# bp 1Q 2023 results:
# Webcast Q&A transcript

Tuesday, 2 May 2023

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## Q&A TRANSCRIPT

**Craig Marshall:** Okay, thanks again, everybody, for listening. We'll turn to questions and answers now. The usual reminder from me please, just two questions per person so we get a chance to get through everybody. On that note, let's take our first question from Biraj Borkhataria at RBC. Biraj, good morning.

**Biraj Borkhataria (RBC Capital Markets):** Hi, good morning. Thanks for taking my question. First one is on the financial frame. When you're deciding the buyback run rate, in the past you talked about you look at the quarter, but you also do a forward look at the future. If I'm thinking about 2023, first off, you've obviously got the working capital build, you've got Macondo, you're guiding to higher maintenance and so on. But then in the second half of the year, you've got the working capital releases that you talked about. So, from a surplus free cash flow perspective, it's kind of a year of two halves. If I look at the full year in totality, at least on my numbers, there was no need to step down the run rate. But obviously, if you look at H1, then there was, so just two questions as it relates to that.

What time period are you looking at when you're deciding the buyback run rate? And secondly, how much of this ties into your comments on the credit rating upgrade, because my sense is that this is one way to signal that you are willing to put a bit more cash to the balance sheet in the near-term. So that kind of overall comments that will be helpful.

And the second question is on Egypt. This is a material position for bp, and we've seen the currency de-value quite significantly in the last few months. So, can you just help me broadly understand the implications and how much exposure do you have to local currency versus dollars and any issues in terms of getting paid there and so on? Thank you.

**Murray Auchincloss:** Great, thanks, Biraj. Good morning. Thank you for your questions. First, on Egypt, our contracts are dollar based. So, there's not very much exposure in that space. Overdues come and go over time. There's a bit of an overdue right now, but nothing of any concern for us. I think that's the answer on Egypt. And then buybacks, maybe just to recite how we think about the financial frame right now. As you all know, we have five priorities. Fifth priority with surplus is buybacks. What we've communicated to the market is that we'll do 60% of surplus to buybacks, and we guide on an annual basis. So, our guidance that we provided on February 7th was that at $60 oil, we could do $4 billion of buybacks through the year, and that you could use our rules of thumb. And we gave you capex guidance as well, the $16 to $18 billion in the year, as you say, Biraj, we calculated the surplus in the first quarter. We had $2.3 billion of surplus, 60% of $2.3 would be $1.5 billion. We lent in a bit given the strong performance that we see moving forward from the upstream project starting up to continued LNG expansion and our offtakes to our good trading performance. And so, we leaned in a bit and that's why you got to the $1.75 billion. Of course, actual buybacks will be $2 billion as we do $250 million of employee offsets as well. So that's how we think about it. We look at it through the year and we account both the surplus that we've accumulated in the past and the outlook for the future. Hope that helps, Biraj.

**Craig Marshall:** Okay, thanks, Biraj. We'll take the next question from Paul Cheng bright and early in the US. Paul at Scotia. Go ahead.

**Paul Cheng (Scotiabank):** Thank you. Good morning, guys. Two questions please. Murray, that you guys just signed the purchase agreement with Shell on the Browse LNG project. Just curious that, what's the rationale behind given the difficulty to operate in Australia and the return, is it really going to be that good in order for you to increase? And what's the hurdle and the steps in order for that project to take hold and to move to the FID?

The second question is on the inflation, can you give us some idea that what you see on the inflation side and also what's built into your current capex? Thank you.

**Murray Auchincloss:** Great, thanks, Paul. Bright and early this morning. I saw you were the first person to call in as well. So, thanks for joining us. On inflation, we're actually not seeing very much now around the world there continues to be labour inflation, but as you can imagine, fuel prices are decreasing, raw products are decreasing as well. So, we're really not seeing much inflation right now across the sector other than in wages. So, I think that's the inflation question. And then on Browse, look, to step back to February 7th, what we talked about is $8 billion more into our transition growth engines and $8 billion more into our oil and gas operations. The first three years of that will be focused on infill and tiebacks, and that's why we added seven rigs. And then as we look to the second half of the decade, we have 15 potential FIDs that we can move forward.

Kaskida, that you heard me talk about earlier, is one of those that we've moved into concept select on, and Browse is moving in that direction as well. And we saw the opportunity to deepen in Browse, which we thought would be a great opportunity. It's 13 TCF of gas. It came at an immaterial price that's within our financial framework. And its gas that's pointed at Asia, that needs natural gas moving forward from a difficulty perspective as we've talked through it with our project teams in detail, this isn't a normal LNG project like the past ones, it's not onshore, it's not near the shore, which has been so tricky. Instead, you'll see fabrication through the operator Woodside done probably offshore in other countries. You've got a pipeline delay, but it's an offshore pipeline that, there's good industry experience around this. And of course, it's going into ullage that's available in Northwest shelf. So, we like the project we think the returns will be mid-teens that we're happy with, but of course, we need to continue to work with Woodside to optimise that and move it forward. But pleased to do the transaction. Hope that's helps, Paul.

**Paul Cheng (Scotiabank):** Thank you.

**Craig Marshall:** Thanks, Paul. We'll stay in the US and go to Roger Read at Wells Fargo. Roger.

**Roger Read (Wells Fargo):** Hey, good morning. I'd like to hit you up, Murray, on a couple things on the demand side, what you're seeing just since so much of the macro right now, what you're seeing in terms of, call it, non-US R&M demand, refining and marketing, and then I guess particularly a focus on China. And then the other thing to ask about you outperformed a little bit on the production side this quarter, just maybe what were some of the factors in that, if any, or if it just looked normal to you. And I'm not very good at forecasting.

**Murray Auchincloss:** Thanks, Roger. Thanks for joining us so early. R&M demand side outside the United States demands a little bit soft in Northern Europe. And China really is the main story where post the COVID lockdown, we've seen strong demand on the retail side. That's why you've started to see Castrol starting to pick up a little bit. And we've seen an awful lot of retail demand, both on the fuel side and on the EV charging side setting records on the EV charging demand. We haven't seen as much industrial demand. We're only starting to see the first few cargos of LNG flow into China now.

So, I think from a demand side perspective, the Chinese story from industrial capacity perspective is still to play out throughout the year. It's why we are constructive on oil prices looking out through the rest of the year. As far as production we're up a little bit more than we thought we'd be. I'll always take that as CFO, you can imagine, Roger. And we've had a really strong performance out the Gulf of Mexico from base performance. And bpx brought online an awful lot of new wells that are performing better than we hoped. So just good underlying reservoir performance right now is the story.

**Craig Marshall:** Thanks, Roger. We'll take the next question from Irene Himona, Societe Generale.

**Irene Himona (Société Générale):** Thank you. Good morning. Good morning, Murray, and congratulations on the results. Two questions. Firstly, you refer in your press release to the Shah Deniz consortium having secured additional pipeline capacity. Can you share with us please, what the flexibility or the spare capacity is at Shah Deniz? And so, how much could you grow exports into Europe? And then you refer to stronger biofuels performance in the quarter. Can you please remind us of your biofuels capacity and then give us a sense of how material that contribution is to EBIT, please. Thank you.

**Murray Auchincloss:** Yep. Great. Thanks very much for the questions. Shah Deniz excess capacity without pipeline expansion, there's probably excess capacity. I'm going from memory here, so this may not be an exact answer, and Craig will follow up if I get it wrong, but I think we had about 5% capacity inside the existing pipes to expand if we could. But anything beyond that would take line looping, et cetera, that I know the consortium's working on as well. But Craig will clean that answer up if I got it wrong[1].

Our bio production capacity across the business is about 27kbd at the end of 2022. And we continue to grow that through the decade as we bring on online biofuels plans and expand the efficiency of the existing ones. Of course, an awful lot of the profit we make inside bio inside trading as well. And we'll start to bring disclosures on the bio side at Q2 results. We'll show you where we're getting to on EBITDA from our transition growth engines. So, there'll be more to provide you with there, Irene, as opposed to today. Hope that's okay.

**Irene Himona (Société Générale):** Thank you very much. Thank you.

**Craig Marshall:** Thanks, Irene. And we'll move now to Christyan Malek of JP Morgan. Christyan.

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[1] Please refer to page 15

**Christyan Malek (JP Morgan):** Thank you, Craig, and good morning, Murray. Two questions from me. First of all, on the buyback quantum, I must admit it was a bit of a surprise that you lowered it. And I just want to understand the relationship between that quantum outside of your capital frame formula, which I totally understand, but just in the context of the macro environment, would it be fair to say that if a macro got weaker, which just seems to be given demand weakness, would that be a new norm in terms of your buyback range from a quantum perspective? And as far as taking a more cautionary tone in terms of your approach to balance sheet. So, I'm just trying to link the macro as opposed to the sort of the formula, if that's okay in isolation.

And the second question's regarding NewMed energy and the acquisition, I'm trying to understand the industrial logic. And maybe that extends to other acquisitions that you've made recently in terms of buying into equity as opposed to building through your own portfolio organically, given your optionality. So how should we think about the balance between accessing reserves through an acquisition versus proving and progressing in terms of your own portfolio? And should we read into this that perhaps the portfolio over the medium-term needs to be beefed up, if you will, through acquisition because of the lack of optionality? So, sort of challenging you on that point, but I just want to understand the industry logic of buy versus build. Thank you.

**Murray Auchincloss:** Yep. Great. Why don't I start on the gas side of the portfolio? Very, very pleased to be progressing the NewMed transaction and the offer is made gives us access into Aphrodite and Leviathan two great fields that can be developed for the future for Europe. And as I mentioned in my script, that we'll be contributing assets to that venture. So, you should think of that as an efficiency swap. And as time unfolds, we'll give you more details on what that looks like.

On the broader point, we have a lot of optionality inside natural gas, but it never hurts to get more is our viewpoint to drive towards the highest quality. We obviously have discoveries in Trinidad that allow Trinidad to continue. We have discoveries in Mauritania and Senegal that allow to continue. We've now got an interesting anchor point in the Middle East for export. And of course, we've deepened our Asian access on the equity side.

So, we have lots of options. It's really about creating as many options as you can and then deciding which ones you do. Quality through choice, I think is the mantra that we all learned growing up under John Brown. So, I hope that helps. I hope that helps understand that. As far as the buybacks, just to reiterate guidance yet again, Christyan, 60% of surplus, $4 billion of buybacks at $60 per barrel Brent use the rule of thumb and the prices around $80 per barrel Brent, I think it's strip right now, give or take. And you'll have the Henry Hub and RMM and use our rules of thumb to calculate it with our $16 to $18 billion capital range. And I think you'll find the number is spot on. Absolutely spot on what we guided.

So, as far as I'm concerned, we've hit just about dead on guidance. And as we look forward, we leaned in a bit above the $1.5 billion to the $1.75 billion, as I talked about on the strength of performance. And of course, if the oil environment improves. Let's see what happens. Remember, last quarter we did $2.75 billion of buybacks, and that was, that happened because we had a working capital release. This time we've got $1.75 billion with a $1.4 billion build. And what you should focus on is we are honouring our commitment to a 60% surplus. We are not, we have not created a run rate framework. We have created a percentage of surplus, and as far as I can tell, the math works. So, thanks, Christyan, appreciate your question.

**Craig Marshall:** Okay, thank you. Thanks, Christyan. We'll take the next question from Oswald Clint at Bernstein. Os, good morning.

**Oswald Clint (Sanford Bernstein):** Yes, good morning. Thank you. Yeah, maybe just talking about the LNG book and a little bit of an update on the derivative unwind that we spoke about last quarter or the quarter before, the $5 billion, potentially second half this year into early 2024, if we could just get an update on that particular number. And also, if - is there any, I mean, I know if Murray, you said immaterial monetary value for Browse, but is that should be perhaps more than immaterial. Is it a couple hundred million up towards half a billion for that payment? I wonder if you could just put something around it.

Secondly, yeah, Murray, you talking Castrol's picking up, is that simply China or are we still seeing those base oil effects coming through the Castrol business would be the second one, please. Thank you.

**Murray Auchincloss:** Super. Thanks, Os. Appreciate the questions. Browse, we're under a confidentiality agreement, so I really can't comment. I don't think we want the CFO bp getting in trouble for commenting against a confidentiality agreement. So, all I can say is it's an immaterial amount and within our capital frame. As far as the LNG unwind, I think what you're asking is there any change to the cash flow guidance on the release on working capital? And the answer is no. Our guidance remains as described last quarter, which is last year we locked in a bunch of high quality priced LNG with the cargos to come starting in Q3 this year. And we see $5 billion releasing from Q3 2023 through about Q2 2024 weighted towards 2024. So, no change to that guidance, I thought I'd just repeat it. And just interestingly, nobody's asked me, but we are starting to see Freeport come back and Corals lifting well as well. So that's good news.

Craig, remind me of the third question. Yes, Castrol, sorry, as I forgot the third question. I can't read my own writing. On Castrol, we have started to see additive prices and base oil prices relaxing, so that's good news. There's a little bit of performance there, more to come. And then we had the one month of un unlock inside China, which obviously China's our largest market for Castrol, so that started to move forward as well. As well, we have a new leader in place now, Michelle Jou. She's doing a fantastic job. She's got a new leadership team, they're fired up, and they're getting ready to go get market share and move forward on Castrol. So, I'm looking forward to continuing trend in Castrol in the quarters ahead. Thanks.

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

**Peter Low (Redburn):** Hey, thanks. It's actually just another question on the customers and products result more generally. It looks like it was actually the weakest quarterly result for some time. Can you give a little bit more colour on what's causing that and then perhaps how you are tracking against 2025 target for $7 billion of EBITDA from that area? Thanks. And that was it.

**Murray Auchincloss:** Yeah, Peter, we remain still on track in 2025. Remember, a key milestone will be the completion of TravelCenters of America. We're looking forward to the shareholder vote next week, and then obviously, it has a strong contribution into EBTIDA in 2025. On current performance, it's a bit of an anomaly in the quarter where the fuel margins were in refining as opposed to in the inside mobility, a fairly sizable number. So that's what makes it look a little bit suppressed. Additionally, we're really pushing hard on the bio space and we're really pushing hard on the electrification space. So those create losses, again, we'll come show you a bit more granularity on that at the second quarter results. So, because you've got growth engines inside that, it creates a little bit of a suppressed number along with the fuel margins that we saw. From a headline basis though, I'm really pleased with the transition growth engines convenience year-on-year 9% up, that's against a market average or 6%. EV charging is storming ahead with continued deployment of fast charging. We hit ~~8.8%~~ 6.7% utilisation in the UK in the quarter, way ahead of what we would've expected as consumers adopt more electric vehicles and use our services. So, the underlying drivers of growth are looking fantastic, and it's a bit of an anomaly in the first quarter. Hope that helps.

**Craig Marshall:** Thanks, Peter. We'll take the next question from Lydia Rainforth at Barclays. Lydia.

**Lydia Rainforth (Barclays):** Hi, Craig, and thank you. And good morning. Two questions if I could. If I can come back to the buyback, and Murray, you referenced the kind of the working cap impact on last quarter, this quarter, but there is a lot of volatility, it seems like, in those numbers. So, do you ever think about moving to something that's slightly more stable in terms of that framework? And I am particularly thinking about Q2 where you do have Gulf of Mexico payments going out, you do have TravelCenters closing. So just so that idea is that the volatility sometimes isn't necessarily helpful for from that side.

And then the second one was actually just on the OPEX side and the upstream, clearly that numbers were down 12% on last year in what has been an inflationary environment. I was just wondering if you can comment a little bit more about what's driving that. Thank you.

**Murray Auchincloss:** Great. Lydia, the financial framework is crystal clear from our perspective, the five priorities we've been doing it for the past three years. No intent to change. And I don't imagine you want me to repeat the guidance I just gave the guys on the previous two questions, but no intent to change, which I think was what you might have been asking. And just as a reminder, the board looks through the year as we think about surplus, and we're committed to 60% of surplus cash flow for share buybacks. And yes, working capital does swing amazingly across the quarters and has many, many moving parts. And as you can see, we leaned in a bit this quarter given what happened on working capital.

As far as your second question, opex in the upstream, you have to think about this really as a 10-year journey that the upstream's been on. You'll remember that we heavily started to digitise years ago. And the work of all of that, along with reorganisation that occurred to move to a much more central model with agile squads is really starting to pay off. I think the number was $14/barrel lifting costs back in 2012 or 2013, and we're all the way to sub $6 per barrel now and aspiring to hold that moving forward. That's really about the fact that we spent years and years and years streamlining all our data, thanks to help from Palantir, a great partner we have. They really helped us clean up our data so that everybody would have it at their fingertips.

That enabled us to centralise many of the teams around the globe from the drillers to the reservoir engineers to the explorers. And another big thing we did in the background is we put in place a single SAP system across the upstream, including a purchasing package. And that purchasing package now really coming to bear where we're able to do offshore work remotely. So, in October, we're going to host an away day for the upstream and Archaea, and at that we'll do a few showcases on the brilliant stories that we're seeing out of this.

The one that captured my imagination last quarter was that the operators on Schiehallion can actually plan and do the entire work onshore, so they don't have to travel back and forth on helicopters offshore to plan a trip. They have the laser sighting that can put up all the architecture of scaffolding, et cetera, onshore in a virtual model. They bring the contractors in to work through the work packs, and all of a sudden you eliminate all the labour going back and forth between our planners, the contractors, et cetera, and you arrive with a package that works the first time.

That's just a step change, and nothing I've ever seen in my career, especially in difficult places like the North Sea. So, it's a long, very long-winded answer. Sorry for that, Lydia. You can tell I have a huge amount of passion in this, but digitisation, agile and the structure that Gordon put in place have really, really brought technology to bear inside the upstream. And the great thing is that we can start on the downstream now, so we can really start on the refineries in the customers business, which we haven't done yet. So, it'll be fantastic for the future. Hope that helps, Lydia.

Lydia Rainforth (Barclays): Perfect. Thank you very much.

Craig Marshall: Thanks, Lydia. I will turn now to Martijn Rats at Morgan Stanley. Martijn.

Martijn Rats (Morgan Stanley): Hello. Two questions for me as well, if I may. First of all, I wanted to ask you about Kaskida. I find it quite noteworthy that Wood Mac is still showing this as not viable while clearly, I guess from the comments you made, this is moving to the sort of viable category. So, good to see that there is oil that was previously not viable, becoming viable. But I was wondering if you could talk a little bit about the things that have happened in the background on technology or seismic or other things that allowed you to now progress this to the next stage. The project is a bit of a blast from the past, so clearly, something must have happened in the meantime. And then secondly, sort of nitty gritty detail, but feels like quite an obvious one, the $1.4 billion working capital built in this quarter. Would you also consider that to be reversible in quarters ahead, or is that not something we should expect?

Murray Auchincloss: On the second one, Martijn, you should not expect it to be reversible. That principally had to do with bonus payments where you accrue for them last year, and you pay them out in the first quarter. So, that's the majority of that build. And the only thing you should think about for release right now is the $5 billion that we talked about on the earlier questions. On your first question, blast from the past, I can feel the title to your research note this quarter, Martijn. For those who haven't been around as long as I have or Martijn has, we discovered Kaskida back in 2006, I think something like four billion barrels of oil in place. And really, what's happened is technology has transformed around us, Martijn, we now have two 20K rigs that are operating in the Gulf of Mexico.

We have frack technology that works inside the Paleogene at the high temperature, high pressure. We have production for 500,000 a day of Paleogene analog reservoirs that we didn't have last decade. And so that along with streamlined concepts on development leads you down a path where you get much, much more comfortable with Kaskida. I wouldn't pay much attention to Wood Mac for now, and that's a good reminder, Craig, that we should go introduce what we can to Kaskida to Wood Mac at the right time. But we feel pretty good about this, Martijn. It's probably going to have a development cost to somewhere between $15 and $20 per barrel. It's an enormous resource base, and we're just moving through concept select. And hopefully, we'll move to FID next year. It's 100% BP owned, and we're thrilled. It definitely gives us the capacity to hold the Gulf to Mexico up around that 350 to 400 thousand barrels per day level through the end of the decade, which I think is exceptionally valued for the company. Hope that helps, Martijn.

Martijn Rats (Morgan Stanley): Wonderful. Thank you.

Craig Marshall: Thanks, Martijn. And we'll take the next question from Chris Kuplent from Bank of America. Chris.

Chris Kuplent (Bank of America Merrill Lynch): Thank you, Craig. Murray, I just wanted to follow up on the question that Martijn just asked. It's not $1.4 billion of outflows, right? It's more than $4 billion of what I would consider classic working capital outflows in the quarter. Is that all due to those bonus payments you refer to? I just struggle to see the relationship between quarter-on-quarter price movements which in particular gas I would've expected to lead to working capital inflow. So, I appreciate, I'm probably asking the same question again, but if you could just confirm whether where you can the quantum of those bonus payments that you refer to just now and any other colour you can add to that would be great.

Secondly, question on your $16 to $18 billion frame. now that you've announced a few acquisitions that will, I guess, be part of that frame, be good to know what you can see today from Browse, TA, NewMed. I appreciate you probably have confidentiality agreements around a few of them on a single basis, but maybe you can, from where you sit today, give us a number for all of those combined, how much they will make up of the 16 to $18 billion for the full year. Thank you.

Murray Auchincloss: Thanks, Chris. I'm not really sure where the $4 billion comes from, so I'll ask Craig to follow up with you offline or we can cover it this afternoon. The build was $1.4 billion last quarter. We had a release of $4.2 billion in 4Q 2022. You can't really compare a quarter to quarter working capital build. That's not maths that makes sense. But the $1.4 billion is what the build was in the quarter and the majority was bonus payment. That's all I can say on that one. And we'll have Craig follow up with you afterwards to try to understand the math that you're looking at. As far as capital frame for 2023, a few things to say. $16 to $18 billion obviously remains our guidance. You saw that our run rate in the first quarter was $3.6 billion. That's largely an organic run rate.

So, you can see where the run rate's moving to right now, acquisitions that might fit inside the inorganic side of things. First one obviously is TravelCenters of America and we're waiting for the TA shareholder vote next week. So, we'll see how that goes. And what the capital is associated with that. I've talked about Browse already. NewMed is not capex since NewMed is a swap. So that doesn't show up as cash capex, which is what we measure as cash capex. So, I think $16 to $18 billion remains valid. You can see what the organic run rate is right now from 1Q results. And so far, really the only thing of materiality is TravelCenters of America. If the shareholders approve that. Hope that helps, Chris.

Chris Kuplent (Bank of America Merrill Lynch): Thanks for the colour on NewMed. And the TA transaction is $1.3 billion[2], right? That's the portion that you would account for as capex.

Murray Auchincloss: Yeah, that's correct.

Craig Marshall: Thanks, Chris. We'll take the next question from Lucas Herrmann, Exane. Lucas, good morning.

Lucas Herrmann (Exane): Morning guys. Thanks very much. A couple, if I might. Murray, US onshore, can you give us any idea as to what the likely impact on production and economics is going to be as Bingo steps up? I ask simply because capex obviously is rising as you'd indicated, but production costs have also seen quite some elevation this quarter. So just some commentary, if you don't mind, around the US onshore and progression as we go through the year. And otherwise, if I might, just in LNG, how many cargo diversions this quarter? To what extent are you rebuilding the capacity to divert later in the year? Should conditions be favourable?

Murray Auchincloss: Thanks, Lucas. Nice to hear your voice. I'm not sure if we've guided before on Permian flow rates, but I'll do it anyway. The first one, Grand Slam, is about 30 kbd of black oil. Bingo is about 30 kbd of black oil. Three facilities (including Bingo) come online through 2025. So that's building the Permian oil capacity up to 105 mbd. 1Q23 had some anomalies inside bpx as you brought a bunch of wells - we had some well work to stimulate them, so it creates a bit of an artificial bubble in cost. Plus, obviously, they had the bonus payment that we talked about a little bit, a little bit ago as well. So hopefully that helps you on the US onshore.

On LNG, I don't actually have that information at my fingertips Lucas. What happened that drove an exceptional result in the quarter is, we signed up a bunch of new contracts for medium length delivery at a profit inside the portfolio. So that locks in profitability. And we also made some good price calls on the falling gas price. But as far as cargo diversions, as we've talked about in the past, we have contractual causes that allow us to redirect an awful lot of our cargos across the world. And you'll remember the statistic last year that we've made public is we redirected 160 cargos to Europe, when Europe needed gas in 2022. So, I hope that helps.

Lucas Herrmann (Exane): Murray, can I just come back for one moment on the US onshore - how much of how much oil is behind pipe - i.e. effectively, as Bingo comes on stream, we should expect a pretty rapid ramp in production in the latter stages of the year.

[2] Approximate total cash consideration based on agreed price of $86 per share.

Murray Auchincloss: You should see the 30 kbd flow over a 90 to 120 day period. It will just depend on where they are inside the completions versus drilling the next ones out. So, it should be a nice rise.

Lucas Herrmann (Exane): Okay. Thank you very much.

Murray Auchincloss: Pleasure. Thanks. Thanks, Lucas.

Craig Marshall: Thanks, Lucas. We'll take the next question from Michele Della Vigna at Goldman Sachs. Michele.

Michele Della Vigna (Goldman Sachs): Thank you very much, Murray. And congratulations on the strong results. I wanted to ask you two questions. On hydrogen, you are clearly building a strong portfolio. You expect to double the pipeline of projects. I was wondering if you could update us on what you expect to be the average profitability of the portfolio. And if you start to see the opportunity of a seaborne market being born, or you're mostly focused on local demand, where I find especially the regulatory environment for refining and the substitution of grey hydrogen there remains very attractive. And secondly, on US gas, you're very well positioned with, I believe, pretty much fully hedged production for this year. But I'm wondering if at $2 per mcf gas, you're actually starting to see the opportunity to perhaps take away some of the rigs and refocus them in the Permian where you keep strongly growing the activity. Thank you.

Murray Auchincloss: Thanks, Michele. On the US gas side, we're actually hedged out two years right now. So, we see pretty strong economics on that, actually stronger than the Permian. We're hedged around $4 out through 2024, and we keep that position under review. So, no intent to reallocate rigs. As we signed up longer term rig contracts, I wanted to hedge around that to guarantee the profitability and cash flow that came out of it. So, we're happy with where the rigs are directed right now. And we have three in the Eagle Ford and three in the Haynesville.

On hydrogen, progress is happening and it's quite pleasing. The returns are above the 10% that we're saying on average across the portfolio. I won't quote any direct numbers at this stage, given that we have to get through FID before I get the confidence level, but certainly above the 10% hurdle. Probably the first projects that are going to happen on the hydrogen side are in the refineries, as you mentioned. Probably green hydrogen out at Cherry Point, probably blue hydrogen at Whiting is our sense. And then green hydrogen across the refineries inside Europe.

Seaborne hydrogen is something that we're in conversation with many customers, two different directions. There's the potential for green methanol to fuel tankers, or green ammonia to fuel tankers, that are shipping products around the world. So that's a potential that's starting to emerge. We'll see if that works. And then in Asia, we continue conversations with Asian countries on export. I think that'll be longer wavelength though. I think that'll be more towards the back end of the decade by the time you start to build that business out. So interestingly, it's refineries and seaborne tanking that may be the things that move first. But ask me that question each quarter and I'll probably slightly change the emphasis as the model starts to unfold, Michele. Thank you for the question.

Michele Della Vigna (Goldman Sachs): Thanks, Murray.

**Craig Marshall:** Thanks Michele. I will take the next question from Jason Kenney at Santander. Jason.

**Jason Kenney (Santander):** Thanks Craig. Thanks Murray. Murray, I'm going to try and pin you down a bit on Customer and Products (C&P) financial delivery this year. Last year, full year 2022, $10.8 billion. Quite a good first quarter, $2.8 billion. I mean, the run rate points to another double-digit EBIT delivery this year. And I realise that you've got some confidence in Customers going into the second and third quarter. What kind of level of EBIT do you think is sustainable from this on a through cycle, normalised basis? Because it's quite an interesting division. And then secondly, do you have a view on the valuation disparity in UK/Europe versus the US majors at the minute. One of your competitors commenting that it's all about location, location, location?

**Murray Auchincloss:** I think on the second one, I don't know what the competitors are saying, but for our perspective, it just looks like an opportunity - if we perform, as we're saying we're performing, growing the upstream volumes, for example, the 200 kbd from the high margin oil and gas businesses; growing the LNG portfolio as we talked about; and growing Convenience and Mobility (C&M) and the transition growth engines, I think that's the first thing that we have to do. This was another strong quarter above expectation, and we just have to constantly continue to perform that way. And through the buybacks and the potential dividend increases that the board's outlined of $4 billion a year of buybacks and $4% increase in dividend, at $60 per barrel, we just see the ability to converge. And that's a great opportunity to work our way through. So that's probably all I have to say on that one.

And then on the C&P side, I guess the way I'd say this is we have our targets for C&M growing to $7 billion through 2025. I won't change that. As far as the refineries go, you're kind of asking what's the refining margin look like moving forward? Very difficult thing to predict. I suppose we're more optimistic than we were a few years ago because of refining outage and because of continuing demand growth inside fuels markets, especially aviation. So, I'm not going to try to guide on what RMM would be, but think about it in chunks of our C&M that we provided guidance for.

And then you choose your refining environment. You can use the rules of thumb to see where you think we'll go. We're pretty happy with our refining slate. We're happy with the 1.5 million barrels per day capacity we have now, and we're very much looking forward to taking the refining side of the business and moving it from grey to green or blue hydrogen, and building out five biofuel plants that we talked about. That should make for more rateable earnings as we move forward. Sorry, I'm being a little bit evasive, but I didn't want to try to guide too closely on RMM. Thanks, Jason.

**Jason Kenney (Santander):** No problem. Thanks.

**Craig Marshall:** We'll take the next question from Amy Wong at Credit Suisse. Amy.

**Amy Wong (Credit Suisse):** Hi, good morning. Got a couple of questions. The first one is just to go back to Australia. Appreciate you're not going to talk about the terms of Browse, but it was more just kind of strategically given you have some existing operations. You also last year announced the large investment in Australian Renewable Energy Hub (AREH). You've got this leaning into getting more Browse. How do we think about how much capital employed you're going to have in Australia and where does that kind of compare to the rest of world? And so, a bit of colour on what's happening there.

And then the second question I had is on Archaea Energy. Appreciate it's only been a few months since you've had that business completed and acquired but seems to be having a lot of momentum in that biogas business and it's important for your growth engines as well. So just really love to get an update on where you are on your targets on that one. If things have accelerated, have you found more positive or negative things with Archaea?

**Murray Auchincloss:** Okay, great. I think in Archaea, as you said, I mean, it's a little bit early to be saying anything. We'll update the market at our event in October in Denver, where we'll go through Archaea as well. I think that'll be a more appropriate time. I think we remain pleased with it, 50 operating plants, 80 to build. When we bought it, when we put the economics together for the bid, et cetera on Archaea, the IRA really wasn't in place, and we were unclear on it. The IRA is clearly providing more benefits than we thought through investment tax credits and through different treatment on RINs. So, we look forward to that and I think we'll unpack that story more when we talk to the market in October. Apologies, it's just been a few months, so I think it's too early to say anything other than our enthusiasm for it remains very, very high.

As far as Australia, there, we do have a tremendous amount of opportunities to increase investment inside Australia. The ones obviously we've got in the C&M business, we've got New Zealand, Australia, where we stand the chance to electrify the fleets there. We're seeing quite a bit of uptake there. On the bio side, the bio demand for sustainable aviation fuels very high. That's why we're converting Kwinana, so that's a good investment for us as well. And then we have two very, very large land positions in Australia. One, AREH, that you talked about, another one as well, that give us the opportunity to move through in a phased manner starting with either green electricity or green hydrogen into the mining companies to help them decarbonise. We're a big fuel supplier to them now, and it's a way to start to shift what we provide from both through electricity and through fuel.

And then the start of export, whether that be through bunkering or whether that be through direct export of hydrogen and ammonia depending on what customers want over time. So, it's a bit early to predict where capex will go. We have need to get to FID on these things before we decide it. But certainly between, as you say, Browse, AREH and the Pilbara region, along with biofuels, et cetera, we stand the chance to grow capital employed in Australia strongly. And I think it's a great market that we've worked in for many, many years. And I like it because I was born there as well. I don't often advertise that one. I thought you might like a bit of humour there. Thanks, Amy. I hope that helps.

**Amy Wong (Credit Suisse):** Thanks for the colour.

**Craig Marshall:** Thanks, Amy. An Australian Canadian. Next question. Henri Patricot at UBS.

Henri Patricot **(UBS):** Thank you. I just have a one question on the upstream and liquids realisations which were lower than usual compared to benchmark prices. Can you give us some background on what drove that this quarter and whether we should expect a reversal for the rest of the year? Thank you.

Murray Auchincloss: I think there was a little bit of lag inside that, if I remember, Henri, we'll have to get Craig to come back to you, but I think we just had some WTI lag that will come through later in the quarter.

Craig Marshall: I'll follow up with you after Henri on that one.

Murray Auchincloss: I think it was inside some of the lag effects we saw Henri, Thank you for the question.

Craig Marshall: Thanks. We'll go from Henri to Henry. Henry Tarr at Berenberg. Next question please.

Henry Tarr (Berenberg): Hi there. Thanks for taking my question. Just two quickly. One on Rosneft, just whether there's any change there or any prospect of receiving anything potentially from the stake where it's completely written off at this point, but just whether there's been any communication around that. And then on windfall taxes and any impact that you've seen there in Q1 or expecting for 2023. Thanks.

Murray Auchincloss: Yep, thanks, Henry. Rosneft, I'm afraid no change – it's a commercial process and we don't disclose any details of a commercial process and we'll update you when something changes on that. We haven't received any dividends, nor do we plan to receive any dividends either. That's probably all I can really say on Rosneft.

On windfall taxes, I presume you're meaning the North Sea. A few statistics for you. $2.2 billion of taxes paid in the North Sea in 2022, including $700 million on the EPL, the energy profit levy. And for the first quarter, we paid about $650 million of taxes in the North Sea. That included $300 million on the profit levy. So that's over $1 billion now on the profit levy in the North Sea. As far as European solidarity taxes, we paid about 500 million Euros last year in 2022. Hope that helps, Henry.

Henry Tarr (Berenberg): That's great. Thank you.

Craig Marshall: Henry, thank you. We'll take the penultimate question from Kim Fustier at HSBC. Kim.

Kim Fustier (HSBC): Hi, good morning, and thank you for taking my questions. I just had two please. First one is on gas in India. Could you just talk about your investments and activity there? That deepwater gas project feels like it's also been quite a long time coming. And also, how the recent gas pricing reforms in India are impacting economics there. The second one is on CCS. Could you talk about the recent CCS developments in your portfolio? In particular, the Viking project in the UK, and then the Southern China project with PetroChina. And I'm just curious about what might be the business model or incentives to do CCS in China.

Murray Auchincloss: Great, thanks, Kim. Thank you for the questions. Gas in India, this is the third project we brought online, the MJ project, which is just in its final commissioning stages. So, we've had a couple more projects that have come online previously, and we're now providing, I think the statistic is one third of natural gas into India through those offshore facilities. I think it's ended up being a pretty decent investment. We're long-term contracted with consumers directly on the gas prices. So given that, we're going to industrials we're not impacted by the latest wave of change from India as far as I understand. So, I think that answers the India question.

On CCS in the Viking area. So, if you think about what's happening, the government has awarded the next round of projects for incentivisation NetZero Teesside along with our blue hydrogen plant, and of course Northern Endurance Partnership (NEP) offshore, which is the storage injection caverns. Those are located very close to Viking. So, they provide further capacity in the event the NEP ones are filled up over time. And we already have a pipeline to Viking from historic ownership that we have through the Southern North Sea, and it has access to the east in case carbon sequestration comes from Europe. So, it was a very cheap option for us to buy, to set up more optionality, both for NetZero Teesside and then potential Continental import of $CO_2$ over time. So, it was a nice little option to build as the UK government is really pushing CCS as a way to decarbonise the economy. So, we're very, very pleased on that.

And on China, I think Craig, we're going to have to get back to that one.

Craig Marshall: Yeah. Not one that I immediately have to hand, so we will come back to you on Southern China, Kim.

Murray Auchincloss: We'll come back to you on that, Kim. Apologies, I don't often miss questions, but I missed that one.

Craig Marshall: And we'll take the final question from Alistair Syme at Citi. Alistair.

Alistair Syme (Citi): Thanks, Craig, from one antipodean to another, as I understand now. So, Murray, February, you made a bit of a strategic shift and I mean, it felt to me like the press reported it, that you pivoted back to oil and gas and felt to me more like the pivot that was going on was within what you were doing in the transition. Given you've done a bunch of investor meetings since then, I'm just interested in the conversations you've been having with investors on both sides of the Atlantic and how they've interpreted the shift. Thank you.

Murray Auchincloss: Thanks, Alistair. Look, the way I'd characterise it is, as Bernard said, we're leaning in both to transition growth engines and oil and gas, another $8 billion in oil and gas, and another $8 billion into the transition growth engines focused on the shorter cycle ones. So, the biogas, biofuels, convenient and electrification that society is demanding, I think shareholder conversations, we've had an extensive amount of engagement both after February and then leading up to AGM - and you see broad support. That's what we saw at the votes inside the AGM, and that's what you saw through share price response.

I think shareholders like the fact that we continue to focus on short cycle inside the upstream driving more EBITDA and more potential for distributions. And I think they like the fact that we shifted the pattern on the transition growth engines to the higher return, nearer cycle stuff as well, again, driving higher earnings and the potential for higher distributions to shareholders over time. So very supportive shareholder meetings on all sides of the Atlantic with the moves that we made back on February 7th.

**Alistair Syme (Citi):** Murray, can I ask, do you sense there's been any sort of re-engagement from maybe European investors that might not have looked at bp in the past?

**Murray Auchincloss:** I think there has - I think the fact that we're pivoting hard to the shorter cycle transition growth engines has captured their imagination. We've got a heavy, heavy demand coming out of continental Europe for roadshows. So, I'm off to California this afternoon for roadshows with some big shareholders out there, but we have four teams going into continental Europe to meet from Finland to Spain and in between. So very, very heavy demand for engagement and we'll look forward for them buying into the shares over time.

**Alistair Syme (Citi):** Great. Thank you very much.

**Murray Auchincloss:** Pleasure. Maybe just a few closing remarks, Craig, if that sounds okay.

**Craig Marshall:** Yep, go ahead, Murray. Yeah, and I've got one just to close off on Shah Deniz

**Murray Auchincloss:** You close on Shah Deniz first. Okay.

**Craig Marshall:** It was just a follow up. Two points in the interest of having everybody online.

Just to confirm on Shah Deniz, we have spare capacity. I think Murray said 5%, I think it's around 10%. Basically, where we are on Shah Deniz just now is the European leg of the southern gas corridor is operating however, at full capacity. So, as we look at opportunities there to expand that capacity, the TAP pipeline has already launched a first level expansion. There's an additional expansion possible around that. TANAP can also be expanded. And both TAP and TANAP expansion would be via addition of compression. So, there is work to be done there. I think, Murray, you've kind of framed that - there's opportunity and we're obviously working closely around that in terms of gas into Europe.

The one other thing on your question on oil price. As Murray said, lag impacts mostly actually in the UAE, just to clarify on that one.

And Lucas, I'll come back to you separately on bpx.

I think those were the three homework questions, but we will have an opportunity to talk a little bit later as well. Thank you very much for listening.

[END OF TRANSCRIPT]