that I cannot give you any specifics.

Gordon Gray (HSBC): Thanks. Two quick ones, please. Firstly, on Deepwater Horizon payments, if I recall, the non-fine portion of it – the majority of it – is tax deductible, but although you are generating profits at the moment in the US, the pre- and post-tax cash outflows are the same. Can you talk about how much of a tax shield is still outstanding from the Deepwater Horizon payments and how that may work its way through?

The second one was just about the R-Series field in India, and whether you can give us a feel for the clarity you have – and if possible some more detail – on the pricing of the gas that gives you confidence in the long-term returns from that project? Thanks.

Brian Gilvary: So, in terms of the tax credits off the back of Deepwater Horizon, the majority of those have been booked. A number of them have already cleared their way through the system. If you think we are now in year seven beyond where we were in terms of the original provisions that were taken and the only increase – the only credit for the tax charge – will be what has been taken for this quarter associated with business economic loss claims that we laid out for you in the results. So, that continues to work its way through our annual results and as you say, as we start to see the US come back
into profit, you will see those credits start to work their way through. But a number of those credits have already worked their way through the system over the last six or seven years.

**Bob Dudley:** It was India that said that they want to increase their share of gas to 20% domestically. The new contracts and market rates mean the price will vary a little bit quarter to quarter, but in the $6 to $7 area for the pricing. With the FID’s that we put in place and the reengineering and the retooling, the cost of the development has come way down, and they have moved way up in our prioritisation. We are starting out with the first phase and we have two more behind it after the R-series. One is in the D55 field, which is deep below the KGD6 platform itself. So, these projects are looking very good right now, and there is a lot of government support for these things to come on.

**Gordon Gray:** That is great. Thanks.

**Thomas Adolf [Credit Suisse]:** Good morning. I have two questions as well, and going back to capex, if you don’t mind. Firstly, in terms of capital efficiency and productivity, the levels you have reached today, do you think it is harder to go much further at a steady oil price? And what I am interested in is further capital efficiency, including, as well as excluding, the benefits from automation, big data, etc. – things like where are we on the standardisation process. And in the context of that, what is assumed in your 2021 targets?

And secondly, perhaps also indirectly linked to the first question, you said your Capex guidance represents a hard ceiling and a soft floor, but in the context of the soft floor, how low can you go before you start to starve the business of capital, and how does it compare at a steady oil price environment, again in 2018 versus 2021? In 2021, you have much higher production. Thank you.

**Brian Gilvary:** Maybe just to start with, Thomas, I think if Bernard were here he would tell you in terms of longer term, he is looking to position that division and business to ensure that it is robust at $45 / barrel. No doubt we may see those sorts of levels again over the next 12 months. So, I think there is more capital productivity to come through. From all the areas you just laid out, I think you will remember in February Bernard talked about all of the modernisation and technology advancements that we are making – you will have seen some announcements in the press around things that we are doing. They will inevitably lead to more capital productivity, which we are seeing right across other sectors. A number of things we have been early adopters of, we are now starting to bring into fruition, which is also one of the things Bernard talked about at the end of February. So, there is more to come in that space.

In terms of the short term – because really we’re only talking the next 12 months out, in terms of the flexibility of the frame of the downside – there’s probably another $1 billion of capital. So, there is downside if we saw a prolonged period of $45 a barrel over the next 18 months. I suspect that will not be the case, but nevertheless we will have plans in place to make sure that we can deal with that and ensure that after effectively giving ourselves three years to get the company back into balance after that four-year period of $100 a barrel, then I think it is right that next year we will be back in balance.
Bob Dudley: And Thomas, I will just add, on the Upstream, the technologies that are not fully built into our cost estimates, that will transform new developments, the transformation we'll see in automated drilling, will come in. The use of sensors and automation all across these developments will undoubtedly lead to productivity increases that we have not yet fully built in. In terms of starving the business for capital, I think it's always going to be the discipline. We have more opportunities than we can actually pursue going forward, so we will just try to get that balance right and make sure we continue the growth without starving the business of capital but really driving that efficiency into it.

Robert West (Redburn): Hi Bob, hi Brian, hi Jess. Thanks for taking my question. The first one is just a bit of clarification on page 21 where you talk about major projects ahead of schedule, which I think is the title of the slide. I was wondering, is that referring to some of the start-ups this year where the ahead of schedule-ness has already been announced in press releases? Or looking down that list are there any in 2018, 2019 or 2020 that are coming in ahead of the milestones that you'd set out to them along the way? So, that was the first question.

The second was just going back to what Anish asked you about the extra provisioning for Macondo. I would just like to understand a little bit better what is mechanically happening where those extra charges need to be taken? I do not know if you can give us more detail on what actually changes quarter to quarter where you have to take those extra charges, so you can get a sense of whether any future charges might be sensible for us to go and put into our numbers as well. Thank you.

Bob Dudley: Rob, a couple of things. In terms of major projects ahead of schedule, some of these schedules we had laid out quite some time ago. Thunder Horse South which came on last year was far ahead of schedule and under-budget. Of course, we have seen West Nile Delta come on this year. Zohr, which was originally a 2018 project now will come on in 2017, of course operated by Eni. Khazzan, at one point, was a 2018 start-up; it is now getting close, so we have narrowed it down.

If you look ahead to 2018, I will just pick a couple of projects. I think Atoll, the first phase, in Egypt, has potential to be ahead of schedule. It’s not inconceivable it could come on before the end of this year but probably first quarter next year. That has moved fast, very quickly. The first section of Shah Deniz Phase II, the delivery of gas into Turkey; has moved up targeting probably October next year. And then Maersk is operating Culzean - we have seen that move up as well. So, those are just a few on those lists.

Of course, our schedules change all the time. As we get further into the engineering, we can see it and be more precise. I think the execution of our major projects team over the last four years has been quite remarkable in the transformation from the phase that we were in before.

Brian Gilvary: And then in terms of Deepwater Horizon, it is really around the run-off of the final piece of the claims facility. There was a recent ruling in a court. If you remember at the very start of this process we had about 149,000 claims in that facility. We are down to 5,000. There has been a recent court ruling which majority wise underpinned a number of other rulings we had which has helped in terms of proceeds going forward. But it has also effectively resulted in the recycle of about 2,000 of the 5,000 remaining
claims to go back through the process, which is deferring things out and means administration costs are slightly higher. And a redetermination of some of those claims as a result. So, that is why we pushed through this extra charge.

Effectively, we are expecting everything to be done by the end of next year. There is a slight 12-month delay to the final piece of the claim. But we don’t believe it will have a cash impact this year and it will have a minimal cash impact next year.

Robert West: That is very clear. Thank you.

Jonathon Rigby (UBS): Thank you. Can I ask you about the downstream? You invested a lot of time and effort in presenting to the market on the downstream about a month ago, with quite a differentiated bit of disclosure and discussion around the separate businesses that go into the downstream. And you talk about some of the progress today but the disclosures that you’re giving are very traditional; one might say somewhat old fashioned. And I think as you acknowledge the trading result this quarter sort of emphasises the volatility in that business. So, would it not be better, or has some thought been given to expanding disclosures, to talk about some of the progress in the underlying sub segments around the conversion of sites and other progress that you’re making to emphasis progress made in the downstream with what are quite ambitious earnings from cash flow targets.

That is the first question. The second is, Brian, you talked about the use of cash as and when you move to cash surplus, and you talked about the balance between the anti-dilution of the scrip and CAPEX. You did not mention debt, and I wondered whether, over the longer term, given what is happening in the market, given obviously volatility in oil prices, the impact of shale, etc., whether there has been any consideration taken around sort of lowering through cycle net debt as and when you can. Thanks.

Brian Gilvary: Jon, on the second part of the question. Our average cost of borrowing is just over 2%. So, just to put that into context, it is not that expensive to carry that level of debt. And you will recall, during the Macondo period of uncertainty, we moved the range down to 10% to 20%. But no, if anything, the push from investors is actually, ‘30% is pretty comfortable; could you not go higher?’ So, net debt is not one of the issues that is on the agenda now; it will naturally decline over time as we go forward and debt rolls off. We’ll have choices as to whether we want to renew that debt depending what the prevailing rates are. But right now, economically it is actually not a bad place to be in terms of where we are.

On downstream, I think over the last four years we have done a lot of disclosure. You have sub-segmentation of the fuels business. We show you lubricants, we show you chemicals. So, you have access to those. I think at the Downstream Investor Day, Tufan laid out a lot of information which again you will see in the disclosures. We talk about the number of new sites that we have added so far this year. I think it was something around the order of 90 new sites. We have the Woolworths transaction, which is in the regulatory phase in terms of approvals going through. And what we are doing on the convenience partnerships side. We also give you some indication around trading inside the fuels business as you alluded to in terms of volatility. We will take on board your comments and we will talk to Tufan about whether we can give you more disclosures going forward, but you will start to see the underlying improvements come through that
we saw over the last two or three years and what we have laid out to 2021. You will get a lot more information around that going forward.

**Martijn Rats (Morgan Stanley):** Good morning. Thanks for taking my questions. I have two. I also have a question on slide 21 which is the exhibit that shows your major projects over the next couple of years. Altogether it adds up to 800,000 barrels a day of oil equivalent production. But if you focus on the projects that are oil, as far as I can see, they add up to about 85,000 barrels a day of that total. So, a smidgen above 10%. Suggesting that the other 90% is gas.

Now I know the mix is shifting and that the strategy is sort of moving, but is that really the strategic intent of BP, to have the oil/gas mix shift so much towards gas over the next couple of years?

And the second question is related to the Russia Sanctions Review Act. I have to say, I struggled to understand how much this means or what it could mean. But perhaps could you give us your view of what it would mean for BP if this was passed in its current form?

**Bob Dudley:** Right, thanks Martijn. Both good questions. There is a shift in the portfolio to gas. It is not a 90% shift. We do have the oil projects in there if you look at the Thunder Horse expansion projects. You have the Mad Dog project, which is a significant oil project coming down the track. Clair Ridge next year in the UK. Quad 204 this past year. And then with a fair number of these gas projects there are a lot of liquids and condensate with it. So, I think the number is not 90%. These projects we look at as advantaged gas projects. They are not like lower 48 type projects. They tend to be in markets that are short gas, where we have contractual gas pricing so that the economics are clear. The Egypt projects fit into that, the Oman projects fit into that. So, these are quite selective gas projects for us. And Mauritania & Senegal, which will have a significant amount of gas, I would also add that there is a lot of oil prospectivity there which would not be seen on the charts. You have seen our strategic shift to low cost oil, or advantaged oil, it will still remain a very important part of the portfolio, but a shift higher to gas.

On the Russia sanctions, we have noticed that the language in the version that went into the House was full of unintended consequences. For example, it might have affected the Shah Deniz project, even some of the Egyptian projects. As I understand, the language has been rewritten, and now avoids those very, very significant unintended consequences to American companies. The sanctions themselves as they are written – and we will carefully monitor this, and of course we have to work very carefully within the sanctions – but we are not aware of any material adverse effect on our current income and investment in Russia, or elsewhere, or our ability to work with Rosneft itself. We stay away from targeted individuals of course and do not get involved in any of their personal business but we have been able to work well within the guidelines to change that.

**Michele Delle Vigna (Goldman Sachs):** Thank you for taking my question. I was wondering, over the next 12, 24 months, which projects you felt comfortable enough to FID, and where you think that more work could still further lower the cost from here. Thank you.
**Bob Dudley**: Well, we deferred a couple of FIDs, as you know, in Pike and in Browse for good reasons. You know, we could see ourselves with an additional FID in Atlantis phase III, a very significant oil development in the Gulf of Mexico. The costs are coming down. That clearly has great prospectivity there. That is one I would think about. We have another one in the Gulf of Mexico we may consider. We need to work with our partners on that. You might see us with additional FIDs down the road there in India. We have said we have sanctioned the first one with the R Series projects but there are others in India. And we have just recently sanctioned Angelin in Trinidad. So, we will pace these out, we will be very selective about them. But we have some good projects there that you do not see on the list on slide 21. And I would also add some of those are oil.

**Iain Reid (Macquarie)**: Hi guys. Thank you very much. Couple of questions please, one on Senegal & Mauritania. Just wondered how the recent discovery, Yakaar has changed in any way the planning you have for developments there. Is this going to kind of change the focus from the Tortue discovery? And when will you give us an update on what you are planning at the moment in terms of FID on that project?

And second question, Bob. Just coming back on this Russia issue and perhaps a bit more philosophically. The dividend from Rosneft has now fallen below $200 million per annum and it looks like it is not going to move very much from that given the outlook for oil prices. I am just wondering how you feel about the return on the investment from the significant amount of money you have invested in Rosneft following the dissolution of TNK-BP, and whether the strategic upside that you keep talking about really compensates for the very low return you are getting from that investment?

**Bob Dudley**: Iain, thanks. On Mauritania and Senegal, we had that significant discovery south of Tortue in Senegal. Tortue is on the line between Mauritania and Senegal. We are drill stem testing a well right now in Tortue. I think this is such a prospective region now. We see resources there. If we look at it, I think there is probably 50Tcf of gas out there in Mauritania and Senegal. The development concepts, I think, will be modular in a way. We need to appraise this and then we will optimise it. We have a development concept now for Tortue, but we can alter this depending on discovery of other resources out there. We will be drilling some wells in Mauritania, the Hippocampe project and Requin Tigre this year: all of those things could change our thinking in terms of what could be a fairly complex resource area. Maybe even further in the north in Mauritania, there is some oil.

However, I think what that discovery essentially does is demonstrate the high potential of that basin itself. So, I would stay tuned with that. It is all good news. We will see what happens on the DST and these other wells that we are planning to drill this year.

On the Rosneft dividend, by the way, there will be an extraordinary general meeting of Rosneft in September, where they will begin to declare dividends twice a year. It has always been dividend once a year; we will see another dividend payment in the fourth quarter; I am reasonably sure that is the outcome from the voting.

Rosneft is a 5.5 million barrel a day company. It has lots that it is doing to make itself more efficient. The Russian government is reviewing their tax system, because it was put in place at $100 oil. I still believe it has lots of upside potential. It, like BP, is working to get its breakeven costs down. So, I think it is doing exactly strategically the things any
company should be doing at these oil prices, and I still remain hopeful that we will see improved profitability from them. However, I think this step of going to a dividend twice a year, based on half your earnings, and then looking at the tail of the portfolio is all positive.

Iain Reid: Okay. Can I just ask, any update on the timing of FID for Tortue?

Bob Dudley: Well, no, not with a DST going on now. I think that part of it is just to appraise it further. However, we have done a lot of engineering work with Kosmos, and we will be able to move pretty fast on it, but no, I cannot give you a date right now.

Christopher Kuplent (Bank of America): Thank you. My two questions are as follows. Firstly, Brian, you once again referred to the $2 billion to $3 billion annual disposal rate that we should expect from 2018 onwards. Is that a net number? Or should we assume that that proceed generated will partly cover ongoing oil spill payment costs, and at the same time be reinvested in external growth, the likes of Zohr and Mauritania that we have seen over the last few quarters?

My second question would purely be for a clarification. You said you have announced $2.5 billion of disposals so far this year. Can you already tell us how much cash flow those assets have generated in the first half so far?

Brian Gilvary: So, on the second question, Chris, the difference: $800 million of proceeds have come in in the first two quarters, and the difference is of course SECCO, which is due to close by the end of this year.

Then, on the $2 billion to $3 billion, it is not that they will cover specifically in any one year, rather over time we have said disposal proceeds will cover Deepwater Horizon payments and inorganics, and for next year, actually, that will be the case. So, something around $2 billion to $3 billion will cover $2 billion of Deepwater Horizon payments that are currently forecast for next year – we look at the schedule of payments to come out and where we think the claims facility is – and the balance of inorganics, in terms of cash payments in 2018. So, that is correct.

Christopher Kuplent: And sorry Brian, for SECCO in the first half, in terms of cash flow that you have still consolidated in terms of run rate?

Brian Gilvary: In terms of proceeds or in terms of the earnings from the asset?

Christopher Kuplent: Underlying earnings.

Brian Gilvary: No. So, that is still consolidated inside the numbers in the first half of the year, and that will only be deconsolidated when this transaction closes, once it goes through regulatory approval in China.

Christopher Kuplent: And in the first half, there would have been a couple of hundred million?

Brian Gilvary: We do not do cash numbers by sub-asset, which I think you would expect Chris, but there is a significant amount of proceeds to come with the closing of that transaction in the second half of the year. Around $1.7 billion is the full consideration.
**Christopher Kuplent:** Yes, okay. Thank you.

**Biraj Borkhataria (RBC Capital Markets):** Hi, thanks for taking my question. I had a couple. Firstly, in the Lower 48, the data you provide shows that the operating costs have gone up for the last couple of quarters. I was wondering if you could talk a little bit about the underlying trends you are seeing there?

Secondly, back on FIDs, I just want to get a sense of how you are thinking about this going forward. One of your peers has talked about 2017 being a window to lock in bottom of the cycle service costs. You do not seem to be in as much of a rush. I was wondering if you could talk a bit about what you are seeing maybe on the offshore market or any commentary there. Thank you.

**Brian Gilvary:** On Lower 48, it is nothing more than phasing of where we are in terms of the various programmes. We obviously have a choice in terms of what we do in the drilling space each quarter, so it is quarterly noise that you can see coming through those numbers, but the long-term focus continues to remain on making sure that we continue to drive efficiencies in costs through into that business, what we are learning from the various activities that we have done that we laid out for you last year.

**Bob Dudley:** And Biraj, on the FID’s, you are right. Well, some of the competitors are saying 2017 is the year to lock it in, we have been locking in some of the low yard spaces and contracts for the FID’s we have done in 2016 and 2017, but I’m not convinced that this is the low point, particularly in the offshore and offshore drilling, for example, where I think there is such a big oversupply, that you can expect to see drilling costs come down. So, it is not clear yet that we have to rush to lock these in.

**Biraj Borkhataria:** That is very helpful, thank you.

**Jessica Mitchell:** Thank you Biraj, and I think that is the last of our questions. So, thank you everybody for helping us run a more efficient call today, and I will just hand back to Bob for closing remarks.

**Bob Dudley:** Thank you Jess, and thank you everyone for listening today. The call has been quite a bit shorter – it may not feel like it – but it has been quite a bit shorter this quarter than the other quarters, which is absolutely based on your feedback.

I will just say, in February, we laid out a strategy for where we were heading, getting our business readjusted for the new price environment, and we need to build a track record. This is only the second quarter out of the 20 quarters that we laid out then, so we will just keep coming back, snapshots as we move forward on this. I think we have delivered pretty well on this quarter, and particularly as we really drive our business for cash, and that is the most important number that I think comes through on this quarter.

So, thank you all very much. See you next time.

[END OF TRANSCRIPT]