BP 2Q 2019 Results:
Webcast Q&A Transcript

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Q&A TRANSCRIPT

Craig Marshall: Thank you, again, everybody for listening. We're going to turn now to questions and answers. The usual reminder please to limit your questions to no more than two per person, so everybody gets a chance to ask one. We're going to take the first question this morning from Alastair Syme at Citi. Alastair?

Alastair Syme (Citi): Brian, I wonder if you could talk a little bit about the profitability of the Midwest refining business this quarter, feedstock differentials? I know a lot of them in 2Q last year went wider than they were in the first quarter. So how is that impacting it? And are you still being opportune on availability? And secondly one for Bob. Since the last call there's obviously been this BBC Panorama programme around Senegal. I just wonder if you could respond to those claims and what BP is looking at or not looking at in response? Thank you.

Brian Gilvary: Thanks Alastair. So in terms of Midwest Refining basically Whiting Refinery. We saw the WTI vs. WCS differential average around $11.70 for the second quarter, which is down a little bit on 1Q '19, which is around $12.70 on a lagged basis. We're still seeing curtailments issues coming out of Alberta, although that eased to a degree. And then of course you've also got the issues around the big heavy cut grades from the Gulf Coast in terms of Venezuelan crude. So I think you are seeing a little bit of pressure on WTI vs. WCS.

I think if you look at the forward margins, we're starting to see that open up, so it may start to open up in the second half of the year. But I would suspect for the second half you'll still see spreads trading in the range of about $12 to $18 a barrel. And, of course, therefore that directly feeds through in terms of Whiting.

In terms of overall performance for the Downstream coming through the second quarter, we will, of course, have those big turnarounds we talked about in the first quarter, which also included Whiting this quarter. But that will start to clear out into the second half of the year and you may see some recovery in WTI vs. WCS differentials as we ease curtailment coming out of Alberta and of course there is also the wildfire issue as well in this second quarter.

Bob Dudley: Alastair, thanks for your question about BBC Panorama. For those of you who don't know there was a story on Senegal in there. Quite frankly, it is a sensational, inaccurate and irresponsible story by the BBC, including numbers that are wildly inaccurate, including showing documents that are reportedly from BP and they are not. And we've responded very strongly with the BBC around that. It has led to some investigations as you would expect in Senegal.

Quite frankly, the really disappointing thing about this is it perpetuates the idea that European companies or British companies cannot and should not do business in Africa.

And I think that's the really disappointing thing about it. Would be happy to talk to anybody about it. And again, we've responded really strongly to the BBC. That's probably all I should say, Alastair.

Alastair Syme: Got it. Thanks to you both.

Craig Marshall: Thanks Alastair. We'll take the next question from Oswald Clint at Bernstein. Oswald, good morning.

Oswald Clint (Bernstein): Thank you very much. I guess one of the messages you have today is right on target at the midpoint of the five-year plan. I just wanted to put that in context of the Upstream free cash flow performance. I guess, if I play with some of your numbers for the first half and think about those annualised for 2019 and can probably put in the right $13-14 billion Upstream capital expenditure. I'm getting to around $13 billion of pre-tax Upstream free cash flow, so that's the number relative to your $14-15 billion by 2021. And obviously I'm adjusting for your oil price. So I just wanted to get a sense. Is that $13 billion roughly right for 2019? Is that according to your plan? Does it therefore step up by $1 billion or so each year from here into 2021, is the first question. And then secondly, I just wanted to focus in on the BHP acquisition. You said operatorships since 1st March. I do note a decent reduction in production costs per barrel, 14% or so sequentially. So you talked about less overhead, which I guess is in SEA. So just wanted to know what's going on particularly with the production cost to bring it down, so substantially, sequentially? And linked to that, I see you have three Permian rigs, which I think you talked about going to the Permian perhaps next year or at least after the pipelines open up. So just curious, are you kind of fast-tracking your push into the Permian? Thank you.

Brian Gilvary: So Oswald, I'll try and unpick those and I'll work backwards. So in terms of Permian, we're going to take our time. I think Bernard in the most recent discussion we had would have said that we'll look to make sure that we can evacuate the oil that we start to create out of the Permian. So we have got the rigs running. We will build into that slowly. We have ramped up Eagle Ford, which is priced straight off WTI crude. However, in terms of Permian it will be slow progress through this year as we make sure that we have the evacuation routes available. The Midstream is going to be a really big, important part of that.

In terms of your question on the $14-15 billion target in terms of Upstream, it is going to be a big function of what happens of course in the second half of this year in terms of production volumes. We have already signalled that 3Q volumes will be down somewhat. We have got some seasonal turnarounds in Upstream in some of the big, high margin areas like the North Sea, Angola and Gulf of Mexico. Up to and around 50,000 barrels a day could be out through the third quarter. Of course we have also already had issues with Hurricane Barry this quarter with 14 days outage in Gulf of Mexico. I think that will impinge a little bit on volumes. However, in terms of the cash coming out of the Upstream the $14-15 billion is pretty well underpinned now for 2021 with the projects we have got on stream but the precise number adjusted for oil prices I think we are certainly 70% there. Oswald, whether we are up as high as the numbers that you are talking about I have not gone back and done that calculation but we can come back to you offline on that. We will certainly pick it up at 3Q. As I say, 3Q volumes will be a little bit under pressure with the seasonal turnarounds that we have got planned in those big, high margin areas.

Bob Dudley: On the BHP, for example, Oswald, the production costs have come down. Some of that is the reduction in staff so synergies have come through very, very quickly. In addition, the cost came down because of a cessation of transition services costs with BHP. That is just a little more insight on the Permian piece.

Oswald Clint (Bernstein): Super, that is great, thank you.

Craig Marshall: Thank you Oz. We'll take our next question from Thomas Adolff with Credit Suisse.

Thomas Adolff (Credit Suisse): Good afternoon, two questions for me as well. Firstly, just on dividend, in the second quarter of 2018 you chose to increase the dividend. A year on you chose to keep the dividend steady. You discuss the dividend every quarter and I was wondering why the decision went against it this time around considering you are delivering on the five-year plan. Secondly, out of the 35 projects in your five-year plan you have said 23 have now been delivered and delivered ahead of schedule and below budget. You have another 12 to go and I was wondering whether Tangguh LNG expansion is the only project with some challenges to meet the original timeline. Thank you.

Brian Gilvary: Thanks, Thomas. I think on dividend it is pretty clear actually in terms of what we signalled at the start of this year. We had the BHP transaction to close this year which we chose to do with cash rather than issue shares when we originally envisaged the original transaction. That was a $10.25 billion transaction. So the fact that we used cash we expected gearing to go up to accommodate that and then as the disposal proceeds come in we would use the disposal proceeds to deleverage the balance sheet. What that avoided was the friction costs in terms of issuing shares to fund BHP and then buying those shares back. In terms of the conversations with the Board on the dividend you are right, 2Q last year we did signal the increase in the dividend. I think as you see now, given where gearing is at 31%, as we see the disposal proceeds get de-risked this year and we would still anticipate that of the $10 billion programme we have announced $1.5 billion up to the end of 2Q. We would anticipate $4-5 billion this year should get announced and we signalled that at 1Q. There is no change there. We still see a pretty good suite of buyers for the assets that we have up for sale. Some are taking a little bit longer, some are offering up other opportunities. I think that as you see that deleveraging that will be then be a signal in terms of distributions and a move on the dividend later in the second half of this year.

However, I think the Board will definitely want to come back to dividend but, as we said to our investors, we will see the balance sheet deleverage, we will bring net debt down and then that will be an opportunity, certainly in the second half of this year, to go back and look at dividends. I think what you are seeing in terms of strong cash flow and in now what is the tenth quarter certainly above the expectations we had in terms of where we would be in this process in terms of five-year target, I think we are more than well underpinned on the cash flow targets we laid out to 2021. I think that will give us a great confidence in terms of any move or look at distribution on the dividend. Of course, remember we have also got somewhere close to $1.8 billion of buybacks to come in the second half of this year that will offset the scrip from the third quarter of 2017. I think you will see from a shareholder perspective distributions in the second half of the year through buybacks and a potential move on the dividend as the disposal proceeds get de-risked.

Bob Dudley: Thomas, as we look out we have got 23 major projects started up of 35 under our belt now to get to 2021. And Tangguh Train 3 is one of those that we see as with a delay. It has been delayed in our planning now from the fourth quarter of 2020 to the third quarter of 2021. It is not going to impact delivery of the targeted 900,000 barrels a day of new production from projects. Train 3 will add about gross capacity of 3.8 million tonnes of LNG per year. It will take Tangguh up to 11.4 million tonnes a year. However, the status of the project right now is the offshore scope is nearing completion ahead of plan. Onshore has been impacted by a number of things including some very unpredictable environmental factors in the area. The 2018 tsunami events in Sulawesi and the Sunda Strait disrupted some of the local supply chains and now that is going to require additional work. Not on our site but the supply chains involved and I think it is well known that one of the contractors is having some financial difficulties. We remain on track for bringing that project on and confident for 2021.

Thomas Adolff (Credit Suisse): OK, thank you.

Craig Marshall: Thomas, I will just add a little bit more context. To put the 23 of the 35 major projects into context, that is equivalent to around 600,000 barrels a day at the end of 2Q on stream so progressing well against that 900,000 barrel a day plan that we have. We'll move now to take the next question from Lydia Rainforth at Barclays.

Lydia Rainforth (Barclays): Thanks and good morning, two questions, if I could. The first one, going back to the buybacks, Brian, I think it is close to about 400 million shares in the second half that you need to buy back? Is that the sort of run rate we should think about going into 2020 as well? Then the second one, going back to the low carbon businesses, the point you make around the financing that you put $200 million of equity in for Lightsource BP, but like you said the joint venture has accessed over $7 billion in overall financing. How do you see that low carbon business for BP evolving over time? Is it that you want to keep going down the joint venture route, as you have done with the Bunge side or do you think over time more and more of that will come onto the BP balance sheet? Thanks.

Brian Gilvary: Lydia, on the share buyback the balance from the third quarter 2017 is around about 270 million shares to buy back in terms of scrip. There is some other dilution which we will come onto later but in terms of the pure scrip buyback it will be about 270 million shares, which is around about $1.8 billion. We will obviously also have a scrip that will get issued through the third quarter and then we will look to buy that back as well as you get into 4Q. You will see the run rate of buybacks in terms of offsetting the scrip ramp up through this second half of the year now, especially as the disposal proceed programme gets de-risked.

Bob Dudley: Thanks, Lydia, for the question on our financing approach to low carbon. The Lightsource BP joint venture is a really interesting story because we get told many times that we spend only 3-5% of our capital on new energy ventures. However, when you look at what we enable, things that I do not think would happen, then Lightsource

BP is a great example. It was the UK's largest solar development company in one country, and within a year and a half we are in ten countries now. It has attracted about $7 billion of investment from infrastructure funds. A big one is into India, for example, and now into Brazil. It is a great way to leverage capital and it is not using our capital to do that. However, these things I do not think would happen without our involvement in opening the doors in good partnership with Lightsource BP around the world. Going forward these business models I think there is a number of different ways we think about it. We could see our role as working on these projects. Lightsource BP is then selling on the projects and using our ability to raise finance outside to do more projects down the road. We may not even have all these projects going forward but turning over the portfolio. The joint venture model with BP and Bunge is a great combination of things. Some of these of course will depend on what our co-venturer would like to do going forward, as with Bunge. These are really good business models that allow us to really leverage off our balance sheet, not using capital directly. That will happen as well with BP Bunge. Stay tuned, we have got lots of ideas. Inside we like to think of these things as smart M&A. In the past we used to want to do everything 100%. That is our history with solar, wind and biofuels. I think we have just seen there is a different way to use our capability to raise financing going forward and making these new energy businesses happen that might not otherwise.

Lydia Rainforth (Barclays): That's really good, thank you.

Craig Marshall: We'll take the next question from Michele Della Vigna. Michele, good morning.

Michele Della Vigna (Goldman Sachs): Good morning and thank you for taking my questions, two if I may. The first one is about refining margins. You provided guidance for lower refining margins in Q3. I was wondering, is this a conservative guidance or do you actually see reasons for concerns over the margins in Q3 given that quarter to-date we have probably seen an improvement in most regions? Then secondly, I wanted to see if you could give us some guidance on what is behind the write-downs this quarter. It looks like you are progressing well with some disposals. Probably these write-downs are behind some of those with US gas and the Egyptian assets but if you could give us more visibility that would be great. Thank you.

Brian Gilvary: Maybe just starting with the last question, we had the bulk of the impairments, about $800 million in the Upstream. It is a mix across the piece. Some of it is associated with some of the BPX legacy assets so some of the gas assets that some of the smaller packages we have already sold and some impairment triggers on some of the bigger assets, as you can see from some of the gas prices that you see today. That was part of it. Also, a loss on sale around one of the big assets that we got away in the first and second quarter. Actually, we also had just north of $100 million, slightly higher than that, decommissioning provision moves. It was across a suite of pieces. It was nothing specific. That is where the bulk of the impairments came from. It was mostly inside the Upstream.

Then in terms of refining margins, you saw some recovery in margins due to the big high turnaround schedules that we saw that we sort of signalled out for ourselves, particularly in Europe. We are also seeing some weakness in demand in the first half of this year, although there has been more recent pickup in that. If you look at demand for the first half of this year it has been tracking round about one million barrels a day compared to 1.5 million last year. It was down a little bit. A lot of that was driven by what was going on economically between the US and China and general economic concerns around the globe. We are now starting to see a little bit of pickup so that may help a bit but you have also got all the refineries coming back out of turnaround. I think what that will therefore do is put a little bit of pressure on refining margins. Of course the fourth quarter will always historically be a weaker quarter typically for margins in terms of refining. IMO 2020 should start to underpin margins at the back-end of this year in terms of distillate cracks and we're starting to see some benefit to that into 2020. However we do think margins in the second half of this year as refineries come back out of those turnarounds, will start to be a little bit weaker.

Michele Della Vigna (Goldman Sachs): Thank you

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

Biraj Borkhataria (RBC): Thanks for taking my questions. One follow-up on Michele's question, could you just confirm that the impairment for BPX that none of it was related to the newly acquired assets? The second question is on flaring. There were a number of articles recently going around highlighting BPX as one of the larger flarers of gas in the Permian. Could you talk about what you are putting in place to reduce that and what kind of timelines you are thinking about? Thank you.

Brian Gilvary: I can confirm that none of the impairments are associated with the assets we have just acquired. If anything it would probably be in the opposite direction given the oil-rich nature of them and the price at which we bought them. There is no change in terms of balance sheet around the acquired assets.

Bob Dudley: On the flaring, I have seen the story. I am not sure of the accuracy of it. I have not fact-checked it but I can tell you that we are absolutely going to be installing across those assets, various efficient infrastructures across the field, electricity, vapour recovery units, and right-sized facilities. We will get on this very, very fast because having taken over the operations on 1st March there are lots of things that we are doing. That is not to say they were not run well. The Permian, quite frankly, right now the United States is the largest flarer of natural gas in the world right now. I would really like to go in and see those figures because they seem a touch high to me. Do not worry, we will be all over it, Biraj.

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

Christyan Malek (J.P. Morgan): Good morning, gentlemen, two questions from me. First, the path to returning more cash to shareholders, Brian, what gives you the confidence on delivering on your divestments in the second half especially given the volatile macro backdrop and weak US gas prices? And just to be clear should we expect cash return in whatever form to be entirely a function of the outcome of divestments? The second question, Bob, I have a question on energy transition. The investment you're putting through feels a little bit disproportionate vis-a-vis your total capital expenditure and relative to some of your peers. And I understand the long-term ambition is to decarbonise the portfolio, but I'm not entirely clear what the industrial logic and returns you're looking to achieve over the medium-term?

Brian Gilvary: Hey, Christyan. So on divestments, I think you know we've done close to $75 billion or will have done $75 billion since 2010 and Deepwater Horizon, so we're pretty confident in the process. The team is a very well-oiled machine in terms of the M&A group. We have more than sufficient assets to cover the $10 billion. We've $1.5 billion of the $10 billion in two quarters in. Deals typically take 9-12 months to complete and announce, so, actually, we're pretty much on track. And we're very comfortable we'll get $4-5 billion done this year, which is what we laid out at 1Q. I think as we announced those deals then I think the market gets confident in terms of leveraging the balance sheet, you'll start to see gearing come down, and then that opens up the path over and above the buyback programme for the second half of this year to look at further distributions beyond that. So we're pretty confident in terms of disposal programme, its just taking longer. There's more private equity involved in some of those Lower 48 assets. And, frankly, it's not a fire sale, we don't need to sell some of these assets, so we may well end up retaining some if we need to. But we have more than sufficient to cover the $10 billion.

Bob Dudley: And, Christyan, on the capital expenditure number, our accounting capital expenditure is about $500 million a year and our total spend on the new energies from BP are really around a billion dollars. That $500 million of capital expenditure is more than the capital expenditure than half of the FTSE 100 spend each, so it's not a small amount of money. As I mentioned earlier, in the past, BP would invest in new businesses, we did it at 100% model. We've now realised that working with other people's capital and spending, like we're doing with Lightsource BP and BP Bunge is a great way to leverage spending in the new energy sector, not necessarily coming out of our capital expenditure.

I am a believer, because I read an article about someone outside the industry that just noted in terms of low-carbon spending on capital inside the company, I mean, I think we're like many of the companies that spend more than 50% on low-carbon. Because I am a believer that natural gas has got to be part of the solution in the energy transition combined with renewables. This is our strategy. I think you can't measure it just by one number.

Christyan, thank you. You had a second question?

Christyan Malek: No, that was it for me. Thank you very much, I appreciate it.

Bob Dudley: Okay. Thanks, Christyan.

Craig Marshall: Thank you. We'll take the next question from Irene Himona. Irene, good morning.

Irene Himona (Societe Generale): Good morning, thank you, two questions. Firstly, Brian, you referred to lower trading in the second quarter results. I wonder if you can talk a little bit about it. And also what are you seeing so far in 3Q on that? Secondly, you referred to strong marketing results in areas such as Mexico. I wonder if you can give us a sense either for the first half or the second quarter of the split between refining and marketing

RCOP? And then finally on the disposals, I mean, you have sold $70 billion of assets in the past, so looking to sell $10 billion sounds a low number. However, you did say that it's taking a bit longer, the buyers sound very different. My question is as a seller, given that you were selling the $70 billion when the environment was very different, we had $100/bbl oil, is this a radically different environment that you are trying to sell the $10 billion to? Thank you.

Brian Gilvary: So on the last question, Irene, I think the answer is no. Actually, when we sold assets in 2015-16, the oil prices were $28 a barrel. So I think people see through that and look at the forward curve, they won't focus on the spot price. It's always an interesting conversation when you're in negotiation because depending on whether you're buying or selling, you'll try and use whatever numbers you can. But we see though that long-term forward strip prices help cut through some of that. So I don't think that's gotten any more difficult.

In terms of trading or IST, the way to describe it is probably on the gas trading side where the results appear in the Upstream, it was a very strong first half. It was a strong 1Q and it's a strong 2Q. 2Q is slightly down on 1Q on the gas trading, but strong in both quarters. On oil trading it was a very strong 1Q and a more typical average 2Q. And that all gets reported in the Downstream. So that will maybe help you with guiding through the relative performance as you then look at in terms of the segment results.

In terms of marketing, actually, it was a strong quarter and first half, with about 15% improvement in fuels marketing earnings 1H compared to the previous year. So actually it is a good performance that we're seeing coming through. We are seeing some weakness in demand but we are seeing growth in the convenience partnership sites and they've increased by 65% since 2016 and the strategy that Tufan laid out. That's delivered around $1.2 billion of non-fuel retail gross margin. So I think what you're seeing is maintain strong performance coming through the marketing businesses. Mexico, I think has been a great story of expansion, as the business and Tufan have got after that. We now have more than 1,200 sites in China, Mexico and Indonesia in terms of growth markets. So I think there's more to come on that. You will get a full year update in terms of where Downstream are. But what I would say is we're making good, solid progress.

Irene Himona (Societe Generale): Thank you.

Craig Marshall: Irene thank you, we'll take the next question from Jason Gammel at Jeffries. Jason.

Jason Gammel: Thank you very much, gentlemen. First question I had was on Angola where during the quarter you made some progress in terms of being able to potentially reinvest more money into Angola and achieving an extension. Is there a possibility for further progress on, in particular, your operator blocks there? Then the second question does come back to the low carbon business again, and I guess it's really a high level question on how you think about investment criteria in that business. My supposition would be that the IRR is going to be lower than your traditional Upstream business. However, given your ability to significantly to lever it up, do you think of it more on a return on equity basis? Do you think about the potential lower rate of return because of its non-decline nature, etc? Just anything that you could give me on that would be great.

Bob Dudley: Okay. Jason, hello. On Angola, we have had some breakthroughs there. We've extended our terms on Block 18 out to 2032, so that's been a breakthrough for us. Block 17, other people are operating. Negotiations are going on there because the life extensions are coming up for review. Same in Block 15, the Exxon operated block. They've signed an agreement with the National Petroleum Agency that extends that license out to 2032 too. So there's some good things happening there. They also bring Sonangol into the partnerships. We've been looking at some field developments there now as a result of the extensions in Block 18 that will get us some more running room there. Costs have come down quite a bit in Angola. It's a challenging environment, of course, in general. But the government I think has taken some time after the oil prices fell to adjust things.

We have a potential FID coming up that I can mention maybe later this year, but I won't say the project because, of course, we have partners in it as well. So, all in all, a lot's happened in the last I would say eight months in Angola. They're very positive.

Brian Gilvary: Then in terms of the low carbon value in terms of returns and IRRs that we look at, we have a separate committee that oversees all of our ventures investments and alternative energy investments, around the renewal agenda in terms of new energy frontiers. Maybe just to describe this, we focus on the base business in terms of trying to decarbonise. So the work of Bernard and Tufan are doing it in our base businesses that generate all the revenue and drive earnings, drive returns, and drive the target out to 2021. There is a very strong monumental effort in terms of decarbonising that business. We have already taken out 2.5 million tons of carbon dioxide in that business over the last three years, and have a target to take another one million tons out by 2025, and making good progress on that this year.

We then look at improving our products, which we talked about in terms of the RIC framework. Then in terms of creating the new opportunities, the IRR of some of those renewables businesses actually look a lot more now like what we would have called a traditional business ten years ago. So wind sits comfortably inside our portfolio – onshore wind in terms of the US – makes good returns that compete with the rest of the portfolio and integrates with the rest of our business in terms of Lower 48 where were are in United States. You then have the deal that some would talk about in terms of BP Bunge, which is a real step out opportunity for us in terms of getting that business leveraged, going forward with a greater than 50% increase in our own portfolio in terms of volumes coming out of that.

I think that is a massive opportunity that is created for us in terms of going forward, and that we will be able to benefit from being in a joint venture structure with the strengths of both sides of that business. And then you have got Lightsource BP, which does have a leverage investment model. It is a huge opportunity. Solar is very economic today. The IRRs compete, and of course we can use solar as an integrated solution in terms of integrated energy solutions both with trading, but also with our base business in terms of renewal, in terms of natural gas and oil.

So I think what you are starting to see is a lot of those businesses interacting with our base business that is generating revenues going forward. And then of course there is going to be adjacent opportunities that will come up in this incredible new energy frontier space, where there will be a multitude of solutions to the energy conundrum that we've got – the dual challenge – going forward. And you are going to see some more of those come along and those IRRs may not look like a typical IRR that you see in say an oil project, which may look different to a natural gas project, but will have huge amounts of optionality.

And in those cases, that is really where we are looking at the value, the potential value those opportunities will bring before they cycle into a steady base business in the future. So we are actually looking at this with two very different frames. The first one is the base business that drives equity earnings. The second one is around the value almost private equity model that looks to leverage up the finances in what is a really exciting expanding business in terms of energy.

Jason Gammel (Jefferies): Very helpful, thank you.

Craig Marshall: Thank you Jason. We will take the next question from Chris Kuplent, Bank of America. Chris, good morning.

Chris Kuplent (Bank of America Merrill Lynch): Good morning and thank you for taking my questions, and thank you for laying out some of your activities on the energy transition front, and that is really where I want to focus on with my first question. You laid out Bob that your goal is to be consistent with the Paris Agreement. So can you help us a little bit building a bridge from all these activities and the detail levels you have given us? And I assume you will give us going forward to how you measure that consistency with the Paris Agreement? What kind of framework can you give us to build that bridge between the activity level and that statement that your overall activity is consistent with the Paris Agreement?

And the second question really just a tiny detailed question left. Brian, you have got $2.1 billion oil spill payments in the first half and the full year guidance of $2 billion. That pretty much means that BEL claims are done, does not it? Thank you.

Brian Gilvary: I will pick up the latter one first if that is okay. We said just around $2 billion for this year, I think we are down to - all the BEL claims are done. I mean that they are done full stop, but they are in what we called the recycle appeal phase. So there is still some to go back through. I think we have five claims get settled through this quarter, but there will be a tail of claims that will be going into the Fifth Circuit appeals process, but pretty much BEL is done in terms of any major moves in terms of the Deepwater Horizon and so, you should - I do not believe it to be any surprises in terms of all the agreements that have been settled and put in place, and that fund itself is pretty inactive right now in terms of activity. It is really about the appeals process and closing out the final piece of that.

Chris Kuplent (BAML): Okay thank you.

Bob Dudley: And Chris on the energy transition of the Paris goals, we absolutely support the Paris Agreement goals. We do believe the world is not on a sustainable path. We recognised the importance of climate change for some time. We recognise the IPCC as the primary source of information on climate science, we've called for action for 20 years. And the Paris goal of reaching net zero in the second half of the century.

Specifically, the Paris goal of limiting the temperature rise to well below 2 degrees elsius. We support this rapid transition. It is both good for society and it is going to be in BP's best interest as well.

Slow or very delayed transition increases the risk of some sort of costly and disruptive event later on. So as a global energy company, we have got to contribute to the dual challenge, and that includes the two billion more people that will be on the planet and the world is going to need lots of energy in all forms, while at the same time reducing emissions. And we've said it is not a race to renewables, it is a race to reduce emissions from all kinds of fuels.

So we are not going to promote only one energy source to improve energy efficiency. We are going to use all kinds of new technologies such as including carbon capture use and storage. We absolutely believe there is a price on carbon to help drive action. We do think our strategy is consistent with the Paris goals and we have got to, so we can prosper and deliver throughout the transition.

We are going to be investing across our strategy, around advantaged oil and gas, developing low carbon businesses as part of that. We signed and supported a resolution from a group of shareholders earlier this year to describe in our corporate reporting how the strategy is consistent with the Paris goal. So we would be laying that out really now in every year, March, April of course, next year in our corporate reporting.

And as Craig said earlier, we will get together a group in November and lay this out in more details. So I could probably talk quite a bit about this, and obviously all the people we have, the thousands of people we have working on these new energies is part of a demonstration in not just words, but action. But our traditional businesses and moving our portfolio which we will shift in oil going forward, but it is certainly not a business that we intend to exit. We do not think that is going to help the energy transition and we have got to be able to make sure that we remain a very good investable proposition for our investors as well. So Chris, that is probably a longer answer than you wanted. I will give you one chance to clarify anything I said.

Chris Kuplent: No, not all. I look forward to November then. Thank you Bob.

Bob Dudley: Okay, thanks Chris.

Craig Marshall: All right, thank you Chris. We will take the next question from Peter Low at Redburn. Peter?

Peter Low (Redburn): Hi and thanks for taking my questions. Just to follow-up on the second half step up in the buyback run rate to around $1.8 billion. Is that contingent on disposals getting away or can you deliver that from underlying free cash flow? And then secondly on the biofuels combination in Brazil, clearly it's a big increase in volumes, but Bunge's business has been challenged in recent years. Can you give us any more colour on how you expect the new combination should improve performance and over what timeframe? Thanks.

Brian: So in terms of the buybacks in the second half of the year, if you take out the inorganic spend, (BHP payments and Gulf of Mexico oil spill payments) in the first half of

2019, we were surplus cash. In 2Q19, we were comfortably balanced at around $50/bbl Brent.

In the second half this year, operating cash will sufficiently cover the buybacks. So it is not going to be contingent on the disposals, but as I say we are pretty confident on the disposal programme. And so yes, we will be able to execute those buybacks in the second half of this year irrespective where we get to the disposal proceeds.

Bob Dudley: And Peter on the new BP Bunge combination - today we have three world-class, world-sized sugarcane ethanol plants in Brazil. This combination will take it up to 11 plants. That will take the volumes up to over two billion litres. We just look at all the synergies that will come from combining those two businesses. They are geographically relatively in the same areas. The cost structures of the two systems are very different. We have got our reliability up to 96%.

Our safety record is good. We intend to bring this together. Bunge operates well, but we are going to bring new technology and automation and that should reduce the scale of the size of the organisation. Trading activities will continue to be an important part of it, both sugar and ethanol. And we now produce quite a bit of bio-power with what is leftover after the crushing happens. We now put that into the system as bio-electricity.

I am really excited about this business. It is got the potential to grow going forward. It has amazing characteristics. Somebody said to me the other day that it is not really a renewables business, which is just the wrong way to look at. It is basically energy from photosynthesis that puts it into a choice of sugar, or in the automobile sector where they have the choice of running on gasoline or pure ethanol. Lots of flexibility here. Brazil is quite blessed with these resources and even sugarcane itself is one of the most carbon sink plants on the planet. So stay tuned on that Peter.

Peter Low: Thank you. That is very clear.

Craig Marshall: Great Peter. Thank you. I will take the next question from Jason Kenney at Santander. Jason?

Jason Kenney (Santander): Good morning. Two questions if I can. Brian, how relevant is the refining margin indicator, given I think the actual gasoline yield in the second quarter was below 40%, and in your assumption, the indicator margin is typically around 55% to 60%. And secondly, do you have a figure in mind for what kind of total cash return BP could afford or support over the period to 2025? I know one of your major competitors has a number in place either annually or percentage relative to market cap? And then maybe a third question if I might to Bob. Do you think there is a disproportionate pressure on BP currently around climate change and climate consciousness relative to other international oil companies at this time? You do seem to be in the press consistently defending your actions in respect to climate.

Brian Gilvary: So thanks Jason, maybe just on the refining market margin. You have articulated quite well the issue. It is an indicative marker margin. It assumes a certain crack spread across a portfolio of refineries, and of course, what it does not do, as you saw in 2Q, is it would have overstated the margins we would have made from gasoline because our proportion of gasoline going through our systems is lower than where the marker margin would have been.

It is an indicative thing Jason, there is not much we can do about it. We have had various machinations of it previously of different types of marker margins. This is the one that we have converged on. It is one that the industry tends to use in terms of I think it is of like a 3-2-1 crack out of the US, but it varies by region. And therefore you will get these distortions quarter-on-quarter. I know that is not particularly helpful for you as you try and predict results quarter-to-quarter, but that is one of the things that impacted the Downstream in 2Q19 - we did not have as much gasoline that the marker margin would have contributed to the results.

On total cash returns, we have got a measure out to 2021. We are not moving to 2025 just yet. We are only half way through the original set of targets we gave you, but if you take the targets in Upstream and Downstream, take off corporate costs and pension requirements (our pensions are more than funded at the moment so they are in relatively good shape) - you can assume $1-2 billion of corporate costs and pension charges you get somewhere around $15 billion of free cash, set against an $8 billion dividend in 2021.

And of course, our dividend may well move between now and 2021, so therefore, there may be less cash available. We see very strong cash flow delivery and I think as Bob highlighted earlier, we are now ten quarters in and we are slightly ahead of where we thought would be. Actually, we are quite a way ahead of where we thought we would be. But at this point we are not complacent. We have a lot more to do. It is only ten quarters in. We've still got ten quarters more to deliver. But in terms of distributions, I think you will start to see some of that change as we move into the second half of this year.

Bob Dudley: Thanks Brian. And Jason thanks for your question about, do we feel like there is disproportionate pressure on BP than others in the industry? Well I think, it feels a little bit that way. I mean London has become the epicentre for climate demonstrations and this is our home town. So I think we are clearly singled out in that. I think we are happy to engage. We do not mind demonstrations. We want to talk with people. We need to talk to people that also want to have dialogue. I do think this demonisation and polarisation of companies and people is not going to help solve what is a really difficult problem.

We are not going to shy away from that. I mean I do find it a little bit of irony because London and the UK here, you go around the world, the UK is often used as a great example for what is done to reduce greenhouse gas emissions. The country's emissions are now down to 1880 levels mainly because of the phasing out of coal and replacement with both renewables and natural gas.

I think people do not realise all the things we are doing. But it is not what you say, it is what you do. And I keep looking at what we do around the world - wind farms on ten sites, we've got Lightsource BP in ten countries now. We have got this renewable products portfolio, our joint venture with DuPont making bio-isobutanol in the United States. We have Fulcrum Bioenergy - keep your eye on that one - it makes biojet fuel from municipal waste. We are doing a lot, I think we just need to keep doing it. But I do urge everyone who takes a very single view of the world that there should be no natural gas, there should be only renewable energy, that's not really helping the debate. So we're going to contribute to the debate. But we have pretty thick skins. We have a plan. We know what we're going to do. And even though we get a lot of pressure, we've also got to maintain the fact that we have to be an investable proposition for you all. Many of you are owners of the company on the call. And that's firmly in our sights as well. So Jason, do you want to add anything or clarify anything?

Jason Gammel (Jefferies): No that's perfect, thanks very much.

Bob Dudley: Thanks Jason.

Craig Marshall: Okay, thank you Jason. We'll go to Pavel Molchanov who must be drinking strong coffee at 4am in the morning in Houston. Pavel, good morning.

Pavel Molchanov (Raymond James): Thanks for taking the question. One more about Bunge if I may? Clearly land use in Brazil, particularly under the current administration, deforestation have been getting a lot of headlines, you know from an ESG perspective, I'm curious how the Bunge investment fits into kind of some of those push backs, you know, we hear about, sugarcane based biofuels? And then on traditional business, an update on exploration in Azerbaijan would be helpful since my understanding is that's supposed to accelerate towards the end of the year, thank you.

Bob Dudley: Pavel thanks. Well on the BP Bunge sites, those sites are not in the Amazon really. They're areas that I would describe as, having seen them, sort of scrubby grassland, that prior to this, had several cattle per hectare. So people say, it's taking away land for food – I actually wouldn't see it that way. I read about, like you do, the Amazon. I think it's just a really good use of land in Brazil. And I think this is a different issue than what's happening up further north, where I believe the country has said small populations, they need to use land for other things. But that's not what BP Bunge is really involved with. It does create sugar as well, so it isn't that it displaces the food.

On exploration in Azerbaijan, we have got to be careful what we say here, because we have so many partners. Once the rig becomes available, we're going to be spudding the Shafag-Asiman well in 2019. We need to have the rig, which is being used by another company first. There's the shallow water Absheron – we plan to spud that in the first half of 2020. And we've got two other wells to follow. So, I think like you said, we've got a lot to do in Azerbaijan, it's very exciting. We've got an advantaged gas project beneath the existing Shah Deniz development. We think it has multi-TCF potential and that's currently planned to spud maybe in 2020 as well. So people say Azerbaijan is a late life province - we think there's lots of potential still there.

Pavel Molchanov (Raymond James): Appreciate it.

Craig Marshall: Okay, thank you Pavel.

Craig Marshall: Thanks Pavel. We are down to the last question now from Colin Smith of Panmure Gordon. Colin?

Colin Smith (Panmure Gordon): Hi, good morning. Thanks for taking my question. A completely different topic. I was wondering whether you were likely to be bidders in the Brazil transfer of rights auction later on this year? And if you were successful and presumably could absorb a fairly decent chunk of additional and organic capital expenditure, and I just wondered, does that make a difference to some of the comments that you've been making around the potential to increase distribution? Or more generally set it within the framework about how you're thinking about gearing and further significant chunks of inorganic capital expenditure? Thank you.

Bob Dudley: Well Colin, these transfer of rights, of course the terms are not all out there. They look very expensive. And we're just going to remain very disciplined within our capital framework. We haven't made a decision yet, we're still in discussions of course with Petrobras and looking at it, but we're going to be really careful before we leap into that.

Craig Marshall: Okay. I think that's the end of the questions. Let me just hand over to Bob for a couple of closing comments.

Bob Dudley: All right. Thank you Craig, and thanks everybody for joining us today. Again, we're now halfway through, or ten quarters through, the five-year strategy we laid out in early 2017. I do think this quarter was a strong quarter. We've got a set of cash payments that are behind us this year. Good strong cash generation this quarter. I'll just note that the cash payments to wrap up the BHP acquisition are in the rear-view mirror now, and the annual payment we make to the Gulf of Mexico is behind us. Overall the strategy I think is on track, projects coming on stream. New significant investments in new energy, consistent with the energy transition that's underway. Being careful with our capital. Maybe it's just worth summing up, reminding how we think about it.

We think as an investment proposition, really four points and then four basic strategic priorities. So our proposition to you as owners, we want to be safe, reliable and have efficient execution of projects. That's simply good business, underpins the delivery of our growth aims for near term and longer term. As a company, an investment proposition, we want to be fit for the future. So a distinctive portfolio that will change for the challenging world we're in. We want strong Upstream, strong Downstream as well as the new energies, that we've got to be competitively positioned. The third, we do focus on returns, value based disciplined investment and a cost focus, with the investment proposition to you of growing sustainable free cash and distributions to shareholders over the long-term. Now how do we do that?

Our strategic priorities are:

Firstly, growing gas and advantaged oil in the Upstream - a lot of focus on clean gas and low-cost gas, and high margin advantaged oil. Secondly, market led growth in the Downstream. We market a lot of things. We have millions of customers a day for advanced fuels, lubricants, petrochemicals, bio products, electric vehicle charging, carbon neutral offers, retailing in combination with other businesses as well.

Third venturing and low carbon across multiple fronts. And we're going to keep testing new and potentially disruptive technologies. And try to develop those businesses with a return.

And then the fourth strategic priority, is to modernise the whole group, including our plants, processes, portfolio, ways of working.

And I think with these strategic priorities, we're going to embrace this energy transition and it will shape how we continue to create value for you in what is going to be a changing world.

So that's maybe too long of a summary of what we talked about today. But again, I would just like to thank you all for taking your very valuable time and spending it with us today.

[END OF TRANSCRIPT]