Q3 results: Webcast Q&A transcript

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Q&A TRANSCRIPT

Jessica Mitchell: Thank you everybody for joining the Q&A. As many of you will know, it is my last call today for BP, and so I am hoping we will keep it very efficient. As usual, please stick to our convention of two questions.

Oswald Clint (Sanford Bernstein): Thank you very much, Jess, and congratulations and thank you for all your help over the years.

Brian, good morning. Two questions please. Firstly, on the buy-back, it is obviously clearly signalling confidence in that cash flow stepping up in 2018 and beyond. So, in that context, I was wondering if I could potentially tease out of you some upstream cash flow growth numbers for 2018. For example, if I look at the new project start-ups at a similar oil price to what we have had this year, I would be coming close to another $3 billion of cash flow in 2018. I just want to sense or check if that is massively off side?

Then the second question was really on the Lower 48 business. When I look at the opex per barrel you have reported, it is at the lowest level since you started splitting out this business. So, with the inflationary pressures inside the Lower 48, is that the end of the runway there with the opex per barrel for the Lower 48 business?

Brian Gilvary: Thanks Oswald. So, on the first piece, we would not normally subdivide out in a particular year upstream, downstream or the other businesses & corporate in terms of cash flows. What I would say is we are on track in terms of $13 to $14 billion of the free cash, pre-tax proxy that Bernard and his team laid out for you at the start of this year. So, we are on track in terms of where we expected to be. If anything, we are slightly ahead of where we would have anticipated to be this year, hence the announcement we have around buy-backs and getting things back to neutrality.

As you look at where we started from, in terms of 2014, the rebuilding of the company out to 2017, where we are today, you will see the ramp-up of those projects that you saw this year start to come through next year, and therefore you will start to see significant free cash flow. I think a good proxy for it is if you look at the EBITDA numbers, which you should be able to derive from the stock exchange announcement for each of the two segments, and indeed you will start to see the ramp-up, certainly this year, in terms of the upstream getting back into a position of growth, and similarly with downstream.

I cannot give you any more specificity in terms of next year, but the simple math around the buy-back is that we have now reached a point this year, at the end of nine months, where our breakeven position, including the full dividends, so the scrip issuance, was around $49 a barrel. That gave the Board confidence yesterday to support the initiation of the buy-back programme now, since we always said that the offset of the scrip would be one of our first priorities. Indeed, for next year, $50 a barrel, we are confident that we can balance the books, and indeed go lower than that if we need to. The simple math for next year will be, assume capital in the range of $15 to $17 billion: if the oil price is around $50 a barrel, we will be at the low end of that range, which means you need around $23.5 to $24 billion of operating cash post-tax to get everything back into balance. We may be slightly stronger than that, given the trajectory that we are now on.

I hope that has answered the question. I cannot be more specific than that with upstream, but that gives you the general flavour of where we are in terms of next year.

Then, in terms of opex per barrel, I think we just continue to see, in Lower 48, improvements around the way in which that business is run. We have the operating cash breakeven down to about $1.50; in fact, it was lower than that in 3Q. Our free cash flow basis is comfortable at $3. That provides us lots of optionality as to where we go next, and, with the opportunity set that we have in Lower 48, it is one of the activities we can ramp up relatively easily, compared to other areas, and that will be a decision for Bernard and the team in terms of what they lay out for next year.

Lydia Rainforth (Barclays): Thanks Jess. If I could just echo Oswald's comments about saying thank you, first of all, for all your help.

Brian, just two questions, if I could. Firstly, when you are talking about the allocation of capital, when would you actually look at buying back previous dilution? I know I am asking for quite a lot there. Just for the programme that has been in place for the last couple of years.

Then on the cash flow numbers, if I exclude the working capital number, it does look like cash flow this quarter was slightly weaker than it was in 2Q. I was just wondering if there was any one-off impact, either be it from Angola or from the flooding related to the hurricane, in there that you could talk through? Thank you.

Brian Gilvary: So, maybe that second question first, and I will come back to buy-backs. 3Q is typically a quarter where you have a number of payments going out like pensions, you have some tax true-ups, you did have the Angolan piece as well, where we have not put a specific number on it. So that will weigh a little bit heavier on 3Q cash flows than any typical quarters. I think again, as I said earlier, a good proxy is EBITDA. If you look at the EBITDA track, from 1Q through to 3Q, you have seen steady progress and steady increase in our EBITDAs, and that is really driven by the projects coming on steam, and continued underlying performance improvement coming through in the downstream. But you are right, it is a heavier quarter than a typical in the third quarter because pensions and tax payments going out.

In terms of buy-backs, just to be absolutely clear, what we have announced today is that we now start the process, as we said we would, of offsetting the scrip on a point-forward basis. However, to be clear, and it is a conversation we have had at the Board, we do have a mandate each year at the AGM to be able to buy back up to 10% of our stock. You will recall that, post the Rosneft transaction in TNK-BP, we bought back $10 to $12 billion of stock during that period. So, buy-backs beyond the scrip going forward is always an option for us, but that is really a consideration for the Board, and the Board will want to weigh that up against further distributions to the shareholders, alternative investments or paying down debts. So, that is available to us, it is in the round, but just to be absolutely clear, what we have announced today is, now, on a point-forward basis, we start to buy back the scrip, and of course we can go further than that depending on what the overall shape of the finances and balance sheet is for the corporation going forward.

Irene Himona (Société Générale): My first question is on sensitivities, if I may. Brian, your nine-month RCOP rose about $5 billion or two and a half times year on year, but there were a lot of moving parts: Brent was up $10, margins were up a couple of dollars, production up 10%, costs down 17%. What updated guidance can you please provide in terms of your current sensitivity, earnings or cash flow, to the oil price or refining margin?

My second question: Rosneft. For your 1.1 million barrels share in their production, you received in Q3 a $190 million dividend. Aker BP, following this latest deal, will give you around 60,000 barrels a day of production, and a dividend next year of probably around $120 million. So, Rosneft gives you 18 times more volume but only 60% more dividend. In that context, I wonder if you can remind us, please, how you look at Rosneft and the value of that holding? Thank you.

Brian Gilvary: Okay, Irene. I will come back to that. In terms of rules of thumb and being able to update them – I mean, you are right to highlight that there are a lot of moving parts this year. I think we are getting back now into a more stable period, and we will update all of those rules of thumb for you with our 4Q results in February. It would be premature to do that now, and there are a lot of moving parts, as you have described. Brent was up $10, but of course WTI quarter-on-quarter stayed flat this time around, and therefore some realisations were impacted by that in the US as the Brent / WTI spread opened up. So, we will update you on all of those. We appreciate that there are a lot of moving parts around the hurricanes, the weather patterns around the globe that we saw this year, the various movements in the oil price and the gas prices, but as I say, we will update all that come February. Of course, you also saw this year, around refining, that not only just the Brent / WTI spread, but also the light/heavy spread coming into one of its narrowest ranges in a long time, which of course impacts on the results out of Whiting, which signals potential upside into the future as that spread starts to move back out into a more typical range.

But I completely empathise with you in terms of moving parts; it is going to be difficult to reassess that until we get back into next year. But we are getting now to, I think, a more stable period, and we have come through, I think, that most difficult period where prices came down from $110 a barrel down to $28 a barrel, and they have now moved back up into a range of around north of $50 and indeed now north of $60. I think we will continue to plan on the assumption of something around $50 to $55 on a point-forward basis, certainly coming into next year, because there is an awful lot of moving parts around demand and supply and how that will play out into 2018.

On Rosneft and Aker BP, the facts that you have laid out are absolutely correct, and Rosneft has now flagged up on a dividend basis that it would pay 50% of its earnings as a dividend now, and it will do that on a basis of two quarters, and we got 2016's dividend payment in the third quarter. We are also expecting a payment this quarter based on the first half 2017 results.

I think you have to come back to the transition from TNK-BP into Rosneft, and Rosneft is one of our key strategic partners, and strategic alliances that we have around the globe. It is an incredibly important basin for the globe around oil and gas, and in terms of an investment, we really see it as a strategic long-term investment, so do not look at it in the same way that you did in terms of the comparison with Aker BP and Rosneft. It is really about getting access to resources on the ground, in joint venture operations with Rosneft going forward, of which we have announced a number in recent years. That is really where we sort of see growth in terms of the investment that goes into there. Of course, we also get a dividend, and that dividend is very helpful, but we do not see it as being the reason why we are investing in Rosneft; it is just as a passive strategic investment. This is one of our key strategic partners, and we have a number of options that we continue to pursue with them in terms of growth for BP with Rosneft, alongside Rosneft, in those basins.

Brendan Warn (BMO Capital): So, just two questions if I may. The first question just relates to, I guess, gearing and that you are obviously well within your 20% to 30% that still remains at the top end, just in terms of your priorities of uses of cash for your balance sheet.

And then I guess the second question just comes to, what do you expect you are going to be getting for the $15 to $17 billion in terms of capex, in terms of capital efficiency and growth beyond sort of your 2021 and your delivery of the seven projects? Or do you need to be thinking about inorganic for further growth?

Brian Gilvary: Great, thank you. So, first, the gearing question. It is now sitting at 28.4%. It is comfortably inside the range. It has come down this quarter versus last quarter. We would have anticipated net debt may have crept up a little higher than it did during the third quarter, given that the big chunky payments around the Gulf of Mexico went out in the first half of the year, so $4.5 billion has gone out in the first three quarters. So actually, if anything, net debt was anticipated, we expected it to come up a little bit through 3Q and then drop off significantly in 4Q with the disposal proceeds coming from particularly from SECCO, the MLP from BP Midstream Partners that was announced last week, and taken to the market, along with the tail of divestments, where we are anticipating divestment proceeds around $4.5 billion for the year, so around $3.5 billion forecast for the fourth quarter. So therefore, you are going to see net debt continue to track down.

If anything in the third quarter, we had a $0.5 billion negative impact on the debt book, so in actual fact, net debt did drop $0.5 billion but then we had a $0.5 billion reversal off the back of forex movements that happened at the end of the quarter. So, in the round, we are very comfortable where the balance sheet is. We would not have signalled a buy-back programme today if we were concerned about the balance sheet. It will naturally start to trend down now over the next few quarters.

If we look at the flows for next year, again, you are going to see the Gulf of Mexico payments, the balance of just over $2 billion of payments going out in the first half of the year, with disposal proceeds coming in the second half. It will continue to be a bit lumpy going forward, but the overall direction is downwards, so there is no concern in terms of gearing and net debt. And that just simply reconfirms what we said in previous quarters. If anything, 3Q has come in a little bit stronger than we anticipated on the balance sheet.

In terms of the project portfolio, of course, we have the seven major projects coming on stream this year. We have the last one, Zohr, due this quarter, and then we have four more projects that come on next year that then underpin the growth that Bernard and the team laid out for you earlier in the year. But of course, our focus now is much further into next decade within that frame, hence you saw the licences that we won last week in Brazil, the two blocks that we were pursuing, we managed to achieve both of those blocks, one with Petrobras and CNPC, and the other one with Petrobras. That has a huge opportunity set for us in terms of going forward. And of course, we also announced Mauritania and Senegal, at the end of last year in terms of investment, which again starts to fill some of that growth beyond 2021. So, the team are very much focused on the next decade now, given that the project suite is pretty much in place and delivering out to 2021. A lot of focus on the team, both upstream and downstream is on future growth into the next decade, and of course, we are expecting to hear this year that the Woolworths transaction, in the downstream, is likely to close probably into the second quarter 2018 at some point, which will give us another growth node in terms of downstream and sustaining that business going forward.

And of course, last week you may have picked up Bob's speech that he gave at the Oil & Money Conference here in London that talked about the other growth vectors that we're looking at under Lamar McKay and Dev Sanyal around the renewables space and the low-carbon space, and some of the new technologies that will be available that we will be able to bring our expertise to bear on. So, I think the team are very focused on the next decade. The next three or four years, we just need to focus on delivering what we said we would deliver at the start of this year, and that is really what you have seen reflected in today's results.

Christyan Malek (JP Morgan): Thanks for taking my questions. Just two, if I may. First, coming back to BP's medium-term capex outlook - Brian, you mentioned a lower investment frame for the Group is possible in a lower oil price environment. What is stopping you from lowering capex further, if you can continue to apply incremental technologies and efficiencies? I understand the cyclicality of capex, but, if you are so confident in your long-term production outlook, I struggle with why you cannot lower capex further with or without oil below $50 a barrel.

The second question is, to what extent is your buy-back programme a function of oil price? For example, if we head back to low-$40s Brent, what sort of quantum of buy-back would you offer? Or, to put it another way, is buy-back a fixed feature within your capital framework, and would you choose to flex other targets, for example gearing or capex? Thank you.

Brian Gilvary: Thanks, Christyan. So, first of all in terms of capital, I think that is a very fair push in terms of where we are, and actually, if Bernard were here, he would talk you through the things that they are doing in terms of driving that capital down and lower. We will continue to see benefits come through in the technology space. If anything, what we have learned from the last three years from a number of the things that we deployed that were laid out at the end of February that Bernard had in his presentation, a lot of those things are now active and in place, and if you recall the video that was played, a number of those things actually are in train. So, there is no question that we are going to continue to drive capital efficiency through that lens. That simply gives us upside going forward. But, I think a frame of $15 to $17 billion and a growth profile that comes with that is a pretty reasonable place to be. If the oil price is at $50 next year, the capital will be down towards the lower end of that range; if it is below $50, it will be below that range, just to be clear, which comes onto your second question.

The buy-back feature today is very simple. It has taken us two and a half years to get the company back into balance with a revenue stream that went from $110 a barrel down to $28 a barrel. In fact, I was talking to somebody this morning about that. I mean, that is quite a move for any sector or industry to have to go through. To now find ourselves within two and a half years, to now get back into balance and honour the commitments around the dividend, I mean, the scrip dividend is not there just to be created as a dilution mechanism, and therefore, we have to offset that dilution going forward to ensure that we cover the full dividend. So, what you heard today is absolutely: we will now be covering the full dividend going forward. The scrip will be offset. The board, we have discussed whether we continue with the scrip or not. We think the scrip dividend is something which our investors in some quarters have taken up to 45% scrip, so it is attractive to investors in certain quarters. There are benefits for them, both in the ordinary shares and in ADRs. We have seen up to 35% uptake in ADRs. It has also created financial flexibility for the corporation. But we recognise that, in the sessions we have been having with investors over the last few quarters, that dilution weighs heavily on the holding in the stock. And therefore, with a dividend of around $8 billion, it is right that we should start to offset scrip going forward.

So, irrespective of where we are on oil price, you should assume we will be offsetting scrip. Now, we can manage that for next year down to $45 a barrel; we are comfortable that we can do that. I think that is an unlikely scenario from where we are today; I think it is more likely to be in the $50 to $55. But the intent is simply to announce, as I said earlier, that we will start that buy-back programme now to start to offset that dilution for shareholders going forward, and buy-backs are an option for us in terms of the overall armoury in the broader financial sense over the next few years, as the additional projects come on stream, as downstream delivers the underlying performance that has been laid out for you at the end of February.

Christyan Malek: Not to put words in your mouth, but can we assume that up to – at $45 a barrel, scrip is a fixed feature, below $45 a barrel –

Brian Gilvary: I would not lock it into fixed feature. We have a dividend of $8 billion right now, with the number of shares that we have in issue. We need to pay that dividend on a point-forward basis. If the oil price is down at $10, that is a whole new world, so I do not think you want to get into a fixed feature or a certain price. The intent from the board today is very clear: on a point-forward basis, we will be offsetting the scrip.

Michele Della Vigna (Goldman Sachs): Brian, congratulations for the strong results. Two questions, if I may. The exploration expense was very low in the quarter, at around $300 million. The previous two quarters was around $800 million. I was wondering what you consider to be a normal level of exploration expense.

And then secondly, you are delivering very well on the current pipeline of projects. I was wondering which projects do you now feel ready to sanction in the next 12 months for your next generation of growth? Thank you.

Brian Gilvary: I think the next generation of growth, I am going to hold that for the fourth quarter results, because as we sort of work our way through the projects for this year, we have the projects coming on next stream, there are a number of FIDs in track, but I think I will save that for the fourth quarter, if that is okay. We have talked about previous FIDs which are coming up in previous quarters, but I think 4Q is a good opportunity for an update on that.

On exploration expense, do you mean, can I be clear, Michele, are you talking about exploration write-offs or are you talking about investment?

Michele Della Vigna: Write-offs.

Brian Gilvary: So, a typical quarter where you do not have major exploration write-offs would be something around $300 to $400 million. This is actually quite a low quarter; I think it was about $70 to $80 million from memory. Actually, maybe even as low as $30 million for the quarter, $34 million. A more typical quarter would be $300 to $400 million. Of course, we have had some pretty lumpy ones, like last quarter, we had a $700 million write-down around a specific region. But you should assume something around $300 million on a point-forward basis, $300 to $400 million is a reasonable number to assume, without any major write-offs associated with specific assets.

It is probably worth pointing out that we have a large inventory of intangible assets that we are working our way through. Of course, as the oil price changes, and as technology moves on, a lot of those assets come into the frame in terms of potential FID and moving those projects forward. So, I think something around $300 to$400 million is a reasonable sort of number to assume on a point-forward basis.

Jonathon Rigby (UBS): Thank you. Hi, Brian. Two questions, one on the bigger picture, one on the minutiae. On the bigger picture, you highlighted two relative successes in the quarter on an extended structural basis. So, you have launched the MLP, and clearly Aker BP is really going great guns. So, I just wanted to ask you about, at the board level, where you see how you balance the direct ownership of assets and operations, and where you feel comfortable to hold things at a rather more arms-length basis and take advantage of that, and how you balance those two things, if that is possible.

The second thing, in the accounts you talk about how SECCO will now be treated as an asset for disposal and will be taken out of 4Q results. I just wondered whether you would be able to indicate what the contribution of SECCO was to the petrochemicals result in the third quarter, just to triangulate my forecast, if it is not a problem.

Brian Gilvary: So, the second is a spreadsheet question, which I will be very happy to answer. I think that will help everybody on a point-forward basis. So, I'll come back to SECCO once I find the sheet for it.

On the MLP and Aker BP, I think they are great points to make. I think everything comes back to value over volume, and the sort of mantra we put back in place as we built the company over 2010 to 2014, so that while an output of that over the next three to four years is significant growth, and you saw that come through in this quarter and year-to-date 7% growth on an underlying basis in terms of the upstream. Having laid that mantra out, we are pretty much just sticking with it, and I think Aker BP and the MLP are two very different structures that we have in place. Nevertheless, they will both open up new growth opportunities for us that we probably would not have been able to achieve as a sole owner. I think Aker BP is a great example of two leaders coming together to bring that deal to fruition originally with Bernard and Øyvind. In terms of what is now being created as a growth option for us going forward, I think what you saw last week is a great example of where that company is now heading. We have taken a basin that, for BP, in terms of where we were with Norway, probably had limited growth available to us as BP, but now in joining forces with Aker, we have created a real growth vehicle for us and we will be able to participate in that growth. The ultimate benefit we get is through the dividend that Irene flagged earlier in terms of that coming through.

The MLP is very different; I think that will provide options. It has allowed us to monetise an asset. It is a strong market. Nevertheless, last week when we launched it, we hit a relatively weak market, but certainly hit the prices that we were looking for. That will give us opportunities going forward as other companies have seen with the MLP market in terms of potentially moving further assets into that structure going forward and creating a different sort of growth vehicle from the one you saw with Aker BP.

I think in terms of board conversations, the board is very open to a number of conversations we have had around various structures that we have looked at with the company ownership. But I think value is going to be the ultimate driver as to which direction we go to around particular assets.

In terms of SECCO, it has actually been moved into assets held for sale, mostly because we are almost due to complete the sale. So, it has actually come right in. For the third-quarter results, its year-to-date earnings are just under $300 million. That is probably the number I can give you which will maybe help you, then, in terms of point-forward. Their first three quarter earnings is somewhere around e about $270 million.

Theepan Jothilingam (Exane): Hi, good morning Brian. Good morning, Jess. Two questions, please. Firstly, just coming back to the BEL claims and intentions in terms of closing that facility. Brian, if you could perhaps give any timelines on that.

Secondly, with the success in Brazil and the third round of pre-salt, again, could you give a little bit of colour in terms of activity when you expect to be able to drill on the acreage? Thank you.

Brian Gilvary: Right, so on the latter one in terms of Brazil, it is probably a bit premature for me to say where we are on that. All I would say is that the team are very, very happy that we actually won those two blocks since they targeted these two blocks and they are the two blocks that they achieved. I am sure you know, but it is in a very prolific part of the Santos Basin, so on that basis I think there will be a lot more to discuss. Sorry to defer this off to 4Q but I do not want to steal Bernard's thunder this quarter. I think he will talk you through what that will look like in terms of potential drill-out and what we have actually committed to as part of those licenses. But there will be more to follow at 4Q. I hope that is okay. I cannot really go into much more detail than that.

On the business economic loss claims, we are really into the tail now. If you recall at the start of this process five years ago, and we were discussing this yesterday, we had about 147,000 claims   submitted to our facility. There has been a little bit of a delay in finalising the last tranche of those with Hurricane Harvey and a bit of a slowdown with the settlements and the payments in the third quarter, but we are down, now, to about 1,800 of 147,000 claims to resolve. We should know by the end of this year what the total landscape looks like of what those claims calculate to. Some claims will calculate to zero, some claims will have a set number associated with them. Then we will also be able to see what our total appeals bucket looks like versus what is left inside of the provision, and then we will be able to revise the provision at the end of 4Q. This is the position we would be in. But we are really now into the final tail of that claims process, and we have actually got now, of course, the forward projections of what the actual cash flow looks like for next year. The only final uncertainty really remains around those final 1,800 claims and what effectively the appeals bucket looks like versus what we have left provided. That will be a separate process that we will go through, probably for the fourth quarter and first quarter, but we should be able to update you at the end of 4Q.

Robert West (Redburn): Great, thank you very much. I would like to ask three if it is okay. The first one is really quick. Just on the buy-back, you alluded to the board conversation yesterday and the intention to dilute the scrip on a point-forward basis. Does it come up at all just to get rid of the scrip, and can you tell us anything about that discussion that is pertinent?

The second one is, on the downstream strategy, where you already took us under the bonnet earlier in the year: 3,000 service stations to add, 2,000 convenience stores. Since that time, a lot of your competitors have also announced plans to reverse the trend of divesting from fuel retail and follow what is a similar strategy. Do you share that perception, and is it in any sense changing anything for you in terms of how fast you pursue it?

The final thing I was interested to ask is just ADMA_OPCO is kind of really pulling into view now, I think six months away from that license expiring. Do you see that playing out like ADCO? Or is there anything you can share with us there? Thanks very much, Brian.

Brian Gilvary: Yeah, Jess is telling me to only answer two questions.

Robert West: You can pick your favourite two.

Brian Gilvary: I will take them in order. We will actually leave the ADMA-OPCO ones for 4Q.

In terms of first quarter, so we have had a conversation with both investors and the board and our advisors around the scrip. The scrip was discussed with the board at the end of 2009, and it was introduced in 2010. What is clear from our investors is there is a large group that like the scrip because it is efficient for them to take that scrip as an alternative to a cash dividend. So, we do not want to stop that part of this, because we will ultimately be driven by what investors believe. Equally, there is a large proportion of investors, including the same ones that take the scrip, that would say that, if your dividend is $8 billion, you need to offset that dilution. So, the intent is absolutely to pay out an $8 billion dividend, and as part of that, therefore, offsetting the dilution associated with the scrip. We will continue to talk to our investors. If our investors come back and say, 'Actually, no,' – and they have the opportunity to vote on this at the annual general meeting every three years as to whether we offer a scrip alternative, then that will be a conversation decided by shareholders that they will ultimately take. But I think for now the key here is we are now in a position, after two and a half years, to get the balance of the finances back into balance, and we can declare that actually we can offset that scrip on a point-forward basis.

But there is a strong push from investors for that scrip to continue to be available, not only just in terms of ordinary shareholders, where I think I said earlier the uptake has been as high as 45% in some quarters, but also the ADR shareholders, who have been as high as 35%. So, we will continue to offer it while investors continue to vote to make that available to us as an option. It has been helpful in terms of managing the financial frame through the transition to these lower oil prices, but it is something, again, that is really a matter for investors. They will have a choice around that going forward. The board have discussed this at length about removing the scrip completely or just the simple offset of dilution. I recognise there is a friction cost associated with both issuing shares and then buying those shares back, but it is relatively de minimis in the overall scheme of things in terms of the flexibility it provides both to shareholders and for the company.

On downstream disclosures, I think you will see more around downstream going forward annually. I think, as you said, Tufan well and truly opened the bonnet and pretty much showed you every moving part of the downstream at the Downstream Investor Day. On an annual basis, he will update you on progress on those. I cannot comment what other companies are doing. What I would say, though, is it is very clear as we go through a major transition over the next decade, staying close to our customers – because sometimes we forget we have more customers than some of the big, huge retailers like Starbucks. We actually have more customers per day coming through our facilities than some of those really big retailers. Ensuring that we continue to stay connected to those customers on a point-forward basis through the various transitions that we are likely to see, if not around the whole energy mix going forward, is going to be a massive opportunity set for us. I think today we have anywhere from 10 million to 15 million customers per day coming through our facilities. We just need to make sure that we continue to provide offers that are attractive to them to make sure that they continue to keep on coming through these facilities.

Martijn Rats (Morgan Stanley): Hi, good morning. I wanted to ask you two things. First of all, could you talk a bit about this extraordinary downstream result? Because of course during the quarter we had the hurricane impact, and as a result it is an exceptionally strong number, but I find it quite difficult to read. Is it possible to strip out, perhaps, the effect of the hurricane impact on that downstream result? Is there anything else that is going on that inflated the results in this quarter?

Secondly, I wanted to ask you about the upstream. Is there any sign, outside of the United States, of inflation in oilfield service costs, wages, taxes or any inflationary pressures already emerging in the market?

Brian Gilvary: On downstream, the hurricanes had a relatively limited impact on the results, so I would not go to that particular place, because notwithstanding we do not have any Gulf Coast refineries anymore, but there were huge refinery outages, but of course demand was also destroyed as a result of that, so you had both sides of the equation covered. So we will have received some benefit through slightly higher refining margins, but a lot of that was negated by the point I made earlier around light/heavy spreads.

So, I think the only place we go to in terms of downstream is to say there are three sources, I guess. One is stronger margins in terms of refining overall. The RMM was higher but it was offset by the weaker light/heavy spreads and some local margin impacts. The second is stronger fuels market result that came through. We had a lower turnaround quarter in the third quarter, which would have had a small impact on the result of the $100 million or $200 million zone, and we got a stronger trading result. The 2Q result was weak for trading. It was below plan, but it was above break-even, so it was sort of a weak quarter. This was a stronger trading result, but it was just above plan, so it was not a blowout quarter in terms of the trading result. You would have seen a move in the delta quarter to quarter, certainly from the stronger trading result, but it was also refining margins, and again, continued strong fuels marketing performance.

In terms of inflation outside of the US, we are not seeing any at the moment, but of course as you start to see oil prices start to tick up we stay ever vigilant in terms of where we are around the costs and making our cost levels now in the upstream back to where they were when it was back at $45 a barrel a decade ago. So, Bernard and the team have brought costs down quite significantly, and we will continue to stay focused. The things that will balance out any inflationary pressures that you might see will be the things alluded to earlier around technology and what we are deploying in the way of technology across the piece, as well as continued focus on costs and efficiency. But we are not seeing anything outside of the United States right now.

Biraj Borkhataria (RBC Capital Markets): Thanks for taking my question. First one on Macondo again, can you just talk about, I know you gave the number of claims left by the end of the year, but is there a risk that you come in slightly ahead of the top end of your guidance of $5.5 billion? This quarter again was slightly higher than I was expecting.

And the second question on US onshore. How is that competing for capital relative to some of the opportunities you have? Costs continue to go down, so I was wondering if that is moving up your priority order for growth. Thanks.

Brian Gilvary: Yes, maybe the latter of those two questions I think I alluded to earlier. I think on US onshore, the team have done a terrific job over the last three years in terms of positioning that business, and that is always an opportunity set for Bernard and the team if you want to ramp up activity quickly, that is one place you can do it. So again, I think I would leave that for the fourth quarter, and we can talk about it then in terms of the plans for next year. But it is, absolutely, you are completely right, that is one opportunity for us in terms of ramping up activity if that was something we chose to do, depending on the environment that we see.

In terms of Macondo, we have given you an estimate now for the full year. We think it will be around $5.5 billion. I cannot give you any more revised estimates other than that which we have laid out today. I think balancing upside and downside risks, that is a pretty good number for the year in terms of where we expect 4Q to finally come out.

Thomas Adolff (Credit Suisse): Two questions as well, please. Firstly, on upstream production. When we look at BP excluding Rosneft and look to, say, 2022, upstream production is growing, and it is growing nicely, but I wonder if we were to deconstruct the profile, do you see between now and 2022, BP's oil production curve roll over, since obviously many of your projects are somewhat more gassy? And perhaps you can also comment on decline rates in your portfolio? And if you say no, I wondered, on a global basis, not just for BP, whether you see the oil production curve roll over by the early 2020, at say 60 bbl. Brent?

Secondly, on Brazil, and I know you do not want to talk about Brazil in detail on this call, on the 1Q call I had asked you about Brazil and you did not really give a proper answer then. Since, obviously, you have won some nice licenses in the third bid round, and I wonder if it is just the beginning and more will follow? Strategically, should we consider Brazil as one of your next kind of key hubs? Obviously Peroba is potentially large, and you will talk about it on the 4Q call, but obviously there are a lot more bid rounds in the next few years in the pre-salt as well, and other direct opportunities. Thank you.

Brian Gilvary: Okay, Thomas. Thank you for the coaching on the first quarter call; I will take your coaching in terms of not giving you proper answers, and I will try and make this one as proper as I can in terms of covering it. I am not sure I can give you any more on Brazil. We won the two licenses last week, I think that gives us huge optionality going forward. I think Bernard will talk about it in 4Q results, and the team will continue to look at opportunities in other bid rounds. But those two blocks were ones that were targeted ahead of time, and the team won them and feel pretty good about it. We will look at what the next round looks like. But the pre-salt in that particular part of the Santos basin is really interesting for us. I cannot really give you any more detail than that, but there will be other bid rounds in other regions that we will be looking at, and the team will continue to focus on it.

Because of course that is the point I think you are trying to push on, which is that from 2022 and beyond how we now really fill that growth curve. So, it kind of comes back to your first question. You asked about decline rates, and of course they are very different, across the gas portfolio versus the oil portfolio. We plan a decline rate of around 3% to 5% which we have done for a long time. Decline rates are actually running below 1%, year to date, or around 1%. They are actually running quite low. I think that was intuitive. We should have probably figured that out maybe two or three years ago as we came into the oil price correction. And therefore, everybody focused on the near-field developments and in-field developments, which has led to a lower decline in previous years. I think this year, and it is probably a question worth asking of Bernard at the end of the quarter, but I suspect that what we are starting to see this year is real benefits come through from technology, and the technologies that we are deploying, which is allowing us to get better reliability in the drilling and the kit that we have. I could give you a number of examples around sand management and what we have deployed in that space, with some of the technologies that we have developed over the last two or three years. I think that is definitely helping drive down decline rates on what you see today.

What the profile will look like out to 2022, of course, will be a big function of what the next big round of FIDs are over the next two or three years, and I think we will lay those out for you at fourth quarter, which would be a good time to do that.

Thomas Adolff (Credit Suisse): Thank you, a quick one on just predictive maintenance. Predictive maintenance is also a big thing obviously in managing the decline rate, if you will, or operational efficiency. What is the size of the price, if you will, on predictive maintenance across the entire portfolio?

Brian Gilvary: I think if you go back to the video that was played at February, that was a big part of it. I think the technologies that we are now deploying into the well portfolio we have will allow us to start to look at not only predictive maintenance, but performance of specific valves that we have within our inventory, and it all comes back to procurement and supply-chain management. I think the opportunity set is huge for us. I say it is huge, because ultimately the ability to do that and understand the kit that we have deployed across those 2,200 wells in the portfolio will create better reliability of the kit. So not only is it arresting issues around decline, but it just gives you more uptime in terms of production. And that, of course, drives ultimate earnings, which is what you are actually seeing in the third quarter.

Alastair Syme (Citi): Where do you think cash tax will end up in 2017, and do you think that will change meaningfully in either direction going into 2018 at t $50 to $$ 55 bbl. oil?

My second question is a little bit longer. We are coming up on the end of the year, and I think we have had this discussion before around the fair value analysis that is embedded in the balance sheet at $75 / bbl. real. No doubt that is helping the gearing a little bit. Accepting that oil prices have moved in the right direction in the last couple of months, but do you feel the need to align the view to one that is closer to what you show on slide 15, around $50 to $55 bbl. oil?

Brian Gilvary: On the latter question, we actually do, and we just went through it this quarter. We have significant headroom across the whole asset portfolio, and the test that we run, which I think is where your question is originating from, is actually on a forward curve basis for the first five years. We smooth the line out five years, but we actually use prompt four or five years in terms of carrying value of the assets. Was that the source of the question, Alastair?

Alastair Syme (Citi): Yes, it is.

Brian Gilvary: So, there is more than significant carrying room, and we actually reviewed it last week in the Audit committee, across the whole suite of the portfolio. So, I do not see any issues on that side. And like I say, $75 / bbl. is a long-term assumption that we use, but actually for impairment testing we actually use something more near-field in terms of the forward curve. Which, of course, has helped versus a year ago because it has moved up five or six bucks from where we were, but there is still, based on what we ran at 3Q, sufficient headroom across the whole portfolio.

Alastair Syme (Citi): So, to clarify, that is five-year forward and $75 /bbl. real, is that what you are saying?

Brian Gilvary: That is correct. And the five-year forward we modified last year to be more in line with the rest of the sector, where it is actually smoothed across those years. The forward curve is not particularly liquid beyond two years, so for years three to five, we just smooth. It is a good way in which to analyse what the forward projection looks like.

On the cash tax rate, I think we will just wait to where we true up this year. Typically, pre-Abu Dhabi, when our effective tax rate ran at around 33% to 35%, our cash tax rate would run at around 26% to 27%. With Abu Dhabi now in the portfolio, we will get a year of that at the end of this year and we can revisit it then. Cash tax rates typically run lower than your tax charge, for a variety of reasons. There are a lot of moving parts in cash taxes this year, particularly in the third quarter, which impacted operating cash flow. Once we have got four quarters under our belt, we will be able to give you more guidance around that in terms of next year. But it will typically run 6%, 7%, 8% below the actual charge. This year we are giving indications of just over 40%, that's what we would expect the tax charge to be with the Abu Dhabi concession included. Tax rate will typically run below that, but we will be able to give you a better handle on that at the end of the year when we have got all four quarters under our belt.

Christopher Kuplent (Merrill Lynch International): Thank you very much for taking my questions. I will try and keep it brief. Brian, the $5.5 billion expected oil spill payments this year were obviously meant to be financed through disposals, of which you have highlighted $1 billion received so far, another $2 billion plus, to come through in 4Q. We have only two months left. I am obviously not asking you about exact transactions, pending or in your drawer, but are you at all worried about a $1.5 billion or so gap still in your $4.5 billion disposal target for the end of the year, if I get my numbers correct?

And second question, similar line: obviously you also have M&A outflows for this year, and I wonder, a), how they are funded; and b), how they are accounted? In particular that sign-on bonus on ACG, is that already in the Q3 result somewhere? How are you going to stretch that out, going forward, in inorganic or organic capex? Thank you.

Brian Gilvary: So, on the disposal proceeds, very confident around the $4.5 billion, Chris. You will have probably picked up from the earlier conversation: SECCO $1.4 to $1.5 billion of proceeds coming in this quarter, this deal is about to close. The MLP, Master-Limited Partnership, now in the market place, will have over $700 million of proceeds coming in. There is also a tail of a number of other disposals, which we flagged up at the start of the year - all the cash arrives for those, some of those have been announced, but the tail of those will come through. So, the $4.5 billion is a pretty good number for the fourth quarter.

The frame we laid out was: disposal proceeds would cover Deepwater Horizon payments over time, and they would not necessarily be symmetrical in year, so therefore next year you will see further proceeds coming through to balance up from this year, but you will also see Deepwater Horizon payments going down quite significantly next year, so the balance will be in the opposite direction for 2018. So, yes, we are pretty confident on the disposal proceeds, and I know it helps when the cash is in the bank, and that will come through in the next eight weeks, and in fact a number of those transactions will come through in the next few weeks actually.

Then on the M&A outflows, the ACG bonus is paid over a number of years; from memory I think it is over the next eight years, the way in which it is structured, so you will see that flow out. That is phased over eight years as a payment in terms of bonus, and the first payment I think goes out in the first quarter but I would need to go back and check with the team on that.

Then in terms of the other M&A outflows, they will be covered inside the inorganic frame that we have laid out. The Woolworths transaction that we have laid out, that we anticipate will close in 2Q, the downstream will come up with a suite of disposals of tail-end assets that will cover that investment; and that will be the same in the upstream in terms of any further M&A activities. So, I think we have a very clear frame now where operating cash flow covered the dividend and capital, and the scrip, so you have complete balance on that side of the equation, and we will continue to use M&A both on the positive and negative side in terms of selling and buying assets.

And in terms of Deepwater Horizon, we are now through the $13 billion that we had to spend last year and this year, hence where net debt has got to. That payment schedule looks like just over two for next year, front-end-loaded in the first half, and then just over a billion a year out, so 2032–2033, I think from memory, I think it was 2032, 15 years, and effectively that is done.

So, the frame is clear. We have now delivered against that frame in the first nine months. As you see proceeds come in the fourth quarter, you will see net debt drop down, so from a balance sheet perspective we are in a much stronger position than we would have been coming into this year, and we have done the things that we have said we were going to do. And, as I said earlier, this quarter has come in a little stronger, which meant we have been able to initiate the buy-back programme a bit earlier.

Christopher Kuplent: Brian, **j**ust for clarification: the ACG bonus, that is part of your $15 to $17 billion for going forward, not in inorganic?

Brian Gilvary: The ACG Acquisition?

Christopher Kuplent: The sign-on bonus.

Brian Gilvary: The sign-on bonus would be part of the inorganic capital frame.

Jason Gammel (Jefferies): Thanks very much, and Jess, best wishes for all your future endeavours.

A pretty major milestone accomplished during the quarter with the extension of ACG, so I just wanted to ask a couple of questions related to that. First of all, how do we think about the economics of the transaction, Brian? Obviously taking a lower equity position and making the bonus payment, but then also getting the 25-year extension, what would you expect in terms of an economic return from the transaction? And were there any fiscal enhancements that you received in the transaction, which I believe resulted in a new PSA? Then finally, would you expect to be able to take any reserve bookings in 2017 as a result of the transaction?

Brian Gilvary: If you look at the transaction, effectively what we have renewed now is out to 2049. I think our interest is now down to just over 30% from above 35%, from memory; I think we were close to the 36% before and we are down to just over 30% now. Although we have diluted our position in ACG, the profit-share terms have improved, so on that basis the economics still look good going forward. We will continue to remain operator and, as we have said, we have the sign-on bonus that was flagged earlier. But it is an incredibly high-quality discovered resource, it is a great position to have. What we have signed is equivalent to a $5 to $6 a barrel acquisition cost, that we announced as part of the announcement, and I think it gives us huge optionality in terms of the next growth into the next decade, on what is an incredibly important oil part of the portfolio.

Jason Gammel (Jefferies): And on reserve bookings?

Brian Gilvary: That is probably premature at this point; we would need to come back and we will update you with 4Q. I do not mean to push things off to 4Q, but we now go through our whole reserves process this quarter, so we will be able to give you more on that in the fourth quarter.

Anish Kapadia (Tudor, Pickering, Holt & Co.): Good morning. My first question was on the working capital. If we look back over the last couple of quarters, I think you have had close to a $3 billion underlying working capital gain, which has helped the balance sheet to some extent. I was just wondering if you could discuss the factors behind that, and if you expect any significant changes in working capital going forward?

Then the second one was going back to the capex guidance for next year. You have a $2 billion flexibility within your capex guidance for next year. Can you just talk about what are the key flexible elements in that for 2018, and so in a higher oil price scenario, what are the things that we should expect to see coming back? Would that be more exploration or more Lower 48 spend? Can you give some of the key elements of the upside?

Brian Gilvary: On the latter question, I do not want to defer this out to later in the year, but I think we have already alluded to the fact that if we wanted to ramp up activity, the place where we could do it easily would be on the onshore, and that would lead you to Lower 48. There is no question we have opportunity sets where we can ramp up activity.; But we are going to manage the frame pretty tightly, so I do not think you should assume if we see a higher environment, we are necessarily going to ramp up capital; we are certainly going to stay within the $15 to $17 billion frame, we will be pretty disciplined about how we deploy that capital.

Then the first part of your question was around working capital, which I think you will find for the first three quarters we have released about $1.5billion of the total release of working capital. We believe that will be sustainable going forward. We will continue to look to opportunities around working capital to get more efficient in our procurement and supply chain, so to the degree that we can get more efficient in that, you may see further increases, but we are not anticipating anything in terms of where we are now.

In the fourth quarter, we also see a movement of capital that goes out with the mineral oil tax in Germany, where about $1.5 billion flows out at the end of December and then flows back in in January and February, so there is a one-off impact in the 4Q and 1Q, where you see a build as that money flows out, and then it comes back in again within 60 days. You will see that effect in the fourth quarter, but no other major impacts that we are seeing going forward.

Jason Kenney (Santander): Just a short question: when do you think that your earnings per share will cover your dividend per share on a quarterly basis?

Brian Gilvary: That is a great question, Jason, and of course what you are going to is where does DD&A sit and what does DD&A look like going forward, because of course that will be the biggest driver in terms of that. You are going to see that start to trend. Obviously, the overall pay-out ratios will start to trend down, as you see the growth profile start to get delivered over the next one or two years, and you will be able to track that quarterly going forward. A big function of that will actually be looking at what's happening with DD&A, which will naturally start to increase; on a per-barrel it will stay flat but will naturally start to increase as that new investment goes into those new projects. So, it is a dynamic balance between the two but the pay-out ratio will naturally trend down.

Jason Kenney (Santander): If I could follow up, is there a P&L tax rate that you are thinking about to $50 to $55 bbl. for next year, 2018?

Brian Gilvary: We will come back to that with full-year guidance, but in terms of planning at this point 40% is a good number. It is going to track slightly above that this year but 40% is a good number going forward, and we will update all of those numbers at the end of 4Q with the guidance for 2018.

Colin Smith (Panmure Gordon): Hi Jess, hi Brian, thanks for taking my questions. First, really a point of clarification: just around all the commentary on scrip, are we to understand that basically a $50 to $55 bbl. Brent, we would expect the scrip to be fully offset by share repurchases?

Then my second question is just coming back to ACG: can you just clarify what the score is with the deep gas potential in ACG? Thank you.

Brian Gilvary: On scrip, what we have been very clear about is we will be offsetting the scrip on a point-forward basis. I am not going to give you an oil price range, but certainly at $50 a bbl. will be offseting the scrip. At $45 a bbl. we believe we can offset the scrip because we can manage capital lower. Beyond that, it will be a matter for the board what the choices are around how we deploy cash within the balance sheet, but you should assume on a point-forward basis that we will paying out the full dividend, therefore offsetting scrip.

In terms of gas potential, there are of course deep gas resources also that come along with those ACG fields, and I think there will be more to follow on that post conversations with SOCAR when we get to the fourth quarter. I feel like I have deferred a lot until the fourth quarter, but that one is so current that we will be able to give you an update at 4Q in terms of where we are vis à vis SOCAR, but there is no question there are deep gas resources associated with those assets. There will be more to follow on that.

Colin Smith: But to be clear, that was not included in the amended PSA terms, so terms for deep gas are still to be agreed, is that correct?

Brian Gilvary: That is correct.

Jessica Mitchell: Thank you Colin. That brings us to the end of our Q&A. For those that are still on the line, I would like to say thank you. It has been a privilege to be in this role and to know you all over the years, and I wish you all the best in the future as you, hopefully, continue to follow BP.

Brian Gilvary: Great, thanks Jess. Maybe therefore just to summarise for the quarter, it has been a strong quarter in terms of delivery. It is just a quarter: it is just simply a 90-day period, and it is now three-quarters into the 20 quarters that we laid out for you at the end of February. I think we are making good progress. The fact that we have got the company back into balance is an important signal for the marketplace, and I cannot think of a better set of results that Jess Mitchell would have been on the call for, for her last call.

Jess has been in investor relations now for 61 quarters; that is quite an achievement. I know Jess has done 24 quarters because we both started at the same time, and now she is leaving and that is a massive gap to fill, which we are very comfortable Craig will step into, with his experience of both the US and the UK markets. But she has been a fantastic stalwart in terms of the Rock of Gibraltar for the corporation and for all our people, and has led her team incredibly well, which I am sure you all know. She is deeply liked and loved by her team; she has built a great team around her. I think you see the benefits of that, certainly on the sell-side and on the buy-side in terms of investors.

Simply to summarise, a great testament was at yesterday's board call: at the end of that board call, the board recognised all of Jess's contributions to the company through some incredibly difficult times over those 61 quarters, and leading the company through the last 24 quarters and two phases of rebuilding of the company, the ten-point plan, and now I think it is quite fitting that the company has got itself back into balance as Jess has chosen to retire at this point in time.

We will miss her dearly, and I would not be surprised post her retirement with BP if she turns up back in some sort of area around investor relations, given how highly she is held both by our board but most importantly by our investors, and how she has been able to portray the company over that period of time. I would just like to add my thanks to Jess for everything that she has done.

Jessica Mitchell: Thank you for those kind words, Brian.

Brian Gilvary: With that, thank you very much for listening to the call today, and there will be an appropriate time where you will be able to celebrate with Jess as she retires from the company and moves onto other things. Thank you.

[END OF TRANSCRIPT]