BP 3Q 2019 Results: Webcast Q&A Transcript

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Q&A TRANSCRIPT

Craig Marshall: We will take the first question from Oswald Clint at Bernstein. Good morning, Oz.

Oswald Clint (Bernstein): Thank you, Craig. Good morning Brian. Two questions. Firstly, Brian, just on realisations, you mentioned it in your commentary. Particularly interested in US realisations, which seem to be particularly weak here in the third quarter, especially versus second quarter and last year. Obviously, you have a lot of the lower 4Q liquids coming in but you did have that in the second quarter. So it just looks like something much weaker in 3Q. That is the first question.

Secondly, just around the dividend, obviously you got it growing again last year. I think in the first half of the year, around the quarters, you signalled potentially something could happen in the second half of 2019. You have not done it today. So with the progress, could you just talk about is the Board discussing boosting that dividend for the fourth quarter of 2019, please. Thank you.

Brian Gilvary: Thanks Oz. I think on the first one, realisation is really just about the bases off the various pricing points in the United States. Average realisations were down about $6 quarter on quarter, or thereabouts, the actual markers were down by a similar sort of amount. I think actually their difference is around about $1.50-2.00. It is really just about basis risk and what has happened, particularly WTI versus Brent and particularly the mix. If you look at the mix of barrels, which is probably the biggest driver, with the Gulf of Mexico barrels being out off the back of the hurricane and the maintenance and turnarounds, you just have those less high margin barrels coming through in that average realisation. So that was probably the biggest driver basis, Gulf of Mexico.

On dividend. I think it is an important signal in terms of confidence for our future cash flows. We did announce that we are cancelling the scrip from this quarter onwards and we do not envisage we will be issuing a scrip going forward, notwithstanding we will keep the flexibility that we were given at the AGM which renews in 2021. So it may be something to come back to but right now the assumption is we will not.

By the end of this quarter, we will have bought back all of the shares that have been issued since the scrip was introduced in the third quarter of 2017 when we signalled that. Indeed, we bought back already year to date about over $800 million of share buybacks, about $340 million in the first three quarters, and we have done $500 million in October, which you may have noticed. So we are deploying cash to buy back the dividend. We have the disposal proceeds, as they come in next year, that will start to see the balance sheet deleverage.

So I think the strong message this quarter is: net debt stabilised; gearing went up, we are now at 31.7% and we have said it is one of our key measures now to get gearing back down towards the middle end of the range by the backend of next year. So I think now would have been premature to move the dividend and I think actually now with the Board, as we change out and we go through the chief executive succession, I think it probably signals the dividend will come back. We will certainly discuss it at 4Q but it is more likely it will be beyond that. But I think the cancellation of the scrip this quarter was an important signal.

As the cash flows come through from the disposal proceeds next year, the balance sheet deleverages as that gearing comes back down below 30%. I think that will then create a signal that would allow us to go and look at further distributions either through dividend or through buybacks. But I think we need to sort of look at where the company is going by the middle of next year strategy wise and that will help shape the picture going forward.

Oswald Clint: Understood. Thank you. Thank you.

Brian Gilvary: Thanks Oz.

Craig Marshall: Thanks Oz. Yes, we will take the next question from Thomas Adolff at Credit Suisse.

Thomas Adolff (Credit Suisse): Brian, two questions for me as well. Firstly, presumably it is fair to say that the difference between the dividend and the buyback is the difference between what you and the Board regard as sustainable and super normal free cash flow. Then, if we have a company like yourselves with a somewhat weaker balance sheet, any super normal free cash flow, if you have any, will be used rather to delever and return via buybacks. You talked about buybacks in Oswald's question but my question, I guess, is as a base case for 2020, can we expect from BP a discretionary buyback programme?

Then secondly, the comment you made on the update previously planned for November, now postponed to early 2020, is that going to be an updated strategy update where you will provide guidance to say 2025 around cash flow, dividend and capex, etc? Thank you.

Brian Gilvary: On the buyback question, so I think first of all it is important to recognise that as you look at BP within the sector, our gearing is where it is. There are a number of reasons for that but probably the biggest and primary reason is the fact that we have paid out $18 billion over the last four years in Deepwater Horizon payments and settlements associated with that incident. So therefore, we should not forget that is the reason why we are where we are. Without the $18 billion, our gearing would be down at 22%. But we have to recognise that that was not going to get in the way of strategy and that is why, off the back of the BHP transaction, we were happy for gearing to go back up higher. In terms of discretionary buybacks, it is within the armoury, but I think you have to start to see the proceeds come through from the $10 billion programme. That programme, we said over $10 billion. We should have the $10 billion done by the end of this year in terms of announced. Then of course, Alaska probably closes sometime around the middle of next year and there is phased payments associated with that. Deposits have already come in third and fourth quarter.

All of that will create the backdrop for flexibility in terms of distributions but it will be premature to say anything specific about that now. But buybacks are definitely within the armoury and available to the Board and if you think about the amount of scrip issue pre the third quarter 2017, there is no question that reducing the number of shares in issue helps self-reinforce the affordability of the dividend going forward, which clearly is affordable within the current frame but as we look to grow the company going forward and what the future options may look like, as we look beyond the next decade, then I think that opens up a series of possibilities for us.

That comes on to your second question, November was set up as an update on where we will be vis-a-vis in 2021 and the targets we had laid out, fleshing out what we were doing around some of the new energy frontiers and in particular talking about what our low carbon ambition would be going forward. We just felt it was right now to leave that to be reset in the early part of next year as Bob hands over to Bernard and allow Bernard to really lean into the discussion around what we will be doing in the lower carbon space and the energy transition. And indeed, what the ambition of the company is going forward in that space along with what we are looking to do in the very, very long term, in terms of 2025.

So I think you should assume that early next year what we were originally planning for November will be an update on 2021 and some of the fleshing out of what we believe our ambition is in the low carbon and energy transition space. Then I think a longer term 2025 conversation is almost certainly in the second half of next year as Bernard takes over the reins and starts to shape where he would like the company to go collectively with the team. So I think you should think about the first part of next year really around ambitions and what is the company's ambition in the energy transition. Then second half of next year 2025 strategy.

Thomas Adolff: Okay, great. Thank you.

Craig Marshall: Thank you, Thomas. So, we will take the next question from Lydia Rainforth at Barclays. Good morning Lydia.

Lydia Rainforth (Barclays): Thanks. Good morning Craig. And I have two questions as well. Brian, if I just come back to that idea of what happens with the share buyback or on the dividend increase. Can I just check, you are not expecting any major changes from Bernard taking over to what Bob was planning, it is just that little bit of you are delaying things a little bit because of this change in CEO.

Secondly, can I come back to the write downs from the quarter associated with the divestments? Is there anything else that we should be thinking about in terms of the balance sheet that may trigger further write downs in terms of whether it feels long on oil price that you are using or not? Thanks.

Brian Gilvary: Thanks. Thanks Lydia and thanks for the opportunity to just clarify. No, do not signal anything in terms of Bob to Bernard that there is any change in dividend policy or our view going forward. We may well come back to dividend as part of 4Q, but I think we would like to see net debt and gearing trending back towards below 30%. And on that basis, we may well look at it at 4Q and it will be based on the outlook of where we are vis-a-vis, proceeds, what the trajectory looks like in terms of future cash flows. It is not a function of Bernard having a different philosophy to Bob around dividend. That still stays the same in terms of progressive dividend and where the company sits.

On write downs, what you saw come through this quarter is really a function of the dry gas assets we are selling off the back of the BHP transaction - the legacy assets inside BP - and clearly where Henry Hub is as we talked about on the call. I think we anticipate gas prices are going to remain pretty supressed, certainly out to 2021. If you look at the fact that the UK, I think, is 105% full on LNG right now, Europe if full on LNG imports. We do not anticipate that all of the gas that was planned and slated to be exported from the US will be able to hit a demand market any time soon. So therefore, actually strategically, we were looking to get out of these assets. We chose to proceed. We are still getting good multiples of what the forward prices look like in terms of the prices we are achieving for the assets, but they are clearly below what was being held at book value and that has led to these impairments. So, agreed that we have more packages and we have at least two other packages in the fourth quarter. The assumption is that would we proceed with sales of those packages, they will potentially have the similar issue to what we have talked about this quarter. I am not signalling that we are expecting any other big major impairments in 4Q, but there could be more to follow depending on what prices we achieved for those assets.

Lydia Rainforth: Okay. That is really helpful. Thank you.

Brian Gilvary: Great. Thanks Lydia.

Craig Marshall: Yes, thank you, Lydia. We will take the next question from Dan Boyd with BMO in the US. Good morning Dan.

Dan Boyd (BMO US): Hey, good morning. I wanted to get an update on your Lower 48 strategy with BPX. So can you give me an update on your stocks on capital allocation there? I am specifically interested in how you think about allocating capital between the three basins given that, at least according to the public data that you can see, your Eagle Ford results appear to be top quartile in the industry, but you reduced activity there. Then are there any commitments that are preventing you from reducing Haynesville activity further given what we have seen with gas prices. Then an update on when you might increase your Permian activity - I think previously you have talked about as there is more takeaway capacity. Thanks.

Brian Gilvary: I think actually you have almost answered the question for me, which is focus is absolutely on Eagle Ford. You are backing our production straight into WTI pricing. It is by far the most attractive of everything we can see in that Lower 48 slate right now. We had the Board meet with the team in Denver in the third quarter, in September. We were able to go back and review where we are. I think the performance of the rigs that we are already drilling – we have already drilled 73 new wells. In the third quarter we drilled 28 in the Permian, 32 in Eagle Ford and 30 in Haynesville and that gives you a sense of priority right now, which would be Eagle Ford first. We will ramp up in Permian, probably later into next year and certainly into the middle of next year as takeaway capacity comes on stream. We are seeing things in terms of the Austin chalk which we had not originally built into our case in terms of the acquisition of BHP, which looks really interesting. We are getting much lower water cuts than we anticipated in some of the wells; higher oil rich numbers coming through; and probably most importantly the synergies that we have put in place of $350 million by 2021 which slated $90 million of synergies anticipated this year. That is already at $240 million this year. So I would say in terms of BPX, capital wise we are still allocating just over $2 billion of capital into those assets. I think they give us huge flexibility in terms of the ability to ramp up and it is actually in the priorities you said, it is Eagle Ford, then it is Permian and Haynesville we have ramped down significantly, which is natural given where you can see the gas prices, and in some respects we are doing the minimum of what we need to do inside that basin. But I think pretty much it is Eagle Ford, Permian and Haynesville.

Dan Boyd: Okay, thanks.

Craig Marshall: Alright. Thanks Dan. We will take the next question from Michele Della Vigna at Goldman Sachs. Michele.

Michele Della Vigna (Goldman Sachs): Thank you for taking my question. And congratulations on getting the disposals done despite a difficult environment. I was wondering, on the $10 billion of disposals, how much cash flow is associated with that, which you will lose over the next 12 months? Then, if I could ask a second question, given the write-downs, given the ramp up in the Lower 48, should we expect the depreciation of $18 billion to start coming down in the coming years? Thank you.

Brian Gilvary (CFO): Thanks, Michele. On the first one, last year a lot of the assets were selling at cash negative. The one exception would be Alaska, which was surplus cash and generating cash. However, we built that into our targets, so in terms of the 2021 target of $14-15 billion of EBITDA (free cash proxy) out of Upstream, that number is unchanged. If you recall, we have moved that number up by $1 billion when we did the BHP acquisitions. Nothing in terms of future targets, and some of these assets we're selling are actually cash negative if you look at some of the dry gas assets in the United States.

Then the second part, in terms of DD&A, yes, you are right, we have taken the impairments that will have a small impact but nothing at this point where we would indicate having a major change going forward. Given the amount of capital we have still got going into the system of around $16 billion and some of the acquisitions that we have had, I think right now it is a bit too early to guide on what will happen with DD&A going forward.

Michele Della Vigna: Thank you.

Chris Kuplent (Bank of America): Thank you, Craig and thanks, Brian. Just two questions on your trading statement or the press release the other week. Following on from what Michele just asked, I appreciate most of these are free cash negatives but maybe you can give us a little more detail because the $10 billion number, correct me if my maths is wrong, means that you have sights on $3 billion roughly of additional or new disposals that we have not seen yet. I wonder whether you can give us any more information not just about the free cash negatives contribution but capex or production or any other items that you can help us with in terms of modelling the impact from these additional disposals. Secondly, I just wondered whether you can clarify the expectation of a 50% tax rate that you highlighted in that trading statement and what occurred since. Thank you.

Brian Gilvary: Chris, it was not a trading update. We do not do trading updates but it was simply a guidance. Given that we knew the impairments were coming down the pipe, we thought we would give you an update, a market wrap on a variety of aspects and different things. However, in terms of the assets that are left now for 3Q, we have already signalled that we anticipate we will have announced the $10 billion. The last tranche for 4Q, which we are right in the middle of and close to announcing, is a mix of Downstream, Midstream and Upstream. It is a very different mix from what you have seen already year-to-date. Again, any assumptions on the cash flow associated with those is already built in to our forward profile in terms of targets. There is not anything specific I could give you in terms of cash mix for the fourth quarter but they are built into the long-term targets.

Then on the tax rate the big change actually when the note went out two or three weeks ago, we were looking at a tax rate at that point from the early numbers of about 52%. The biggest change was Rosneft earnings have come in significantly higher. Those numbers come in post-tax. That was 5% delta versus the 50% so just with the earnings of what we were expecting and what I think the market was expecting from Rosneft that would have moved the tax rate to 45%. Then the mix was actually stronger Downstream, which runs at a typical lower tax rate to Upstream. Then the balance of mix of the profits out of Upstream was stronger towards some of the high margin barrels that had been anticipated when we actually moved the guidance to say that we are expecting something around 50%. There were effectively two big major moves. One was Rosneft, which was the biggest, and then Downstream earnings coming through stronger than we had anticipated.

Chris Kuplent: Okay, that is clear. Thanks very much. Sorry for going on about it but can you confirm the $3 billion roughly? My maths if I add up Alaska and what you have done in the first half?

Brian Gilvary: We have done $7.2 billion up to the end of 3Q which means $2.8 billion this quarter and I have got line of sight on more than $2.8 billion. The question you did not ask but I may as well answer, is are we done with $10 billion? The answer is no. There will be more disposals next year over and above the $10 billion. That is what we laid out. There will be a series of portfolio divestments beyond that.

Chris Kuplent: Very good. Okay, thank you.

Brian Gilvary: Thanks, Chris.

Irene Himona (Société Générale): Thank you, good morning, two questions. Firstly, on the third quarter Downstream result, particularly the fuels value result seems very, very strong. Can you talk, Brian, a little bit about trading contribution, other drivers and also your expectations? Clearly on the macro side you are quite positive on higher margins due to IMO. The second question is in your opening remarks, Brian, you referred to BP potentially entering a transformational period with Bernard as the new CEO. What should we read in that transformation, please? Thank you.

Brian Gilvary: I think I'll pick up the last one firstly, if that is okay, Irene. I think it is just the pace of change that we believe we will require going forward. I picked this up this morning that actually it is not a reflection on Bernard versus Bob in terms of style or approach. It is the fact that we have learnt a huge amount. As we were able to deal with the $67 billion financial fallout of Deepwater Horizon, and as we came into 2015 after the Ten Point Plan, the low-carbon agenda emerged out of the Paris Accord in 2015, which is a major step forward if you think that BP back in 1997 first laid out its ambition in this space. 2015 was a really defining moment for us and that is when Bob and a number of his peers came together as OGCI, which is an organisation that Bob chairs. I think today it has about a third of the world's oil production within its membership. It came about and started to talk about the ambition for the sector but of course society, investors and shareholders are moving at a rapid rate of knots. Therefore, in some respects Bernard coming in, he arrives at a time when we are seeing huge change. We are seeing huge change in terms of society and what society expects. If you think about what Bernard has done in the Upstream in the last two or three years around particularly leading on digitisation, and what he has done around the low carbon fund that we put in place, I think he and his team and we have learnt a huge amount about that. I think it is an opportunity. Whenever there is a change at the top it is an opportunity to slightly move the ship in a slightly different direction. In this case, plotting perhaps a maybe more pacey course but I do not want to get out ahead of what Bernard will lay out in the first quarter of next year. However, I think if you have seen Bernard in the last year you will see him leaning into that debate in the same way that Bob actually got the company back into the alternative energy space back in 2015, post the Paris Accord. I would not read much more than that into it but I think there is more to follow. As I say, I will let Bernard lay out his thoughts on that in the first quarter of next year but I think it is a huge opportunity for the company. It reflects the pace of change that we are seeing out in society.

In terms of third quarter results, in Downstream it was a strong oil trading result. You know we don't give specific numbers around that but we talk about at plan, average, strong, very strong but it is a strong quarter for oil trading. That has helped Downstream but also in Downstream we have seen refinery throughput improve hugely quarter-on-quarter post maintenance periods, and availability in Downstream is running at something like 96%. It is extraordinary to have a system of that scale running at that sort of availability and even though margins were down quarter-on-quarter 2Q/3Q, having the kit running well means you can still capture what is undoubtedly a lower margin but not that much lower. That is why you are seeing stronger earnings come through. You are also seeing a slight improvement in lubes and in fuels. Of course in terms of Downstream we have major progress on new markets that you will have seen come through this year. I think over 1,250 new market sites have now been put in place across Mexico, China and further afield. We also have the Reliance deal that we announced with India, which is a really big deal in terms of one of the fastest-growing markets in the world, and with a partner that we know well and we trust. We have worked with Mukesh Ambani and Reliance over a number of years. That will create a truly deep strategic alliance. I think a lot of good things are happening in Downstream but you saw that come through in this quarter culminating in what was a strong oil trading result, which helped the fuels value chains, and strong availability and performance of the kit.

Irene Himona: Thank you.

Martijn Rats (Morgan Stanley): Good morning. I have two, if I may. First of all, I wanted to ask you about the Upstream result and I get that in the Gulf of Mexico partly through hurricanes and turnarounds, the result was negatively impacted. However, also the non-US result does not look so great and I was wondering if there is something to be said about the Upstream result outside of the United States. Then secondly, something from the very short-run to the very long-run, there is a general idea that companies like BP spent only a very small portion of their capex budget on new energies. However, it seems to me that a lot either goes through project financing or joint ventures or other ways that effectively mean that BP is effecting a lot of investment without it necessarily being captured in your reported capex numbers. I tried to do some numbers on this but it is very, very difficult. I was hoping you could give us perhaps some quantification of the amount of capex that you are actually effecting through Chargemaster, Lightsource and all the other JVs that you have and project financing because my suspicion is that you end up with a much, much bigger number?

Brian Gilvary: I will come back to that second point, Martijn, but that is a great point and I can elaborate a little bit more on that. You will see Bernard may talk a bit more about that in the first quarter of next year. In terms of Upstream it is pretty straightforward. It is really about the drop in oil price and realisations that we saw. If I just take outside the United States we had lower oil and gas realisations, slightly higher cash costs off the back of some turnarounds but also we had a lower oil/gas ratio. The mix of oil versus gas in the non-US is really what is driving that result and that delta that you can see from second quarter to third quarter, especially in terms of underlying RCOP per barrel.

In the new energies space, you are absolutely right. If you look at what Dev Sanyal has been doing with particularly alternative energy, the best example would be Lightsource BP. Although equally BP Bunge will be another example of that. However, Lightsource BP is something like a $250 million investment, or thereabouts, which has generated something like, leveraged, $7 billion worth of investment which is building towards a potential 10GW installed capacity in terms of solar. I think the financing models are very different. We are going to talk more about that in the first quarter of next year to show you what those models look like. However, of course, some of those things will also then come back into the mother ship at some point as they start to deliver earnings and returns. Of course the investment model is a very different investment model in those new energy frontiers, and you can see that through the venture fund.

If you recall, actually I remember when we did 1Q results we were all on the West Coast in Los Angeles meeting with all of our venture partners on some of the new energy frontiers in terms of what some of the ventures would look like, at Solidia and other new processes that we were focused on. They do have a very different investment profile and we will show you as part of next year as we are thinking about strategy out to 2025 there will be the traditional business which will be paying the dividend probably for the next 5-10 years and covering the growth –allowing us to find cash to deploy into these new energy frontiers - which is called oil and gas. That will be a more typical financing model that you see today, which is about how operating cash can cover capital and the dividend.

However, then we will also talk about actually what our ambition could look like in some of those new energy frontiers in a place where we really need to accelerate pace and grow out some of that portfolio. That portfolio may not be as straightforward as simply a renewable. It may be a renewable integrated with a more carbon-light solution, whether it be a mixture of wind with solar, with natural gas power turbines. There is a number of potential options for us going forward and one of the important parts of that space as we think about it and what the financing looks like, will be trading because trading will be at the central hub of a lot of what we do around energy management. The financing that is required to bring on some of these projects, we will be using trade finance and then we will also be able to trade in terms of the inputs going into facilities and the outputs coming out in terms of power. It is a huge opportunity for us. We are going to give you a lot more detail on that, Martijn, next year but as we think about our 2025 thinking we are thinking about financial frame for the traditional business, which as I say will pay the dividend over the next decade, and what the financing frame may look like for these new energy frontiers, some of which will come back into the mainstream of our business as we go forward. That is more of a teaser, I think, in terms of what you might expect in the second half of next year.

Martijn Rats: Okay, wonderful. We will look out for it. Thank you.

Lucas Herrmann (Exane): Morning Brian, a couple of quick ones, if I might. Firstly, going back to the Gulf of Mexico, Brian, can you give any indication as to the level of barrel you would expect to come back in Q4? It looks as though about 60,000-odd were off in Q3.

And secondly, slightly more long term, Egypt. Given where LNG prices are, given the building gas supply in Egypt, are you starting to come under or seeing any pressure from the authority to contain the build in supply, or whether it is ZohrI think more appropriately, West Nile Delta in your case? What are the messages from the authorities at this time? Thank you.

Brian Gilvary: Great, thanks Lucas and nice to see you at Exane. That is a new name to see popped up there.

Lucas Herrmann: Nice to be here.

Brian Gilvary: It took me a bit of time to get used to it as I looked at that. It is about 100,000 barrels a day [globally] offline in the third quarter – a mix of hurricane, turnarounds and a few unplanned outages – but something around 100,000 barrels a day [globally] – net was offline in the third quarter, as a result of that.

Lucas Herrmann: Does most of that come back, Brian, in Q4?

Brian Gilvary: I cannot comment. We said that production will be up in the fourth quarter versus the third quarter. Some of that will come back, but obviously the hurricanes won't affect it, the turnarounds we're through, so that the majority of that should come back in this quarter.

And then in terms of Egypt, Craig is there anything you want to add on Egypt?

Craig Marshall: Well, I was saying we have been focused there as you know, Lucas, in the Mediterranean in terms of starting up the gas projects there. We have had two start-ups so far over the past year or so with Phase 1 and Phase 2 Taurus, Libra and then Giza Fayoum. The next big project to come is Raven. Brian already mentioned we are expecting that around the end of the year. That is a significant project – about 160,000 barrel-a-day project on a gross basis that we are expecting. That will ramp up partly at the end of this year, but significantly through next year and I think is a key contributor over the next two years to meeting that production target. It is an eight-well programme, it is about 99.6% complete and as I say it is around the end the year.

In terms of your question around coming under increasing pressure – not had any sense of that coming out of Egypt. It is a country we have been in for many decades, it is a relationship we hold very close, one that is very important to the Company, and it will continue to be so but nothing explicitly on that.

Brian Gilvary: Perhaps to add as well, if you think about that historically we have talked about the big profit centres in the Upstream, there is no question now Egypt with the amount of activity going on in there is now certainly one of our significant profit centres we have around the globe and certainly sits there alongside Azerbaijan, North Sea, Gulf of Mexica and Angola.

Craig Marshall: We'll take the next question from Jon Rigby from UBS.

Jon Rigby (UBS): A question on the Downstream. It looks like the third quarter shows what your refining system can do when it is running well. I was struck by your guidance for 4Q saying refining margins are down, although I know, to date, they are up. If that is an IMO effect, which I think a lot of people think may continue into next year, I am wondering where you stood in terms of scheduled turnaround activity, your prep for next year. Can you keep that network going hard over a number of quarters over the next few quarters to take advantage of what might actually be better conditions?

The second question, excluding this quarter with the sort of 50% to 40% tax rate, you have been sort of going along at high 30s, 40% tax rated. Is that still a reasonable view about what the underlying portfolio will look like into 2020 and 2021 as you can see it? Thanks.

Brian Gilvary: Maybe on the second part first, Jon, you will appreciate this more than most with your background way back, which is tax is hellishly difficult in a company as large as this. As you have seen, even from two weeks ago, a 10% change is quite significant. So, I think for the year, 40% guidance is still good, but there is a lot that can move around deferred taxes, around exchange rates, around what comes through in terms of some of the subsidiary companies and their post-tax earnings that get reported. There are a lot of moving parts, but needless to say, given we sent you a note a couple of weeks ago saying we expected 50% and it is now at 40%, we have actually gone back and looked at everything in terms of taxes. But, 40% still looks like a good number for the year. It may be a toppy number based on what we can see right now so it could be maybe close to 39%, but I do not think we will see the 50% again. Interestingly, had we had the 50% tax in 3Q, that would have taken the year to date to 40%, so it has had a symmetry to it and logic as to why that was where we are getting out at the time. However, I think 40% for the year still looks pretty good, but there are a lot of moving parts.

In terms of refining, you are right. I was on the trading floor last week with the traders trying to do a round-the-houses on natural gas, on oil trying to understand a bit more about what is going on in the markets right now. I think finally, MARPOL is starting to kick in. You are absolutely right; that is what we are seeing in the refining margin right now in terms of underpinning. It is certainly not coming from gasoline, but I think what we can see is MARPOL keeping refining margins where they are. We just assumed they would drop off seasonally because the winter is here. Through the driving season, demand will tend to typically drop off in the fourth quarter. In saying that, runs are up and refining margins are up, so we still anticipate we will see that winter correction come down as the quarter progresses, which is what we have given in terms of guidance.

Then in terms of turnarounds, of course, we have been getting ready for MARPOL now for the best part of two years, both in terms of investments, infrastructure, blending, all the things that we will need to be able to do to make sure that we were able to take advantage of that, as that legislation comes in. Needless to say, we have ensured that our turnaround is set up in the pattern in which they have to happen, because a lot of them are regulatory turnarounds that we have to. Nevertheless, we have done some pretty big turnarounds in our refinery system over the last couple of years. So on that basis, you should assume that we will be configured as best as we can to take advantage of those margins going forward over the next couple of quarters.

Craig Marshall: We'll take the next question from Roger Read from Wells Fargo in the US.

Roger Read (Wells Fargo, US): A couple of things I would like to follow up on; one, the earlier comment related to the write-down of some of the assets, about potentially seeing US LNG export capacity underutilised. I am just wondering what if we see the flip side of that, which is the capacity gets utilised but at lower prices. How would you think of that potentially below the prices of US transitioning into the global market? How do you think that could affect anything else in your international operations, or do you simply see it as prices are too low, we will not see US LNG export capacity being competitive in terms of just being able to move it through the facilities and onto the water?

The second question I had was along the lines as we think about the methodology and the future of dividend versus share repos. I understand get the gearing down to the mid-20s, but what else should we be thinking about that you examine or analyse when you are deciding to move forward with a dividend growth versus share repos, especially in terms of maintaining flexibility long term?

Brian Gilvary: Maybe on the latter, the philosophy of the Board remains the same, which is a progressive dividend that is sustainable into the future. I think, as you look at the additional cash flows that come through in 2021, that gives us a huge amount of flexibility around both dividend and share repurchases. As I have said before there will be bias in terms of the amount of shares we issued pre-third quarter 17 post scrip, but I think there will be a desire to move both on dividend and on buybacks. But, it is too premature for me to talk about that in terms of we get into next year; we look at the strategy of the Company in the second half of next year. I think on the current trajectory, the gearing and net debt coming down will be a strong signal in terms of further distributions, and that will be triggered as I have said before by the buybacks we are proceeding with ahead of divestment proceeds. You are seeing us do that this month in October and through this quarter with a further about $1.5 billion to do. I think there will be more to follow on that as we go into next year, but I think the big signal will be balance sheet; deleveraging will be a facilitator for that.

In terms US export capacity, you are absolutely right, at $2.20, all the United States gas, under any normal rational market globally, will be getting exported. The difficulty is, from my conversations last week, gas is currently moving into Europe around about $4.50 right now. Therefore, there is no way, even if $2.20 Henry Hub in the United States, the economics is going to work for that pattern to happen.

Equally, you have this massive battleground called Europe, and I think I said earlier that the UK is 105% full on LNG storage right now. Europe is 100% full on LNG, and we have the whole question mark of what will happen vis-à-vis Russia in terms of gas into Europe. I think Europe suddenly becomes a major sink for setting the global price as we see this wash of gas around. I think that inevitably means that you will see not all of the facilities being utilised. I was only lamenting last night that I remember back in the early part of the 2000s, 2004 when we were building Cove Point as an import terminal into the United States and all the import terminals that were created. We've now created a series of export terminals and while there's still no question that United States gas is the lowest cost of production in the world, it's going to be hard for it to find a market anytime soon in the next two years, probably, and you're looking at the back end of 2021 before you start to see this massive supply overhang clear out.

And remember you have LNG projects coming on stream in Australia, Middle East and around the globe, which is simply going to exacerbate the situation. So I think gas feels, certainly from the conversation I was having last week on the trading floor, gas feels pretty bearish right now. And therefore you will see some gas exports out of the United States but I don't think it will be anywhere near the capacity of what's been built.

Roger Read: Thank you.

Craig Marshall: Thank you Roger. We'll take the next question from Biraj Borkhataria at RBC. Biraj?

Biraj Borkhataria (RBC): Hi, thanks for taking my question. I took one clarification on the buy back. I notice there's some share creep each year from, I think, the employee incentive programme. Could you confirm whether you're looking to offset those shares as well with a buy back? I'm trying to get a sense of where the net share count goes in the next couple of years. And then the second question is on Gulf of Mexico payments. I think year to date you've done $2.5 billion, which is ahead of guidance. I know previously you've talked about the uncertainty on the tail but it feels like, at least versus my estimate, every quarter is a little bit higher. So could you provide an update on where you are on that and the latest guidance for 2019 and 2020? Thank you.

Brian Gilvary: On shares to repurchase, we've got about $1.5 billion left to do in the fourth quarter at current prices and that will get done this quarter. We haven't committed anything on the shares that are issued as part of the various employee schemes that we do over the years. That's something we'll come back to but we've not said anything specific around that and there is no intent to buy those back at the moment.

On the second part of your question, sorry, which was about? Can you just repeat the second part, sorry?

Biraj Borkhataria: Just an update on the Gulf of Mexico payments.

Brian Gilvary: This quarter is pretty much *de minimis.* There were no business economic loss claims this quarter. The major part of the number that has come through this quarter is the unwinding of the discount that we have around the funding of the 18-year programme that we had. So there are no material effects this quarter. It's running around $2.5 billion for the year. It will come back into guidance for the year with a tax credit that we always get in the fourth quarter comes through, so it will be tracking around $2.2 billion by the time we get to the end of the year with the tax credit we see in the fourth quarter. But, no, Gulf of Mexico has actually come to about $18 billion by the end of this year over the last four years and next year we move into just over $1 billion a year out to 2032, so effectively it has become a relatively modest dividend stream into the Gulf of Mexico states out to 2032. But that's pretty much under control now so actually, no, everything trending in the direction we said, and while it looks like it's trending higher by the end of 3Q , you have a tax credit in the fourth quarter which will bring the number down.

Craig Marshall: Thank you, Biraj. We'll take the next question from Jason Kenney at Santander.

Jason Kenney (Santander): Hi, Brian. Three short ones if I may. Just picking up on your comment about gas overhang for the next two to three years, does that make you think that the West African gas resources being discovered and defined is back end of next decade kind of activity? And then secondly, on Rosneft, is it your sense that the results phasing there should be something to be cautious of for the fourth quarter? And finally just a quick one, Brazil, the transfer of rights round in early November. Should we be seeing BP activity in that round at all?

Brian Gilvary: In terms of gas overhang, I think it is a bear/bull story. 2021 is where the bulls are, we clean out by 2021, the bears are in 2023. Right now, we'd probably be in a 2021 space, so I think you will see the overhang of supply get cleaned out by the end of 2021 and therefore, I don't think that will impact in terms of the West Africa projects. I think they're going to proceed as per plan, and I think you will start to get into a more buoyant market as we get out to 2022. That's where our current view is.

On Rosneft, we'll have to wait till Rosneft publish. It's our estimate of their earnings. There will have been some duty lag benefits come through this quarter. I think some other things have come through this quarter for them, so I wouldn't necessarily use that as guidance for 4Q.

And then in terms of Brazil and transfer of rights, we've already notified ANP of our decision not to participate on 24th October. And while we're interested in Brazil and we won some licences in terms of exploration in terms of both Santos and Campos, we won't be participating in the transfer of rights auction.

Jason Kenney: Thanks, Brian.

Craig Marshall: We'll take the next question from Peter Low at Redburn.

Peter Low (Redburn): Hi, thanks. Just one left. It was a question on your gas price exposures. What proportion of your production is exposed to the international hub prices, which might be susceptible to the over-supplied market you talked about in your prepared remarks, as opposed to, say, being on more resilient local or oil-linked pricing? Any colour on that would be appreciated. Thanks.

Brian Gilvary: Actually, it's not so much just Henry Hub, it's the impact it's then having on Europe and the Far East in terms of pricing. We're seeing some of the big producers of gas reduce their oil-related curves in terms of where they're now selling, in terms of pricing. So, it's not just Henry Hub, it is actually a global phenomenon right now given the absolute amount of gas around. We of course have a gas portfolio, which we've talked about during post the ten-point plan in the phase after 2015 through to 2017, which is a bit more weighted towards gas and domestic gas. What that means today is roughly, if you look at our pricing it's about a third domestic in places like Oman and Egypt, it's a third hub pricing and a third international LNG, which is typically a percentage of Brent Forward curves. So, it's about a third, third, third.

Peter Low: That's great, thanks.

Craig Marshall: We'll take the next question from Jason Gammel. Jason, good morning.

Jason Gammel: Thanks very much. I had one question on the Lower 48 divestiture process, Brian. I believe that at the time the BHP transaction was announced, the intent was to largely divest all of the legacy Lower 48 assets with the exception of the Haynesville and Eagle Ford, where you had some crossover with BHP. So the question is, when the four packages that you've referenced are completed, would you expect that the process of fully divesting the legacy Lower 48 business will be done or will you be retaining some assets there?

And then the second question I had was on the Reliance joint venture in India. Can you talk about potentially how that benefits you from a logistical standpoint and being able to potentially use their midstream and local downstream assets to improve returns, and how you'll be sharing capital when it comes to the build out of the network there?

Brian Gilvary: So in terms of Lower 48, assuming we get the final couple of packages away, and we may actually choose to or not do that with the final two packages, that will be pretty much most of the legacy positions done. The Lower 48, I've said this before, the United States is one of the most prolific basins in the world and therefore you should assume that Dave Lawler and his team, now we have these high quality assets in the portfolio, will be looking to optimise that portfolio in terms of acquiring positions, divesting positions, high-grading the portfolio, all within his own capital frame that he has got within Lower 48. We've talked about chequerboarding before in terms of overlap of assets and properties with other companies and the ability to swap and move around the positions. I think everybody, certainly in terms of what I call the big caps, mid caps, will be looking to try and optimise their positions within their own Counties of where they operate, and we have some opportunities to do that. But you're right to assume that most of the legacy position, assuming we get the final couple of packages away, will be pretty much divested and the focus will be very much on the new in terms of the oil-rich options that we have going forward.

In terms of Reliance JV, it's one that we've been talking about over many years and culminated last quarter in the agreement to go forward. It will have all sorts of opportunities. It's not just fuels, it's aviation fuels as well. It will have all sorts of opportunities to be able to use our own proprietary trading we have within BP, our own knowledge of midstream. I think it will lead to all sorts of other options. If you think about advanced mobility and some of the things that we may be able to trial, there's no question India is one of those markets where they may skip some generations of mobility sources. And so I think it will be a fantastic opportunity for us. Reliance India JV was a deeply strategic move by the company, with a partner that we know and trust well. Mukesh Ambani is somebody we have worked with now over a number of years, even in the days after the Deepwater Horizon. He is a good friend of the company. His company is very important to us strategically, and there will be all sorts of opportunities that will come off the back of it. But there is no question that he will want to, as we will, use our expertise in the midstream and learn more about that market as well jointly with them. But I think there will be more to follow on that next year as we get that deal closed, and I am sure Tufan Erginbilgic will talk more about that at 4Q.

Craig Marshall: Okay, thank you, Jason. We will take the next question from Colin Smith at Panmure Gordon. Colin.

Colin Smith: Yes, hi, thanks for taking my question. Just apropos the earlier discussion around the journey with respect to carbon emissions, I was just wondering, Brian, if you are sort of signalling here the potential for BP to accept responsibility for Scope 3 emissions, because I know historically Bob has been relatively against that?

Brian Gilvary: Thanks, Colin. So, first of all, it depends what you mean by Scope 3. There are 15 separate subcategories of Scope 3, so it is not simply a case of coming out and saying that you will or will not agree. We already do a huge amount in the Scope 3 space in terms of making our products more efficient and therefore less carbon intensive and less CO2 into the atmosphere. So I think as we come out in the first quarter of next year, we will talk more broadly about what it will take for the company to think about what its ambition will be in the very broad sense of greenhouse gas emissions and all of those things that pollute the atmosphere and are leading to global warming, and the things that we can do. I think Scope 3 in some respects is a red herring in terms of what we are trying to do and what we are looking to pursue. We will look to reduce our footprint across the piece through a number of opportunities that we have, and as I say, we will talk more about that in the first quarter, but Scope 3 is absolutely within the scope of what we are looking at. So, Scope 3 is not a simple declaration you can make given the 15 subcategories that sit within Scope 3. And I do not want to get engineering and analytical about this, but ultimately, we have to make sure that right now we are all clear that we are not on a sustainable path. We need to go faster. We need to control the things we can control as a company. And we all need to make individual choices about what we do if we are actually going to come back to making sure that we ensure the planet is well below two degrees, which are the goals of Paris. And that is something we will be talking about in the first quarter, and we will be updating shareholders again at the May AGM.

Colin Smith: Okay. Thank you.

Craig Marshall: Okay. Thanks. We will take the next question from Christyan Malek at JP Morgan. Christyan.

Christyan Malek: Thanks, Craig. Hey, Brian, sorry to submit a question so late, but while your answers on the capital framework were clear, I want to follow up on the divestments in US shale. So, Brian, while suspending the scrip is welcomed and brings you in line with peers, in the Q2 call I seem to remember that with the planned $10 billion of divestments and positive trending cash breakeven reserve, that would pave the way for an additional cash return. Now, you have mentioned line of sight and divestments a few times on the call, but I would like to understand better the timing of these sales as far as cash in the bank. Or, put another way, could you outline the risks that we should be aware of in delivery of the $10 billion, and what key milestones we should be aware of?

The second question is around the production ramp up in the US shale and the key operational milestones achieved in Q3, and what surprised you and the team both positively and negatively some 15 months since the acquisition? And just linked to that, assuming delivery, has the Board discussed the potential to scale up further in US shale though M&A, say, once the gearing is back in the range, or is cash return really the key priority post deleveraging?

Brian Gilvary: Chris, you are right to flag up what we said at 2Q, it is important of course. Gearing has moved up, and I think that we are minded to get the gearing back below 30%. It has gone the opposite direction off the back of the equity write-downs, which is natural. Net debt actually stabilised, but to sort of maybe get to the point in terms of proceeds, I would anticipate of $10 billion programme, we have got about $1.4 billion of proceeds in already up to the end of 3Q. I would anticipate we will be somewhere closer to $4 billion by the end of the year, and with the balance to come next year probably in the back half of next year given Alaska, we probably will not close until the middle part, maybe July of next year, so that would take some time. So I hope that gives you some indication in terms of how the cash flows will come through. And I think I have already signalled earlier on the call, expect more disposals over and above the $10 billion which will help accelerate the net debt coming down even further, to get us back to a much stronger position around that dividend question.

And then in terms of Lower 48, I think across the piece, we had a great review with the Board back in September, and I think every way we have looked at this acquisition, it looks better than we first thought. The synergies were running at $240 million versus $90 million for this year. The $350 million I think we will end up revising that number up. Permian we have already increased the rig count up to five rigs in 2020 and we will come up to five. Eagle Ford is running at eight in 2020, and Haynesville will probably come down a rig or so as I said earlier around the gas.

Performance of the wells is better than we anticipated. The costs are running 10% lower than they were under the previous incumbent, certainly in terms of Eagle Ford. I think what you have to recognise is within the previous incumbent’s portfolio, these assets were not attracting the investment that we are now putting into them. So naturally, as you start to ramp activity up in what is a basin with the techniques that we learned over the last three or four years that David Lawler deployed that he brought in from Sandridge, it is just a huge opportunity for us. And you will see more of this as we come to 4Q. I am sure Bernard Looney will lay out in terms of some of the things that we have learned through this year, but I would say everything is very positive across the piece in those assets. One of the things that we have seen though from a safety perspective is that we have had slightly higher tier two issues, which you will have seen come through the 3Q numbers. As we on-board those assets, we would expect to see those issues come down into next year, so that is probably the only thing to highlight. But as we lay out our approach to safety and the running of those assets, you will see those tier twos come down.

Christyan Malek: And so just around M&A, in terms of just potential to scale up?

Brian Gilvary: I think maybe the earlier answer I gave is that we are now looking at this as a dynamic portfolio in terms of swaps, checkerboarding, other options we may look at, but they have all got to be managed within the financial frame. And on that basis right now, we would have to find some other source of funds, hence why I have said we will probably go beyond the $10 billion on the disposal packages to create more space in the balance sheet to look at other optimisation opportunities as well as buybacks, as well as dividends.

Christyan Malek: Thank you.

Brian Gilvary: Thanks, Christyan.

Craig Marshall: Okay, thanks Christyan. We will take the next question from Bertrand Hodee at Kepler. Bertrand.

Bertrand Hodee: Yes, hello, thank you for taking my question. I have one left. Brian, you hinted for five final investment decisions already taken this year. Can you remind us which are those five? And can we expect more FID before year end? And especially, can you give us an update on a potential full field development on Tortue in Mauritania and Senegal? Thank you.

Brian Gilvary: Wow. Okay, now you are testing me. So, from memory, Atlantis Phase 3 we have done, Seagull we have done, which is with Neptune Energy, Azeri Central East we have done. Thunder Horse, South Expansion Phase 2 is done, and I think we have got one more to come, which I think actually it is India KG D6 is also done. So, they are the five FIDs that we have looked at this year. And then in terms of Tortue, I think there will be more to follow on that at the full year, but we have sanctioned the first Phase 1 FLNG option, and we were expecting two additional phases which will start to significantly improve the economics around that. And of course, I know you will have seen earlier this week, Kosmos announced the discovery around Orca. We have not proved that up yet and it is still early days from our perspective, but Mauritania & Senegal, there will be a lot more to follow on that at the 4Q full year results.

Bertrand Hodee: Thank you.

Craig Marshall: Thanks, Bertrand. We will take the final additional third question, going against the rules, Chris. A question from Chris Kuplent at Bank of America.

Chris Kuplent: A quick final question. You have changed slightly your full-year CAPEX guidance. Is that partly reflecting what you already said about the Lower 48 as a number of those ramp-ups are now looking more like 2020 ramp-ups, or any other efficiency news that you are keen to let us know about at the lower end of the $15-17 billion frame? Thank you.

Brian Gilvary: Yes, thanks, Chris. Actually, that is a good question because we did not pick up on that so thanks for highlighting it. We are trending below the middle of the range, so we are actually below $16 billion right now. We actually have backed off a little bit in the

Lower 48 as we are getting more capital disciplined. Capital discipline remains and it will remain, because I have had the conversation with Bernard already, it will remain one of the key foundations of this company going forward. So, we will keep a tight handle on capital, certainly over the next couple of quarters. And that is why you are seeing the number trend down. It is systematically now trended down in the Upstream for the last nine quarters. Capital continues to come down. A lot of that is driven by a lot of the technology that Bernard has talked about that has been getting deployed in the Upstream, but there is a huge opportunity for us in that space. And so therefore, assume that trend continues into next year around capital. And part of it is around the Lower 48, but we don't want to starve the Lower 48 of too much capital, because it is a huge opportunity for us, especially at these oil prices. But our capital inside the Lower 48 is still over $2 billion this year, so we are still making sure that we are in that range of $2-2.5 billion that we set aside for the Lower 48. And thanks for asking that question, Chris, because it is an important one that we did not pick up on.

Chris Kuplent: Thank you. I appreciate that.

Brian Gilvary: Great. With that, thank you for your time. It has been a pretty busy quarter. I think you will agree from the numbers that we have shared with you; we always thought the first half of this year was going to be very difficult to get through, and actually 1Q and 2Q were good quarters. The third quarter has actually come through stronger than we had anticipated, helped somewhat by oil trading, availability in Downstream and Rosneft. But nevertheless, it has given us confidence in terms of future cash flows, and the momentum we can see, and we have a very large project that we have talked about before called Raven, which is due to come on around the end of this year, which will create further momentum and ramp up into next year. I think the suspension of the scrip you should take as a positive signal now in terms of where we are recognising the gearing is still over the 30%, but nevertheless net debt has stabilised. But we are committed to deleverage the balance sheet, and we are committed to finishing off the buybacks that we said that we would do, irrespective of whether the divestments proceeds came in. And of course, as I said at the start, we are now of course into the CEO transition from Bob to Bernard. I think it will be a smooth handover of the baton, and you will see a lot more and hear a lot more from Bernard in the first quarter as we come out with that transition beyond February, and then later into the second half of next year out to 2025 strategy. So, with that, thank you very much for taking the time this morning and we look forward to speaking to you on the road and on the next call.

[END OF TRANSCRIPT]