2Q18 results: Webcast Q&A transcript

Tuesday 31 July 2018

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Q&A Transcript

Bob Dudley: Thank you very much and let me now turn it over to you for questions. **Operator:** If audio participants would like to ask a question, they may do so by pressing star one. To cancel your question, please press the hash, or pound, key. If are listening on the web, please submit your question using the web question facility.

Craig Marshall: Okay, thank you everybody for listening. We are going to turn now to questions and answers. Just a reminder, please, to limit your questions to no more than two per person so everybody gets a chance to ask. We will take the first question from Lydia Rainforth at Barclays. Lydia?

Lydia Rainforth (Barclays): Thanks Craig, and good morning. Two questions, if I could? The first one is for Bob. When you are talking about modernising the whole of the BP Group, are there areas where you are seeing that going ahead of schedule, or are there areas where it's a difficult, or is it evenly across the group?

And then the second question, for Brian, if I could? Just in terms of the cash flow numbers for this quarter, if I look at the cash flow levels on an underlying basis versus last year, they seem very similar despite the higher oil price, and I understand the trading loss and the Gulf of Mexico maintenance, but I was just wondering if you could quantify some of those impacts for us? Thank you.

Bob Dudley: Lydia, thank you very much. This modernising the group is – there's extraordinary things happening all across the industry, and with BP we throw around big words like 'big data', but actually the use of sensors and working through the data all the way through exploration, all the way through our reservoir engineering and optimisation of wells and field developments are quite astounding, and I think we're going to show some of you in September as visitors to BP.

The areas that I think are going faster than we thought – and it comes not from mandating it from the top but putting these technologies out and the uptake and where they're being used in digital platforms, such as blockchain, quantum computing, cognitive computing is starting to improve efficiencies, but it's really the use of our data, sensors and the ability to visualise these things and make decisions faster is quite astounding. I can't say what all the other companies are doing, but these are going faster, I think than any of us thought. And once it gets going, the momentum just builds, and everybody wants to use them.

Brian Gilvary: And then Lydia, in terms of cash, it's a 90-day window so there's a lot of moving parts. If you look at the first half cash numbers, I think that gives you a better feel, but I'll talk about what's happened in 2Q versus 1Q that creates a bit of the noise. As you look quarter to quarter, or 2Q versus 2Q last year, it's similar things. If you look at EBITDA on a straight 1Q, 2Q, it's flat; you would have expected it to have come up. The difference is basically what you said: it's maintenance (the maintenance programmes in 2Q) and the slight loss in trading which meant that, effectively, trading was a weaker result in 2Q over 1Q.

If you look at specifics, so for the half-year, $12.8 billion if you strip out the $400 million of working capital build that we saw in the first half of the year, set against the $7 billion capital number and about $3.9 billion for the full dividend, including scrip, gives you circa $2 billion of surplus cash in the first half of the year; which if you run it through the rules of thumb is not far off where you'd expect it to be. But there's quite a lot of other moving parts that you can't see in the second quarter and I'll just highlight three.

One is cash tax paid in 2Q is $400 million higher than the first quarter. There is a string of NOIs, non-operating item, cash flow impacts in 2Q associated with, for example, restructuring costs, CapEx – cash, sorry – cash going out from RatEx in the second quarter is higher than it was in the first quarter and then the trading result we talked about. Although trading made money in the second quarter, we had a small loss inside the oil trading result and therefore the delta of 1Q vs 2Q in terms of total trading created the difference.

So it's hard to try and zone in on just 90 days as being what's happening with the operating cash, so if you look at first half, it's not far off where you'd expect the rules of thumb for it to be.

Lydia Rainforth: Right, thank you.

Craig Marshall: Okay, thanks Lydia. We'll turn next to Jason Gammel at Jefferies. Jason?

Jason Gammel (Jefferies): Hi everyone. I just wanted to come back to the BHP transaction. And Bob, can you talk about why you decided to, essentially, bid on the full package rather than just targeting the Permian Basin, or the Permian Basin and Eagle Ford? I guess, specifically, were you looking at Haynesville as being low cost of supply in North American gas, or were there any other drivers there?

And then just one more follow-up. Can you talk about any growth rate assumptions that you have on production when it comes to the $1 billion of free cash flow that you expect the unit to deliver?

Bob Dudley: Jason, thanks. I am going to throw that right over to Brian because he just answered the question just before the call.

Brian Gilvary: Yeah, so just on the package – one is it's probably one of the most public auctions we've seen for a series of assets, given the amount of coverage on it – there were seven packages. And I think it's fair to say that if you added up all the bids on those seven packages, we would not have been able to get anything like as attractive a deal as you saw. That said, actually, this is a suite of assets that we'd looked at for some time, even before it came on the market. We've talked historically about trying to find solutions for the Lower 48 that would give us access to a broader suite of potential options and we've talked those through with our investors historically. So we knew these assets. When they came on the market it was clear to us that the real advantage and benefit was the total package.

As there were seven packages – I can tell you this because we know as a matter of fact – we have had a number of inbounds already on these assets that we've just won because, certainly, I think there were some people out there that may have bid on specific assets as part of the seven packages that certainly would have had numbers significantly above where we were. So our attraction was there were clear synergies in the Haynesville and Eagle Ford and it then gave us a very important foothold in the Permian. As Bernard described last week, if you look at the activity in Reeves County, it is a sweet spot inside the Permian, and that therefore enabled us to get a foothold into there.

So for us it was where the value was actually the total package. If you look at the breakdown of the seven packages, I think the sum of the parts was, I suspect, above where we came in. The issue, I suspect, for our counterparts at BHP would have been executability of those seven packages, and I think the advantage we gave them from day one was a very fast transaction that was clean, that was not encumbered by other parties, that we would be able to execute. And I came back to this last week: our M&A teams have done something close to over $100 billion of transactions now in the last eight years and part of the offer we put on the table was that we could act clean and quickly on those assets.

Bob Dudley: And Jason, I'll just add another driver for this is we have a great team in the Lower 48. And you all will know that they primarily have dry gas to work on. So being able to put their tools and techniques and expertise now to this set of assets was another driver in it and we'll high-grade and shift around that portfolio somewhat.

Brian Gilvary: And then Jason, in terms of f production I think Bernard laid out last week that actually this will enhance what his production looks like over the next five years, but he'll give you more guidance on that at the end of the year when we do the Upstream investor day.

Jason Gammel: Very good, thanks for that and congratulations on the transaction.

Bob Dudley: Thank you Jason.

Craig Marshall: Thanks Jason. Okay, we'll turn to Theepan Jothilingham at Exane BNP next.

Theepan Jothilingham (Exane BNP Paribas): Yeah, hi, good morning gentlemen; two questions, please. Firstly, can we just come back to cash and think about the evolution in H2? Could you give a little bit more details in terms of the impact on Whiting versus the volume momentum?

The second question: could you just please give us an update in terms of Macondo, where we sit with the BEL claims and the process of closing the facilities on payments?

Brian Gilvary: I can take both of those, Theepan. In terms of Whiting, overall you saw the light-heavy spread came in, in the second quarter, to the tune of about $5/bbl and that impacted some of the results and cash.

But we do have a higher turnaround coming through in terms of the second half of the year at Whiting. It's due to begin around September and it'll last for a period of seven weeks. So we don't normally give you specific guidance on what that will mean but I think you can sort of work out, if you look at production runs for Whiting, what the seven-week impact will have in terms of cash flows.

In terms of Macondo, we have paid out the bulk of the cash payments for this year. We said they'd be slightly over $3 billion; we've paid out $2.4 billion. The $2.4 billion in the first half of the year was primarily the two big major settlements we did in October 2012. The final payment of that went out in the first quarter, $1.2 billion. The first payments went out around the July 2015 settlements in the first and second quarter, and then we're into final cash payments going out around the plaintiff steering committee settlements. You saw we took a slightly higher provision around BEL claims this quarter, which was cleaning out the tail of those, another $190 million after tax. We're now down to basically about 40 claims in the system that need to be resolved – that will be resolved through 3Q and 4Q. So in terms of cash payments on Macondo, the bulk, over 80%, or up to 80% have gone out already of what we anticipated for this year. And now we're just finally into the litigation tail[1].

You also saw this quarter we cleaned out – some litigation outside of BEL claims was taken care of. And now, effectively, a choice for Eric Nitcher, our General Counsel, is whether we look to try and settle things before they get to the fifth circuit on appeal – which we've taken out a chunk through the second quarter – or we let the litigation process run out, where he's been relatively successful, so far, in terms of the cases he's taken forward – but we're now into what I call a litigation tail and therefore there'll be some movements but it'll be de minimis around the quarter.

Theepan Jothilingham: Thank you.

Craig Marshall: Okay, thanks Theepan. We'll go to Michele Della Vigna next at Goldman Sachs. Michele?

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[1]See note 2 of BP's 2Q 2018 results stock exchange announcement for further information on latest estimate for remaining costs associated with the Gulf of Mexico oil spill, including BEL claims.

Michele Della Vigna (Goldman Sachs): Thank you. Two questions from my side. The first: I was wondering if you could update us on the progress towards the FID at Tortue, and on the next wave of FIDs in your portfolio? And then secondly, if we could have an update on the start-ups for the rest of the year, inparticular Clair Ridge and what production you expect for the full year. Thank you.

Bob Dudley: So, Michele, the first one on the Tortue, the phase one, we've just been meeting with the Mauritania and Senegal Governments on that, we're heading towards an FID in the fourth quarter this year.

Your second question was on –

Craig Marshall: Clair Ridge.

Michele Della Vigna: On production, yeah.

Bob Dudley: We expect start-up before the end of the year, in 4Q and we're about 97% complete on the Clair Ridge project. I won't give you a figure yet for the year. I've got it, but I think it's probably not the right thing for me to do, given our partners in there.

Michele Della Vigna: Thank you.

Craig Marshall: Okay, Michele, thanks. We'll turn next to Oz Clint at Bernstein. Oz?

Oswald Clint (Bernstein): Good morning, thank you. Yeah, just going back to M&A and obviously BHP helps solve the kind of US liquids under-exposure but, Bob, you also mentioned LNG demand being strong and I guess you're a little bit under-exposed relative to your larger peers in this particular segment. So I'm just curious: is there appetite or do you feel the need at some point in the future, to kind of beef up just in terms of LNG exposure?

And the second question, perhaps on the quarter or the first half of the year so far, in rest of the world liquids looks like a relatively steep decline so far this year. I'm just curious, is that Angola and is that decline kind of coming into line with your plan, please? Thank you.

Bob Dudley: Oz, thanks. I think some people forget how much LNG we do have, with Atlantic LNG out of Trinidad, part of those four trains there, our involvement in the North West Shelf. We've got the two trains in Tangguh and a third one coming along well, to start up. So I think those are – it's a fair number; we've invested in off-take agreements. We've got some big off-take agreements in Mozambique, with Eni and some big ones off the Gulf of Mexico, so we're certainly trading a lot of LNG. They're big, expensive, capital-intensive projects. For example, we also have some in Angola as well. So I'm not sure we feel light in LNG. There's always a project in Alaska that's been talked about for years. We and Exxon and Conoco are involved in that; we'll see about that, but it's not a burning desire in the portfolio.

Brian Gilvary: And then in terms of production numbers, Oswald, you'll see that underlying production was up 11.7%. What you're probably seeing in terms of the liquids – the rest of world liquids is turnarounds and seasonal impacts that come through in this quarter. And in the reported numbers remember you also have the expiry of the ADMA concession that came off the numbers, which was around about – from memory about 66,000–70,000 barrels a day, so that would probably explain the delta: that along with turnarounds.

Oswald Clint: Okay, super, thank you.

Craig Marshall: Thanks Oz. Okay, we'll turn to Rob West at Redburn next, please.

Rob West (Redburn): Thank you for taking a couple from me. One is a reflection on the shale deal from last week, and the way you're divesting assets to cover some of the cost of that deal. My question is: is that partly motivated by looking through the portfolio and seeing assets where you can unlock value that's specifically not being recognised by the market and swap it out for an asset like the Permian which the market is clearly much more to give full credit to? And if you can talk about any specific areas where you feel like that hidden value might fit, that would be interesting.

The second is a specific one just about the North Sea, particularly Clair Ridge, where you deepened your stake. Is it true that there's a test of the fractured basement below Clair scheduled for this year and is that, in any way, part of your motivation to deepen there? Thank you.

Brian Gilvary: So on the first part, Rob, we wouldn't normally talk about specific transactions, although actually the example you just gave us, in terms of swaps, is actually the Kuparuk-Clair swap is a good example of where we're looking to deepen into things – value versus volume – deepen things where we know we can have additional value. So you'll see more activity in the swaps space. I think you'll see that across all the majors, actually, over the last four or five years as we look to try and consolidate positions.

In terms of a specific suite of packages associated with BHP, this is all about how we finance the deal and the high-grading of our portfolio. So it's really about focusing where the cash will go in terms of value creation in that new portfolio and how we're going to fund it through tail asset disposals, but we wouldn't normally talk about specific assets and we don't normally go to public auction processes. We will transact – as I said before, you know, the team are pretty hot in terms of what they've done over the last eight years. We'll transact and you'll see the announcements around those assets as we start to do that and then you'll get a flavour for the sort of assets that we're talking about.

And then on North Sea, in terms of Clair, we wouldn't talk about the specifics of that. I think that'll be a good question for the Upstream investor day come December.

Bob Dudley: But I'll just footnote: that point you raised, whether that's correct or not, is not in our valuations when we did that swap.

Rob West: Got it, thank you.

Craig Marshall: Okay, Rob, thanks. We'll go next to Christyan Malek at JP Morgan.

Christyan Malek (JP Morgan): Hi, good morning gentlemen, thanks for my questions. Firstly, just two from me – first, when you ex-out the working capital and look at cash flow for $5.7 billion relative to what should have been a stronger quarter on an underlying basis with higher oil, it looks as though there's been some unexpected leakage, which you sort of explained. What are the areas that you think you can improve on in the second half? Is it fair to say that the high oil price is coming with more one-offs, even when you think about this on a six-month year instead of a quarterly snapshot?

The second question – Bob, I just want to understand better the executive management and board's portfolio strategy from here? Will you always keep an open mind in terms of building versus buying, or following the

BHP deal, is it fair to say BP has done solving for its long-term portfolio. And I guess, in that context, should we think about excess funds now going directly to shareholder returns. Thank you.

Brian Gilvary: So in terms of the cash flows, on the first question it's a 90-day window so it's pretty hard to predict what happens. As oil prices go up, you get all sorts of working capital movements. I think if you come back to the first half numbers, Christyan, I think it gives you a better flavour of what's actually happening. Ex the one-offs I've talked about that have come through in the second quarter versus the first quarter, and it'll be driven by –I think EBITDA is probably a safer place to go and look at in terms of trying to get to a trend on what's actually going on in the underlying operating cash flows, ex other things moving across our seven different business models. So we have a lot of moving parts in each of them and it's pretty hard to capture in a 90-day window to say, 'I can take this as a firm trend from the previous quarter.' I think four-quarter rolling average is a pretty good place to go but I'd point you towards EBITDA as being the safest place in terms of actually what's happening in terms of the underlying cash flows and then you'll get inter-quarter moves, like you did here with the tax, restructuring costs and the fact that we had a lower trading result in 2Q over 1Q.

Bob Dudley: And just to add about portfolio and board philosophy and executive philosophy here. I think we've been cautious to work within this narrow fairway that we've had, really, for many, many years after the Gulf of Mexico incident. We have done a series of bolt-on acquisitions through – beginning in late 2016 and into 2017. This is the first large transaction we've done. We've done all of these within the guidelines and the boundaries of our thinking that they have to be accretive and they have to give us the ability to high-grade the portfolio. So rather than shutting down any activity, I'd be open-minded about it. It's not our plan to continue with a series of acquisitions but if they fit this financial framework about being accretive, allow us to grow, allow us to generate greater free cash flow, to stay with that philosophy of increasing distributions to shareholders, we'll continue to be open for those things.

Christyan Malek: Sorry, gearing then doesn't – in that case, we should never think about gearing coming down as a hard target? I mean, is that – not to put words in your mouth.

Brian Gilvary: I think the more important measure is the amount of funds that we're generating over extended debt. That's the measure that really matters in terms – because ultimately that drives credit rating. So, we want to keep our credit rating in the band where we are. Gearing is just a proxy – I mean, frankly, 30% gearing – 35% gearing is not an issue. We keep 30% gearing as a way to create more discipline within the financial frame, and that's why it's stood us in good stead now for the best part of 30 years. We took it down to 10% to 20% during Macondo because we had the huge potential liabilities coming through from that. So, I don't think it necessarily means that we'll stay up anywhere near 30%. Actually, the trend this year will be coming down. It's disguised somewhat by the $2.4 billion of Macondo payments that went out in the first half of this year. In fact, it's disguised by something close to $16 billion worth of Macondo cash payments that have gone out over the last three years if you include the first half this year and the previous two years. If you backed those out, our net debt would be in a very different position. So, I don't think you should imply anything from that, other than the fact that right now gearing and net debt is trending down, especially with these higher oil prices.

Christyan Malek: Great, thank you.

Craig Marshall: Great, thanks Christyan. We'll move next to Irene Himona at Société Générale.

Irene Himona (Société Générale): Thank you, Craig. Good morning. Two questions please, the first one for Brian on Lubricants. Lubes is about 20% of your downstream earnings. It's also 20% of your targeted $3 billion downstream earnings improvement by 2021, yet in Q2, the result is down over 8% year on year; it's down sequentially; it's gone either nowhere or downwards for the past five or six quarters. I wonder if you can share with us what's going on, and what may change this trend that we've seen?

And secondly, a question for Bob. Bob, you've always made it clear that the focus is on value and free cash flow, and that volume growth is the result of your strategic delivery. Is it possible to share with us what you think the BHP deal, which is a highly strategic transformational deal for BP, what that deal may do to your 5% volume growth that you are guiding to out to 2021 please? Thank you.

Brian Gilvary: So, on Lubricants, Irene, I think this is definitely a business, it's fast-moving consumer goods, it's one that you have to look at over a run of years, and what you will probably know straightaway is that, in a market where oil prices are growing quite so rapidly at the rate at which they are, that clearly impacts the base oil price, and it takes time to move those prices into the marketplace. So, I wouldn't worry that there is a negative trend that has developed, but there's no question they're going through these weaker quarters as they move their prices on to the street. But you can't immediately do this – it's not like with retail fuels, with lubricants, because the nature of the product itself, it takes time, and therefore what they're dealing with is a higher base oil price that they come in to their base cost. You can't simply just immediately move that price on to the street. So, you will see a lag. It's a much longer lag than you would see in terms of fuels.

What I would say though, in terms of Lubricants, is actually they're continuing to grow their premium products volumes, which is – you'll know from the Downstream Investor Day, there are two important parts of the lubes strategy, underpinned by technology and their people, which are probably their biggest assets – truly their biggest assets for the Lubricants division. But growing their premium products and growing in the non-OECD fast-growing markets, and they are in both of those cases – in fact, actually we reviewed it last week – they are both continuing to progress on that strategic agenda. So, I think you have to just look through the environmental impact of the higher base oil prices that comes with a higher oil price, impacting their business over a short to medium term. Ultimately, they'll come back through that as prices now have got back into a more stable piece, and some of those prices get moved on to the street.

Bob Dudley: And Irene, on your question about the BHP transaction, of course it will bring in, on the anticipated closure at the end of October, 190,000 barrels of oil equivalent. I have no reason to think that we won't get those assets up to 320,000, 350,000 barrels a day going forward. It will certainly be more liquids, and it will be more valuable, but in terms of putting the percentages out there, it really does depend on what divestments we might make for the overall Group. Our projections though are, from these assets, it will increase the upstream free cash flow by over $1 billion by 2021, which is why we upped the targets coming out of the upstream by $1 billion. And I think that's not all from the Lower 48 but primarily from these new assets. So, I couldn't put a number on it, in terms of percentages. Like you say, it's value over volume, and free cash flow is the objective. We'll just have to see what assets we might decide to divest to put a number on it.

Irene Himona: Thanks very much. Thank you.

Craig Marshall: Okay, thank you Irene. We'll turn next to Jon Rigby at UBS.

Jonathon Rigby (UBS): Hi – hi guys. Two questions: the first one I guess Brian will know that I was going to ask this question. So, I want to ask about trading. In the quarter, how would you characterise what happened? Was it a function of the market or your positioning vis-à-vis the market? And if it's a function of the market, are you able to characterise the kind of conditions in the market that might give rise to either weak or strong opportunities for your trading business? Just so that prospectively we can judge and understand perhaps where you're likely to have a good or bad quarter, or is it just too difficult to make that judgement?

The second question just is on – going back to the announcement on the dividend increase on Friday. Are you able just to talk to how you think about where you want to pay for that dividend? You referenced $50 to $65 (oil price) as your sort of expectations for operating conditions, as the base case. Is your dividend effectively pinned at the $50 level in terms of the way you want to be able to fund it and the visibility you have on it? Thanks.

Brian Gilvary: So, just coming to the first question on trading. We can't give you any more detail than what's already out there. What I would say specifically, is just some facts. First half of the year, all trading made money, so they were in profit for the first half of the year and trading overall was in profit for the first half of the year. And then the second quarter, our total trading was in profit. So, it's the oil trading's part of the total piece.

What specifically happened through 2Q, and I don't think we were the only company to have this issue, was that there were some specific positions around some particularly difficult market calls, and we got the call wrong. It's as simple as that. Now therefore, can we predict that? Absolutely not. What I can say though is, and you'll know it if you look at our results over a run of five years or ten years, we will have the odd quarter – this would be the third one in the last five years – where we've had a small loss. It's asymmetric risk because of the way in which we build optionality into that business and the base business that we have, that means that there may be from time to time a quarter where you'll have a small loss.

Equally, you'll know, just from what we've said historically, we can have quarters where it's an average plan quarter or it's a strong quarter. So, the risk – the way in which the risk is structured in that business is, there can be a quarter where you have a small loss; equally, the opposite is true, that there'll be quarters where you have a very strong quarter, significantly above the average historical plans.

So, I don't think there's anything particularly in this quarter. It was around one specific position in one book where they made the wrong market call, and actually they did a very good job of exiting that position, which they have exited. But we can't give you any more detail than that. I don't think you should take that as an indicator for the future. I realise it's difficult and frustrating, therefore, to predict future results, but I think the frame we've given you before, around the five components – slight loss, below average, average, above average and strong – are the best characterisations we can give you for that business.

Bob Dudley: And Jon, as we think about the dividend, the way the Board looks at it, we've laid out the future. We continue to plan the company really precisely, I would say, rather than that range of $50 to $65 oil price working assumption around setting the dividend is based on $55 dollars real, we started out with that planning assumption in 2017. So, that'll be the lynchpin of our dividend planning.

Jonathon Rigby: Okay, thank you.

Craig Marshall: Okay, thanks Jon. We'll turn next to Martijn Rats of Morgan Stanley. Martijn.

Martijn Rats (Morgan Stanley): Yeah, hello. Good morning. I wanted to ask you two things. First of all about the refining margins: we're actually off to rather a good start for this quarter, so I wanted to ask about your comment, you expect lower margin in the third quarter. Is that just a mix effect from some complex refineries like Whiting going through turnaround, or is there a sort of underlying – is there underlying market colour in that comment?

And then secondly, perhaps a bit mechanical, but just wanted to understand this: on the $5 billion to $6 billion of disposals that you are now mentioning, is that basically the number for 2019, or does that come on top of some underlying rate of disposals of another couple of billion dollars? Thank you.

Brian Gilvary: Yeah, so Martijn, you're absolutely right. We've had a strong margin environment to start the quarter. I think it's driven by distillate right now. We're seeing strong distillate draws. That's led to higher cracks on the distillate side, and that's what you're seeing. Our view is simply seasonally, it's not specific to BP, in terms of refinery margins, that – you could take the Whiting turnaround into effect separately to this – but generally, as we get towards the end of the third quarter, we expect to see a bit more softness in the refinery margins. But there is no question that today we're seeing a degree of strength driven by that. But as we come out of the driving season, we'd expect it to rebalance, just based on seasonally what we'd anticipate this point in the cycle.

The $5 billion to $6 billion is absolutely not a target for next year. We've signalled now that we expect disposal proceeds this year to be over $3 billion, which we do based on line of sight of what we've seen and what's in the pipeline. That doesn't include any of the $5 billion to $6 billion. The $5 billion to $6 billion is linked to the deal. Once we get the assets on board at the end of the October, which is the current scheduled close date that we have agreed with BHP – we've already started to create data rooms around the $5 billion to $6 billion, and we'll announce those transactions over time. We are way – way too much experienced in this space of the M&A space. We think it'll be a pretty strong market that we'll be going in to, but we'll see as we bring these assets to market. But it's absolutely not a target for next year, but it is a target in terms of, over the next few years as we integrate the deal, we'd expect to get those $5 billion to $6 billion away. We'll give you more specific guidance on that as we get towards the end of this year, in terms of what that may look like for 2019 with full-year guidance at the end of the year.

Martijn Rats: Okay, thank you.

Craig Marshall: Okay, thanks Martijn. We'll go next to Chris Kuplent at Bank of America. Chris.

Christopher Kuplent (Bank of America): Thank you very much for taking my questions. I'm going to continue with this theme, Brian, I'm afraid, on asset disposals. You've done less than $0.3 – or around $300 million this first half, still looking for $3 billion. And in your quarterly report, you mention to expect a contribution from the Conoco asset swap, whereas I read somewhere else that that was meant to be cash neutral. So, perhaps you can shed a little light on – or reconcile those two statements?

And then another question for you, Brian, on buy-backs versus scrip. I've noticed that during the first half, you've bought back less than half the amount you've issued in scrip equity, and I wonder whether we should expect that ratio to not just be one in the second half but perhaps be higher than that to make up for the first half running slightly below? Thank you.

Brian Gilvary: So, the first half I think is straightforward. We've said it will be done over time, and therefore the $2.4 billion of Macondo payments out in the first half of the year means that actually the scrip buy-back will accelerate into the second half of the year. So, Chris, we've been very clear about that from day one that we'd offset over time, recognising the asymmetry to the first part of your question, which is divestment proceeds have always been back-end loaded for this year – we made that clear at the start of the year – and we now expect them to be over $3 billion.

With the inorganic frame we have, in terms of the asset swap on ConocoPhillips, the accounting treatment will have disposal proceeds. There is no way to avoid that. So, you'll see disposal proceeds coming through for the input of that, but you'll also see cash going out for the other side of the swap, which was the acquisition. So, that's just accounting. But in terms of what we're looking for in terms of disposals to cover Macondo liabilities, something close to over $3 billion is what we're looking for this year. And that is again – this is not in a specific 12-month time window, Chris; it's over time. So, there was again – you'll have seen last year disposal proceeds were running lower than the Macondo payments as they were in the year before, but there'll be a catch-up going forward on the $2 billion to $3 billion. Macondo payments next year will be closer to $2 billion. We'll continue with our $2 billion to $3 billion churn of the tail portfolio over and above the $5 billion to $6 billion, which is quite separate. But we've been very clear this is over time, and it takes into account the asymmetry of disposal proceeds and Macondo.

Christopher Kuplent: Thank you.

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

Lucas Herrmann (Deutsche Bank): Craig, thanks very much. Morning gents. A couple: one detail, one fundamental. Bob, can I just go back to Jon's question on dividend and ask, why is – or why did the Board decide that 2.5% was the right number?

So, just thinking around the scale of the increase at this stage and then just in the context or detail around turnarounds in this quarter. Can you give us any indication as to whether these are high or low margin assets. I'm just looking at Q2. The downtime was [inaudible] which typically would have had very healthy cash margins. Thank you.

Bob Dudley: Lucas, we haven't had a dividend increase in 15 quarters. So I would say this was a cautious decision to signal the confidence in where we are, where the financial framework is. It wasn't a great science. It could have been 2%. It could have been 3%. But this was the number that the board talked about and said it would send the right signal and get us moving on increasing distributions again. I think that's fair - Brian anything you want to add?

Brian Gilvary: And the only thing to add is it's a progressive dividend. That's not a percentage of earnings. So we held that dividend when our earnings per share were down at $0.06 against the $0.10 dividend. Now that our earnings have come back above $0.10 per share, which they have been for now three quarters in a row, the Board, it was an important signal for them to signal an increase.

So 2.5% it's sort of in line with what we've done before on the progress of dividend. But there are no more signs to it other than that.

Bob Dudley: Okay and on the turnarounds as Brian mentioned Whiting turnaround which is a significant turnaround that will be in the quarter that is certainly not low margin, but –

Lucas Herrmann (Deutsche Bank): So I was thinking more upstream Bob.

Craig Marshall: Yeah, Lucas so the turnarounds as you pointed out there was a heavy burden in the Gulf of Mexico with some of those fields. I think as you look forward into the third quarter, there's going to be some in the North Sea and elsewhere. So there will be similar characteristics, but obviously in the second quarter you're right. Some of the highest margin barrels we have is in that portfolio.

Lucas Herrmann (Deutsche Bank): That's great. Gents, thanks very much.

Craig Marshall: Okay Lucas, thanks. We'll turn next to Thomas Adolff at Credit Suisse. Thomas?

Thomas Adolff (Credit Suisse): Good morning, two questions for me as well please. Firstly just on the resource space, you do have a fairly big one, which is I think 50 years' worth. So it is about high grading when you do something inorganically. So I wonder should you buy discovered resources such as those potentially in Brazil - namely the transfer of rights by the end of the year or early next year. Would that coincide with the new disposal plan? Is that the right way to think about it?

And secondly just in terms of concentration risk, in the top five countries in terms of capital employed for you include the US, Azerbaijan, Russia, Egypt and Angola. The US is obviously now a bit bigger with the BHP deal. And in the past, you said that typically for a key region or a country production should be in the range of 200 KBD to 250 KBD. Equally, you also said that it could be more if returns are attractive.

Now if we look at the US Lower 48, it could be doubled down to 250 KBD number after the BHP deal. So geographically or from a concentration risk perspective I guess you're fine with that. But strategically, I wondered how big do you want US shale to be if there's such a thing as a number for example one of your peers argues that shale should be similar in size to Deepwater because of x, y and z. And I wonder if there's anything interesting you can see on that? Thank you.

Bob Dudley: Very well, thank you. First, anything we'll look at for example in the transfer of rights in Brazil, we'll look at such that the timing and the pace of that in the Brazilian political framework is clear right now, but we would accommodate any options that we would do it within the overall financial framework. So that would include everything we've talked about before. Divestments, we want to keep the entire financial framework intact.

On geographic distributions, we have said it's about value not volume. We've got a spread of value around the world. We don't have really artificial constraints on any one area. I would see with BP now in the United States, we have offshore in the Gulf of Mexico more than 300,000 barrels. The shales have the potential be over 300,000 barrels a day. We have our activities in Alaska, but again we'll look at all of those around value over volume rather than being driven by a geopolitical risk framework.

Thomas Adolff (Credit Suisse): Thank you.

Bob Dudley: Thanks Thomas.

Craig Marshall: Thanks Thomas, over to Colin Smith of Panmure Gordon. Colin?

Colin Smith (Panmure Gordon): Thanks for taking my question. I'd just like to return to the question of the dividend increase and eliminating the scrip. Obviously, you said you'd eliminate the scrip over time, but don't you think it's a bit dissonant to actually cut the scrip elimination in 2Q, at the same time as you're raising the dividend. And I wonder if you could also comment in that relation what the Board thinks is sort of a sensible pay-out ratio or ratio bandwidth might look like given that on the quarter you're still on a 72% pay-out ratio?

Brian Gilvary : First, so let's be clear we have not cut the scrip through the second quarter. We were very clear in October of last year when we said we'd not eliminate the scrip. We did it through the fourth quarter. We've done it through the first quarter fully eliminated. We're now in the second quarter to eliminate the first quarter scrip. We were about as Chris pointed out halfway through that and it will get eliminated through the third quarter.

So what we're talking about is a time window of about two to three months, which I don't think is disingenuous. . And it reflects the fact that within the financial frame we had $2.4 billion of payments going out to Macondo through the first half of the year. So I think that was a really important signal to shareholders to say we will offset scrip issuance and we will do that over a rolling 12-month period.

So you shouldn't assume that we're going to suspend the scrip repurchase. We have been buying back shares through the second quarter. We're buying back shares through this week, now we're back out of a close period. But within the constraints that we have in terms of how much we can deal with and the constraints around the Macondo payments to the asymmetry of that, there's absolutely no intent to stop the scrip buyback programme.

But we did say we were very clear from day one there would be over time. So I don't there's any confusion around that at all.

Colin Smith (Panmure Gordon): Right, but the payment out from Macondo went down in the second quarter and the scrip elimination went down as well. I mean they should be the inverse.

Brian Gilvary: No, it was still a billion dollars or so $700 million of cash payments went out in the second quarter. The two things are not linked. It's a function of many things around the balance sheet and how we're running the balance sheet, but we said it would be over time. We will have offset the 2Q dividend that was issued in the second quarter by the time we get to the end of 3Q. So I don't think there's any issue with pace here. We are buying back shares.

Craig Marshall: Okay thanks Colin and we'll turn to the last question from Jason Kenney at Santander. Jason?

Jason Kenney (Santander): Hey there, thanks very much. So I've got a question on the breakeven profile. I think we're talking around $55/bbl this year and that kind of fits with the dividend, which is set at $55/bbl. And by 2021, you are looking for a lower breakeven profile. What do you think the impact of current $70-$75/bbl oil will have on your ability to lower the breakeven over the next two to three years? And I suppose implicitly there what are the chances of us seeing in your view a $50/bbl oil price in 2021 versus a $75/bbl price in 2021? I know it's an impossible question, but I just trying to get a feeling for how inflation effects could be restricting the ability to lower the breakeven over the next couple of years.

Brian Gilvary: Jason, the plan we laid out in February last year was at $55/bbl Brent (real). Effectively, we laid out a growth profile to 2021 that would see something around $7 billion of surplus free cash, over and above an $8 billion dividend. And that's what drives you down to $35 to $40/bbl breakeven. As we distribute between now and then, obviously, that changes what that profile looks like because you're now starting to distribute that cash to shareholders, which is what that dividend increase last week, and what Bob has confirmed this week in the results, was effectively doing.

So, at $55/bbl, we will look to still manage a progressive dividend. The pay-out ratio - I didn't actually answer the previous question around pay-out ratio. Typically, if you look over a period of ten to fifteen years, our pay-out ratio is around 25% to 35%. We've just come through a period where the oil price as low as $28/bbl. So it's not really reflective of what we've come through and the whole point of a progressive dividend for our shareholders, is that we will hold the dividend for you as the oil price drops, as it did.

And as things get back into equilibrium we will rebalance the books. And we now believe we can rebalance those books all the way down to $35 to $45/bbl, if you assume $55/bbl real oil prices. I don’t think there's anybody around the table here that will try to predict oil prices for 2021. It will be a function of supply and demand.

Right now, supply and demand is in balance. I think Bob laid that out in his comments this morning. We're seeing strong demand, dampened a little bit by the oil production that we see coming out of the Lower 48. And now that we’re back into the five-year averages, you're going to see a lot more movement in the oil price plus or minus $5/bbl, based on all the issues that Bob raised this morning in terms of short term disruptions or more production coming on.

It's impossible to predict what we think it's going to be in 2021, but I think the number that Bob has used historically a $50 to $65/bbls for the medium to long term, is not a bad assumption to assume for planning purposes. What the actual oil price outcome will be a function of what supply and demand looks like in 2021.

I mean it would appear demand is continuing to grow at 1.6-1.7 million barrels a day and that certainly create a degree of support around those levels where we are today.

Jason Kenney (Santander): Okay thanks.

Craig Marshall: Okay thank you, Jason and that's I think the end of the questions that we have. I'm going to hand over to Bob for a few closing remarks. Thanks.

Bob Dudley: First, a big thank you, as always very good questions from all of you and thank you very much. I hope you've heard from us, our commitment to a disciplined financial framework. We've got many moving parts going on right now, but we actually feel pretty good that we're able to move through these and meet our commitments.

This is the sixth strong quarter we've had. We look at it inside the company as the sixth quarter out of twenty that we laid out in February 2017. As a demonstration to our commitment to increasing distributions to shareholders, you've seen a dividend increase this quarter, with a lot of time and thought in it. It's the first time in 15 quarters that we've raised the dividend, and we've outlined for you a big transaction for us in BHP, We think of it not as giant transaction; it is in fact a really good transaction that we will use to high-grade BP's portfolio.

We're hitting the road today and tomorrow all the way through the end of the week. We'll see many of you on road shows. We'll have three teams out in the UK and across the US. So, hopefully, we'll cross paths here in the next few days, and again thank you very much for your interest in BP.

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